

Otsuka Pakistan Limited

Directors' Report

The Directors are pleased to present the accounts of the company for the half year ended December 31, 2012.

Business Review

Sales for the half year declined by 21.7% compared with the same period last year. Decline in sales for the half year is the result of:

- a) Reduction in selling prices. In October last year, we had increased prices of our products as we were making huge losses. However, as a result of negotiations with the Ministry of Health these were subsequently reduced.
- b) Because of our plan to close down our factory in the first quarter of 2013 for renovation, we had withheld some stock to cater to our customers' requirements during the closure period. Since we are operating on 100% of our capacity for the last many years, holding back stock resulted in direct decline in sales.
- c) Sales were also impacted to some extent because of transport strike for almost 10 days in December 2012.

Because of reduced sales and higher non-operating expenses, profit before tax for the half year reduced by 36.2% compared with last year. Higher non-operating expenses are because of interest paid on loans acquired to fund stock which we are holding to sell during the period our factory will be closed for renovation.

Future Outlook

During 2013 your company plans to invest almost half a billion Rupees on renovation and facility improvement. Since our factory will have to be closed for some time to carry out renovation, sales and profits for 2013 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. We are trying to do our part by trying to improve sales mix and launch new products by importing these from other Otsuka plants. However, the future financial situation of your company will continue to depend to a large extent on the Pricing policy of the Government. With the establishment of Drugs Regulatory Authority, we do expect the approval of a transparent and equitable pricing policy for the pharmaceutical companies. Without a fair and transparent pricing policy, it will be very difficult for pharmaceutical companies to invest in this country which is so desperately required to meet the ever growing needs of the people of Pakistan and for creating new jobs.

On behalf of the Board


Abid Hussain

Chief Executive Officer

Karachi

Dated: February 19, 2013

OTSUKA PAKISTAN LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

	Half year ended December 31,		Quarter ended December 31,	
	2012	2011	2012	2011
	----- Rupees in '000 -----			
Net sales	667,084	851,849	288,955	448,622
Cost of sales	<u>(480,354)</u>	<u>(634,712)</u>	<u>(206,880)</u>	<u>(306,738)</u>
Gross profit	186,730	217,137	82,075	141,884
Selling and distribution expenses	(92,864)	(104,766)	(44,170)	(57,804)
Administrative and general expenses	<u>(30,834)</u>	<u>(39,074)</u>	<u>(14,458)</u>	<u>(23,635)</u>
	63,032	73,297	23,447	60,445
Other operating income	<u>7,830</u>	<u>8,254</u>	<u>4,292</u>	<u>1,477</u>
	70,862	81,551	27,739	61,922
Other operating expenses	<u>(11,346)</u>	<u>(15,468)</u>	<u>(5,147)</u>	<u>(12,924)</u>
Operating profit	59,516	66,083	22,592	48,998
Financial charges	<u>(24,700)</u>	<u>(11,906)</u>	<u>(12,176)</u>	<u>(6,528)</u>
Profit for the period before taxation	34,816	54,177	10,416	42,470
Taxation - net	<u>(13,186)</u>	<u>(21,093)</u>	<u>(5,107)</u>	<u>(17,140)</u>
Profit for the period after taxation	<u>21,630</u>	<u>33,084</u>	<u>5,309</u>	<u>25,330</u>
	----- Rupees -----			
Earnings per share - basic and diluted	<u>2.16</u>	<u>3.31</u>	<u>0.53</u>	<u># 2.53</u>

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 DECEMBER 31, 2012

	(Unaudited) December 31, 2012	(Audited) June 30, 2012
Note	-----Rupees in '000-----	
ASSETS		
Non-current assets		
Property, plant and equipment	4 345,953	270,735
Long-term loans - considered good	6,217	6,550
Long-term deposits	743	743
	<u>352,913</u>	<u>278,028</u>
Current assets		
Stores and spares	45,268	51,409
Stock-in-trade	637,802	530,045
Trade debts - unsecured	126,720	171,551
Loans and advances - considered good	33,905	30,179
Trade deposits, short-term prepayments and other receivables	18,934	20,101
Taxation	24,900	20,093
Cash and bank balances	1,839	5,531
	<u>889,368</u>	<u>828,909</u>
Total assets	<u><u>1,242,281</u></u>	<u><u>1,106,937</u></u>
EQUITY AND LIABILITIES		
EQUITY		
Share capital		
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	416,704	405,074
Shareholders' equity	<u>516,704</u>	<u>505,074</u>
LIABILITIES		
Non-current liabilities		
Deferred tax liability - net	16,943	21,023
Current liabilities		
Trade and other payables	206,142	256,471
Short-term borrowings - secured	490,742	318,316
Mark-up accrued	11,750	6,053
	<u>708,634</u>	<u>580,840</u>
Total equity and liabilities	<u><u>1,242,281</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 HALF YEAR ENDED DECEMBER 31, 2012

	Issued, subscribed and paid-up capital	Revenue reserves			Total
		General reserve	Unappropriated profit	Sub-total	
----- Rupees in '000 -----					
Balance as at June 30, 2011	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	-	30,000	(30,000)	-	-
Profit after taxation for the period ended December 31, 2011	-	-	33,084	33,084	33,084
Balance as at December 31, 2011	<u>100,000</u>	<u>297,500</u>	<u>46,906</u>	<u>344,406</u>	<u>444,406</u>
Balance as at June 30, 2012	100,000	297,500	107,574	405,074	505,074
Interim dividend for the year ending June 30, 2013 at Re 1.00 per share (Date of distribution: October 17, 2012)	-	-	(10,000)	(10,000)	(10,000)
Transfer to general reserve	-	80,000	(80,000)	-	-
Profit after taxation for the period ended December 31, 2012	-	-	21,630	21,630	21,630
Balance as at December 31, 2012	<u>100,000</u>	<u>377,500</u>	<u>39,204</u>	<u>416,704</u>	<u>516,704</u>

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Chief Executive

Directo

OTSUKA PAKISTAN LIMITED
CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2012

Note	Half year ended December 31,	
	2012	2011
	----- Rupees in '000 -----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period before taxation	34,816	54,177
Adjustment for non-cash and other items:		
Depreciation	32,432	31,904
Gain on disposal of property, plant and equipment	(1,118)	(1,875)
Provision for slow moving and obsolete stock-in-trade	3,109	1,032
Provision for stents	243	1,427
Provision for impairment of trade debts	1,120	(6,360)
Mark-up expense	24,275	11,906
	60,061	38,034
Operating surplus before working capital changes	94,877	92,211
Movement in working capital		
(Increase) / decrease in current assets		
Stores and spares	6,141	(15,248)
Stock-in-trade	(111,109)	(156,816)
Trade debts - unsecured	43,711	(37,560)
Loans and advances	(3,726)	(10,657)
Trade deposits, short-term prepayments and other receivables	1,167	(13,030)
	(63,816)	(233,311)
(Decrease) / increase in current liabilities		
Trade and other payables	(50,449)	103,763
Interest paid	(18,578)	(12,533)
Taxes paid	(22,073)	(34,853)
Decrease / (increase) in long-term loans	333	(316)
	(40,318)	(47,702)
Net cash used in operating activities	(59,706)	(85,039)
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed capital expenditure incurred	(108,569)	(21,910)
Proceeds from disposal of property, plant and equipment	2,037	3,197
Net cash used in investing activities	(106,532)	(18,713)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(9,880)	(12,364)
Net cash used in financing activities	(9,880)	(12,364)
Net decrease in cash and cash equivalents	(176,118)	(116,116)
Cash and cash equivalents at the beginning of the period	(312,785)	(122,484)
Cash and cash equivalents at the end of the period	7 <u>(488,903)</u>	<u>(238,600)</u>

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Chief Executive

Director