



SEARLE

Research in the service of mankind

Winning Trust Through Quality

Half Yearly Report
December 2019



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COMPANY INFORMATION

Board of Directors

Mr. Adnan Asdar Ali (Chairman)
Mr. Rashid Abdulla
Mr. S. Nadeem Ahmed (Chief Executive Officer)
Mr. Zubair Razzak Palwala
Mr. Ayaz Abdulla
Mr. Asad Abdulla
Mrs. Shaista Khaliq Rehman

Board of Audit Committee

Mrs. Shaista Khaliq Rehman (Chairperson)
Mr. Adnan Asdar Ali (Member)
Mr. Asad Abdulla (Member)

Board of HR & Remuneration Committee

Mrs. Shaista Khaliq Rehman (Chairperson)
Mr. Adnan Asdar Ali (Member)
Mr. Ayaz Abdulla (Member)
Mr. Asad Abdulla (Member)

Chief Financial Officer

Mr. Mobeen Alam

Company Secretary

Mr. Zubair Razzak Palwala

Auditors

A. F. Ferguson & Co.

Legal Advisors

Mohsin Tayebaly & Co.

Bankers

Albaraka Bank (Pakistan) Limited
Bank Al Habib Limited
Bank Alfalah Limited
Bank of Punjab
Dubai Islamic Bank Pakistan Limited
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
Silk Bank Limited
Soneri Bank Limited
Standard Chartered Bank (Pakistan) Limited
Summit Bank Limited

Registered Office

One IBL Centre, 2nd Floor, Plot # 1
Block 7 & 8, D.M.C.H.S, Tipu Sultan Road
Off Shahra-e-Faisal, Karachi

Share Registrar

CDC Share Registrar Services Limited
Head Office, CDC House, 99-B, Block 'B'
S.M.C.H.S., Main Shahrah-e-Faisal
Karachi - 74400

DIRECTORS' REVIEW REPORT

We are pleased to present the unconsolidated interim financial information of your Company for the half year ended December 31, 2019. These financial statements have been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 – 'Interim Financial Reporting' and the provisions of the directives issued under the Companies Act, 2017.

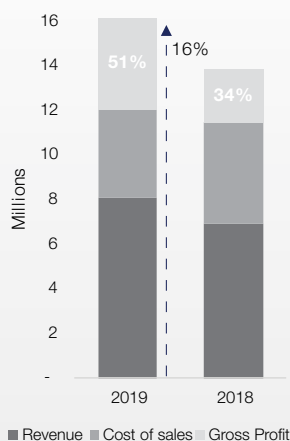
MARKET OVERVIEW

Pharmaceutical sales in Pakistan grew at a (2013-19) CAGR of 12%, driven by new molecule introductions and supported by underlying demographic trends of increasing affordability, rising population, higher life expectancy and increased incidence of chronic diseases. However, the pharmaceutical industry is experiencing a constant downward trend, due to high reliance of imported APIs, low per capita expenditure and low prices in terms of global environment.

The recent economic conditions have raised challenges on the industry as a whole. It is well known fact that the chemical industry of Pakistan has capacity constraints to develop basic components required for manufacturing drugs. Therefore, the industry resorts to import of raw materials. Due to this significant dependability, fluctuation in exchange rates coupled with stiff price regulations directly affect the product margins and consequent commercial feasibility. Pakistani rupee has experienced double-digit depreciation which has put the pharma industry under immense pressure.

OPERATING RESULTS

	December 31,	
	2019	2018
	(Rupees in thousand)	
Revenue	8,071,315	6,931,040
Cost of sales	(3,991,000)	(4,544,193)
Gross Profit	4,080,315	2,386,847
Operating expenses	(2,558,977)	(2,143,050)
Other operating expenses	(120,477)	(83,739)
Other income	434,833	1,580,955
Profit from operations	1,835,694	1,741,013
Finance cost	(322,891)	(213,666)
Profit before tax	1,512,803	1,527,347
Income tax expense	(357,673)	(71,922)
Profit after taxation	1,155,130	1,455,425



Searle is a Company that has always focused on improving the lives of patients by offering quality healthcare solutions. We have built a firm growing position by putting the benefit of patients and stakeholders, our fundamental priority and are proud of the impact of our efforts.

During the period ended December 31, 2019, the company's financial performance was affected by the exchange rate fluctuations. However, despite the challenging economic conditions, Searle managed to continue its momentum.

Financial highlights are summarized below:

- Net sales of the Company grew by 16% to Rs 8.07 billion.
- Gross profit margin increased to 51%.
- Operating profit margin is 23%
- Profit before and after taxation is 19% and 14% respectively.

EARNINGS PER SHARE

Basic earnings per share after taxation for the period was Rs. 5.44 (2018: Rs. 6.85).

There is no dilution effect on the basic earnings per share of the Company, as the Company has no convertible dilutive potential ordinary shares outstanding as at December 31, 2019.

FUTURE OUTLOOK

In the local market, the therapeutic areas which Searle has over the years strengthened include cardiovascular, cold & cough, diabetes, infant formula, pro-biotic and antibiotics. Moving forward, we are focusing on enhancing the share of specialty generic branded portfolio and targeting differentiated products. It is also pertinent to mention that Searle has an organic pipeline of over 200 products in different stages of the regulatory approval process.

Further, due to overly regulated drug pricing mechanism, volatility in retail prices is a concern of paramount importance for us. Delays in new product approvals also pose key threats for the industry as a whole. However, with the change in recent political scenario, we will have to wait to assess the future economic trends and modify our strategies accordingly. For the longer run, Searle is focusing on emerging portfolios including, bio-similars, medical devices, nutraceuticals and genome sciences.

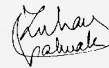
ACKNOWLEDGEMENT

At Searle, we all are emotionally motivated and willing to contribute enthusiastically on continuous basis. Same is the case with our partners, suppliers and customers, for which we are thankful and expect the same zeal and zest for future contribution. We assure, Searle will continue to work hard to provide long term sustainable growth to everyone associated with us.

For and on behalf of the Board



Syed Nadeem Ahmed
Chief Executive Officer



Zubair Razzak Palwala
Director

Karachi : February 27, 2020

سرل ایک ایسی کمپنی ہے جس نے ہمیشہ اعلیٰ معیار کی ہیلتھ کیئر خدمات کی پیشکش سے مریضوں کی زندگی کو بہتر بنانے پر توجہ مرکوز کی ہے۔ ہم نے مریضوں اور اسٹیک ہولڈرز کے فوائد کو اپنی بنیادی ترجیح بنا کر مستحکم ترقی کی پوزیشن استوار کی ہے اور ہمیں اپنی کوششوں کے اثرات پر فخر ہے۔

31 دسمبر 2019 کو ختم ہونے والی ششماہی مدت کے دوران، کمپنی کی مالی کارکردگی زرمبادلہ کی شرح کے اتار چڑھاؤ سے متاثر ہوئی۔ تاہم، مشکل معاشی صورتحال کے باوجود، سرل اپنے کاروباری رفتار کو جاری رکھنے میں کامیاب رہی۔

مالیاتی نکات مختصر آڈیل میں بیان کئے گئے ہیں:

- کمپنی کی خالص سیلز 16 فیصد اضافے سے 8.07 ارب روپے ہو گئی۔
- مجموعی منافع کی شرح 51 فیصد تک بڑھ گئی۔
- آپریٹنگ منافع کی شرح 23 فیصد رہی۔
- منافع قبل اور بعد از ٹیکس بالترتیب 19 اور 14 فیصد رہا۔

آمدنی فی شیئر

فی شیئر بنیادی آمدنی اس مدت کے لئے بعد از ٹیکس 5.44 روپے رہی (6.85:2018 روپے)۔

کمپنی کی بنیادی آمدنی فی شیئر پر کوئی اثرات ظاہر نہیں ہوئے، کیوں کہ کمپنی کے کسی ممکنہ منتقلی کی طاقت کے حامل شیئرز نہ ہونے کے باعث عمومی شیئرز بہ مطابق 31 دسمبر، 2019 برقرار ہیں۔

مستقبل پر ایک نظر

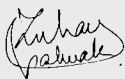
مقامی مارکیٹ میں، سرل نے گزشتہ چند برسوں کے دوران علاج معالجے کے شعبوں میں استحکام حاصل کیا ان میں قلبی امراض، نزلہ اور کھانسی، ذیابیطس، نوزائیدہ فارمولہ، پرو۔ بائیو ٹیک اور اینٹی بائیو ٹیکس شامل ہیں۔ مزید آگے پیش رفت کرتے ہوئے، ہم خصوصاً عمومی برانڈز کے پورٹ فولیو میں حصہ بڑھانے اور مختلف النوع پروڈکٹس پر توجہ دے رہے ہیں۔ یہاں یہ بات بھی قابل ذکر ہے کہ سرل 200 سے زائد آرگینک مصنوعات کے ریگولیٹری منظوری کے عمل کے مختلف مراحل سے گزر رہا ہے۔

مزید برآں ادویات کی ترخوں کے حدود رجسٹرول طریقہ کار اور ریٹیل ترخوں میں اتار چڑھاؤ بھی ہمارے لئے اہم تشویش کے اسباب ہے۔ نئی پروڈکٹ کی منظوری میں تاخیر سے بھی مجموعی طور پر صنعت کے لئے کلیدی خطرات سامنے آتے ہیں۔ تاہم حالیہ سیاسی صورتحال کی تبدیلی کے ساتھ ہم آنے والے معاشی رجحانات کا جائزہ لے رہے ہیں اور اس کے مطابق اپنی حکمت عملیوں میں تبدیلی لائیں گے۔ طویل المیعاد بنیادوں پر سرل ابھرتے ہوئے پورٹ فولیو بشمیل بائیو۔ سمیلرز، میڈیکل آلات، نیوٹراسیوٹیکلز اور جینوم سائنسز پر خصوصی توجہ دے رہی ہے۔

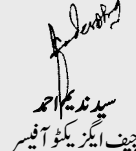
اظہار تشکر

سرل میں، ہم جذباتی طور پر حوصلہ افزائی اور مستقل بنیادوں پر جوش و خروش سے خدمت کے خواہشمند ہیں۔ یہی معاملہ ہمارے شراکت داروں، سپلائرز اور صارفین کے ساتھ ہے، جس کے لئے ہم ان کے مشکور ہیں اور آئندہ کے شراکت کے لئے اسی جوش و جذبے کی توقع کرتے ہیں۔ ہم یقین دہانی کراتے ہیں کہ سرل اپنے سے وابستہ ہر فریق کو طویل المیعاد پائیدار ترقی کی فراہمی کے لئے کوشاں رہے گی۔

برائے اور بوڈی کی جانب سے



ذیر زاقی پال والا
ڈائریکٹر



سید ندیم احمد
چیف ایگزیکٹو آفیسر

کراچی:
۲۷ فروری ۲۰۲۰ء

ڈائریکٹرز کی جائزہ رپورٹ

ہم 31 دسمبر 2019 کو ختم ہونے والی ششماہی مدت کے لئے کمپنی کے غیر مجموعی عبوری مالیاتی معلومات پیش کرتے ہوئے خوشی محسوس کرتے ہیں۔ یہ مالیاتی حسابات بین الاقوامی اکاؤنٹنگ اسٹینڈرڈ (IAS 34)۔ عبوری فنانشل رپورٹنگ اور کمپنیز ایکٹ، 2017 کے تحت جاری کردہ ہدایات کی دفعات کے تقاضوں کے مطابق تیار کیے گئے ہیں۔

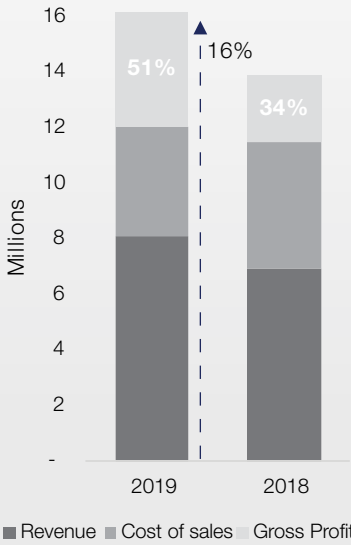
مارکیٹ کا جائزہ

پاکستان میں فارماسیوٹیکلز کی فروخت (2013-19) میں 12 فیصد کے CAGR تک بڑھیں، جس کی وجہ نئے مالیکیول کا تعارف اور استطاعت میں اضافے کے رجحانات کی حلیت، بڑھتی ہوئی آبادی، اعلیٰ زندگی کی توقع اور مہلک اور پیچیدہ امراض کے بڑھتے ہوئے واقعات کا اضافہ تھا۔ تاہم، دواسازی کی صنعت کو ایک مسلسل کمی کے رجحان کا سامنا ہے، جس کی وجوہات درآمد شدہ APIs پر زیادہ انحصار، کم فی کس اخراجات اور عالمی سطح کے لحاظ سے کم نرخ ہیں۔

موجودہ اقتصادی صورتحال نے مجموعی طور پر صنعت کے لئے چیلنجز بڑھادیئے ہیں۔ یہ امر قابل ذکر ہے کہ پاکستان کی کیمیکل انڈسٹری کو ادویات کی تیاری کے لئے درکار بنیادی اجزاء تیار کرنے میں رکاوٹ کا سامنا ہے۔ لہذا، صنعت کو خام مال کی درآمد پر انحصار کرنا پڑتا ہے۔ اس واضح انحصار کی وجہ اور زرمبادلہ کے نرخوں میں اتار چڑھاؤ کے ساتھ نرخوں کی سخت ریگولیشنز براہ راست پروڈکٹ کے شرح منافع اور بعد ازاں تجارتی افادیت کو متاثر کرتی ہے۔ پاکستانی روپے کی قدر کو دوہندسوں کی تخفیف کا سامنا ہے جس نے فارما انڈسٹری کو سخت دباؤ میں ڈال رکھا ہے۔

آپریٹنگ نتائج

		31 دسمبر		
		2018	2019	
		(روپے ہزاروں میں)		
		6,931,040	8,071,315	آمدنی
		(4,544,193)	(3,991,000)	فروخت کے اخراجات
		2,386,847	4,080,315	مجموعی آمدنی
		(2,143,050)	(2,558,977)	آپریٹنگ اخراجات
		(83,739)	(120,477)	دیگر آپریٹنگ اخراجات
		1,580,955	434,833	دیگر آمدنی
		1,741,013	1,835,694	آپریٹنگ سے آمدنی
		(213,666)	(322,891)	مالیاتی اخراجات
		1,527,347	1,512,803	منافع قبل از ٹیکس
		(71,922)	(357,673)	اکم ٹیکس اخراجات
		1,455,425	1,155,130	منافع بعد از ٹیکس



INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF THE SEARLE COMPANY LIMITED

Report on review of Interim Financial Statements

Introduction

We have reviewed the accompanying unconsolidated condensed interim statement of financial position of The Searle Company Limited as at December 31, 2019 and the related unconsolidated condensed interim statement of profit or loss and other comprehensive income, unconsolidated condensed interim statement of changes in equity, and unconsolidated condensed interim statement of cash flows, and notes to the financial statements for the half year ended (here-in-after referred to as the "interim financial statements"). Management is responsible for the preparation and presentation of these interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these financial statements based on our review. The figures of the unconsolidated condensed interim statement of profit or loss and other comprehensive income for the quarters ended December 31, 2019 and 2018 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2019.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements 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 unconsolidated interim financial statements are not prepared, in all material respects, in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting.

The engagement partner on the audit resulting in this independent auditor's report is Farrukh Rehman.



Chartered Accountants
Karachi

Date: February 28, 2020

UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

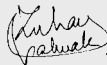
As at December 31, 2019

		(Un-audited) December 31, 2019	(Audited) June 30, 2019
		(Rupees in '000)	
ASSETS			
Non-current assets			
Property, plant and equipment	5	3,015,459	2,879,439
Investment properties - at cost		2,545,356	2,458,041
Intangible assets		143,437	164,913
Long-term investments - subsidiaries	6	1,686,186	1,686,186
Long-term loans		256	270
Long-term deposits		7,396	7,396
		<u>7,398,090</u>	<u>7,196,245</u>
Current assets			
Inventories		2,703,484	2,194,650
Trade receivables	7	5,833,793	4,866,132
Loans and advances	8	4,639,384	4,516,941
Trade deposits and short-term prepayments		116,309	81,882
Other receivables	9	2,480,569	3,077,649
Short-term investment - Term Finance Certificate		100,000	-
Taxation - payments less provision		896,446	1,128,345
Tax refunds due from Government - Sales Tax		4,209	35,179
Cash and bank balances		365,025	204,547
		<u>17,139,219</u>	<u>16,105,325</u>
Total assets		<u>24,537,309</u>	<u>23,301,570</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital		2,124,253	2,124,253
Unappropriated profit		10,073,157	9,431,627
General reserve		280,251	280,251
Share premium		1,630,974	1,630,974
Revaluation surplus on property, plant and equipment		1,033,337	1,050,800
		<u>15,141,972</u>	<u>14,517,905</u>
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		87,113	93,240
Employee benefit obligations		58,514	55,820
Long-term lease liability		125,737	-
		<u>271,364</u>	<u>149,060</u>
Current liabilities			
Trade and other payables	10	3,848,406	4,529,480
Borrowings	11	4,749,004	3,954,776
Current portion of long-term lease liability		9,571	-
Unpaid dividend	12	478,705	112,062
Unclaimed dividend		38,287	38,287
		<u>9,123,973</u>	<u>8,634,605</u>
Total liabilities		<u>9,395,337</u>	<u>8,783,665</u>
Contingencies and commitments	13		
Total equity and liabilities		<u>24,537,309</u>	<u>23,301,570</u>

The annexed notes from 1 to 22 form an integral part of these condensed interim financial statements.



Chief Executive Officer



Director



Chief Financial Officer

UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

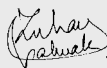
For the half year ended December 31, 2019 - Unaudited

	Note	Quarter ended		Half year ended	
		December 2019	December 2018	December 2019	December 2018
------(Rupees in '000)-----					
Revenue from contracts with customers	14	4,008,994	3,454,898	8,071,315	6,931,040
Cost of sales	15	(1,895,247)	(2,229,959)	(3,991,000)	(4,544,193)
Gross profit		2,113,747	1,224,939	4,080,315	2,386,847
Distribution costs		(1,095,813)	(922,630)	(2,023,514)	(1,692,572)
Administrative expenses		(262,091)	(237,989)	(535,463)	(450,478)
Other operating expenses		(62,819)	(37,261)	(120,477)	(83,739)
Other income	16	283,049	848,421	434,833	1,580,955
Profit from operations		976,073	875,480	1,835,694	1,741,013
Finance cost		(187,631)	(115,904)	(322,891)	(213,666)
Profit before income tax		788,442	759,576	1,512,803	1,527,347
Income tax expense		(180,629)	(33,943)	(357,673)	(71,922)
Profit for the period		607,813	725,633	1,155,130	1,455,425
Other comprehensive income		-	-	-	-
Total comprehensive income		607,813	725,633	1,155,130	1,455,425
Basic and diluted earnings per share (Rupees)	17	2.86	3.42	5.44	6.85

The annexed notes from 1 to 22 form an integral part of these condensed interim financial statements.



Chief Executive Officer



Director



Chief Financial Officer

UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

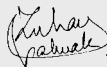
For the half year ended December 31, 2019 - Unaudited

	Capital reserve			Revenue reserves			Total reserves	Total
	Share capital	Share premium	Issue of bonus shares	Revaluation surplus on Property, plant & equipment	General reserve	Unappropriated profits		
----- Rupees in '000 -----								
Balance as at July 01, 2018	1,847,177	1,630,974	-	574,331	280,251	7,981,789	10,467,345	12,314,522
Total comprehensive income for the period	-	-	-	-	-	1,455,425	1,455,425	1,455,425
Transactions with owners								
Transfer to reserve for issue of bonus shares	-	-	277,076	-	-	(277,076)	-	-
Bonus shares issued during the period in the ratio of 15 shares for every 100 shares held	277,076	-	(277,076)	-	-	-	(277,076)	-
Final dividend for the year ended June 30, 2018 @ Rs. 5 per share	-	-	-	-	-	(923,588)	(923,588)	(923,588)
	277,076	-	-	-	-	(1,200,664)	(1,200,664)	(923,588)
Transfer of incremental depreciation for the period (net of deferred tax)	-	-	-	(5,171)	-	5,171	-	-
Balance as at December 31, 2018	<u>2,124,253</u>	<u>1,630,974</u>	<u>-</u>	<u>569,160</u>	<u>280,251</u>	<u>8,241,721</u>	<u>10,722,106</u>	<u>12,846,359</u>
Balance as at July 01, 2019	2,124,253	1,630,974	-	1,050,800	280,251	9,431,627	12,393,652	14,517,905
Total comprehensive income for the period	-	-	-	-	-	1,155,130	1,155,130	1,155,130
Transactions with owners								
Final dividend for the year ended June 30, 2019 @ Rs. 2.5 per share	-	-	-	-	-	(531,063)	(531,063)	(531,063)
	-	-	-	-	-	(531,063)	(531,063)	(531,063)
Transfer of incremental depreciation for the period (net of deferred tax)	-	-	-	(17,463)	-	17,463	-	-
Balance as at December 31, 2019	<u>2,124,253</u>	<u>1,630,974</u>	<u>-</u>	<u>1,033,337</u>	<u>280,251</u>	<u>10,073,157</u>	<u>13,017,719</u>	<u>15,141,972</u>

The annexed notes from 1 to 22 form an integral part of these condensed interim financial statements.



Chief Executive Officer



Director



Chief Financial Officer

UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS

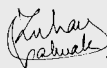
For the half year ended December 31, 2019 - Unaudited

	Note	December 2019 (Rupees in '000)	December 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	18	258,584	285,796
Retirement benefit obligations paid		-	(830)
Finance cost paid		(253,367)	(170,108)
Income tax paid		(131,901)	(159,699)
Lease rentals paid		(16,484)	-
Decrease / (Increase) in long-term loans		14	(139)
Increase in long-term deposits		-	(6,000)
Net cash generated from operating activities		(143,154)	(50,980)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(111,656)	(240,045)
Proceeds from disposal of property, plant and equipment		2,450	-
Addition to investment properties		(116,442)	(3,812)
Purchase of intangibles		(528)	(12,440)
Additions to short-term investments		(100,000)	-
Net cash used in investing activities		(326,176)	(256,297)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(164,420)	(706,139)
(Repayment of) / proceeds from export finance		(110,000)	100,000
Current portion of long-term loan repaid		-	(107,143)
Net cash used in financing activities		(274,420)	(713,282)
Net decrease in cash and cash equivalents		(743,750)	(1,020,559)
Cash and cash equivalents at the beginning of the period		(3,340,229)	(2,186,442)
Cash and cash equivalents at the end of the period	19	(4,083,979)	(3,207,001)
		(4,083,979)	(3,207,001)

The annexed notes from 1 to 22 form an integral part of these condensed interim financial statements.



Chief Executive Officer



Director



Chief Financial Officer

NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the half year ended December 31, 2019 - Unaudited

1. THE COMPANY AND ITS OPERATIONS

- 1.1** The Searle Company Limited (the Company) was incorporated in Pakistan as a private limited company in October 1965. In November 1993, the Company was converted into a public limited company. Its shares are quoted on the Pakistan Stock Exchange. The Company is principally engaged in the manufacture of pharmaceutical and other consumer products. The registered office of the Company is situated at 1st Floor, N.I.C. Building, Abbasi Shaheed Road, Karachi.

International Brands Limited is the holding company, which holds 56.60% shareholding in the Company.

Following are the subsidiary companies:

	Principal place of business	Effective %age of holding	
		December 31, 2019	June 30, 2019
Listed Company			
- IBL HealthCare Limited		74.19%	74.19%
Unlisted Companies			
- Searle Pharmaceuticals (Private) Limited	Pakistan	100.00%	100.00%
- Searle Laboratories (Private) Limited		100.00%	100.00%
- Searle Biosciences (Private) Limited		100.00%	100.00%
- IBL Identity (Private) Limited		100.00%	100.00%
- IBL Future Technologies (Pvt) Limited		100.00%	100.00%
- Nextar Pharma (Private) Limited *		87.20%	87.20%

* The Company effectively holds 87.20% (June 30, 2019: 87.20%) shareholding in Nextar Pharma (Private) Limited through Searle Biosciences (Private) Limited.

- 1.2** During the period, the Company's Board of Directors in its meeting held on October 23, 2019 approved acquisition of 100% paid up share capital of Luna Pakistan (Private) Limited, which indirectly owns 100% of the issued and paid up capital of OBS Pakistan (Private) Limited, which is one of the leading pharmaceutical companies in Pakistan, from Universal Venture (Private) Limited (UVPL) - related party. The said decision was subject to obtaining approvals and finalisations of the terms of the transaction with Universal Venture (Private) Limited. Further, the Board of Directors, in its meeting held on December 17, 2019 approved the acquisition of OBS Pakistan for the total consideration amounting to Rs. 8.6 billion. Out of the total consideration, the amount of Rs. 4.25 billion is agreed to be paid at the time of transfer of shares to the Company. The remaining amount of Rs. 4.325 billion is agreed to be paid on deferred payment basis. Further, the Company has also agreed to provide call option to Universal Venture (Private) Limited to acquire 25% of the paid up capital of Luna Pakistan (Private) Limited for a period of one year from the date of transfer of such shares.

In the abovementioned meeting of the Board, the Board also resolved that the approval of the shareholders shall also be obtained with respect to the said transaction. The Company is in the process of making necessary arrangements to complete the subject acquisition.

NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the half year ended December 31, 2019 - Unaudited

2. BASIS OF PREPARATION

These unconsolidated condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed.

These unconsolidated condensed interim financial statements do not include all the information required for full financial statements and should be read in conjunction with the annual financial statements for the year ended June 30, 2019.

2.1 Changes in accounting standards, interpretations and pronouncements

a) Standards, interpretations and amendments to published approved accounting standards that are effective and relevant

IFRS 16 'Leases' - IFRS 16 replaces the previous lease standard: IAS 17 Leases. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low value leases.

The changes laid down by this standard have been disclosed in note 3.1 of these condensed interim financial statements.

b) Standards, interpretations and amendments to published approved accounting standards that are effective but not relevant

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2019 are considered not to be relevant for the Company's interim financial statements and hence have not been detailed here.

3. SIGNIFICANT ACCOUNTING INFORMATION AND POLICIES

The accounting policies adopted in the preparation of these unconsolidated condensed interim financial statements are the same as those applied in the preparation of the annual financial statements of the Company for the year ended June 30, 2019, except as disclosed in note 3.1.

3.1 Changes in accounting policies

3.1.1 IFRS 16 'Leases'

Effective July 1, 2019, the Company has adopted IFRS 16, "Leases" which replaces existing guidance on accounting for leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an arrangement contains a Lease', SIC-15 'Operating Leases-Incentive and SIC-27 'Evaluating the substance of transactions involving the legal form of a Lease'. IFRS 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right-of-use of the underlying asset and a lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The accounting policies relating to Company's right-of-use assets and lease liability are disclosed in note 3.1.2.

The Company has adopted IFRS 16 retrospectively from July 1, 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The impact of adoption of this standard is therefore recognised in the opening statement of financial position on July 1, 2019.

On adoption of IFRS 16, the Company recognised lease liabilities which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of July 1, 2019. The lessee's incremental borrowing rate applied to lease liabilities on July 1, 2019 ranges between 15.34 to 15.48%.

The following summary reconciles the Company's operating lease commitments at June 30, 2019 as previously disclosed in the Company's annual financial statements as at June 30, 2019 to the lease liability recognised on initial application of IFRS 16 at July 1, 2019.

	(Rupees in '000)
Operating lease commitments as at July 1, 2019	260,398
Discounted using the Company's incremental borrowing rate at the date of initial application	(120,977)
Total liability as at July 1, 2019	<u>139,421</u>
Of which are:	
Current lease liability	8,556
Non-current lease liability	130,865

The right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at June 30, 2019.

NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the half year ended December 31, 2019 - Unaudited

	(Unaudited) December 31, 2019	(Audited) June 30, 2019
	(Rupees in '000)	
The recognised right of use asset related to the following type of asset:		
Leasehold Building	131,468	141,421
The change in accounting policy affected the following in the condensed interim financial position on July 1, 2019		July 1, 2019
		(Rupees in '000)
Right-of-use asset increased by		141,421
Trade deposits and short-term prepayments decreased by		2,000
Lease liability increased by		139,421
The change in accounting policy affected the following in the condensed interim statement of Profit or Loss account on December 31, 2019		
Mark up expense - increased by		10,370
Net of Depreciation charge and rent expense - decreased by		4,431

3.1.2 Lease liability and right-of-use asset

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments include fixed payments, variable lease payments that are based on an index or a rate expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option, less any lease incentives receivable. The extension and termination options are incorporated in determination of lease term only when the Company is reasonably certain to exercise these options.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in fixed lease payments or an index or rate, change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. The corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit and loss if the carrying amount of right-of-use asset has been reduced to zero.

The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. The right-of-use asset is depreciated on a straight line method over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Company has elected to apply the practical expedient not to recognise right-of-use assets and lease liabilities for short term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognised as an expense on a straight line basis over the lease term.

4. ACCOUNTING ESTIMATES AND JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

The preparation of these unconsolidated condensed interim financial statements in conformity with approved accounting standards requires management to make estimates, assumptions and use judgements that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgements are continually evaluated and based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised prospectively commencing from the period of revision.

Judgements and estimates made by the management in the preparation of these unconsolidated condensed interim financial statements are the same as those that were applied to financial statements as at and for the year ended June 30, 2019.

The Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended June 30, 2019.

(Unaudited) December 31, 2019	(Audited) June 30, 2019
--	-------------------------------

(Rupees in '000)

5. PROPERTY, PLANT AND EQUIPMENT

Operating assets - note 5.1	2,755,633	2,728,713
Capital work-in-progress - at cost	128,358	150,726
Right-of-use assets - note 5.2	141,421	-
Less: Depreciation	(9,953)	-
	131,468	-
	3,015,459	2,879,439

NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the half year ended December 31, 2019 - Unaudited

- 5.1 Details of additions in operating assets including transfers from capital work-in-progress during the period are as follows:

	Additions (at cost)		Disposals (at net book value)	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	------(Rupees in '000)-----			
Leasehold Land	11,418	-	-	-
Building on leasehold land	49,288	26,451	-	-
Plant and machinery	24,272	128,682	-	-
Office equipment	4,298	26,211	-	-
Furniture & fittings	3,201	399	-	-
Vehicles	-	-	(1,058)	-
Air conditioning systems	41,547	-	-	-
	<u>134,024</u>	<u>181,743</u>	<u>(1,058)</u>	<u>-</u>

- 5.2 The right-of-use assets pertain to the leasehold buildings at the Multan Road Plants, Lahore and Port Qasim Plant, Karachi.

	(Unaudited) December 31, 2019	(Audited) June 30, 2019
	(Rupees in '000)	
6. LONG-TERM INVESTMENTS		
Subsidiary companies - at cost	<u>1,686,186</u>	<u>1,686,186</u>
7. TRADE RECEIVABLES		
Considered good		
- Export receivables, secured	441,963	307,294
- Due from related parties, unsecured - note 7.1	4,717,126	3,839,765
- Others - unsecured	674,704	719,073
	<u>5,833,793</u>	<u>4,866,132</u>
Considered doubtful	152,003	152,003
Less: Provision for doubtful debts	<u>(152,003)</u>	<u>(152,003)</u>
	<u>-</u>	<u>-</u>
	<u>5,833,793</u>	<u>4,866,132</u>

- 7.1 These are stated net of amount payable to IBL Operations (Private) Limited, United Brands Limited and IBL Logistics (Private) Limited - associated companies amounting to Rs. 218.72 million (2019: Rs. 284.97 million), Rs. 26.26 million (2019: Rs. 15.36 million) and Rs. 0.73 million (2019: Rs. 1.01 million), respectively.

8. LOANS AND ADVANCES

- 8.1** This includes interest free loan provided to IBL Identity (Private) Limited - wholly owned subsidiary amounting to Rs. 3,112.6 million as at December 31, 2019 (June 30, 2019: Rs. 3,046.13 million).
- 8.2** This represents advance to Searle Biosciences (Private) Limited and Searle Laboratories (Private) limited - wholly owned subsidiaries amounting to Rs. 972.2 million (June 30, 2019: Rs. 975.6 million), Rs. 13.8 million (June 30, 2019: Rs. 6.5 million) respectively. These advances are provided for the purpose of financial assistance and are settled in the ordinary course of business.

(Unaudited) (Audited)
December 31, June 30,
2019 2019
(Rupees in '000)

9. OTHER RECEIVABLES

Receivables from related parties

Due from subsidiary companies:

- IBL HealthCare Limited	69,923	24,777
- Searle Pharmaceuticals (Private) Limited against dividend income	946,700	1,982,566
- Searle Laboratories (Private) Limited	425	-
- Searle Biosciences (Private) Limited	649,226	399,378
- Nextar Pharma (Private) Limited against expenses	13,076	5,414
- IBL Future Technologies (Private) Limited against financial assistance	1,949	1,949
	1,681,299	2,414,084

Due from associated companies:

- IBL Operations (Private) Limited against: mark-up on over due balance & rental income	15,716	27,767
- International Brands Limited against expenses	-	7,472
- International Franchises (Private) Limited against rental income	7,347	25,538
- International Franchises (Private) Limited against rental income	463	1,093
	23,526	61,870

Due from other related party:

- United Retail (SMC-Private) Limited (formerly The Home Makers (SMC-Private) Limited) against rental income	244,203	209,566
- OBS Pakistan (Private) Limited against facility management fee	130,000	-
- Lunar Pharma (Private) Limited against expenses	2,882	-
- Surplus arising under retirement benefit fund	5,250	5,250

Receivables from other than related parties

Others, considered good - note 9.2

	393,409	386,879
	2,480,569	3,077,649

NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the half year ended December 31, 2019 - Unaudited

- 9.1** This represent dividends receivable and against expenses from wholly owned subsidiary companies.
- 9.2** This includes Rs. 318.95 million claimed by the Company from Zhejiang Huahai Pharmaceuticals, China (ZHP) relating to its product “Extor” that contains material supplied by ZHP. On July 12, 2018, the Drug Regulatory Authority of Pakistan in response to a review triggered by the European Medicine Agency (EMA), issued drug re-call for “Valsartan” containing products, due to the presence of cancer causing impurities. Accordingly, the Company re-called finished product “Extor” amounting to Rs. 221.95 million from the local market and Rs. 97 million from the international market. The impact of the product re-call has been set off by the claim raised by the Company against ZHP.

Further, the Company has lodged a claim of Rs. 881.05 million from ZHP in respect of the overall business loss which has not yet been recorded in these condensed interim financial statements.

(Unaudited) December 31, 2019	(Audited) June 30, 2019
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(Rupees in ‘000)

10. TRADE AND OTHER PAYABLES

Creditors - note 10.1	1,370,508	2,531,434
Bills payable in foreign currency	736,412	708,946
Royalty payable	14,275	23,966
Accrued liabilities	1,145,607	801,222
Payable to provident fund	10,212	8,619
Advance from customers - unsecured	39,489	22,415
Accrued mark-up	147,941	109,473
Taxes deducted at source and payable to statutory authorities	51,175	96,147
Workers’ Profit Participation Fund	230,773	149,417
Workers’ Welfare Fund	42,597	16,342
Other liabilities	59,417	61,499
	<u>3,848,406</u>	<u>4,529,480</u>

- 10.1** This includes amount payable to Searle Pharmaceutical (Private) Limited - wholly owned subsidiary amounting to Rs. 1,020.87 million (June 30, 2019: Rs. 2,192.65 million) on account of toll manufacturing services. This also includes payable to Searle Laboratories (Private) Limited - wholly owned subsidiary amounting to Rs. 26.87 million (June 30, 2019: Rs. 9.13 million).

	(Unaudited) December 31, 2019	(Audited) June 30, 2019
	(Rupees in '000)	
11. BORROWINGS		
Secured		
Running finances under mark-up arrangements - note - 11.1	4,449,004	3,544,776
Export refinance	100,000	210,000
	4,549,004	3,754,776
Unsecured		
Borrowing from IBL Future Technologies (Private) Limited - note 11.3	200,000	200,000
	4,749,004	3,954,776

11.1 The Company has entered into running finance under mark-up arrangements from various banks amounting to Rs. 4,535 million (June 30, 2019: Rs. 4,175 million) which include financing facilities obtained under Islamic mode amounting to Rs. 3,885 million (June 30, 2019: Rs. 3,525 million). The arrangements are secured jointly by registered mortgage of Rs. 589.44 million (June 30, 2019: Rs. 589.44 million) of immovable property together with joint pari passu charge on all current assets of the Company to the extent of Rs. 4,071 million (June 30, 2019: Rs. 4,071 million) in favour of Standard Chartered Bank (Pakistan) Limited (the lead bank).

11.2 The rates of mark-up ranged between 7.42% to 15.35% (June 30, 2019: 6.9% to 12.7%) per annum.

11.3 This represents interest free loan obtained from IBL Future Technologies (Private) Limited - wholly owned subsidiary and is repayable on demand.

12. UNPAID DIVIDEND

12.1 This includes dividend on bonus shares withheld pertaining to 125 shareholders amounting to Rs. 96.7 million, on which stay from the Honorable High Court of Sindh has been obtained.

12.2 This also includes dividend pertaining to the year ended June 30, 2019 amounting to Rs. 346.18 million, out of which Rs. 315.7 million has been paid subsequent to the half year ended December 31, 2019.

13. CONTINGENCIES AND COMMITMENTS

13.1 Contingencies

There has been no significant change in the status of contingencies as reported in the note 22 of annual audited financial statements of the Company for the year ended June 30, 2019.

NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the half year ended December 31, 2019 - Unaudited

13.2 Commitments

The facility for opening letters of credit and guarantees as at December 31, 2019 amounted to Rs. 2,120 million (June 30, 2019: Rs. 2,111 million) of which the amount remaining unutilised as at the half year ended December 31, 2019 amounted to Rs. 556.3 million (June 30, 2019: Rs. 318 million).

December 31, December 31,
2019 2018
(Rupees in '000)

14. REVENUE FROM CONTRACTS WITH CUSTOMERS

Gross sales		
Local sale of goods	7,453,211	6,460,995
Export sales	1,224,584	981,151
	8,677,795	7,442,146
Toll manufacturing	163,861	156,727
	8,841,656	7,598,873
Sales tax	(43,045)	(50,673)
	8,798,611	7,548,200
Less:		
Discounts, rebates and allowances	576,804	521,477
Sales return	150,492	95,683
	727,296	617,160
	8,071,315	6,931,040

15. COST OF SALES

This includes inventory written-off during the period amounting to Rs. 16.22 million (December 31, 2018: Rs. 6.6 million)

December 31, December 31,
2019 2018
(Rupees in '000)

16. OTHER INCOME

Income from financial assets - related parties

Dividend income - subsidiary companies:

- IBL HealthCare Limited	39,009	39,009
- Searle Pharmaceuticals (Private) Limited	-	1,305,906
- Searle Biosciences (Private) Limited	194,000	181,696

Income from financial assets - others

Interest income from Term Finance Certificate
 7,521 | - |

240,530 1,526,611

Income from non - financial assets

Rental income from investment properties	49,562	48,658
Facility management fee - note 16.1	130,000	-
Gain on disposal of property, plant and equipment	1,392	-
Scrap sales	13,349	5,686
	194,303	54,344

434,833 1,580,955

- 16.1** This pertains to fee charged from OBS Pakistan (Private) Limited in respect of finance, administration, human resources and other services provided by the Company, in accordance with the agreement.

December 31, December 31,
2019 2018

17. EARNINGS PER SHARE - BASIC AND DILUTED

Profit for the period (Rupees in thousands)
 1,155,130 | 1,455,425 |

Weighted average number of outstanding shares at the end of the period (in thousand)
 212,425 | 212,425 |

Basic and diluted earnings per share (Rupees)
 5.44 | 6.85 |

NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the half year ended December 31, 2019 - Unaudited

December 31, 2019 December 31, 2018
(Rupees in '000)

18. CASH GENERATED FROM OPERATIONS

Profit before income tax	1,512,803	1,527,347
Add / (less): Adjustments for non-cash charges and other items		
Depreciation	145,129	104,116
(Gain) / loss on disposal of property, plant and equipment	(1,392)	10
Amortisation	22,002	21,365
Provision for employee benefits obligation	2,694	2,250
Finance cost	291,835	213,666
Interest on lease liability	10,370	-
Profit before working capital changes	1,983,441	1,868,754

Effect on cash flow due to working capital changes

(Increase) / decrease in current assets

Inventories	(508,834)	(144,982)
Trade receivables	(967,661)	(508,662)
Loans and advances	(122,443)	(625,100)
Trade deposits and short-term prepayments	(34,427)	(12,678)
Other receivables	597,080	(1,193,338)
Refund due from Government - Sales tax	30,970	19,645

(1,005,315) (2,465,115)

Increase / (decrease) in current liabilities

Trade and other payables **(719,542)** 882,157

Cash flows generated from operations **258,584** 285,796

19. CASH AND CASH EQUIVALENTS

Cash and bank balances	365,025	140,426
Short term running finance - note 11.1	(4,449,004)	(3,347,427)
	(4,083,979)	(3,207,001)

20. SEGMENT INFORMATION

The financial information regarding operating segments is as follows:

	Pharmaceutical		Consumer		Total	
	December 31	December 31	December 31	December 31	December 31	December 31
	2019	2018	2019	2018	2019	2018
----- (Rupees in '000) -----						
Segment revenue	7,493,055	6,299,144	578,260	631,896	8,071,315	6,931,040
Segment result	1,504,150	152,071	16,828	91,726	1,521,338	243,797
Unallocated income and expenses						
Other operating expenses					(120,477)	(83,739)
Other income					434,833	1,580,955
Finance cost					(322,891)	(213,666)
Profit before taxation					1,512,803	1,527,347
Income tax expense					(357,673)	(71,922)
Total comprehensive income					1,155,130	1,455,425

	Pharmaceutical		Consumer		Total	
	December 31	June 30,	December 31	June 30,	December 31	June 30,
	2019	2019	2019	2019	2019	2019
----- (Rupees in '000) -----						
Segment assets and liabilities						
Segment assets	792,050	836,546	24,578	19,704	816,628	856,250
Unallocated assets					23,720,681	20,380,131
Total assets					24,537,309	21,236,381
Unallocated liabilities					9,395,337	7,757,870
Total liabilities					9,395,337	7,757,870

NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the half year ended December 31, 2019 - Unaudited

21. TRANSACTIONS WITH RELATED PARTIES

The following transactions were carried out with related parties during the period:

Nature of relationship	Nature of transactions	December 31,	December 31,
		2019	2018
		(Rupees in '000)	
Holding company	- Corporate service charges	120,000	108,000
	- Rent income	5,006	4,551
	- Income from provision of amenities	3,810	3,810
Subsidiaries	- Revenue	293,656	121,242
	- Purchase of consumables	-	1,703
	- Outside processing charges	-	1,372,740
	- Dividend income	233,009	1,526,611
	- Short term loan given	66,500	362,950
	- Advances recovered	5,900	-
	- Advance against financial assistance	63,988	-
Associated companies	- Revenue	6,624,900	5,819,934
	- Salaries and wages	2,197	305
	- Purchases	25,558	2,334
	- Carriage and duties	23,285	28,865
	- Discounts claimed	292,882	289,952
	- Rent expense	8,102	8,175
	- Rent income	34,825	30,711
	- Stock claims	193,798	114,565
	- Internet services	2,905	3,089
	- Architect fee	5,272	-
	- Income from Provision of amenities	17,335	4,036
	- Donations	6,446	5,300
	- ERP maintenance charges	-	25,072
	- Incentives to field force staff	-	2,403
	- Repair & maintenance	859	5,893
	- Merchandise expense	13,904	49,179
- Facility management fee	130,000	-	
- Others	5,275	-	
Staff retirement benefits	- Contributions to Provident Fund	28,711	51,669
	- Benefits paid	51,982	33,046
Key management employees compensation	- Salaries and other employee benefits	90,766	78,901
	- Contributions to Provident Fund	7,387	7,796
	- Directors' fee	-	15
	- Sale of goods	64	67


21.1 The status of outstanding balances with related parties as at December 31, 2019 is included in the respective notes to the financial statements. These are settled in the ordinary course of business.

22. DATE OF AUTHORISATION FOR ISSUE

These unconsolidated condensed interim financial statements were approved and authorised for issue by the Board of Directors of the Company on February 27, 2020.



Chief Executive Officer



Director



Chief Financial Officer

Consolidated Condensed Interim **Financial** Statements

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DIRECTORS' REVIEW REPORT

We are pleased to present the consolidated interim financial information of the holding company for the half year ended December 31, 2019. These financial statements have been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 – 'Interim Financial Reporting' and the provisions of the directives issued under the Companies Act, 2017.

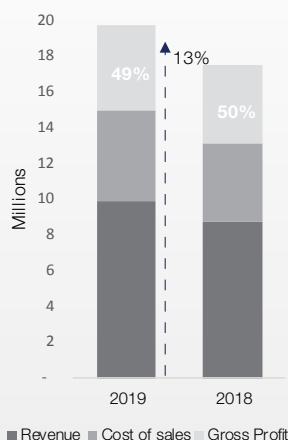
MARKET OVERVIEW

Pharmaceutical sales in Pakistan grew at a (2013-19) CAGR of 12%, driven by new molecule introductions and supported by underlying demographic trends of increasing affordability, rising population, higher life expectancy and increased incidence of chronic diseases. However, the pharmaceutical industry is experiencing a constant downward trend, due to high reliance of imported APIs, low per capita expenditure and low prices in terms of global environment.

The recent economic conditions have raised challenges on the industry as a whole. It is well established fact that the chemical industry of Pakistan has capacity constraints to develop basic components required for manufacturing drugs. Therefore, the industry resorts to import of raw materials. Due to this significant dependability, fluctuation in exchange rates coupled with stiff price regulations directly affect the product margins and consequent commercial feasibility. Pakistani rupee has experienced double-digit depreciation which has put the pharma industry under immense pressure.

OPERATING RESULTS

	December 31,	
	2019	2018
	(Rupees in thousand)	
Revenue	9,888,519	8,771,527
Cost of sales	(5,074,319)	(4,351,417)
Gross Profit	4,814,200	4,420,110
Operating expenses	(2,968,233)	(2,620,105)
Other operating expenses	(123,101)	(91,321)
Other income	237,354	75,449
Profit from operations	1,960,220	1,784,133
Finance cost	(338,162)	(216,606)
Profit before tax	1,622,058	1,567,527
Income tax expense	(488,912)	(255,636)
Profit after taxation	1,133,146	1,311,891



Searle group of companies have always focused on improving the lives of patients by offering quality healthcare solutions. We have built a firm growing position by putting the benefit of patients and stakeholders, our fundamental priority and are proud of the impact of our efforts.

During the period ended December 31, 2019, the holding company's financial performance was affected by the exchange rate fluctuations. However, despite the challenging economic conditions, Searle group of companies managed to continue its momentum.

Financial highlights are summarized below:

- Net sales of the Holding company grew by 13% to Rs. 9.88 billion.
- Gross profit margin remained at 49%.
- Operating profit margin is 20%
- Profit before and after taxation is 16% and 11% respectively.

EARNINGS PER SHARE

Basic earnings per share after taxation for the period was Rs. 5.24 (2018: Rs. 6.12).

There is no dilution effect on the basic earnings per share of the holding company, as the holding company has no convertible dilutive potential ordinary shares outstanding as at December 31, 2019.

FUTURE OUTLOOK

Moving forward, we are focusing on enhancing the share of specialty generic branded portfolio and targeting differentiated products. It is also pertinent to mention that Searle has an organic pipeline of over 200 products in different stages of the regulatory approval process.

Further, due to overly regulated drug pricing mechanism, volatility in retail prices is a concern of paramount importance for us. Delays in new product approvals also pose key threats for the industry as a whole. However, with the change in recent political scenario, we will have to wait to assess the future economic trends and modify our strategies accordingly. For the longer run, Searle is focusing on emerging portfolios including, bio-similars, medical devices, nutraceuticals and genome sciences.

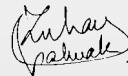
ACKNOWLEDGEMENT

At Searle group of companies, we all are emotionally motivated and willing to contribute enthusiastically on continuous basis. Same is the case with our partners, suppliers and customers, for which we are thankful and expect the same zeal and zest for future contribution. We assure, Searle will continue to work hard to provide long term sustainable growth to everyone associated with us.

For and on behalf of the Board



Syed Nadeem Ahmed
Chief Executive Officer



Zubair Razzak Palwala
Director

Karachi : February 27, 2020

سرل گروپ آف کمپنیز نے ہمیشہ اعلیٰ معیار کی ہیلتھ کیئر خدمات کی پیشکش سے مرہضوں کی زندگی کو بہتر بنانے پر توجہ مرکوز کی ہے۔ ہم نے مرہضوں اور اسٹیک ہولڈرز کے فوائد کو اپنی بنیادی ترجیح بنا کر مستحکم ترقی کی پوزیشن استوار کی ہے اور ہمیں اپنی کوششوں کے اثرات پر فخر ہے۔

31 دسمبر 2019 کو ختم ہونے والی ششماہی مدت کے دوران، ہولڈنگ کمپنی کی مالی کارکردگی کو مبادلہ کی شرح کے اتار چڑھاؤ سے متاثر ہوئی۔ تاہم، مشکل معاشی صورتحال کے باوجود، سرل گروپ آف کمپنیز اپنے کاروباری رفتار کو جاری رکھنے میں کامیاب رہی۔

مالیاتی نکات مختصر اذیل میں بیان کئے گئے ہیں:

- ہولڈنگ کمپنی کی خالص سیلز 13 فیصد اضافے سے 9.88 ارب روپے ہو گئی۔
- مجموعی منافع کی شرح 49 فیصد تک برقرار رہی۔
- آپریٹنگ منافع کی شرح 20 فیصد رہی۔
- منافع قبل اور بعد از ٹیکس بالترتیب 16 اور 11 فیصد رہا۔

آمدنی فی شیئر

فی شیئر بنیادی آمدنی اس مدت کے لئے بعد از ٹیکس 5.24 روپے رہی (6:12:2018 روپے)۔

ہولڈنگ کمپنی کی بنیادی آمدنی فی شیئر پر کوئی اثرات ظاہر نہیں ہوئے، کیوں کہ ہولڈنگ کمپنی کے کسی ممکنہ منتقلی کی طاقت کے حامل شیئر زہ ہونے کے باعث عمومی شیئر زہ بر مطابق 31 دسمبر، 2019 برقرار ہیں۔

مستقبل پر ایک نظر

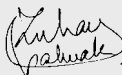
مزید کاروباری پیش رفت کرتے ہوئے، ہم خصوصاً عمومی برانڈز کے پورٹ فولیو میں حصہ بڑھانے اور مختلف النوع پروڈکٹس پر توجہ دے رہے ہیں۔ یہاں یہ بات بھی قابل ذکر ہے کہ سرل گروپ 200 سے زائد آرگینک مصنوعات کے ریگولیٹری منظوری کے عمل کے مختلف مراحل سے گزر رہا ہے۔

مزید برآں ادویات کی نرخوں کے حد درجہ کنٹرول طریقہ کار اور ریٹیل نرخوں میں اتار چڑھاؤ بھی ہمارے لئے اہم تشویش کے اسباب ہے۔ نئی پروڈکٹ کی منظوری میں تاخیر سے بھی مجموعی طور پر صنعت کے لئے کلیدی خطرات سامنے آتے ہیں۔ تاہم حالیہ سیاسی صورتحال کی تبدیلی کے ساتھ ہم آنے والے معاشی رجحانات کا جائزہ لے رہے ہیں اور اس کے مطابق اپنی حکمت عملیوں میں تبدیلی لائیں گے۔ طویل المیعاد بنیادوں پر سرل گروپ ابھرتے ہوئے پورٹ فولیو بشپیل بائیو۔ سیمیولر، میڈیکل آلات، نیوٹراسیوٹیکلز اور جینوم سائنسز پر خصوصی توجہ دے رہی ہے۔

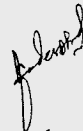
اظہار تشکر

سرل گروپ آف کمپنیز میں، ہم جذباتی طور پر حوصلہ افزائی اور مستقل بنیادوں پر جوش و خروش سے خدمت کے خواہشمند ہیں۔ یہی معاملہ ہمارے شراکت داروں، سپلائرز اور صارفین کے ساتھ ہے، جس کے لئے ہم ان کے مشکور ہیں اور آئندہ کے شراکت کے لئے اسی جوش و جذبے کی توقع کرتے ہیں۔ ہم یقین دہانی کراتے ہیں کہ سرل گروپ اپنے سے وابستہ فریقین کو طویل المیعاد پائیدار ترقی کی فراہمی کے لئے کوشاں رہے گی۔

برائے اور بورڈ کی جانب سے



ذہیر رزاق پال وال
ڈائریکٹر



سید ندیم احمد
چیف ایگزیکٹو آفیسر

کراچی:

۲۷ فروری ۲۰۲۰ء

ڈائریکٹرز کی رپورٹ

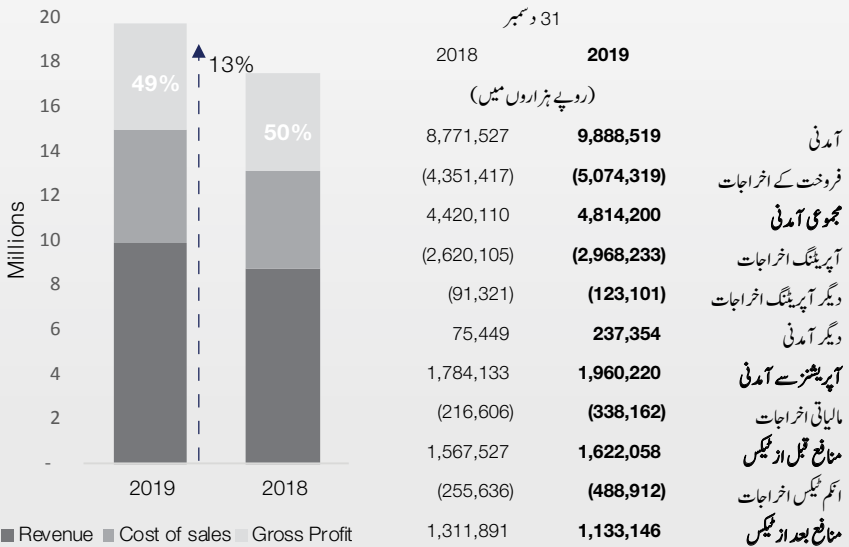
ہم 31 دسمبر 2019 کو ختم ہونے والی ششماہی مدت کے لئے ہولڈنگ کمپنی کے مجموعی عبوری مالیاتی معلومات پیش کرتے ہوئے خوشی محسوس کرتے ہیں۔ یہ مالیاتی حسابات بین الاقوامی اکاؤنٹنگ اسٹینڈرڈ (IAS 34)۔ عبوری فنانشل رپورٹنگ اور کمپنیز ایکٹ، 2017 کے تحت جاری کردہ ہدایات کی دفعات کے تقاضوں کے مطابق تیار کیے گئے ہیں۔

مارکیٹ کا جائزہ

پاکستان میں فارماسیوٹیکلز کی فروخت (2013-19) میں 12 فیصد کے CAGR تک بڑھیں، جس کی وجہ نئے مالیکیول کا تعارف اور استطاعت میں اضافے کے رجحانات کی حلیت، بڑھتی ہوئی آبادی، اعلیٰ زندگی کی توقع اور مہلک اور پیچیدہ امراض کے بڑھتے ہوئے واقعات کا اضافہ تھا۔ تاہم، دواسازی کی صنعت کو ایک مسلسل کمی کے رجحان کا سامنا ہے، جس کی وجوہات درآمد شدہ APIs پر زیادہ انحصار، کم فی کس اخراجات اور عالمی سطح کے لحاظ سے کم نرخ ہیں۔

موجودہ اقتصادی صورتحال نے مجموعی طور پر صنعت کے لئے چیلنجز بڑھادیئے ہیں۔ یہ امر قابل ذکر ہے کہ پاکستان کی کیمیکل انڈسٹری کو ادویات کی تیاری کے لئے درکار بنیادی اجزاء تیار کرنے میں رکاوٹ کا سامنا ہے۔ لہذا، صنعت کو خام مال کی درآمد پر انحصار کرنا پڑتا ہے۔ اس واضح انحصار کی وجہ اور زر مبادلہ کے نرخوں میں اتار چڑھاؤ کے ساتھ نرخوں کی سخت ریگولیشنز براہ راست پروڈکٹ کے شرح منافع اور بعد ازاں تجارتی افادیت کو متاثر کرتی ہے۔ پاکستانی روپے کی قدر کو دو ہندسوں کی تخفیف کا سامنا ہے جس نے فارما انڈسٹری کو سخت دباؤ میں ڈال رکھا ہے۔

آپریٹنگ نتائج



CONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

As at December 31, 2019

		(Un-audited) December 31, 2019	(Audited) June 30, 2019
ASSETS			
	Note	(Rupees in '000)	
Non-current assets			
Property, plant and equipment	5	3,911,978	3,786,177
Investment properties		2,907,070	2,724,116
Intangibles		342,708	365,268
Long-term loans and advances	6	200,256	270
Long-term deposits		13,624	13,624
		<u>7,375,636</u>	<u>6,889,455</u>
Current assets			
Inventories		3,470,610	2,953,902
Trade receivables	7	8,056,362	6,209,817
Loans and advances	8	3,843,676	2,944,181
Trade deposits and short-term prepayments		125,503	91,074
Interest accrued		13,484	2,970
Other receivables	9	1,626,913	787,859
Short-term investment - Term Finance Certificate		100,000	-
Tax refunds due from government - Sales tax		12,408	59,527
Taxation - payments less provision		885,279	1,000,760
Cash and bank balances		405,919	262,054
		<u>18,540,152</u>	<u>14,312,144</u>
Assets classified as held for sale		-	75,500
Total assets		<u>25,915,788</u>	<u>21,277,099</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital		2,124,253	2,124,253
Share premium		1,630,974	1,630,974
Unappropriated profit		8,203,438	7,603,678
General reserve		280,251	280,251
Revaluation surplus on property, plant and equipment		1,420,473	1,437,936
Attributable to owners of			
The Searle Company Limited - Holding Company		13,659,389	13,077,092
Non-controlling interests		446,844	442,137
		<u>14,106,233</u>	<u>13,519,229</u>
LIABILITIES			
Non-current liabilities			
Long-term borrowings		4,664	4,664
Deferred tax liabilities		90,454	96,581
Employee benefit obligations		58,514	55,820
Long term lease liability		125,737	-
		<u>279,369</u>	<u>157,065</u>
Current liabilities			
Trade and other payables	10	5,702,819	3,520,230
Borrowings	11	4,748,506	3,922,277
Current portion of long-term lease liability		9,571	-
Unpaid dividend	12	516,194	110,667
Unclaimed dividend		553,096	47,631
		<u>11,530,186</u>	<u>7,600,805</u>
Total liabilities		<u>11,809,555</u>	<u>7,757,870</u>
Contingencies and commitments	13		
Total equity and liabilities		<u>25,915,788</u>	<u>21,277,099</u>

The annexed notes from 1 to 22 form an integral part of these consolidated condensed interim financial statements


Chief Executive Officer


Director


Chief Financial Officer

CONSOLIDATED CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half year ended December 31, 2019 - Unaudited

	Note	Quarter ended		Half year ended	
		December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
----- (Rupees in '000) -----					
Revenue from contract with customers	14	4,926,389	4,391,161	9,888,519	8,771,527
Cost of sales	15	(2,484,835)	(2,094,387)	(5,074,319)	(4,351,417)
Gross profit		2,441,554	2,296,774	4,814,200	4,420,110
Distribution costs		(1,290,955)	(1,016,448)	(2,387,732)	(1,938,166)
Administrative expenses		(276,281)	(401,461)	(580,501)	(681,939)
Other operating expenses		(64,301)	(41,488)	(123,101)	(91,321)
Other income	16	187,954	36,162	237,354	75,449
Profit from operations		997,971	873,539	1,960,220	1,784,133
Finance cost		(195,122)	(117,164)	(338,162)	(216,606)
Profit before income tax		802,849	756,375	1,622,058	1,567,527
Income tax expense		(224,319)	(125,258)	(488,912)	(255,636)
Profit for the year		578,530	631,117	1,133,146	1,311,891
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		578,530	631,117	1,133,146	1,311,891
Total comprehensive income is attributable to:					
Owners of the The Searle Company Limited - Holding Company		567,408	623,266	1,113,360	1,299,176
Non-controlling interests		11,122	7,851	19,786	12,715
		578,530	631,117	1,133,146	1,311,891
Basic and diluted earnings per share (Rupees)	17	2.67	2.93	5.24	6.12

The annexed notes from 1 to 22 form an integral part of these consolidated condensed interim financial statements


Chief Executive Officer


Director


Chief Financial Officer

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

For the half year ended December 31, 2019 - Unaudited

	Capital reserves				Revenue reserves		Sub-Total reserves	Non-Controlling interest	Total
	Share capital	Share premium account	Issue of bonus shares	Revaluation surplus on Property, plant & equipment	General reserve	Unappropriated profits			
Rupees in '000									
Balance as at July 01, 2018	1,847,177	1,630,974	-	675,001	280,251	6,566,207	9,152,433	451,963	11,451,573
Total comprehensive income for the period	-	-	-	-	-	1,299,176	1,299,176	12,715	1,311,891
Transactions with owners									
Transfer to reserve for issue of bonus shares	-	-	277,076	-	-	(277,076)	-	-	-
Bonus shares issued during the period in the ratio of 15 shares for every 100 shares held	277,076	-	(277,076)	-	-	-	(277,076)	-	-
Final dividend for the year ended June 30, 2018 @ Rs. 5 per share	-	-	-	-	-	(923,588)	(923,588)	-	(923,588)
Dividend pertaining to non-controlling interests	-	-	-	-	-	-	-	(15,079)	(15,079)
	277,076	-	-	-	-	(1,200,664)	(1,200,664)	(15,079)	(938,667)
Transfer of incremental depreciation - net of deferred tax	-	-	-	(5,171)	-	5,171	-	-	-
Balance as at December 31, 2018	<u>2,124,253</u>	<u>1,630,974</u>	<u>-</u>	<u>669,830</u>	<u>280,251</u>	<u>6,669,890</u>	<u>9,250,945</u>	<u>449,599</u>	<u>11,824,797</u>
Balance as at July 01, 2019	2,124,253	1,630,974	-	1,437,936	280,251	7,603,678	10,952,839	442,137	13,519,229
Total comprehensive income for the period	-	-	-	-	-	1,113,360	1,113,360	19,786	1,133,146
Transactions with owners									
Final dividend for the year ended June 30, 2019 @ Rs. 2.5 per share	-	-	-	-	-	(531,063)	(531,063)	-	(531,063)
Dividend pertaining to non-controlling interests	-	-	-	-	-	-	-	(15,079)	(15,079)
Transaction with non-controlling interests	-	-	-	-	-	(531,063)	(531,063)	(15,079)	(546,142)
Transfer of incremental depreciation - net of deferred tax	-	-	-	(17,463)	-	17,463	-	-	-
Balance as at December 31, 2019	<u>2,124,253</u>	<u>1,630,974</u>	<u>-</u>	<u>1,420,473</u>	<u>280,251</u>	<u>8,203,438</u>	<u>11,535,136</u>	<u>446,844</u>	<u>14,106,233</u>

The annexed notes from 1 to 22 form an integral part of these consolidated condensed interim financial statements


Chief Executive Officer


Director


Chief Financial Officer

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS

For the half year ended December 31, 2019 - Unaudited

	December 31, 2019	December 31, 2018
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	18 191,463	353,266
Retirement benefit obligations paid	-	(830)
Finance cost paid	(289,324)	(173,048)
Income tax paid	(379,557)	(232,698)
Lease rentals paid	(16,484)	-
Interest income received	5,250	20,126
Increase in long-term deposits	-	(4,299)
Increase in long-term borrowings	(199,986)	(105,730)
Net cash generated from operating activities	(688,638)	(143,213)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(125,946)	(263,485)
Sale proceeds on disposal of property, plant and equipment	4,886	-
Sale proceeds on disposal of assets held for sale	75,500	-
Additions to investment properties	(212,081)	(384)
Purchase of intangibles	(935)	(8,629)
Purchase of Term Finance Certificate	(100,000)	-
Proceeds from redemption of investments - at fair value through profit or loss	-	56,090
Dividend income received	-	17
Net cash generated from / (used in) investing activities	(358,576)	(216,391)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	364,850	(626,855)
Current portion of Long-term loan repaid (Payment to) / proceeds from export refinance	-	(107,143)
	(110,000)	100,000
Net cash used in financing activities	254,850	(633,998)
Net decrease in cash and cash equivalents	(792,364)	(993,602)
Cash and cash equivalents at beginning of the period	(3,450,223)	(2,118,818)
Cash and cash equivalents at end of the period	(4,242,587)	(3,112,420)

The annexed notes from 1 to 22 form an integral part of these consolidated condensed interim financial statements


Chief Executive Officer


Director


Chief Financial Officer

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the half year ended December 31, 2019 - Unaudited

1. LEGAL STATUS AND OPERATIONS

- 1.1** The Searle Company Limited (the Company) was incorporated in Pakistan as a private limited company in October 1965. In November 1993, the Company was converted into a public limited company. Its shares are quoted on the Pakistan Stock Exchange. The Company is principally engaged in the manufacture of pharmaceutical and other consumer products. The registered office of the Company is situated at 1st Floor, N.I.C. Building, Abbasi Shaheed Road, Karachi.

International Brands Limited is the holding company, which holds 56.60% shareholding in the Company.

Following are the subsidiary companies:

	Principal place of business	Effective %age of holding	
		December 31, 2019	June 30, 2019
Listed Company			
- IBL HealthCare Limited		74.19%	74.19%
Unlisted Companies			
- Searle Pharmaceuticals (Private) Limited	Pakistan	100.00%	100.00%
- Searle Laboratories (Private) Limited		100.00%	100.00%
- Searle Biosciences (Private) Limited		100.00%	100.00%
- IBL Identity (Private) Limited		100.00%	100.00%
- IBL Future Technologies (Pvt) Limited		100.00%	100.00%
- Nextar Pharma (Private) Limited *		87.20%	87.20%

- 1.2** During the period, the Company's Board of Directors in its meeting held on October 23, 2019 approved acquisition of 100% paid up share capital of Luna Pakistan (Private) Limited, which indirectly owns 100% of the issued and paid up capital of OBS Pakistan (Private) Limited, which is one of the leading pharmaceutical companies in Pakistan, from Universal Venture (Private) Limited (UVPL) - related party. The said decision was subject to obtaining approvals and finalisations of the terms of the transaction with Universal Venture (Private) Limited. Further, the Board of Directors, in its meeting held on December 17, 2019 approved the acquisition of OBS Pakistan for the total consideration amounting to Rs. 8.6 billion. Out of the total consideration, the amount of Rs. 4.25 billion is agreed to be paid at the time of transfer of shares to the Company. The remaining amount of Rs. 4.325 billion is agreed to be paid on deferred payment basis. Further, the Company has also agreed to provide call option to Universal Venture (Private) Limited to acquire 25% of the paid up capital of Luna Pakistan (Private) Limited for a period of one year from the date of transfer of such shares.

In the abovementioned meeting of the Board, the Board also resolved that the approval of the shareholders shall also be obtained with respect to the said transaction. The Company is in the process of making necessary arrangements to complete the subject acquisition.

2. BASIS OF PREPARATION

These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed.

These condensed interim financial statements do not include all the information required for full financial statements and should be read in conjunction with the annual financial statements for the year ended June 30, 2019.

2.1 Changes in accounting standards, interpretations and pronouncements

a) Standards, interpretations and amendments to published approved accounting standards that are effective and relevant

IFRS 16 'Leases' - IFRS 16 replaces the previous lease standard: IAS 17 Leases. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low value leases.

The changes laid down by this standard have been disclosed in note 3.1 of these condensed interim financial statements.

b) Standards, interpretations and amendments to published approved accounting standards that are effective but not relevant

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2019 are considered not to be relevant for the Company's interim financial statements and hence have not been detailed here.

3. SIGNIFICANT ACCOUNTING INFORMATION AND POLICIES

The accounting policies adopted in the preparation of these unconsolidated condensed interim financial statements are the same as those applied in the preparation of the annual financial statements of the Company for the year ended June 30, 2019, except as disclosed in note .

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the half year ended December 31, 2019 - Unaudited

3.1 Changes in accounting policies

3.1.1 IFRS 16 'Leases'

Effective July 1, 2019, the Company has adopted IFRS 16, "Leases" which replaces existing guidance on accounting for leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an arrangement contains a Lease', SIC-15 'Operating Leases-Incentive and SIC-27 'Evaluating the substance of transactions involving the legal form of a Lease'. IFRS 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right-of-use of the underlying asset and a lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The accounting policies relating to Company's right-of-use assets and lease liability are disclosed in note 3.1.2.

On adoption of IFRS 16, the Company recognised lease liabilities which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of July 1, 2019. The lessee's incremental borrowing rate applied to lease liabilities on July 1, 2019 ranges between 15.34 to 15.48%.

The following summary reconciles the Company's operating lease commitments at June 30, 2019 as previously disclosed in the Company's annual financial statements as at June 30, 2019 to the lease liability recognised on initial application of IFRS 16 at July 1, 2019.

	(Rupees in '000)
Operating lease commitments as at July 1, 2019	260,398
Discounted using the Company's incremental borrowing rate at the date of initial application	(120,977)
Total liability as at July 1, 2019	<u>139,421</u>
Of which are:	
Current lease liability	8,556
Non-current lease liability	130,865

The right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at June 30, 2019.

(Unaudited)	(Audited)
December 31,	June 30,
2019	2019
(Rupees in '000)	

The recognised right of use asset related to the following type of asset:

Leasehold Building	131,468	141,421
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The change in accounting policy affected the following in the condensed interim financial position on July 1, 2019

	July 1, 2019
	(Rupees in '000)
Right-of-use asset increased by	141,421
Trade deposits and short-term prepayments decreased by	2,000
Lease liability increased by	139,421

The change in accounting policy affected the following in the condensed interim statement of Profit or Loss account on December 31, 2019

Mark up expense - increased by	10,370
Net of Depreciation charge and rent expense - decreased by	4,431

3.1.2 Lease liability and right-of-use asset

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the half year ended December 31, 2019 - Unaudited

Lease payments include fixed payments, variable lease payments that are based on an index or a rate expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option, less any lease incentives receivable. The extension and termination options are incorporated in determination of lease term only when the Company is reasonably certain to exercise these options.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in fixed lease payments or an index or rate, change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. The corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit and loss if the carrying amount of right-of-use asset has been reduced to zero.

The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. The right-of-use asset is depreciated on a straight line method over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Company has elected to apply the practical expedient not to recognise right-of-use assets and lease liabilities for short term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognised as an expense on a straight line basis over the lease term.

4. ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

The preparation of this consolidated condensed interim financial information in conformity with approved accounting standards requires management to make estimates, assumptions and use judgements that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgements are continually evaluated and based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised prospectively commencing from the period of revision.

Judgements and estimates made by the management in the preparation of this consolidated condensed interim financial information are the same as those that were applied to the annual audited consolidated financial statements as at and for the year ended June 30, 2019.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the half year ended December 31, 2019 - Unaudited

- 6.1** This represents loan to International Brands Limited. The tenure of this loan is 5 years with a grace period of 1 year payable in equal semi-annual installments. The rate of mark-up is 12 months KIBOR+1%. The said loan was approved in the extra ordinary general meeting of IBL HealthCare Limited held on January 14, 2015 as per the requirements of section 208 of the repealed Companies Ordinance, 1984.

	(Unaudited) December 31, 2019	(Audited) June 30, 2019
7. TRADE RECEIVABLES		
		(Rupees in '000)
Considered good		
- Export receivables, secured	441,963	307,294
- Due from related parties, unsecured	4,399,835	4,628,362
- subsidiary company - unsecured	-	-
- Others, unsecured	3,214,565	1,274,161
	8,056,362	6,209,817
Considered doubtful - others	165,249	165,454
Less: Provision for doubtful receivables	(165,249)	(165,454)
	-	-
	8,056,362	6,209,817

8. LOANS AND ADVANCES

Loans to International Brands Limited

- Short term loan - note 8.1	1,746,118	1,946,118
- Current portion of long term loan - note 6	49,630	49,630
	1,795,748	1,995,748
- Current portion of employee loan - note 6	1,516	1,564

Advances

- To employees	93,438	118,667
- Against imports	139,459	208,640
- Suppliers	1,810,439	572,062
- Against purchase of land	-	47,500
- Others	3,076	-
	2,046,412	946,869
	3,843,676	2,944,181

- 8.1** This loan is repayable within 1 year and carries mark-up at the rate of 12 months KIBOR + 2% per annum. The said loan was approved in the extra ordinary general meeting of IBL Health Care, held on May 18, 2016 as per the requirements of section 208 of the repealed Companies Ordinance, 1984.

(Unaudited) (Audited)
December 31, June 30,
2019 2019
(Rupees in '000)

9. OTHER RECEIVABLES

Receivables from related parties

Due from associated companies:

- IBL Operations (Private) Limited	834,227	27,767
- International Brands Limited	7,347	33,010
- International Franchises (Private) Limited	463	1,094
- United Retail (SMC- Private) Limited	244,203	294,777
- Trax Online (Private) Limited	-	175
- Lunar Pharma (Private) Limited	2,882	-
- OBS Pakistan (Private) Limited	130,000	-
- IBL Frontier Market (Private) Limited	-	25,882
	1,219,122	382,705

Due from other related party:

Surplus arising under retirement benefit fund	5,250	5,250
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Receivables from other than related parties

Others, considered good - note 9.1	402,541	399,904
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1,626,913	787,859
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- 9.1** This includes Rs. 318.95 million claimed by the Company from Zhejiang Huahai Pharmaceuticals, China (ZHP) relating to its product "Extor". On July 12, 2018, the Drug Regulatory Authority of Pakistan in response to a review triggered by the European Medicine Agency (EMA) issuing drug re-call for "Valsartan" containing products due to the presence of cancer causing impurities. Accordingly, the Company re-called finished product "Extor" amounting to Rs. 221.95 million from the local markets and Rs. 97 million from the International markets.

Further, the Company has lodged an overall claim of Rs. 881.05 million from ZHP in respect of the overall business loss which has not yet been recorded in these condensed interim financial statements.

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the half year ended December 31, 2019 - Unaudited

	(Unaudited) December 31, 2019	(Audited) June 30, 2019
	(Rupees in '000)	
10. TRADE AND OTHER PAYABLES		
Creditors	3,153,112	1,259,513
Bills payable in foreign currency	736,412	716,426
Royalty payable	14,275	23,966
Accrued liabilities	1,159,439	866,018
Payable to provident fund	10,212	14,717
Advance from customers	39,489	88,603
Accrued markup	147,941	109,473
Taxes deducted at source and payable to statutory authorities	106,849	104,163
Workers' Profit Participation Fund	230,773	149,417
Workers' Welfare Fund	42,597	26,000
Advance against sale of land	-	73,500
Other liabilities	61,720	88,434
	<u>5,702,819</u>	<u>3,520,230</u>
11. BORROWINGS		
Loans from banks, secured:		
- Running finance under mark-up arrangements - note 11.1	4,648,506	3,712,277
- Export re-finance - note 11.2	100,000	210,000
	<u>4,748,506</u>	<u>3,922,277</u>
11.1	The Holding Company has entered into running finance under mark-up arrangements from various banks amounting to Rs. 4,535 million (June 30, 2019: Rs. 4,175 million) which include financing facilities obtained under Islamic mode amounting to Rs. 3,885 million (June 30, 2019: Rs. 3,525 million). The arrangements are secured jointly by registered mortgage of Rs. 589.44 million (June 30, 2019: Rs. 589.44 million) of immovable property together with joint pari passu charge on all current assets of the Holding Company to the extent of Rs. 4,071 million (June 30, 2019: Rs. 4,071 million) in favour of Standard Chartered Bank (Pakistan) Limited (the lead bank).	
11.2	The rates of mark-up ranged between 7.42% to 15.35% (June 30, 2019: 6.9% to 12.7%) per annum.	
12. UNPAID DIVIDEND		
12.1	This includes dividend on bonus shares withheld pertaining to 125 shareholders amounting to Rs. 96.7 million, on which stay from the Honorable High Court of Sindh has been obtained.	

12.2 This also includes dividend pertaining to the year ended June 30, 2019 amounting to Rs. 346.18 million, out of which Rs. 315.7 million has been paid subsequent to the half year ended December 31, 2019.

13. CONTINGENCIES AND COMMITMENTS

13.1 Contingencies

13.1.1 There has been no significant change in the status of contingencies as reported in note 24 of the annual audited financial statements of the Company for the year ended June 30, 2019.

13.2 Commitments

13.2.1 The facility for opening letters of credit and guarantees as at December 31, 2019 amounted to Rs. 2,120 million (June 30, 2019: Rs. 2,111 million) of which the amount remaining unutilised as at the half year ended December 31, 2019 amounted to Rs. 556.3 million (June 30, 2019: Rs. 318 million).

	December 31, 2019	December 31, 2018
14. REVENUE FROM CONTRACT WITH CUSTOMERS	(Rupees in '000)	
Gross sales		
Local sales - note 14.1	9,589,916	8,599,217
Export sales	1,224,584	981,151
	10,814,500	9,580,368
Toll manufacturing	163,861	156,727
	10,978,361	9,737,095
Sales tax	(152,405)	(234,385)
	10,825,955	9,502,710
Less:		
Discounts, rebates and allowances	748,071	626,613
Sales returns	189,366	104,570
	937,437	731,183
	9,888,519	8,771,527

15. COST OF SALES

This includes inventory written-off during the period amounting to Rs. 16.22 million (December 31, 2018: Rs. 6.6 million)

**NOTES TO THE CONSOLIDATED CONDENSED INTERIM
FINANCIAL STATEMENTS**

For the half year ended December 31, 2019 - Unaudited

December 31, December 31,
2019 2018
(Rupees in '000)

16. OTHER INCOME

Income from financial assets

Realised gain on investments - at fair value through profit or loss	-	308
Interest on loan to International Brands Limited	15,764	10,772
Dividend income	-	17
Exchange gain	3,534	-
Interest income on Term Finance Certificate	7,521	-
	26,819	11,097

Income from non - financial assets

Rental income from investment properties	62,639	57,294
Facility management fee - note 16.1	130,000	-
Gain on disposal of property, plant and equipment	1,392	-
Scrap sales	16,502	-
Others	2	7,058
	210,535	64,352
	237,354	75,449

- 16.1** This pertains to fee charged from OBS Pakistan (Private) Limited in respect of finance, administration, human resources and other services provided by the Company, in accordance with the agreement.

17. BASIC AND DILUTED EARNINGS PER SHARE

Profit for the period	<u>1,113,360</u>	<u>1,299,176</u>
Weighted average number of outstanding shares at the end of the period (in thousand)	<u>212,425</u>	<u>212,425</u>
Basic and diluted earnings per share (Rupees)	<u>5.24</u>	<u>6.12</u>

December 31, December 31,
2019 2018
(Rupees in '000)

18. CASH GENERATED FROM OPERATIONS

Profit before income tax	1,622,058	1,567,527
Add / (less): Adjustments for non-cash charges and other items		
Depreciation	167,198	127,159
Gain on disposal of property, plant and equipment	(1,392)	10
Amortisation	23,497	21,963
Provision for retirement benefits obligation	2,694	2,250
Realised gain on investments - at fair value through profit or loss	-	(308)
Dividend income	-	(17)
Interest income	(15,764)	(10,772)
Finance cost	327,792	216,606
Interest on lease liability	10,370	-
Profit before working capital changes	2,136,454	1,924,418

Effect on cash flow due to working capital changes

(Increase) / decrease in current assets

Inventories	(516,708)	(259,282)
Trade receivables	(1,846,545)	(976,051)
Loans and advances	(899,495)	(440,310)
Trade deposits and short-term prepayments	(34,429)	(13,016)
Tax refunds due from government - Sales tax	47,119	16,333
Other receivables	(839,054)	(514,702)

(4,089,112) (2,187,028)

Increase in current liabilities

Trade and other payables **2,144,121** 615,876

Cash generated from operations **191,463** 353,266

19. CASH AND CASH EQUIVALENTS

Cash and bank balances	405,919	235,007
Short term running finances - note 11	(4,648,506)	(3,347,427)
	(4,242,587)	(3,112,420)

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the half year ended December 31, 2019 - Unaudited

20. SEGMENT INFORMATION

The financial information regarding operating segments is as follows:

	Pharmaceutical		Consumer		Total	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	----- (Rupees in '000) -----					
Segment revenue	8,062,775	7,006,010	1,825,744	1,765,517	9,888,519	8,771,527
Segment result	1,777,325	1,437,703	68,642	362,302	1,845,967	1,800,005
Unallocated income and expenses						
Other expenses					(123,101)	(91,321)
Other income					237,354	75,449
Finance cost					(338,162)	(216,606)
Profit before taxation					1,622,058	1,567,527
Taxation					(488,912)	(255,636)
Total comprehensive income					1,133,146	1,311,891

	Pharmaceutical		Consumer		Total	
	December 31, 2019	June 30, 2019	December 31, 2019	June 30, 2019	December 31, 2019	June 30, 2019
	----- (Rupees in '000) -----					
Segment assets and liabilities						
Segment assets	622,709	833,052	23,209	63,916	645,918	896,968
Unallocated assets					25,269,870	20,380,131
Total assets					25,915,788	21,277,099
Unallocated liabilities					11,809,555	7,757,870
Total liabilities					11,809,555	7,757,870

21. TRANSACTIONS WITH RELATED PARTIES

The following transactions were carried out with related parties during the period :

Nature of relationship	Nature of transactions	December 31, 2019	December 31, 2018
		(Rupees in '000)	
Holding company	- Corporate service charges	120,000	108,000
	- Rent income	5,006	4,551
	- Income from provision of amenities	3,810	3,810
Associated companies	- Revenue	6,624,900	5,819,934
	- Salaries and wages	2,197	305
	- Purchases	25,558	2,334
	- Carriage and duties	23,285	28,865
	- Discounts claimed	292,882	289,952
	- Rent expense	8,102	8,175
	- Rent income	34,825	30,711
	- Stock claims	193,798	114,565
	- Internet services	2,905	3,089
	- Architect fee	5,272	-
	- Income from provision of amenities	17,335	4,036
	- Donation	6,446	5,300
	- ERP maintenance charges	-	25,072
	- Incentives to field force staff	-	2,403
	- Repair and maintenance	859	5,893
- Merchandise expense	13,904	49,179	
- Facility management fee	130,000	-	
- Others	5,275	-	
Staff retirement benefits	- Contributions to Provident Fund	28,711	51,669
	- Benefits paid	51,982	33,046
Key management employees	- Salaries and other employee benefits	90,766	78,901
	- Contributions to Provident Fund	7,387	7,796
	- Directors' fees	-	15
	- Sale of goods	64	67

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

For the half year ended December 31, 2019 - Unaudited

21.1 The status of outstanding balances with related parties as at December 31, 2019 is included in the respective notes to the financial statements. These are settled in the ordinary course of business.

22. DATE OF AUTHORISATION FOR ISSUE

This consolidated condensed interim financial information was approved and authorised for issue by the Board of Directors of the Company on February 27, 2020.



Chief Executive Officer



Director



Chief Financial Officer



SEARLE

THE SEARLE COMPANY LIMITED

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