

## DIRECTORS' REPORT

The Directors are pleased to present the Annual Report of the company for the year ended June 30, 2009.

### Business Review

The year under review was one of the most difficult years witnessed by your company since its inception. Political uncertainty, economical difficulties, war like situation in Northern parts of Pakistan, law and order situation in Baluchistan, devaluation of Pak Rupee, abnormal increases in oil and raw materials prices all had a direct impact on the operation of your company. This coupled with the fact that prices of our finished goods are controlled by the Government had a devastating impact on the operation of your company.

Sales for the year increased from Rs. 1.055 billion achieved last year to Rs. 1.236 billion during the current year, an increase of almost 17.2%. This increase was less than what we had been achieving since the last few years. The decline in sales increase percentages was mainly due to capacity constraint in our IV Solutions line and a general slow down of the economy. Our IV solutions line is operating at 100% capacity since last year and because of low selling prices and very high investment required for expansion, it is presently not possible to expand the production capacity of this line. We are however, working on expanding sales of other products where we don't have capacity issues. Stents and Proten launched during the last two years are giving us good results, although the sales are still quite small.

Profitability of your company witnessed major decline due to unprecedented increases in cost of raw and packaging materials and devaluation of Pak Rupee witnessed during the year. Since the increased cost of production couldn't be passed on to the consumer due to price controls, our profitability had been badly impacted. Gross profit percentage declined from 33% last year to 25% during the current year. Profit was also impacted because of increase in other operating charges, mainly exchange losses and finance cost. The increase in finance cost was due to increase in interest rates as well as increased borrowing required to run the business. As a result, profit before tax of your company declined from Rs.100.9 million achieved last year to Rs.39.5 million during the current year, a decline of almost 61%.

### **Financial Results**

	<b><u>(Rs. In Min)</u></b>
Profit before taxation	39.5
Provision for taxation	<u>15.4</u>
Profit after taxation	24.1
Un-appropriated balance brought forward	<u>7.3</u>
Total for appropriation	<b><u>31.4</u></b>

### **Appropriations**

The directors propose to transfer a sum of Rs.15 million in revenue reserve and also propose a dividend of Rs. 1.50 per share out of profits available for appropriation for the year ended June 30, 2009.

### **Earning Per Share**

The earning per share for the year ended June 30, 2009 works to Rs. 2.41 per share.

### **Future Outlook**

The Government of Pakistan has finally realized the difficulties being faced by the Pharmaceutical industry and have started granting price increases on hardship basis. Some increases have also been allowed to your company on a number of products. Similarly, there have been a decline in oil and raw material prices compared to what had been witnessed last year. Despite the above developments, Profit of your company will continue to remain under pressure as we are unable to increase the capacity of our main product line i.e. Infusion Solutions. We are evaluating new avenues which can enable us to maintain the increase in sales and profits which we had achieved during the last many years. We are thankful to the Government of Pakistan specially the Ministry of Health for the positive attitude shown towards resolution of the issues faced by the pharmaceutical industry. We hope that the Ministry will continue to support the Pharmaceutical industry so that it can play its role of providing quality products to the people of Pakistan.

### **Corporate Governance**

As required under Corporate Governance, the Directors are pleased to confirm the following:

- a. That the financial statements, being presented present fairly its state of affairs, the result of its operating cash flows and changes in equity.
- b. That proper books of accounts of the company have been maintained.
- c. That appropriate accounting policies have been consistently applied in preparation of financial statements, accounting estimates are based on reasonable and prudent judgment.
- d. That International accounting standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- e. That the system of internal control is sound in design and has been effectively implemented and monitored.
- f. That there are no significant doubts upon the company's ability to continue as a going concern.
- g. That there has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

### **Key Operating and Financial data**

Key operating and financial data of last ten years is annexed with this annual report.

**Value of investments of provident and gratuity funds**

The following is the value of investments based on respective audited accounts:

Provident Fund                      Rs. 61,311,197/-

Gratuity Fund                        Rs. 20,689,056/-

**Board of Directors**

There has been no change in the Board of Directors during the year.

**Board Meeting**

During the year, five meetings of Board of Directors were held. Attendance by each Director is as follows:

<b><u>Name of Directors</u></b>	<b><u>No. of Meetings attended</u></b>
Mr. Abid Hussain	5
Mr. Mehtabuddin Feroz	5
Mr. Mohammad Abdullah Feroz	5
Mr. Nazimuddin Feroz	3
Mr. Tariq Mehtab Feroz (Alternate Director)	4
Mr. Mohammad Aslam (Alternate Director)	4
Mr. Hanif Sattar (Alternate Director)	5
Mr. Habib A. Navaid (Alternate Director)	5
Mr. Minoru Okamoto	1
Mr. Kiyoshi Fukai	1
Mr. Takahru Imai	X
Mr. Bambang Koestoyo	1

**Pattern of Shareholding**

The Pattern of share holding of the Company as at June 30, 2009, is annexed with this annual report.

### **Trading in Shares**

No transactions took place by the Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary and their spouses and minor children during the year.

### **Holding Company**

The Company is an indirect subsidiary of Messrs Otsuka Pharmaceutical Company Limited, which is incorporated in Japan

### **Subsequent event**

No material changes or commitment affecting the financial position of the company have take place between the end of the financial year and the date of this report except as reported vide note 34 of the annual accounts.

### **Auditors**

The present Auditors Messrs. A.F. Ferguson & Co., Chartered Accountants retire at the conclusion of the 21<sup>st</sup> Annual General Meeting and, being eligible, offer themselves for reappointment

### **Acknowledgement**

The Board wishes to place on record its appreciation for the untiring efforts of all its employees in taking the company forward.

On behalf of the Board

**Abid Hussain**  
Chief Executive Officer

Karachi

Dated : September 1, 2009

**OTSUKA PAKISTAN LIMITED  
PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED JUNE 30, 2009**

	<b>Note</b>	<b>2009</b> ----- <b>(Rupees in '000)</b> -----	<b>2008</b>
Net sales	20	1,236,300	1,054,864
Cost of sales	21	(922,723)	(706,092)
Gross profit		<u>313,577</u>	<u>348,772</u>
Selling and distribution expenses	22	(172,792)	(168,957)
Administration and general expenses	23	(45,825)	(46,625)
		<u>94,960</u>	<u>133,190</u>
Other operating income	24	16,313	8,751
		<u>111,273</u>	<u>141,941</u>
Other operating charges	25	(43,566)	(33,377)
<b>Operating profit</b>		<u>67,707</u>	<u>108,564</u>
Finance cost	26	(28,173)	(7,699)
Profit before taxation		<u>39,534</u>	<u>100,865</u>
Taxation - net	27	(15,403)	(33,009)
Profit after taxation		<u><u>24,131</u></u>	<u><u>67,856</u></u>
		<b>-----<u>(Rupees)</u>-----</b>	
Earnings per share	28	<u><u>2.41</u></u>	<u><u>6.79</u></u>

Appropriations have been reflected in the statement of changes in equity.

The annexed notes 1 to 39 form an integral part of these financial statements.

**Chief Executive**

**Director**

**OTSUKA PAKISTAN LIMITED**  
**BALANCE SHEET**  
**AS AT JUNE 30, 2009**

	Note	2009 -----(Rupees in '000)----	2008
<b>ASSETS</b>			
<b>Non current assets</b>			
Property, plant and equipment	4	326,697	348,244
Long-term loans - considered good	5	4,421	3,277
Long-term deposits		964	954
		<u>332,082</u>	<u>352,475</u>
<b>Current assets</b>			
Stores and spares	6	46,581	42,713
Stock-in-trade	7	216,862	197,025
Trade debts - unsecured	8	172,449	185,047
Loans and advances - considered good	9	12,913	19,749
Trade deposits, short-term prepayments and other receivables	10	12,949	9,999
Taxation		14,312	9,522
Cash and bank balances	11	2,660	3,217
		<u>478,726</u>	<u>467,272</u>
<b>Total assets</b>		<u><u>810,808</u></u>	<u><u>819,747</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	12	100,000	100,000
Revenue reserves		243,965	244,834
<b>Shareholders' equity</b>		<u>343,965</u>	<u>344,834</u>
<b>LIABILITIES</b>			
<b>Non current liabilities</b>			
Long-term finance	13	-	16,666
Deferred tax liability - net	14	37,731	44,854
		<u>37,731</u>	<u>61,520</u>
<b>Current liabilities</b>			
Trade and other payables	15	271,140	259,726
Short-term borrowings - secured	16	133,824	132,056
Mark-up accrued	17	7,482	4,944
Current portion of long-term finance	13	16,666	16,667
		<u>429,112</u>	<u>413,393</u>
		<u>466,843</u>	<u>474,913</u>
<b>Total equity and liabilities</b>		<u><u>810,808</u></u>	<u><u>819,747</u></u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	18		

The annexed notes 1 to 39 form an integral part of these financial statements.

**Chief Executive**

**Director**

**OTSUKA PAKISTAN LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Issued, subscribed and paid-up capital	Revenue reserves		Total	
		General reserve	Unappro- priated profit		Sub total
----- (Rupees in '000) -----					
Balance as at June 30, 2007	100,000	132,500	69,478	201,978	301,978
Cash dividend for the year ended June 30, 2007 declared subsequent to year end	-	-	(25,000)	(25,000)	(25,000)
Transfer to general reserve made subsequent to year end	-	35,000	(35,000)	-	-
Profit after taxation for the year ended June 30, 2008	-	-	67,856	67,856	67,856
Balance as at June 30, 2008	100,000	167,500	77,334	244,834	344,834
Cash dividend for the year ended June 30, 2008 declared subsequent to year end	-	-	(25,000)	(25,000)	(25,000)
Transfer to general reserve made subsequent to year end	-	45,000	(45,000)	-	-
Profit after taxation for the year ended June 30, 2009	-	-	24,131	24,131	24,131
Balance as at June 30, 2009	<u>100,000</u>	<u>212,500</u>	<u>31,465</u>	<u>243,965</u>	<u>343,965</u>

Appropriations of dividend and transfer between reserves made subsequent to the year ended June 30, 2009 are disclosed in note 38 to these financial statements.

The annexed notes 1 to 39 form an integral part of these financial statements.

**Chief Executive**

**Director**



**OTSUKA PAKISTAN LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Note	2009 ----- <b>(Rupees in '000)</b> -----	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	32	123,363	62,687
Finance cost paid		(25,141)	(6,380)
Taxes paid		(27,316)	(22,772)
(Increase)/ decrease in long-term loans		(1,144)	525
Increase in long-term deposits		(10)	(507)
Net cash inflow from operating activities		69,752	33,553
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure incurred		(34,619)	(87,787)
Proceeds from disposal of property, plant and equipment		4,120	2,717
Net cash used in investing activities		(30,499)	(85,070)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of long-term finance		(16,666)	(16,667)
Dividends paid		(24,912)	(24,906)
Net cash used in financing activities		(41,578)	(41,573)
<b>Net decrease in cash and cash equivalents</b>		(2,325)	(93,090)
Cash and cash equivalents as at the beginning of the year		(128,839)	(35,749)
<b>Cash and cash equivalents as at the end of the year</b>	33	(131,164)	(128,839)

The annexed notes 1 to 39 form an integral part of these financial statements.

**Chief Executive**

**Director**