

## DIRECTORS' REPORT

The Directors are pleased to present the Annual Report of the company for the year ended June 30, 2010.

### Business Review

With stability returning to international prices of oil and raw materials as well as the relief provided to your company by the Ministry of Health by allowing increase in prices of few of our products, the financial position of your company witnessed some improvement during the year.

Sales for the year increased from Rs.1.24 billion achieved last year to Rs1.45 billion during the current year, an increase of almost 17.0% which is in line with what we had achieved last year. Because of capacity constraint for our IV products which contribute almost 90% of our sales, our ability to grow our top line is limited to the existing capacity. Because of very high investment required for increasing the production capacity and reducing gross profit percentages, we are finding it difficult to invest in expanding our capacity.

Gross Profit as % of sales increased from 25% last year to 27% during the year. However, this is still much lower than an average of 35% which we had been achieving from 2000 till 2008. We believe this is the minimum GP% required for companies to survive as well as invest in future expansions and updating of technologies.

Because of improvement in Gross Profit %, Profit before tax improved from Rs.39.5 million achieved last year to Rs.103.0 million during the year. However, as % of sales, this was only 7% which is again much below the average rate of 13% which we had been achieving from 2000 till 2008. The improvement in profit has been mainly due to price increases allowed by the government and our focus on selling those products where we have comparatively better margins.

### **Financial Results**

	<b><u>(Rs. In Min)</u></b>
Profit before taxation	103
Provision for taxation	<u>37</u>
Profit after taxation	66
Un-appropriated balance brought forward	<u>1</u>
Total for appropriation	<u>67</u>

### **Appropriations**

The directors propose to transfer a sum of Rs. 40 million in revenue reserve and propose nil dividend for the year ended June 30, 2010.

### **Earning Per Share**

The earning per share for the year ended June 30, 2010 works to Rs. 6.59 per share.

### **Future Outlook**

We are pleased to report that the present Government is fully aware of the issues being faced by the industry and is in the process of taking corrective actions. Price increases are being allowed to companies from time to time as hardship cases. The Government is also trying to develop a Pricing Policy to address this issue on permanent basis. We hope that the matter will be resolved soon to ensure reasonable profit margins for manufacturers and regular availability of quality products for the public at large. This will also help in attracting the much needed investment in this vital segment as well as increasing exports for which great potential exists. With peace slowly returning in Afghanistan, the opportunity to ship goods to Central Asia via this country and the chances of peace with India improving, the Directors see a great potential for your company. We do hope that the Pricing Policy under consideration by the government is taken to its logical conclusion soon so that companies are in a position to make long term decisions based on some assurances.

### **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 except for changes as stated in Note 2.3 to these financial statement, 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. 73,540,786/-
Gratuity Fund	Rs. 25,152,426/-

**Board of Directors**

During the year Mr. Bambang Koestoyo has resigned from the Board and Mr. Suseno Surjoseputro has filled the casual vacancy. The board appreciates the services of Mr. Bambang Koestoyo rendered during his tenure and welcome Mr. Suseno Surjoseputro.

**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	4
Mr. Mehtabuddin Feroz	4
Mr. Mohammad Abdullah Feroz	4
Mr. Nazimuddin Feroz	4
Mr. Tariq Mehtab Feroz (Alternate Director)	1
Mr. Mohammad Aslam (Alternate Director)	3
Mr. Hanif Sattar (Alternate Director)	4
Mr. Habib A. Navaid (Alternate Director)	3
Mr. Minoru Okamoto	2
Mr. Kiyoshi Fukai	1
Mr. Takahru Imai	None
Mr. Suseno Surjoseputro	None

### **Pattern of Shareholding**

The Pattern of share holding of the Company as at June 30, 2010, 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 No. 39 of the annual accounts.

### **Auditors**

The present Auditors Messrs. A.F. Ferguson & Co., Chartered Accountants retire at the conclusion of the 22<sup>nd</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 6, 2010

**OTSUKA PAKISTAN LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Note</b>	<b>2010</b>	<b>2009</b>
		-----(Rupees in '000)----	
Net sales	20	1,446,477	1,236,300
Cost of sales	21	(1,051,287)	(922,723)
Gross profit		<u>395,190</u>	<u>313,577</u>
Selling and distribution expenses	22	(203,404)	(172,792)
Administrative and general expenses	23	(55,410)	(45,825)
		<u>136,376</u>	<u>94,960</u>
Other operating income	24	19,534	16,313
		<u>155,910</u>	<u>111,273</u>
Other operating charges	25	(32,966)	(43,566)
<b>Operating profit</b>		<u>122,944</u>	<u>67,707</u>
Finance cost	26	(19,963)	(28,173)
Profit before taxation		<u>102,981</u>	<u>39,534</u>
Taxation - net	27	(37,128)	(15,403)
<b>Profit after taxation</b>		<u>65,853</u>	<u>24,131</u>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<u><u>65,853</u></u>	<u><u>24,131</u></u>
		-----(Rupees)----	
Earnings per share	28	<u><u>6.59</u></u>	<u><u>2.41</u></u>

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

The annexed notes 1 to 41 form an intergral part of these financial statements.

**Chief Executive**

**Director**

**OTSUKA PAKISTAN LIMITED**  
**BALANCE SHEET**  
**AS AT JUNE 30, 2010**

	Note	2010 -----(Rupees in '000)----	2009
<b>ASSETS</b>			
<b>Non current assets</b>			
Property, plant and equipment	4	308,317	326,697
Long-term loans - considered good	5	5,793	4,421
Long-term deposits		743	964
		314,853	332,082
<b>Current assets</b>			
Stores and spares	6	41,943	46,581
Stock-in-trade	7	257,987	216,862
Trade debts - unsecured	8	141,556	172,449
Loans and advances - considered good	9	22,437	12,913
Trade deposits, short-term prepayments and other receivables	10	10,626	12,949
Taxation		9,440	14,312
Cash and bank balances	11	3,371	2,660
		487,360	478,726
<b>Total assets</b>		802,213	810,808
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	12	100,000	100,000
Revenue reserves		294,818	243,965
<b>Shareholders' equity</b>		394,818	343,965
<b>LIABILITIES</b>			
<b>Non current liabilities</b>			
Deferred tax liability - net	13	31,162	37,731
<b>Current liabilities</b>			
Current portion of long-term finance	14	-	16,666
Trade and other payables	15	237,254	271,140
Short-term borrowings - secured	16	132,507	133,824
Mark-up accrued	17	6,472	7,482
		376,233	429,112
<b>Total equity and liabilities</b>		802,213	810,808
<b>CONTINGENCIES AND COMMITMENTS</b>	18		

The annexed notes 1 to 41 form an intergral part of these financial statements.

**Chief Executive**

**Director**

**OTSUKA PAKISTAN LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	Issued, subscribed and paid-up capital	Revenue reserves			Total
		General reserve	Unappro- priated profit	Sub total	
----- (Rupees in '000) -----					
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	100,000	212,500	31,465	243,965	343,965
Cash dividend for the year ended June 30, 2009 declared subsequent to year end	-	-	(15,000)	(15,000)	(15,000)
Transfer to general reserve made subsequent to year end	-	15,000	(15,000)	-	-
Profit after taxation for the year ended June 30, 2010	-	-	65,853	65,853	65,853
Balance as at June 30, 2010	<u>100,000</u>	<u>227,500</u>	<u>67,318</u>	<u>294,818</u>	<u>394,818</u>

Appropriations of dividend and transfer between reserves made subsequent to the year ended June 30, 2010 are disclosed in note 40 to these financial statements.

The annexed notes 1 to 41 form an intergral part of these financial statements.

**Chief Executive**

**Director**



**OTSUKA PAKISTAN LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	Note	2010 ----- <b>(Rupees in '000)</b> -----	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	32	131,660	123,363
Finance cost paid		(20,907)	(25,141)
Taxes paid		(38,825)	(27,316)
(Increase)/ decrease in long-term loans		(1,372)	(1,144)
Decrease / (increase) in long-term deposits		221	(10)
Net cash inflow from operating activities		70,777	69,752
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure incurred		(41,816)	(34,619)
Proceeds from disposal of property, plant and equipment		4,666	4,120
Net cash outflow on investing activities		(37,150)	(30,499)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of long-term finance		(16,666)	(16,666)
Dividends paid		(14,933)	(24,912)
Net cash outflow on financing activities		(31,599)	(41,578)
<b>Net increase / (decrease) in cash and cash equivalents</b>		2,028	(2,325)
Cash and cash equivalents as at the beginning of the year		(131,164)	(128,839)
<b>Cash and cash equivalents as at the end of the year</b>	33	(129,136)	(131,164)

The annexed notes 1 to 41 form an intergral part of these financial statements.

**Chief Executive**

**Director**