

Otsuka Pakistan Limited

Directors' Report

The Directors are pleased to present the half yearly accounts of the company for the period ended December 31, 2010.

Business Review

Sales of your company for the half year ended December 31, 2010 were almost equal to last year. Because of capacity limitation sales of your company are hampered. Sales were also impacted to some extent by the massive floods in the country and constant decline in purchasing power of the consumers due to high inflation.

Since prices of all pharmaceutical products are controlled by the Government, increase in cost of operations due to inflation and devaluation continues to impact profitability of all pharmaceutical companies. Although, some price increases were received by your company on a few products, the increase was not sufficient to match the increase in cost. As a result, your company witnessed a significant decline of 40% in its Profit before tax for the half year ended December 31, 2010.

Future Outlook

Constant increase in cost of production as a result of inflation, devaluation of Pak Rupee and increase in utilities and transportation charges poses serious challenges for all manufacturers including your company. Although, Ministry of Health has been very co-operative in allowing us price increases on some of our products, these were inadequate to compensate for the cost increases. We believe that the Ministry of Health needs to revisit its policy on price controls and institute some sort of mechanism which allows companies to adjust their prices at regular intervals on the basis of increases in costs of operation. This is important as without reasonable profits and adequate resources companies will not be able to expand and upgrade their manufacturing facilities which will hamper availability of quality products for the people of Pakistan. Your company is operating at 100% capacity for the last three years and yet it is unable to expand its capacity because of low profitability and lack of resources.

On behalf of the Board

Abid Hussain
Chief Executive Officer

Karachi
Dated: February 15, 2011

OTSUKA PAKISTAN LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (Un-Audited)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2010

	Half year ended, December 31,		Quarter ended, December 31,	
	2010	2009	2010	2009
	----- (Rupees in '000) -----			
Net sales	697,028	696,331	348,588	348,538
Cost of sales	<u>(524,909)</u>	<u>(497,072)</u>	<u>(262,271)</u>	<u>(252,429)</u>
Gross profit	172,119	199,259	86,317	96,109
Selling and distribution expenses	(93,626)	(99,628)	(49,272)	(49,157)
Administrative and general expenses	<u>(29,684)</u>	<u>(30,352)</u>	<u>(15,173)</u>	<u>(17,366)</u>
Other operating income	4,451	8,244	1,899	5,999
	53,260	77,523	23,771	35,585
Other operating charges	<u>(9,951)</u>	<u>(14,914)</u>	<u>(3,042)</u>	<u>(6,332)</u>
Operating profit	43,309	62,609	20,729	29,253
Finance cost	<u>(11,347)</u>	<u>(8,559)</u>	<u>(6,357)</u>	<u>(4,293)</u>
Profit for the period before taxation	31,962	54,050	14,372	24,960
Taxation - net	<u>(11,601)</u>	<u>(19,673)</u>	<u>(5,211)</u>	<u>(9,177)</u>
Profit for the period after taxation	20,361	34,377	9,161	15,783
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	<u>20,361</u>	<u>34,377</u>	<u>9,161</u>	<u>15,783</u>
	----- (Rupees) -----			
Earnings per share	<u>2.04</u>	<u>3.44</u>	<u>0.92</u>	<u>1.58</u>

The annexed notes from 1 to 9 form an integral part of these condensed interim financial statements.

Chief Executive

Director

OTSUKA PAKISTAN LIMITED
CONDENSED INTERIM BALANCE SHEET
AS AT DECEMBER 31, 2010

	Note	December 31, 2010 (Un-Audited) ----(Rupees in '000)----	June 30, 2010 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	3	291,316	308,317
Long-term loans - considered good		5,260	5,793
Long-term deposits		743	743
		<u>297,319</u>	<u>314,853</u>
Current assets			
Stores and spares		48,287	41,943
Stock-in-trade		264,743	257,987
Trade debts - unsecured		122,244	141,556
Loans and advances - considered good		31,409	22,437
Trade deposits, short-term prepayments and other receivables		19,492	10,626
Taxation		12,703	9,440
Cash and bank balances		2,972	3,371
		<u>501,850</u>	<u>487,360</u>
Total assets		<u><u>799,169</u></u>	<u><u>802,213</u></u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital			
Authorised Capital			
10,000,000 (June 30, 2010 : 10,000,000) ordinary shares of Rs 10 each		<u>100,000</u>	<u>100,000</u>
Issued, subscribed and paid up capital			
10,000,000 (June 30, 2010 : 10,000,000) ordinary shares of Rs 10 each issued as fully paid-up in cash		100,000	100,000
Revenue reserves		<u>300,179</u>	<u>294,818</u>
Shareholders' equity		<u>400,179</u>	<u>394,818</u>
LIABILITIES			
Non-current liabilities			
Deferred tax liability - net		25,716	31,162
Current liabilities			
Trade and other payables		198,362	237,254
Short-term borrowings - secured		168,762	132,507
Mark-up accrued		6,150	6,472
		<u>373,274</u>	<u>376,233</u>
Total equity and liabilities		<u><u>799,169</u></u>	<u><u>802,213</u></u>
CONTINGENCIES AND COMMITMENTS			
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The annexed notes from 1 to 9 form an integral part of these condensed interim financial statements.

Chief Executive

Director

OTSUKA PAKISTAN LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 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, 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 period ended December 31, 2009	-	-	34,377	34,377	34,377
Balance as at December 31, 2009	<u>100,000</u>	<u>227,500</u>	<u>35,842</u>	<u>263,342</u>	<u>363,342</u>
Balance as at June 30, 2010	100,000	227,500	67,318	294,818	394,818
First interim dividend for the year ending June 30, 2011 at Rs 1.5 per share (Date of distribution: October 13, 2010)	-	-	(15,000)	(15,000)	(15,000)
Transfer to general reserve made subsequent to the year end	-	40,000	(40,000)	-	-
Profit after taxation for the period ended December 31, 2010	-	-	20,361	20,361	20,361
Balance as at December 31, 2010	<u>100,000</u>	<u>267,500</u>	<u>32,679</u>	<u>300,179</u>	<u>400,179</u>

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Chief Executive

Director

OTSUKA PAKISTAN LIMITED
CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2010

	Half year ended, December 31,	
	2010	2009
	-----(Rupees in '000)-----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	31,962	54,050
Adjustment for non-cash and other items		
Depreciation	29,732	28,729
Profit on disposal of property, plant and equipment	(148)	(426)
Provision for slow moving and obsolete stock-in-trade	1,449	(28)
Provision for impairment of trade debt	578	3,156
Markup expense on short-term borrowing	11,141	8,493
	<u>42,752</u>	<u>39,924</u>
Operating surplus before working capital changes	74,714	93,974
Movement in working capital		
(Increase) / decrease in current assets		
Stores and spares	(6,344)	21
Stock-in-trade	(8,205)	(38,543)
Trade debts	18,734	(300)
Loans and advances	(8,972)	(19,480)
Trade deposits, short-term prepayments and other receivable	(8,866)	(1,433)
	<u>(13,653)</u>	<u>(59,735)</u>
(Decrease) / Increase in current liabilities		
Trade and other payable	(38,960)	26,055
	<u>(38,960)</u>	<u>26,055</u>
Cash generated from operations	22,101	60,294
Taxes paid		
Taxes paid	(20,311)	(20,162)
Decrease / (increase) in long-term loan	533	(803)
Decrease in long-term deposit	-	121
	<u>(19,778)</u>	<u>(20,844)</u>
Net cash generated from operating activities	2,323	39,450
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed capital expenditure incurred	(13,054)	(21,085)
Proceeds from disposal of property, plant and equipment	472	843
Net cash used in investing activities	(12,582)	(20,242)
CASH FLOWS FROM FINANCING ACTIVITIES		
Finance cost paid	(11,463)	(11,388)
Repayment of long-term finance	-	(8,333)
Dividends paid	(14,932)	(14,729)
Net cash used in financing activities	(26,395)	(34,450)
Net decrease in cash and cash equivalents	(36,654)	(15,242)
Cash and cash equivalents at the beginning of the period	(129,136)	(131,164)
Cash and cash equivalents at the end of the period	(165,790)	(146,406)

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Chief Executive

Director