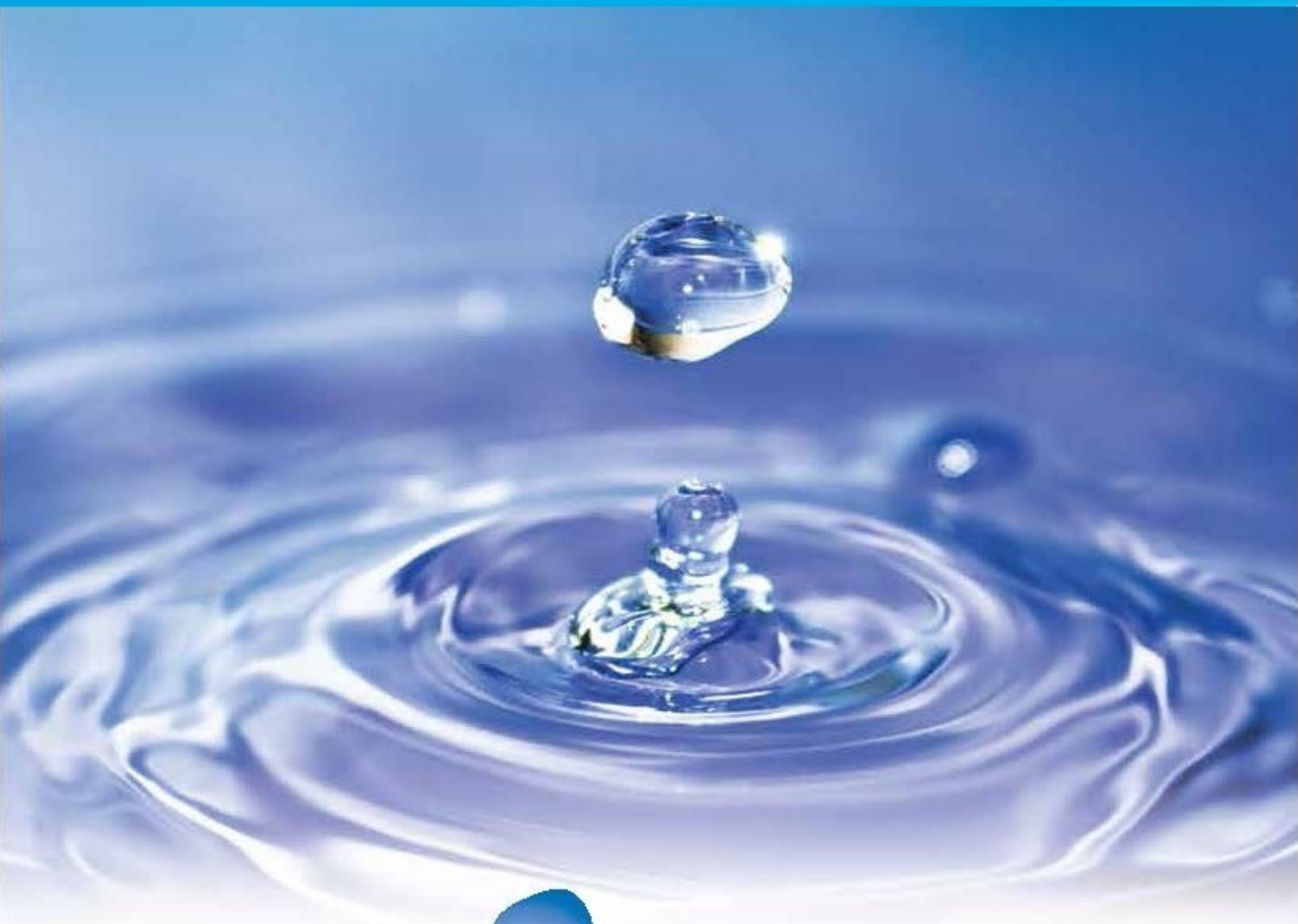


**Otsuka—People Creating New Products
For Better Health Worldwide**

Interim Financial Information

**For the First Quarter Ended
September 30, 2018**



Otsuka

Otsuka Pakistan Limited

(A Company of Otsuka Group Japan)

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COMPANY INFORMATION

BOARD OF DIRECTORS	:	Mr. Mikio Bando Mr. Hanif Sattar Mr. Daisuke Hashimoto Mr. Mehtabuddin Feroz Mr. Suhari Mukti Mr. Mohammad Abdullah Feroz Mr. Makio Osaka Mr. Taufiq Feroz Mr. Noor Muhammad	(Chairman) (Alternate: Mr. Tariq Mehtab Feroz) (Chief Executive) (Alternate: Mr. Abid Hussain) (Alternate: Mr. Sajid Ali Khan) (Independent Director)
COMPANY SECRETARY	:	Mr. Muhammad Amin Bashir	
AUDIT SUB COMMITTEE OF THE BOARD	:	Mr. Noor Muhammad Mr. Daisuke Hashimoto Mr. Mehtabuddin Feroz	(Chairman) (Member) (Member)
HUMAN RESOURCES & REMUNERATION COMMITTEE SUB COMMITTEE OF THE BOARD	:	Mr. Daisuke Hashimoto Mr. Mehtabuddin Feroz Mr. Hanif Sattar	(Chairman) (Member) (Member)
AUDITORS	:	Deloitte Yousuf Adil	(Chartered Accountants)
LEGAL ADVISORS	:	Hassan & Humayun Associates	
BANKERS	:	MUFG Bank Limited 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: mamin@otsuka.pk jnoor@otsuka.pk Web site: 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 first quarter ended September 30, 2018.

Business Review

The results of this quarter are depressed due to saturation in the IV solutions market; sales for the quarter have been reduced by 13% as compared to the corresponding quarter of last year. Besides this, there is an increase in cost of goods sold due to the constant increase in the prices of imported materials and the cost of utilities. These factors have an adverse impact on our gross margin resulting in a gross profit margin of 23.2% as compared to of 27.06% in corresponding quarter of last year.

Selling and promotional expenses were higher by 24% due to heavy promotional expenses on new products being launched in the current and last quarter. Administration expenses and financial cost have also increased by 6% and 30% respectively due to high rate of inflation and the increase in bank rates.

The earning per share of the company is Rs. 0.30 per share as compared to an earning of Rs. 3.03 (restated) in the corresponding quarter of the last year.

Future outlook

The recent uncertain economic conditions of the country with further expected devaluation of Pak Rupee and the increase in global oil prices does not look encouraging for the growth prospects of the company in the near future. However, we are hoping that after stabilizing the balance of payment deficit with foreign currency loan, government may give relief and adopt growth policies to improve the business environment. Besides what has been stated above the launching of new products in coming months may improve company's sales as well as profitability.



Mehtabuddin Feroz
Director

Karachi

Dated: October 24, 2018

On behalf of the Board



Hanif Sattar
Chief Executive Office

ڈائریکٹر رپورٹ

مورخہ 30 ستمبر 2018، کمپنی کی پہلی سہ ماہی کی تکمیل پر ڈائریکٹر بڑی مسرت کے ساتھ کمپنی کے کھاتاجات پیش کرتے ہیں۔

کاروباری جائزہ:

اس سہ ماہی کے نتائج مارکیٹ میں مختلف کمپنیوں کی فراہم کردہ آئی۔وی۔ڈرپس کی بہتات کے وجہ سے مایوس کن ہیں؛ پچھلے مالی سال کی اسی سہ ماہی کے مقابلے ہماری فروخت 13 فیصد کم ہو گئی ہے۔ مزید برآں، درآمد شدہ اشیاء کی قیمتوں اور یوٹیلٹی بلوں کے اخراجات میں مسلسل اضافے کی وجہ سے فروخت کئے جانے والے مال کی لاگت میں اضافہ ہوا ہے۔ ان عوامل نے ہمارے مجموعی منافع پر منفی اثرات مرتب کئے ہیں، جس کے نتیجے میں اس سہ ماہی میں مجموعی منافع 23.2 فیصد رہا، جو گزشتہ سال اسی سہ ماہی میں 27.06 فیصد تھا۔

موجودہ اور گزشتہ سہ ماہی میں متعارف کی گئی نئی مصنوعات پر اضافی تشہیری اخراجات کی وجہ سے اخراجات 24 فیصد زیادہ تھے۔ افراط زر کی شرح اور بینک کی شرح میں اضافے کی وجہ سے انتظامی اخراجات اور مالیاتی اخراجات میں بالترتیب 6 فیصد اور 30 فیصد اضافہ ہوا ہے۔

اس سہ ماہی میں کمپنی کافی حصص منافع 30 پیسے ہے جبکہ پچھلے سال اسی سہ ماہی میں فی حصص منافع 3 روپے 3 پیسے تھا۔

مستقبل کا نقطہ نظر:

ملک کی حالیہ غیر یقینی اقتصادی صورتحال، ساتھ ہی پاکستانی کرنسی کی قدر میں غیر متوقعہ کمی اور عالمی تیل کی قیمتوں میں اضافے کی وجہ سے مستقبل قریب میں کمپنی کی ترقی کے امکانات حوصلہ افزا نہیں ہیں۔ تاہم، ہم امید کرتے ہیں کہ ملکی سطح پر غیر ملکی قرضوں کی ادائیگی کے خسارے کے توازن کو مستحکم کرنے کے بعد، حکومت کاروباری ماحول کو بہتر بنانے کے لئے معاونت کرے گی اور فائدہ مند پالیسیاں مرتب کرے گی۔ اس کے علاوہ ہم امید کرتے ہیں کہ مذکورہ بالا ہماری نئی متعارف کی گئی مصنوعات آنے والے مہینوں میں کمپنی کی فروخت اور منافع میں اضافہ کریں گی۔

بورڈ کی جانب سے



حنیف ستار

چیف ایگزیکٹو آفیسر



مہتاب الدین فیروز

ڈائریکٹر

کراچی:

مورخہ 24 اکتوبر، 2018

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION AS AT SEPTEMBER 30, 2018

	Note	(Unaudited) Sep 30, 2018 -----Rupees in '000-----	(Audited) June 30, 2018
ASSETS			
Non-current assets			
Property, plant and equipment	4	400,825	420,354
Intangibles		2,382	2,527
Long-term loans - considered good		4,941	4,909
Long-term deposits		1,309	1,309
Deferred tax asset - net	5	85,913	85,913
		<u>495,370</u>	<u>515,012</u>
Current assets			
Stores and spares		41,166	43,405
Stock-in-trade - net		628,069	553,508
Trade debts - unsecured - net		297,377	294,367
Loans and advances - considered good		29,197	34,462
Trade deposits, short-term prepayments		39,075	29,113
Other receivables		14	731
Taxation - net		96,552	94,757
Bank balances		18,411	18,445
		<u>1,149,861</u>	<u>1,068,788</u>
Total assets		<u><u>1,645,231</u></u>	<u><u>1,583,800</u></u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital			
Authorised share capital 20,000,000 (June 30, 2018: 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, 2018: 12,100,000) ordinary shares of Rs 10 each		<u>121,000</u>	<u>121,000</u>
Revenue reserves		<u>85,397</u>	<u>81,812</u>
Shareholders' equity		<u>206,397</u>	<u>202,812</u>
LIABILITIES			
Current liabilities			
Short-term loan from a related party - unsecured	6	410,550	411,563
Trade and other payables		423,923	454,663
Short-term running finance - secured	7	603,174	513,575
Unclaimed Dividend		1,187	1,187
		<u>1,438,834</u>	<u>1,380,988</u>
Total equity and liabilities		<u><u>1,645,231</u></u>	<u><u>1,583,800</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 STATEMENT OF PROFIT OR LOSS (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

	Note	2018 Sep, 30	2017 Sep, 30
		----- Rupees in '000 -----	
Net sales	9	441,554	505,651
Cost of sales		(339,128)	(368,822)
Gross profit		102,426	136,829
Selling and distribution expenses		(61,272)	(49,345)
Administrative and general expenses		(22,262)	(20,904)
		18,892	66,580
Other income		6,194	16,398
		25,086	82,978
Other expenses		(5,645)	(8,244)
Operating income		19,441	74,734
Finance cost		(11,046)	(8,488)
Profit for the period before taxation		8,395	66,246
Taxation - net		(4,810)	(29,586)
Profit for the period after taxation		3,585	36,660
		----- Rupees -----	
Earnings per share - basic and diluted - (restated)		0.30	3.03

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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

	<u>2018</u> <u>Sep, 30</u>	<u>2017</u> <u>Sep, 30</u>
	----- Rupees in '000 -----	
Profit for the period after taxation	3,585	36,660
Other comprehensive income:		
<i>Items that will not be reclassified to profit or loss</i>		
Remeasurements of defined benefit plan	-	-
Deferred tax on remeasurements of defined benefit plan	-	-
Total comprehensive income for the period	<u>3,585</u>	<u>36,660</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 CASH FLOWS (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

Note	QUARTER ENDED Sep-30	
	2018	2017
	----- Rupees in '000 -----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period before taxation	8,395	66,246
Adjustment for non-cash charges and other items:		
Depreciation & Amortisation	21,559	23,124
Gain on disposal of Fixed Asset-net	(2)	(2,103)
Workers' Profits Participant Fund	328	3,522
Central Research Fund	42	669
Exchange loss-net	4,042	683
Provision for slow moving and obsolete stores and spares	-	412
Reversal of Provision for stents - net	-	(10,603)
Impairment of trade debts - net	-	1,047
Operating Surplus before working capital changes	34,364	82,997
(Increase) / decrease in current assets		
Stores and spares	2,239	1,818
Stock-in-trade	(74,561)	77,813
Trade debts - unsecured	(3,010)	(12,238)
Loans and advances	5,265	(2,089)
Trade deposits, short-term prepayments	(9,259)	2,671
Other receivables	14	731
	(79,312)	68,706
Decrease in current liabilities		
Trade and other payables	(35,152)	(37,174)
	(114,464)	31,532
Cash (used in) / generated from operations	(80,100)	114,529
Taxes paid	(6,605)	(11,323)
Increase in long-term deposits	-	(14)
Increase in long-term loans	(32)	(382)
Net cash (used in) / generated from operations	(86,737)	102,810
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed capital expenditure	(1,885)	(24,202)
Proceeds from disposal of property, plant and equipment	2	3,008
Net cash used in investing activities	(1,883)	(21,194)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of short-term loan from a related party	(1,013)	(70,199)
Net cash used in from financing activities	(1,013)	(70,199)
Net (decrease) / increase in cash and cash equivalents	(89,633)	11,417
Cash and cash equivalents at the beginning of the period	(495,130)	(434,700)
Cash and cash equivalents at the end of the period	(584,763)	(423,283)

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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 QUARTER ENDED SEPTEMBER 30, 2018**

	Issued, subscribed and paid-up capital	Revenue reserves			Total
		General reserve	Accumulated losses	Sub-total	
		Rupees in '000			
Balance as at July 1, 2017	110,000	367,500	(339,636)	27,864	137,864
Total comprehensive income for the quarter ended September 31, 2017	-	-	36,660	36,660	36,660
Balance as at September 30, 2017	<u>110,000</u>	<u>367,500</u>	<u>(302,976)</u>	<u>64,524</u>	<u>174,524</u>
Balance as at July 1, 2018	121,000	356,500	(274,688)	81,812	202,812
Total comprehensive income for the quarter ended September 30, 2018	-	-	3,585	3,585	3,585
Balance as at September 30, 2018	<u>121,000</u>	<u>356,500</u>	<u>(271,103)</u>	<u>85,397</u>	<u>206,397</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 QUARTER ENDED SEPTEMBER 30, 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 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 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 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, 2018.

The comparatives in the condensed interim statement of financial position presented in the condensed interim financial information as at September 30, 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 statement of profit or 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 Quarter ended Sep 30, 2017.

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, 2018.

- 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, 2018.

- 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, 2018.

- 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, 2018 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 New and amended standards, interpretations and amendments to published accounting and reporting standards that are not yet effective in the current year**

The following standards, amendments and interpretations with respect to approved accounting standards would be effective from the date mentioned below against the respective standards, amendments or interpretations:

Standards, Interpretations or Amendments	Effective date (accounting period)
- IFRS 16 - Leases	January 1, 2019

The standards highlighted above may impact the financial statements of the Company on adoption. The Management is currently in the process of assessing the impact on the financial statements of the Company.

There are certain other new and amended standards, interpretations and amendments that are mandatory for the Company's 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 these financial statements.

	Note	(Unaudited) September 30, 2018 -----Rupees in '000-----	(Audited) June 30, 2018
4 PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	4.1	393,413	413,124
Capital work-in-progress		7,412	7,230
		<u>400,825</u>	<u>420,354</u>

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

	Quarter ended September 30, 2018					
	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles	Fork Lifter	Total
	Rupees in '000					
Additions	-	1,650	53	-	-	1,703
Disposals:						
Cost	-	-	(29)	-	-	(29)
Accumulated depreciation	-	-	29	-	-	29
	-	-	-	-	-	-
	Quarter ended September 30, 2017					
	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles	Fork Lifter	Total
	Rupees in '000					
Additions	-	19,573	1,170	4,492	180	25,415
Disposals:						
Cost	-	(224)	-	(3,966)	-	(4,190)
Accumulated depreciation	-	18	-	3,062	-	3,080
	-	(206)	-	(904)	-	(1,110)

	Note	(Unaudited) September 30, 2018 -----Rupees in '000-----	(Audited) June 30, 2018
5 DEFERRED TAX ASSET - NET			
Deferred tax asset - net	5.1	<u>85,913</u>	<u>85,913</u>

5.1 The Company has not recognised deferred tax on minimum tax amounting to Rs. 37.952 million. There is no other change in the movement of deferred tax from the previously reported audited figures of June 30, 2018.

	Note	(Unaudited) September 30, 2018 -----Rupees in '000-----	(Audited) June 30, 2018
6 SHORT-TERM LOAN FROM A RELATED PARTY - UNSECURED			
Loan from Otsuka Pharmaceutical Factory, Inc.	6.1	<u>410,550</u>	<u>411,563</u>

- 6.1** This represents foreign currency denominated loans obtained in two tranches of each JPY 75 million 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. The balance payable as at September 30, 2018 represents third, fourth and fifth tranches and JPY of 125mn each which are repayable on or before June 2019.

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.

			(Unaudited) September 30, 2018	(Audited) June 30, 2018
7	SHORT-TERM RUNNING FINANCE - SECURED	Note	-----Rupees in '000-----	
	From banking companies			
	Short-term running finances utilised under mark-up arrangements	7.1	592,349	503,592
	Accrued markup		10,825	9,983
			<u>603,174</u>	<u>513,575</u>

Bank	Limit in Rs '000'	Mark-up rate	Security	Frequency of mark-up payment	Facility expiry date	(Unaudited) Sept 30, 2018	(Audited) June 30, 2018
-----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	499,703	393,561
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, 2019	51,263	68,648
The Bank of Punjab	41,383	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, 2019	41,383	41,383
	<u>751,383</u>					<u>592,349</u>	<u>503,592</u>

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 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. Based on legal advice, the Company has goods grounds in this case, therefore no provision has been made in respect of tax chargeable on undistributed profits amounting to Rs 14.713 million.

	Note	(Unaudited) March 31, 2018	(Audited) June 30, 2018
		-----Rupees in '000-----	
8.3	Commitments in respect of:		
	Capital expenditure contracted for but not incurred	-	450
	Letters of credit	50,224	53,861
	Letters of guarantee	46,104	48,374
9	NET SALES		
	Sales (net of returns of Rs 9.199 million; 2017: Rs 5.140 million)	9.1	459,205
	Less: sales tax	(7,307)	(4,940)
		451,898	566,332
	Less: discounts	(10,344)	(60,681)
		<u>441,554</u>	<u>505,651</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 to the DRAP for its IV solution products for price increase and a committee of the DRAP (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 Company increased the prices of certain products. In order to avoid any adverse action from the DRAP, the Company had filed a Civil Suit in respect of the matter before the Honorable High Court of Sindh (SHC) against the 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 asserting that no coercive action be taken against it. The SHC 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 SHC 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 SHC in its hearings ordered the DRAP to process and decide the hardship cases and to place a compliance report / decision before the SHC for its review once the requisite documents had been furnished by the Company. The DRAP submitted its report before the SHC in the hearing held in May 2016. In its last hearing held on December 19, 2016, the SHC had disposed of the suit filed by the Company and had barred the DRAP from taking any coercive action against it till the time any decision is taken by the Economic Coordinate Committee (ECC) of the Cabinet and the Federal Government regarding IV solutions products for price increase. The ECC has not given any decision on the price increase matter till August 20, 2018. The DRAP has also not notified the revised prices of IV solutions. In the light of development described in the above mentioned paragraph the management of the Company believes that there are strong grounds that the outcome will be in favour of the Company.

10 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, P.T. Otsuka Indonesia, Otsuka Pharmaceutical Company, Vietnam, Shanghai Microport Medical (Group) Company Limited, Otsuka Welfare Clinic, etc.), entities under common directorship [namely Hospital Supply Corporation and Efoze Chemicals Industries (Private) Limited], Idrees Plastic, staff retirement funds and the key management personnel. Details of the transactions with the related parties and the balances with them as at year end other than those which have been disclosed else where are as follows:

Particulars	(Unaudited) Quarter ended September 30, 2018					(Unaudited) Quarter ended September 30, 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 35,584 million; 2017: Rs 40,827 million)	-	208,957	-	-	208,957	219,173
Inventory purchased	39,882	32,990	-	341	73,213	2,108
Consultancy charges	-	-	750	-	750	1,280
Remuneration of the key management personnel	-	-	15,748	-	15,748	14,394
Short-term loan obtained from / (repaid to) a related party	-	-	-	-	-	(70,050)
Mark-up expense on short-term loan from a related party	-	690	-	-	690	728
Late payment charges received from Hospital Supply Corporation	-	-	-	1,820	1,820	533
Charge relating to staff provident fund	-	-	-	2,772	2,772	2,588
Charge relating to staff gratuity fund	-	-	-	2,063	2,063	1,878
Purchases from Hospital Supply Corporation	-	116	-	-	116	67

Particulars	(Unaudited) Quarter ended September 30, 2018					(Audited) June 30, 2018
	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	-	202,189	-	-	202,189	178,756
Payable to Hospital Supply Corporation	-	39	-	-	39	-
Payable to Otsuka Pharmaceutical Company Limited, Japan	-	39,882	-	-	39,882	-
Payable to Shanghai Microport EP Med Tech Co., Limited	-	3,537	-	-	3,537	6,321
Payable to Shanghai Microport Medical (Group) Company Limited	-	14,205	-	-	14,205	28,907
Payable to Otsuka Pharmaceutical Factory, Inc.	-	-	-	-	-	-
Payable to Thai Otsuka Pharmaceutical Company Limited, Thailand	-	12,916	-	-	12,916	24,775
Danish Enterprises (Idrees Plastic)	-	-	-	-	-	474
Loan from Otsuka Pharmaceutical Factory, Inc.	-	410,550	-	-	410,550	411,563
Advance from key management personnel	-	-	1,178	-	1,178	410,550
Payable to Employees' Provident Fund	-	-	-	2,569	2,569	1,323
Payable to Employees' Gratuity Fund	-	-	-	10,706	10,706	8,643
Payable to P. T. Otsuka Indonesia	-	3,354	-	-	3,354	4,101
Payable to Shareholder	-	-	-	363	363	363
Provision for Workers' Profits Participation Fund	-	-	-	328	328	7,326

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

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:

	September 30, 2018	September 30, 2017
	---Rupees in '000---	
Bank balances	18,411	14,033
Short-term running finance utilised under mark-up arrangements	(603,174)	(437,316)
	<u>(584,763)</u>	<u>(423,283)</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 80.88 percent while sales from others represent 19.12 percent (Sep 30, 2017: 84.90 percent and 15.10 percent) respectively of the total sales of the Company.

	(Unaudited) September 31, 2018	(Unaudited) September 30, 2017
	----- In percent -----	
12.3 The geographic segmentation of sales is as follows:		
Pakistan	98.43	99.48
Afghanistan	1.57	0.52

12.4 Sales to Hospital Supply Corporation (a related party of the Company) which is the sole distributor in the southern region was around 46.87 percent during the period ended Sep 30, 2018 (Sep 30, 2017: 44.56 percent).

12.5 All non-current assets of the Company as at September 30, 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 Sep 30, 2018 and June 30, 2018, the Company did not have any assets or liabilities which were measured at fair value using any of the aforementioned valuation techniques.

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 **October 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



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