



ACCOUNTS

For the quarter ended

September 30, 2013

Otsuka Pakistan Limited

(A Company of Otsuka Group Japan)

Otsuka-People Creating New Products For
Better Health Worldwide

Company Information

Board of Directors	: Mr. Harry Bagjo (Chairman) Mr. Abid Hussain Mr. Kiyoshi Fukai Mr. Mehtabuddin Feroz Mr. Kenji Itoh Mr. Mohammad Abdullah Feroz Mr. Takaharu Imai Mr. Nazimuddin Feroz Mr. Farid Khan	(Alternate: Mr. Tariq Mehtab Feroz) (Chief Executive) (Alternate: Mr. Habib A. Navaid) (Alternate: Mr. Mohammad Aslam) (Alternate: Mr. Sajid Ali Khan) (Independent Director)
Company Secretary	: Mr. Sajid Ali Khan	
Sub Committees of the Board		
Audit Committee	: Mr. Farid Khan Mr. Kiyoshi Fukai Mr. Mehtabuddin Feroz Mr. Abid Hussain	(Chairman) (Member) (Member) (Member)
Human Resources & Remuneration Committee	: Mr. Kiyoshi Fukai Mr. Mehtabuddin Feroz Mr. Abid Hussain	(Chairman) (Member) (Member)
Auditors	: A.F. Ferguson & Co.	(Chartered Accountants)
Legal Advisors	: Hassan & Humayun Associates	
Bankers	: The Bank of Tokyo-Mitsubishi, UFJ Ltd. Bank Alfalah Limited Barclays Bank, PLC Habib Bank Limited Allied Bank Limited MCB Bank Limited National Bank of Pakistan	
Registered Office	: 30-B, Sindhi Muslim Co-operative, Housing Society, Karachi-74400 Tel.: 34528651 – 4, Fax: 34549857 E-mail: sakhan@otsuka.pk jnoor@otsuka.pk Website: www.otsuka.pk	
Factory	: Plot No. F/4-9, Hub Industrial Trading Estate, Distt. Lasbella (Balochistan) Tel.: (0853) 303517-8 Fax: (0853) 303519	
Share Registrar	: Central Depository Company of Pakistan Limited CDC House, 99 – B, Block 'B', S.M.C.H.S., Main Shakra-e-Faisal Karachi-74400. Tel: Customer Support Services (Toll Free) 0800-CDCPL (23275) Fax: (92-21) 34326053 Email: info@cdcpak.com Website: www.cdcpakistan.com	

Directors' Report

The Directors are pleased to present the accounts of the company for the quarter ended September 30, 2013.

Business Review

Sales for the quarter declined by 16.2% compared with the same period last year. Production of Large Volume Parenteral infusion solutions in plastic bottles which contribute almost 70% of your company sales has been suspended to carry out major modernization and renovation work since February 2013. Your company had built some stock to cater to the need of our key customers during the closure period. Unfortunately, there has been some delay in the completion of the renovation project, because of which your company was forced to reduce sales during the remaining months so that the need of our key customers could be met to some extent in the extended period. As a result, our sales for the current year had been badly impacted. Efforts were made to make up the lost sales by selling more of Amino Acids and medical devices where there is no availability issue. However, the deficit couldn't be covered due to the low share of these products in the total business of your company.

Because of closure of the main product line, total factory overheads which are mostly fixed in nature are being charged to the smaller products which are being currently produced. This has resulted in much higher cost of production for these products. Also costs have increased significantly because of devaluation of Pak Rupee, local inflation and change in sales tax rules making it the responsibility of the purchaser to deduct sales tax from the invoices of the suppliers. As a result of all of above, Gross Profit for the quarter declined from 27.7% last year to only 9.9% during the current quarter. Despite exercising strict control on selling and distribution expenses, your company suffered a loss before tax of Rs. 38.9 million during the quarter compared with profit before tax of Rs. 24.4 million achieved during the previous year.

Future Outlook

Recent devaluation of Pak Rupee, increase in minimum wages, electricity and fuel rates, change in sales tax rules and high local inflation has created tremendous pressure on the operating cost of your company. Also increase in prices of polyethylene, dextrose and other raw materials which are directly related to oil prices have compounded the problems. As a result, your company has reached the same stage where it was before receipt of price increase on its products a couple of years back. Since this is a recurring problem, the only solution is to have a transparent pricing policy which allows the manufacturers to adjust their prices in line with the increase in costs which are beyond their control. We understand that a pricing policy is currently under the consideration of the Drug Regulatory Authority of Pakistan. We hope that the same is approved at the earliest so that the people of Pakistan are assured of uninterrupted availability of quality products. Barring the pricing policy for pharmaceutical products, your Directors don't see any internal or external threat to the long term survival of your company.

On behalf of the Board

Karachi
Dated: October 23, 2013

Abid Hussain
Chief Executive Officer

CONDENSED BALANCE SHEET
AS AT SEPTEMBER 30, 2013

	2013 Sept.30 (Un-Audited)	2013 June 30 (Audited)
	-----Rupees in '000-----	
ASSETS		
Non-current assets		
Property, plant and equipment	666,858	447,570
Long-term loans - considered good	5,313	5,574
Long-term deposits	783	743
	<u>672,954</u>	<u>453,887</u>
Current assets		
Stores and spares	45,947	44,998
Stock-in-trade	388,833	502,998
Trade debts - unsecured	106,763	125,007
Loans and advances - considered good	42,643	44,734
Trade deposits, short-term prepayments and other receivables	22,789	21,786
Taxation	56,781	30,712
Cash and bank balances	8,138	2,654
	<u>671,894</u>	<u>772,889</u>
Total assets	<u><u>1,344,848</u></u>	<u><u>1,226,776</u></u>
EQUITY AND LIABILITIES		
EQUITY		
Share capital	100,000	100,000
Revenue reserves	350,757	391,945
Shareholders' equity	<u>450,757</u>	<u>491,945</u>
LIABILITIES		
Non-current liabilities		
Long-term finance	325,000	100,000
Deferred tax liability - net	5,961	8,616
Current liabilities		
Trade and other payables	183,987	245,763
Short-term running finance - secured	365,094	365,344
Mark-up accrued	14,049	15,108
	<u>563,130</u>	<u>626,215</u>
Total equity and liabilities	<u><u>1,344,848</u></u>	<u><u>1,226,776</u></u>

CONTINGENCIES AND COMMITMENTS

The annexed notes 1 to 10 form an integral part of these financial statements.

Abid Hussain
Chief Executive Officer

Mehtabuddin Feroz
Director

**CONDENSED PROFIT AND LOSS ACCOUNT(UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2013**

	2013	2012
	Sept. 30,	Sept. 30,
	-----Rupees in '000-----	
Net sales	316,892	378,129
Cost of sales	<u>(285,527)</u>	<u>(273,474)</u>
Gross profit	31,365	104,655
Selling and distribution expenses	(39,754)	(48,694)
Administrative and general expenses	<u>(16,048)</u>	<u>(16,376)</u>
	(24,437)	39,585
Other income	<u>6,671</u>	3,538
	(17,766)	43,123
Other operating expenses	<u>(10,936)</u>	<u>(6,199)</u>
Operating profit	<u>(28,702)</u>	36,924
Financial charges	<u>(10,158)</u>	<u>(12,524)</u>
(Loss) / profit for the period before taxation	<u>(38,860)</u>	24,400
Taxation - net	<u>(2,328)</u>	<u>(8,079)</u>
(Loss) / profit for the period after taxation	<u><u>(41,188)</u></u>	<u><u>16,321</u></u>
	-----Rupees in '000-----	
(Loss) / earnings per share	<u><u>(4.12)</u></u>	<u><u>1.63</u></u>

The annexed notes 1 to 10 form an integral part of these financial statements.

Abid Hussain
Chief Executive Officer

Mehtabuddin Feroz
Director

CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2013

	2013 Sept. 30, -----Rupees in '000-----	2012 Sept. 30, -----Rupees in '000-----
(Loss) / profit for the period after taxation	(41,188)	16,321
Other comprehensive income for the period	-	-
Total comprehensive (loss) / income for the period	<u>(41,188)</u>	<u>16,321</u>

The annexed notes 1 to 10 form an integral part of these financial statements.

Abid Hussain
Chief Executive Officer

Mehtabuddin Feroz
Director

CONDENSED CASH FLOW STATEMENT (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2013

	2013 Sept. 30,	2012 Sept. 30,
	-----Rupees in '000-----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from / (used in) operations	57,944	11,916
Interest paid	(15,139)	(6,049)
Taxes paid	(31,053)	(16,646)
Decrease / (increase) in long-term deposits	(40)	-
Decrease / (increase) in long-term loans	261	205
Net cash generated from / (used in) operating activities	11,973	(10,574)
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed capital expenditure	(231,272)	(32,497)
Proceeds from disposal of property, plant and equipment	33	368
Net cash used in investing activities	(231,239)	(32,129)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term finance obtained	225,000	-
Dividends paid	-	(1)
Net cash inflow from / (outflow on) financing activities	225,000	(1)
Net (decrease) increase in cash and cash equivalents	5,734	(42,704)
Cash and cash equivalents as at the beginning of the period	(362,690)	(312,785)
Cash and cash equivalents as at the end of the period	(356,956)	(355,489)

The annexed notes 1 to 10 form an integral part of these financial statements.

Abid Hussain
Chief Executive Officer

Mehtabuddin Feroz
Director

**CONDENSED STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2013**

	Issued, subscribed and paid-up capital	Revenue reserves		Sub total	Total
		General reserve	Unappro- priated profit		
----- Rupees in '000 -----					
Balance as at June 30, 2012	100,000	297,500	107,574	405,074	505,074
Appropriation to general reserve	-	80,000	(80,000)	-	-
Total comprehensive income for the period ended September 30, 2012	-	-	16,321	16,321	16,321
Balance as at September 30, 2012	<u>100,000</u>	<u>377,500</u>	<u>43,895</u>	<u>421,395</u>	<u>521,395</u>
Balance as at June 30, 2013	100,000	377,500	14,445	391,945	491,945
Appropriation to general reserve	-	-	-	-	-
Total comprehensive loss for the period ended September 30, 2013	-	-	(41,188)	(41,188)	(41,188)
Balance as at September 30, 2013	<u>100,000</u>	<u>377,500</u>	<u>(26,743)</u>	<u>350,757</u>	<u>450,757</u>

The annexed notes 1 to 10 form an integral part of these financial statements.

Abid Hussain
Chief Executive Officer

Mehtabuddin Feroz
Director

**NOTES TO AND FORMING PART OF THE CONDENSED
FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2013**

1 THE COMPANY AND ITS OPERATIONS

The Company is incorporated in Pakistan as a public limited company and is listed on the Karachi and Lahore Stock Exchanges. The address of its registered office is 30-B, S.M.C.H. Society, Karachi, Pakistan. It is engaged in the manufacturing, marketing and distribution of intravenous infusions and trading in pharmaceutical products, nutritional foods and medical equipment. The Company is an indirect subsidiary of Otsuka Pharmaceutical Company Limited, Japan.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Where the requirements of the Companies Ordinance, 1984 or the directives issued by the SECP differ with the requirements of IFRSs, the requirements of the Companies Ordinance, 1984 or the directives issued by the SECP prevail.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention, except that certain staff retirement benefits are carried at present value of defined benefit obligation less fair value of plan assets and inventories are carried at the lower of cost and net realisable value.

These condensed interim financial statements are un-audited.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual published financial statements of the company for the year ended June 30, 2013.

4 Property, plant and equipment

Operating fixed assets

The following fixed assets have been added or disposed off during the quarter ended September 30,2013.

	Leasehold on land	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles	Fork lifter	Total
-----Rupees in '000-----							
Additions	-	166	483	298	929	-	1,876
Disposals:							
Cost	-	-	-	-	63	-	63
Accumulated depreciation	-	-	-	-	(40)	-	(40)

5 CONTINGENCIES AND COMMITMENTS

(Un-Audited) (Audited)
September, 2013 June 30, 2013
.....Rupees in '000.....

5.1 Commitments in respect of:

Capital expenditure contracted for but not incurred	35,871	73,708
Letters of credit	18,535	201,269
Letters of guarantee	9,287	9,287

5.2 On August 2009, a notice of demand was served on the Company by the Deputy Commissioner of Income Tax (DCIT) for an amount of Rs 5.721 million (2012: Rs 5.721 million) including additional tax amounting to Rs 0.457 million (2012: Rs 0.457 million) under sections 161, 162 and 205 of the Income Tax Ordinance, 2001 out of which the Company has already paid an amount of Rs 1.500 million (2012: Rs 1.500 million). The Company has filed an appeal against the order of the DCIT which is pending adjudication. As on June 30, 2013, no provision has been made in these financial statements in respect of the amount of Rs 5.721 million (2012: Rs 5.721 million) as the management is confident that the matter will be decided in favour of the Company.

6 TRANSACTIONS WITH RELATED PARTIES

July - September 2013					July - September 2012
Parent company	Other associated undertakings	Key management personnel	Other related parties	Total	Total

-----Rupees in '000-----

Transactions during the period

Net sales (net of discounts allowed Rs 29.91 million 2012: Rs 34.16 million)	-	175,110	-	-	175,110	166,575
Other sales discounts / claims	-	102	-	-	102	900
Inventory purchased	2,743	13,510	-	-	16,253	21,030
Consultancy fees	-	-	600	-	600	600
Salaries and benefits to key management personnel	-	-	18,037	-	18,037	17,141
Contribution to Provident Fund	-	-	872	-	872	812
Contribution to Gratuity Fund	-	-	497	-	497	540

(Unaudited) September 30, 2013					(Audited) June 30, 2013
Parent company	Other associated undertakings	Key management personnel	Other related parties	Total	

-----Rupees in '000-----

Balance outstanding as at the end of the period / year

Receivable from Hospital Supply Corporation	-	75,460	-	-	75,460	137,234
Trade and other payables						
Payable to Otsuka Pharmaceutical Company Limited, Japan	-	-	-	-	-	46,176
Payable to PT Otsuka, Indonesia	-	-	-	-	-	1,934
Payable to Shanghai MicroPort Medical (Group) Co., Ltd	-	18,767	-	-	18,767	5,578
Payable to Otsuka Pharmaceutical Factory, Inc.	-	685	-	-	685	685
Payable to Employees' Provident Fund	-	-	-	1,914	1,914	2,045
Payable to Employees' Gratuity Fund	-	-	-	1,239	1,239	2,425

6.1 The Company enters into transactions with related parties for the sale of its products, purchase of raw materials, finished goods and spare parts, toll manufacturing arrangements and for rendering of certain services. Sales to related parties represent sales made to Hospital Supply Corporation which is the sole distributor of the Company's products in the southern region. The Company allows discount to the distributor on trade price based on agreed terms. In addition to the discount given at the time of sale, the Company also offers specific discounts based on product promotion policies. Purchases from related parties primarily represent purchases of raw materials and finished goods from Otsuka group companies.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company. The company considers all members of their management team, including the Chief Executive Officer to be its key management personnel.

7 SEGMENT INFORMATION

The financial information has been prepared on the basis of a single reportable segment.

8 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified wherever necessary for the purpose of better presentation. There were no major reclassifications in these condensed interim financial statements.

9 DATE OF AUTHORISATION

These condensed interim financial statements were authorised for issue on October 23, 2013 by the Board of Directors of the Company.

10 GENERAL

Figures have been rounded off to the nearest thousand rupees.

Abid Hussain
Chief Executive Officer

Mehtabuddin Feroz
Director



Otsuka

A Sign of Japanese Commitment to Better Health