

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

REPORT
&
ACCOUNTS
FOR THE NINE MONTHS ENDED
March 31, 2018



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 Committee** : Mr. Noor Muhammad (Chairman)
Sub Committee of the Board Mr. Hakugi Kiyono (Member)
Mr. Mehtabuddin Feroz (Member)
- Human Resources & Remuneration Committee** : Mr. Hakugi Kiyono (Chairman)
Sub Committee of the Board Mr. Mehtabuddin Feroz (Member)
Mr. Hanif Sattar (Member)
- Auditors** : A. F. Ferguson & Co.
(Chartered Accountants)
- Legal Advisors** : Hassan & Humayun Associates
- Bankers** : MUFG Bank, 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 nine months ended March 31, 2018.

Business Review

Due to oversupply situation and severe price war in the market, sales were depressed during last quarter and it was almost equal to the last year. However on nine month basis sales growth was 4.7%. Gross profit has also decreased due to constant increase in prices of raw and packaging materials. The major factors were rupee devaluation and also increasing cost of utilities.

Selling and promotional expenses were higher by 9.7% as we are running aggressive promotional and selling campaigns to regain market share while administration expenses were lower by 7.5% due to strict control mechanism.

Future Outlook

Keeping in view of current rupee devaluation and further expected increase in USD vs. PKR, the future profitability will be impacted. Overall economic situation in the country is quite uncertain and things may be clear after general elections. However, we hope that Government will realize the situation and better budgetary measures may improve the business environment. Besides what has been stated above the launching of new products in coming months may favour company's profitability through enhanced sales.



Mehtabuddin Feroz
Director

On behalf of the Board



Hanif Sattar
Chief Executive Officer

Karachi

Dated: April 24, 2018

ڈائریکٹرز رپورٹ

ڈائریکٹرز 31 مارچ، 2018 کو ختم ہوئے نو ماہ کیلئے کمپنی کے اکاؤنٹس کو پیش کرنے کیلئے پرمسرت ہیں۔

کاروباری جائزہ

مارکیٹ میں ضرورت سے زیادہ مصنوعات کی فراہمی اور قیمت فروخت کے شدید مقابلے کی وجہ سے گزشتہ سہ ماہی کے دوران ہماری مصنوعات کی فروخت متاثر ہوئی اور یہ فروخت گزشتہ سال کی اسی سہ ماہی کے برابر تھی۔ تاہم نو ماہ کے طویل دورانیہ کے فروخت کی شرح میں 4.7 فیصد اضافہ ہوا۔ خام مال اور پیکجنگ مواد کی قیمتوں میں مسلسل اضافے کی وجہ سے مجموعی منافع میں کمی واقع ہوئی ہے۔ اور اس کے ساتھ ساتھ اہم عوامل روپیہ کی مزید تھنیش، مصنوعات کی پیداواری لاگت اور یوٹیلٹی بلز کی بڑھتی ہوئی قیمتیں بھی ہیں۔

مصنوعات کی فروخت اور تشہیر کے اخراجات 9.7 فیصد زیادہ رہے۔ کیونکہ ہم جارحانہ تشہیر اور فروخت کی ترقی کی مہم چلا رہے ہیں تاکہ زیادہ سے زیادہ مارکیٹ شیئر بحال کیا جاسکے۔ انتظامی اخراجات 7.5 فیصد کم رہے، اس کی خاص وجہ ان سہتی سے کنٹرول اور بہتر حکمت عملی تھی۔

مستقبل کے نقطہ نظر

موجودہ روپے کی تھنیش اور امریکن ڈالر میں مزید متوقع اضافے کو مد نظر رکھتے ہوئے ہمارے مستقبل کے منافع پر منفی اثر ہو سکتا ہے۔ ملک میں مجموعی اقتصادی صورتحال بہت غیر یقینی ہے اور عام انتخابات کے بعد ہی کاروباری حالات بہتر ہو سکتے ہیں۔ تاہم، ہم امید رکھتے ہیں کہ حکومت اس صورتحال کو سمجھتے ہوئے آنے والے بجٹ کو موثر اقدامات کے ساتھ ہمارے کاروباری ماحول کے موافق مزید بہتر کر سکتی ہے۔ درج بالا بیان کے علاوہ آنے والے مہینوں میں نئی مصنوعات کا آغاز اور ان کی فروخت کی بہتر منصوبہ بندی کمپنی کو منافع بخش بنا سکتی ہے۔

بورڈ کی جانب سے



حنیف ستار

چیف ایگزیکٹو آفیسر

کراچی

مورخہ 24 اپریل، 2018



مختاب الدین فیروز

ڈائریکٹر

CONDENSED INTERIM BALANCE SHEET AS AT MARCH 31, 2018

	Note	(Unaudited) March 31, 2018 ----Rupees in '000----	(Audited) June 30, 2017 -----
ASSETS			
Non-current assets			
Property, plant and equipment	4	433,992	467,443
Intangibles		79	100
Long-term loans - considered good		4,703	4,619
Long-term deposits		1,309	1,295
Deferred tax asset - net	5	123,133	129,507
		<u>563,216</u>	<u>602,964</u>
Current assets			
Stores and spares		41,927	47,370
Stock-in-trade - net		555,708	432,101
Trade debts - unsecured - net		228,225	198,403
Loans and advances - considered good		25,390	31,312
Trade deposits, short-term prepayments and other receivables		33,167	22,802
Taxation - net		96,665	102,589
Bank balances		21,614	17,901
		<u>1,002,696</u>	<u>852,478</u>
Total assets		<u><u>1,565,912</u></u>	<u><u>1,455,442</u></u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital			
Authorised share capital 20,000,000 (June 30, 2017: 20,000,000) ordinary shares of Rs 10 each		<u>200,000</u>	<u>200,000</u>
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		53,615	27,864
Shareholders' equity		<u>174,615</u>	<u>137,864</u>
LIABILITIES			
Current liabilities			
Short-term loan from a related party - unsecured	6	399,843	500,613
Trade and other payables		427,631	364,364
Short-term running finance - secured	7	553,537	443,368
Mark-up accrued		10,286	9,233
		<u>1,391,297</u>	<u>1,317,578</u>
Total equity and liabilities		<u><u>1,565,912</u></u>	<u><u>1,455,442</u></u>
CONTINGENCIES AND COMMITMENTS	8		

The annexed notes 1 to 16 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 NINE MONTHS AND QUARTER ENDED MARCH 31, 2018**

Note	Nine month ended March 31,		Quarter ended March 31,		
	2018	2017	2018	2017	
	----- Rupees in '000 -----		----- Rupees in '000 -----		
Net sales	9	1,301,192	1,243,111	437,348	433,331
Cost of sales		(944,155)	(853,876)	(311,331)	(288,601)
Gross profit		357,037	389,235	126,017	144,730
Selling and distribution expenses		(161,336)	(146,957)	(57,722)	(49,672)
Administrative and general expenses		(57,793)	(62,495)	(18,332)	(18,061)
		137,908	179,783	49,963	76,997
Other income		30,898	67,521	9,012	(18,938)
		168,806	247,304	58,975	58,059
Other expenses		(77,935)	(34,871)	(40,215)	(11,259)
Operating income		90,871	212,433	18,760	46,800
Finance cost		(27,844)	(35,969)	(10,421)	(12,273)
Profit for the period before taxation		63,027	176,464	8,339	34,527
Taxation - net		(25,039)	(93,612)	(3,926)	(13,419)
Profit for the period after taxation		37,988	82,852	4,413	21,108
----- Rupees -----					
Earnings per share - basic and diluted - (restated)		3.14	6.85	0.36	1.74

The annexed notes 1 to 16 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 STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2018

	Nine month ended		Quarter ended	
	March 31,		March 31,	
	2018	2017	2018	2017
	----- Rupees in '000 -----		----- Rupees in '000 -----	
Profit for the period after taxation	37,988	82,852	4,413	21,108
Other comprehensive income:				
<i>Items that will not be reclassified to profit or loss</i>				
Remeasurements of defined benefit plan	(1,767)	(5,804)	-	-
Deferred tax on remeasurements of defined benefit plan	530	1,741	-	-
	(1,237)	(4,063)	-	-
Total comprehensive income for the period	<u>36,751</u>	<u>78,789</u>	<u>4,413</u>	<u>21,108</u>

The annexed notes 1 to 16 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 CASH FLOW STATEMENT (UNAUDITED) FOR THE NINE MONTHS ENDED MARCH 31, 2018

	Note	Nine months ended	
		March 31,	
		2018	2017
		----- Rupees in '000 -----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period before taxation		63,027	176,464
Adjustment for non-cash charges and other items:			
Depreciation		70,417	74,565
Amortisation		21	-
Gain on disposal of property, plant and equipment		(3,215)	(2,041)
Reversal of provision for slow moving and obsolete stock-in-trade - net		(366)	(204)
Workers' Profits Participant Fund		3,069	9,734
Central Research Fund		420	1,870
Exchange loss /(Gain)		64,953	(52,307)
Provision for slow moving and obsolete stores and spares (Reversal of Provision) / Provision for stents - net		(17,851)	11,820
Impairment of trade debts - net		3,196	181
Mark-up on finances		27,844	35,969
		<u>211,515</u>	<u>258,060</u>
Movement in working capital changes			
(Increase) / decrease in current assets			
Stores and spares		5,443	2,932
Stock-in-trade		(105,390)	(119,608)
Trade debts - unsecured		(33,018)	(11,408)
Loans and advances		5,922	404
Trade deposits, short-term prepayments and other receivables		(10,365)	(1,305)
		<u>(137,408)</u>	<u>(128,985)</u>
Increase / (decrease) in current liabilities			
Trade and other payables		12,869	98,129
		<u>(124,539)</u>	<u>(30,856)</u>
Cash generated from operations		<u>86,976</u>	<u>227,204</u>
Interest paid		(26,791)	(38,740)
Taxes (paid) / Refunded		(12,211)	1,433
Increase in long-term deposits		(14)	(7)
Decrease in long-term loans		(84)	(434)
Net cash generated from operating activities		<u>47,876</u>	<u>189,856</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(38,612)	(19,569)
Proceeds from disposal of property, plant and equipment		4,861	3,157
Net cash used in investing activities		<u>(33,751)</u>	<u>(16,412)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term finance paid		-	(108,333)
Repayment of short-term loan from a related party		(120,581)	(121,284)
Net cash used in from financing activities		<u>(120,581)</u>	<u>(229,617)</u>
Net decrease in cash and cash equivalents		<u>(106,456)</u>	<u>(56,573)</u>
Cash and cash equivalents at the beginning of the period		(425,467)	(537,010)
Cash and cash equivalents at the end of the period	11	<u><u>(531,923)</u></u>	<u><u>(593,583)</u></u>

The annexed notes 1 to 16 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 STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE NINE MONTHS ENDED MARCH 31, 2018

	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 nine months ended March 31, 2017	-	-	-	78,789	78,789	78,789
Balance as at March 31, 2017	<u>110,000</u>	<u>-</u>	<u>367,500</u>	<u>(369,233)</u>	<u>(1,733)</u>	<u>108,267</u>
Balance as at July 1, 2017	110,000	-	367,500	(339,636)	27,864	137,864
Total comprehensive income for the nine months ended March 31, 2018	-	-	-	36,751	36,751	36,751
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 March 31, 2018	<u>121,000</u>	<u>-</u>	<u>356,500</u>	<u>(302,885)</u>	<u>53,615</u>	<u>174,615</u>

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.


Hanif Sattar
Chief Executive Officer


Mehtabuddin Feroz
Director


Sajid Ali Khan
Chief Financial Officer

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE MONTH ENDED MARCH 31, 2018

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 devices. 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 newly promulgated Companies Act, 2017, the requirements of the Companies Act, 2017 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Companies Act, 2017 or the directives issued by the SECP differ with the requirements of IFRSs, the requirements of the Companies Act, 2017 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, 2017.

This condensed interim financial information is unaudited. The comparatives in the condensed interim balance sheet presented in the condensed interim financial information as at March 31, 2018 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 Nine Month ended March 31, 2018.

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, 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

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) March 31, 2018	(Audited) June 30, 2017
4 PROPERTY, PLANT AND EQUIPMENT			
-----Rupees in '000-----			
Operating fixed assets		426,524	458,398
Capital work-in-progress	4.2	7,468	9,045
		433,992	467,443

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

	----- Nine month ended March 31, 2018 -----					
	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles	Fork Lifter	Total
----- Rupees in '000 -----						
Additions	-	25,779	5,685	8,544	180	40,188
Disposals:						
Cost	-	224	508	6,628	-	7,360
Accumulated depreciation	-	(19)	(508)	(5,187)	-	(5,714)
	-	205	-	1,441	-	1,646

	----- Nine month ended March 31, 2017 -----					
	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles	Fork Lifter	Total
----- Rupees in '000 -----						
Additions	234	12,236	1,053	7,102	-	20,625
Disposals:						
Cost	-	(216)	(612)	(4,661)	-	(5,489)
Accumulated depreciation	-	216	608	3,549	-	4,373
	-	-	(4)	(1,112)	-	(1,116)

	Note	(Unaudited) March 31, 2018	(Audited) June 30, 2017
		-----Rupees in '000-----	
4.2 Capital work-in-progress			
Stores and spares held for capital expenditure		7,468	8,056
Others		-	989
		<u>7,468</u>	<u>9,045</u>
5 DEFERRED TAX ASSET - NET			
Deferred tax asset - net	5.1	<u>123,133</u>	<u>129,507</u>
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.		
6 SHORT-TERM LOAN FROM A RELATED PARTY - UNSECURED			
Loan from Otsuka Pharmaceutical Factory, Inc.	6.1	<u>399,843</u>	<u>500,613</u>
6.1	This represents foreign currency denominated loans from a related party in six different tranches out of which three tranches of JPY 125 million each falling due on February 25, 2019, April 26, 2019 and July 26, 2018 are still outstanding as at March 31, 2018.		
	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.		
7 SHORT-TERM RUNNING FINANCE - SECURED			
From banking companies			
Short-term running finances utilised under mark-up arrangements - secured	7.1	<u>553,537</u>	<u>443,368</u>

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) March 31, 2018	(Audited) June 30, 2017
						----Rupees in '000----	
MUFG Bank, Ltd.	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	457,665	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 121 million registered with the SECP.	Quarterly	*January 31, 2018	54,495	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	41,377	46,791
809,600						553,537	443,368

* Renewal of facilities is in process

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. The Company has filed an appeal against the above order before the Commissioner Inland Revenue (Appeals-II) [CIR(A)] .

On April 13, 2017, a revised appeal effect order was passed by the ACIR under section 124/122(5A) of the Income Tax Ordinance, 2001. Through the said order a revised demand of Rs 12.698 million was determined against the previously demand of Rs.21.408. 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 matter still in the court and next hearing on May 08, 2018. 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.

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 lesser 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 18.154 million on imported packaging material under the said stay order which includes Rs 7.007 million availed during the Nine month ended March 31, 2018. 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 months ended March 31, 2018 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 nine months ended March 31, 2018 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 good grounds in this case.

		(Unaudited) March 31, 2018	(Audited) June 30, 2017
-----Rupees in '000-----			
8.4	Commitments in respect of:		
	Capital expenditure contracted for but not incurred	699	2,818
	Letters of credit	62,208	23,483
	Letters of guarantee	104,587	76,905

		(Unaudited) March 31, 2018	(Unaudited) March 31, 2017
-----Rupees in '000-----			
9	NET SALES		
	Sales (net of returns of Rs 12.413 million; 2017: Rs 16.558 million)	1,472,530	1,395,483
	Less: sales tax	(15,964)	(13,109)
		1,456,566	1,382,374
	Less: discounts	(155,374)	(139,263)
		<u>1,301,192</u>	<u>1,243,111</u>

- 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 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. Detail of transactions with related parties and the balances with them as at period / year end are as follows are as follows:

Particulars	(Unaudited) Nine Month ended March 31, 2018					(Unaudited) Nine Month ended March 31, 2017
	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 106.980 million; 2017: Rs 98.895 million)	-	583,632	-	-	583,632	570,788
Inventory purchased	31,465	67,051	-	1,155	99,671	166,402
Sales to Key Management Personnel	-	-	-	-	-	37
Donation to Otsuka Welfare Clinic	-	-	-	-	-	105
Consultancy charges	-	-	3,730	-	3,730	3,700
Remuneration of the key management personnel	-	-	46,215	-	46,215	447,22*
Short-term loan obtained from/ (repaid to) a related party	-	(152,623)	-	-	(152,623)	(67,688)
Mark-up expense on short-term loan from a related party	-	2,102	-	-	2,102	2,633
Late payment charges received from Hospital Supply Corporation	-	-	-	3,759	3,759	2,341
Charge relating to staff provident fund	-	-	-	7,742	7,742	6,977
Charge relating to staff gratuity fund	-	-	-	5,719	5,719	5,448

*Figure has been restated as per the definition of executive in the newly promulgated Companies Act 2017.

Particulars	(Unaudited) As at March 31, 2018					(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	-	175,207	-	-	175,207	142,637
Payable to Hospital Supply Corporation	-	4	-	-	4	33
Payable to Shanghai Microport EPMed Tech Co., Limited	-	2,700	-	-	2,700	4,116
Payable to Shanghai Microport Medical (Group) Company Limited	-	28,444	-	-	28,444	46,186
Payable to Otsuka Pharmaceutical Factory, Inc.	-	-	-	-	-	1,110
Payable to Thai Otsuka Pharmaceutical Company Limited, Thailand	-	11,686	-	-	11,686	10,545
Payable to Idrees Plastics	-	76	-	-	76	-
Loan from Otsuka Pharmaceutical Factory, Inc.	-	399,843	-	-	399,843	500,613
Advance from key management personnel	-	-	1,503	-	1,503	1,681
Payable to Employees' Provident Fund	-	-	-	2,426	2,426	-
Payable to Employees' Gratuity Fund	-	-	-	1,912	1,912	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	-	-	-	3,069	3,069	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.

11 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, 2018	(Unaudited) March 31, 2017
	---Rupees in '000---	
Bank balances	21,614	26,690
Short-term running finance utilised under mark-up arrangements	(553,537)	(620,273)
	<u>(531,923)</u>	<u>(593,583)</u>

12 SEGMENT INFORMATION

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

12.2 Sales from Intravenous Solutions represent 82.36 percent while sales from others represent 17.64 percent (March 31, 2017: 82.47 percent and 17.53 percent) respectively of the total sales of the Company.

	(Unaudited) March 31, 2018	(Unaudited) March 31, 2018
	----- In percent -----	
12.3 The geographic segmentation of sales is as follows:		
Pakistan	99.44	98.76
Afghanistan	0.56	1.24

12.4 Sales to Hospital Supply Corporation (a related party of the Company) which is the sole distributor in the southern region was around 44.85 percent during the period ended March 31, 2018 (March 31, 2017: 45.92 percent).

12.5 All non-current assets of the Company as at March 31, 2018 are located in Pakistan.

13 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 March 31, 2018 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.

14 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.

15 DATE OF AUTHORISATION FOR ISSUE

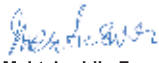
This condensed interim financial information was authorised for issue on [April 24, 2018](#) by the Board of Directors of the Company.

16 GENERAL

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



Hanif Sattar
Chief Executive Officer



Mehtabuddin Feroz
Director



Sajid Ali Khan
Chief Financial Officer

www.otsuka.pk



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