

## **DIRECTORS' REPORT**

The Directors are pleased to present the accounts of the company for the nine months ended March 31, 2013.

### **Business Review**

Sales for the nine months declined by 17.1% compared with the same period last year. Decline in sales has been on account of reduction in selling prices as well as volumes. As explained in our report for the half year, during the current year we had to reduce prices of some of our products as a result of negotiations with the Ministry of Health. Also because of our plan to close our factory for major renovation to be carried out during 2013, we had been withholding part of our production during 2012 to meet requirements of our valued customers during the closing period. Since we had been operating at 100% of our capacity since the last many years, withholding a part of goods produced resulted in decline in sales volumes.

Keeping in view the reduced quantities available for sales, your company took steps to reduce its selling, distribution, administration and general expenses. As a result, selling and distributions expenses for the period declined by 9.7% while administration and general expense were lower by 14.2%. However, because of increased investment in stock due to reasons explained above, finance costs during this period increased by 82%.

As a result of reduced sales volumes, reduction in selling prices and increase in finance cost, profit before tax for the period reduced by 45.5%

### **Future Outlook**

The Directors are pleased to report that work on balancing and modernization of your factory has started since February 18, 2013. As per our plan, approximately half a billion Rupees will be spent during the current year on upgrading of the existing facility. Orders for most of the equipment have been placed and we expect to complete the project before the end of calendar year 2013.

Because of closure of our factory during 2013, sales and profits for the year are expected to be impacted adversely. Also because of devaluation of Pak Rupee as well as local inflation, costs are expected to keep increasing. With strict control on selling prices and capacity constraints, your company is expected to continue to face a difficult time in the coming years. Although, we remain confident about the future of the company, the situation will depend to a large extent on the Pricing Policy of the government for pharmaceutical products. Without a fair and transparent Pricing Policy it will be very difficult for your company to make further investment in this vital segment which is so urgently required to meet the market demand for our products.

On behalf of the Board

Abid Hussain  
Chief Executive Officer

Karachi

Dated: April 23, 2013

**OTSUKA PAKISTAN LIMITED**  
**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)**  
**FOR THE QUARTER AND NINE MONTHS ENDED MARCH 31, 2013**

	Nine Months Ended March 31,		Quarter ended March 31,	
	2013	2012	2013	2012
----- Rupees in '000 -----				
Net sales	926,379	1,117,471	259,295	265,622
Cost of sales	(667,999)	(826,698)	(187,645)	(191,986)
<b>Gross profit</b>	<b>258,380</b>	<b>290,773</b>	<b>71,650</b>	<b>73,636</b>
Selling and distribution expenses	(135,137)	(149,610)	(42,273)	(44,844)
Administrative and general expenses	(49,591)	(57,793)	(18,757)	(18,719)
	73,652	83,370	10,620	10,073
Other operating income	11,355	13,297	3,525	5,043
	85,007	96,667	14,145	15,116
Other operating expenses	(14,962)	(16,951)	(3,616)	(1,483)
Operating profit	70,045	79,716	10,529	13,633
Financial charges	(37,969)	(20,861)	(13,269)	(8,955)
<b>Profit for the period before taxation</b>	<b>32,076</b>	<b>58,855</b>	<b>(2,740)</b>	<b>4,678</b>
Taxation - net	(12,487)	(24,016)	699	(2,923)
<b>Profit for the period after taxation</b>	<b>19,589</b>	<b>34,839</b>	<b>(2,041)</b>	<b>1,755</b>
----- Rupees -----				
<b>Earnings per share - basic and diluted</b>	<b>1.96</b>	<b>3.48</b>	<b>(0.20)</b>	<b>0.18</b>

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.

**Chief Executive**

**Director**

**OTSUKA PAKISTAN LIMITED**  
**CONDENSED INTERIM BALANCE SHEET**  
**AS AT MARCH 31, 2013**

	(Unaudited) March 31, 2013	(Audited) June 30, 2012
Note	-----Rupees in '000-----	
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	4 382,100	270,735
Long-term loans - considered good	6,272	6,550
Long-term deposits	743	743
	<u>389,115</u>	<u>278,028</u>
<b>Current assets</b>		
Stores and spares	53,629	51,409
Stock-in-trade	628,925	530,045
Trade debts - unsecured	130,295	171,551
Loans and advances - considered good	44,348	30,179
Trade deposits, short-term prepayments and other receivables	22,079	20,101
Taxation	22,014	20,093
Cash and bank balances	2,893	5,531
	<u>904,183</u>	<u>828,909</u>
<b>Total assets</b>	<u><u>1,293,298</u></u>	<u><u>1,106,937</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>EQUITY</b>		
<b>Share capital</b>		
Authorised Capital		
10,000,000 (June 30, 2012: 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, 2012: 10,000,000) ordinary shares of Rs. 10 each		
fully paid-up in cash	100,000	100,000
Revenue reserves	414,663	405,074
Shareholders' equity	<u>514,663</u>	<u>505,074</u>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Long - term finance	100,000	-
Deferred tax liability - net	15,780	21,023
	<u>115,780</u>	<u>21,023</u>
<b>Current liabilities</b>		
Trade and other payables	219,874	256,471
Short-term borrowings - secured	429,714	318,316
Mark-up accrued	13,267	6,053
	<u>662,855</u>	<u>580,840</u>
<b>Total equity and liabilities</b>	<u><u>1,293,298</u></u>	<u><u>1,106,937</u></u>

**CONTINGENCIES AND COMMITMENTS**

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The annexed notes 1 to 11 form an integral part of this condensed interim financial information.

Chief Executive

Director

**OTSUKA PAKISTAN LIMITED**  
**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED MARCH 31, 2013**

	Issued, subscribed and paid-up capital	Revenue reserves			Total
		General reserve	Unappropriat ed profit	Sub-total	
----- Rupees in '000 -----					
<b>Balance as at June 30, 2011</b>	100,000	267,500	56,322	323,822	423,822
Interim dividend for the year ended June 30, 2012 at Rs 1.25 per share (Date of distribution: October 14, 2011)	-	-	(12,500)	(12,500)	(12,500)
Transfer to general reserve made subsequent to the year end	-	30,000	(30,000)	-	-
Profit after taxation for the period ended March 31, 2012	-	-	34,839	34,839	34,839
<b>Balance as at March 31, 2012</b>	<u>100,000</u>	<u>297,500</u>	<u>48,661</u>	<u>346,161</u>	<u>446,161</u>
<b>Balance as at June 30, 2012</b>	100,000	297,500	107,574	405,074	505,074
First interim dividend for the year ending June 30, 2013 at Re 1 per share (Date of distribution: October 17, 2012)	-	-	(10,000)	(10,000)	(10,000)
Transfer to general reserve made subsequent to the year end	-	80,000	(80,000)	-	-
Profit after taxation for the period ended March 31, 2013	-	-	19,589	19,589	19,589
<b>Balance as at March 31, 2013</b>	<u>100,000</u>	<u>377,500</u>	<u>37,163</u>	<u>414,663</u>	<u>514,663</u>

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**Chief Executive**

**Director**

**OTSUKA PAKISTAN LIMITED**  
**CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED MARCH 31, 2013**

	Nine months ended	
	March 31,	
Note	2013	2012
	----- Rupees in '000 -----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	32,076	58,855
<b>Adjustment for non-cash and other items</b>		
Depreciation	49,638	48,702
Gain on disposal of property, plant and equipment	(2,827)	(3,657)
Provision for slow moving and obsolete stock-in-trade	1,295	1,032
Provision for stents	2,060	1,427
Provision for impairment of trade debts	271	(6,461)
Mark-up expense	37,544	20,861
	87,981	61,904
<b>Operating surplus before working capital changes</b>	120,057	120,759
<b>Movement in working capital</b>		
<b>(Increase) / decrease in current assets</b>		
Stores and spares	(2,220)	(4,128)
Stock-in-trade	(102,235)	(287,256)
Trade debts - unsecured	40,985	18,623
Loans and advances	(14,169)	(8,717)
Trade deposits, short-term prepayments and other receivables	(1,978)	(13,682)
	(79,617)	(295,160)
<b>(Decrease) / Increase in current liabilities</b>		
Trade and other payables	(36,653)	71,892
Interest paid	(30,330)	(20,025)
Taxes paid	(19,651)	(44,337)
Decrease / (increase) in long-term loans	278	(914)
	(49,703)	(65,276)
<b>Net cash used in operating activities</b>	(45,916)	(167,784)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Fixed capital expenditure incurred	(162,674)	(46,747)
Proceeds from disposal of property, plant and equipment	4,497	5,272
<b>Net cash used in investing activities</b>	(158,177)	(41,475)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Long -term loan	100,000	-
Dividends paid	(9,943)	(12,436)
<b>Net cash used in financing activities</b>	90,057	(12,436)
<b>Net decrease in cash and cash equivalents</b>	(114,036)	(221,695)
Cash and cash equivalents at the beginning of the period	(312,785)	(122,484)
<b>Cash and cash equivalents at the end of the period</b>	7 <u>(426,821)</u>	<u>(344,179)</u>

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Chief Executive

Director