Otsuka Pakistan Limited

Directors' Report

The Directors are pleased to present the accounts of the company for the half-year ended December 31, 2013.

Business Review

Because of the ongoing work on improvement of our manufacturing facility, production of our major product line Plabottle has remained suspended since February 2013. As this product line contributes more than 70% of our sales, suspension of production has badly impacted our sales as well as profits and cash flows. Although, we had built some stock to cater to our customers' requirements during the closure period, however these didn't prove adequate enough. As a result, our sales for the quarter were only Rs.225.6 million compared with Rs.289.0 million achieved last year showing a decline of 22%. For the half year, our sales at Rs.542.5 million were 19% lower compared with the same period last year.

The reduction in sales had a devastating effect on our profit and cash flow. Since our factory as well as selling and administration expenses are mostly fixed in nature, reduced sales resulted in operating loss of Rs.105.7 million for the half year compared with operating profit of Rs.59.6 million earned during the same period last year. Also our production is now restricted to smaller products contributing about 20% of our production capacity while the fixed overheads are almost at normal levels. As a result, we are incurring gross loss on all goods produced and sold during this period. According to International Accounting Standards, stocks are required to be valued at the lower of cost or net realizable value. Since our cost of finished goods as at December 31, 2013 was much higher than the net realizable value, we had to bring it down to net realizable value because of which other operating expenses have increased to Rs.52.1 million compared with Rs.11.3 million incurred last year. This ultimately resulted in loss before taxation of Rs.126.0 million compared with profit before taxation of Rs.34.9 million earned last year.

Future Outlook

The work on factory renovation is now complete. We have already applied to Drugs Regulatory Authority of Pakistan to inspect our facility and grant approval to commence production. We do hope that this process will proceed smoothly and we will be able to start production soon. However, till such time, sales, profits and cash flows of your company will continue to remain under tremendous pressure.

Also much now depends on the Pricing Policy of the Government. We have tried to create world class manufacturing facility at our plant. However, this will result in further increase in cost of our products. Since prices of infusion solutions in Pakistan are one of the lowest in the world, our profits will continue to remain under pressure till the prices of our products are rationalized. People of Pakistan deserve world class quality pharmaceutical products which can only be made available if prices are fixed keeping in view the cost of goods produced. Without adequate pricing policy with flexibility to adjust prices in line with cost increases, it will be very difficult for any good pharmaceutical company including yours to survive. We do hope that the Government realizes this critical issue and device a Pricing Policy which is fair to both the people of Pakistan and the Pharmaceutical industry so that high quality products can remain available in the country. The continuous closure of multi-national pharmaceutical companies in the country clearly indicates that things are not moving in the right direction and some corrective actions are required.

On behalf of the Board

Abid Hussain
Chief Executive Officer

Karachi
Dated: February 18, 2014

OTSUKA PAKISTAN LIMITED

CONDENSED INTERIM FINANCIAL INFORMATION

FOR THE HALF YEAR ENDED DECEMBER 31, 2013

A. F. FERGUSON & CO.

Chartered Accountants
a member firm of the PwC network

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

	Note	(Unaudited) December 31, 2013	Restated (Audited) June 30, 2013
		-----Rupees in '000-----	
ASSETS			
Non-current assets			
Property, plant and equipment	4	717,107	447,570
Long-term loans - considered good		5,308	5,574
Long-term deposits		783	743
Deferred tax asset - net		35,068	-
		758,266	453,887
Current assets			
Stores and spares		50,347	44,998
Stock-in-trade		423,467	502,998
Trade debts - unsecured		118,648	125,007
Loans and advances - considered good		31,257	44,734
Trade deposits, short-term prepayments and other receivables		21,645	21,786
Taxation		69,871	30,712
Cash and bank balances		3,826	2,654
		719,061	772,889
Total assets		1,477,327	1,226,776
EQUITY AND LIABILITIES			
EQUITY			
Share capital			
Authorised capital			
20,000,000 (June 30, 2013: 10,000,000) ordinary shares of Rs 10 each		200,000	100,000
Issued, subscribed and paid up capital			
11,000,000 (June 30, 2013: 10,000,000) ordinary shares of Rs 10 each		110,000	100,000
Revenue reserves		287,058	387,907
Shareholders' equity		397,058	487,907
LIABILITIES			
Non-current liabilities			
Deferred tax liability - net		-	6,536
Long-term finance	5	270,833	100,000
		270,833	106,536
Current liabilities			
Trade and other payables		271,793	251,881
Current maturity of long-term finance	5	54,167	-
Short-term running finance - secured		460,583	365,344
Mark-up accrued		22,893	15,108
		809,436	632,333
Total equity and liabilities		1,477,327	1,226,776
CONTINGENCIES AND COMMITMENTS	6		

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

Chief Executive **Director**

OTSUKA PAKISTAN LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013

	Half year ended December 31,		Quarter ended December 31,	
	2013	2012	2013	2012
	----- Rupees in '000 -----		----- Rupees in '000 -----	
Net sales	542,524	667,084	225,632	288,955
Cost of sales	(522,642)	(480,354)	(237,115)	(206,880)
Gross profit / (loss)	19,882	186,730	(11,483)	82,075
Selling and distribution expenses	(74,718)	(92,864)	(34,964)	(44,170)
Administrative and general expenses	(32,624)	(30,711)	(16,576)	(14,396)
	(87,460)	63,155	(63,023)	23,509
Other income	33,861	7,830	27,190	4,292
	(53,599)	70,985	(35,833)	27,801
Other operating expenses	(52,101)	(11,346)	(41,165)	(5,147)
Operating (loss) / profit	(105,700)	59,639	(76,998)	22,654
Financial charges	(20,321)	(24,700)	(10,163)	(12,176)
(Loss) / profit for the period before taxation	(126,021)	34,939	(87,161)	10,478
Taxation - net	34,959	(13,228)	37,287	(5,128)
(Loss) / profit for the period after taxation	(91,062)	21,711	(49,874)	5,350
	---------- Rupees ----------			
(Loss) / earnings per share - basic and diluted	(8.28)	1.97	(4.53)	0.49

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

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Chief Executive

Director

OTSUKA PAKISTAN LIMITED
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013

	Half year ended December 31,		Quarter ended December 31,	
	2013	2012	2013	2012
	----- Rupees in '000 -----		----- Rupees in '000 -----	
(Loss) / profit for the period after taxation	(91,062)	21,711	(49,874)	5,350
Items that will not be reclassified to profit or loss				
Remeasurement of post retirement benefit obligations - net of tax	213	916	107	458
Total comprehensive (loss) / income for the period	(90,849)	22,627	(49,767)	5,808

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

Chief Executive | **Director**

OTSUKA PAKISTAN LIMITED
CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2013

	Note	Half year ended December 31, 2013	Half year ended December 31, 2012
		----- Rupees in '000 -----	
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / profit for the period before taxation		(126,021)	34,939
Adjustment for non-cash charges and other items:			
Depreciation		31,356	32,432
Gain on disposal of property, plant and equipment		(47)	(1,118)
Provision for slow moving and obsolete stock-in-trade - net		14,563	3,109
Provision for stents - net		1,619	243
Provision for doubtful debts - net		318	1,120
Mark-up on finances		20,321	24,275
		68,130	60,061
Operating (deficit) / surplus before working capital changes		(57,891)	95,000
Working capital changes			
(Increase) / decrease in current assets			
Stores and spares		(5,349)	6,141
Stock-in-trade		63,349	(111,109)
Trade debts - unsecured		6,041	43,711
Loans and advances		13,477	(3,726)
Trade deposits, short-term prepayments and other receivables		141	1,167
		77,659	(63,816)
Increase / (decrease) in current liabilities			
Trade and other payables		20,125	(50,572)
Interest paid		(25,296)	(18,578)
Taxes paid		(45,805)	(22,073)
(Increase) / decrease in long-term deposits		(40)	-
Decrease / (increase) in long-term loans		266	333
		(70,875)	(40,318)
Net cash used in operating activities		(30,982)	(59,706)
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(288,155)	(108,569)
Proceeds from disposal of property, plant and equipment		70	2,037
Net cash used in investing activities		(288,085)	(106,532)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term finance obtained		225,000	-
Dividends paid		-	(9,880)
Net cash inflow from / (outflow on) financing activities		225,000	(9,880)
Net decrease in cash and cash equivalents		(94,067)	(176,118)
Cash and cash equivalents at the beginning of the period		(362,690)	(312,785)
Cash and cash equivalents at the end of the period	8	(456,757)	(488,903)

The annexed notes 1 to 13 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, 2013

	Issued, subscribed and paid-up capital	Revenue reserves			Total
		General reserve	Unappropriated profit	Sub-total	
	---------------------------------- Rupees in '000				--------------------------------
Balance as at July 1, 2012 as previously reported	100,000	297,500	107,574	405,074	505,074
Effect of change in accounting policy due to application of IAS 19 (Revised) - net of tax (note 3.1.1)	-	-	(6,032)	(6,032)	(6,032)
Balance as at July 1, 2012 - restated	100,000	297,500	101,542	399,042	499,042
Interim dividend for the year ending June 30, 2013 at Re 1.00 per share declared on October 17, 2012	-	-	(10,000)	(10,000)	(10,000)
Transfer to general reserve	-	80,000	(80,000)	-	-
Total comprehensive income for the half year ended December 31, 2012	-	-	22,627	22,627	22,627
Balance as at December 31, 2012 - restated	100,000	377,500	34,169	411,669	511,669
Balance as at July 1, 2013 as previously reported	100,000	377,500	14,445	391,945	491,945
Effect of change in accounting policy due to application of IAS 19 (Revised) - net of tax (note 3.1.1)	-	-	(4,038)	(4,038)	(4,038)
Balance as at July 1, 2013 - restated	100,000	377,500	10,407	387,907	487,907
Issue of bonus shares	10,000	(10,000)	-	(10,000)	-
Total comprehensive income for the half year ended December 31, 2013	-	-	(90,849)	(90,849)	(90,849)
Balance as at December 31, 2013	110,000	367,500	(80,442)	287,058	397,058

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

Chief Executive

Director

1 LEGAL STATUS AND NATURE OF BUSINESS

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

This condensed interim financial information has been prepared in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever 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.

The disclosures made in this condensed interim financial information have, however, been limited based on the requirements of International Accounting Standard 34: 'Interim Financial Reporting'. This condensed interim financial information does not include all the information and disclosures required in a full set of financial statements and should be read in conjunction with the annual published audited financial statements of the Company for the year ended June 30, 2013.

This condensed interim financial information is unaudited. However, a review has been performed by the external auditors in accordance with the requirements of the Code of Corporate Governance.

3 ACCOUNTING POLICIES

3.1 The accounting policies and methods of computation of balances adopted in the preparation of this condensed interim financial information 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, except for the change as described in note 3.1.1 below.

3.1.1 Change in accounting policy

Consequent to the revision of IAS 19 "Employee Benefits" which is effective for annual periods beginning on or after January 1, 2013, the Company has changed its accounting policy wherein, the actuarial gains and losses (remeasurement gains/losses) on employees' retirement benefit plans are recognised immediately in Comprehensive Income and past service costs are recognised in the Profit and Loss Account as they are incurred. Previously, the actuarial gains/losses in excess of the corridor limit were recognised in the Profit and Loss Account over the remaining service life of the employees whereas past service cost was recognised in the Profit and Loss Account on a straight line basis over the average period until the benefits become vested. The change in accounting policy has been accounted for retrospectively in accordance with the requirements of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' and corresponding figures have been restated as follows.

	(Unaudited) December 31, 2013	(Audited) June 30, 2013	(Audited) June 30, 2012
	Rupees in '000		
Impact on Condensed Interim Balance Sheet / Balance Sheet as at June 30, 2013			
Increase in other liabilities	5,795	6,118	9,139
Decrease in deferred tax liability	(1,970)	(2,080)	(3,107)
(Increase) / decrease in revenue reserves	3,825	4,038	6,032

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	(Unaudited) December 31, 2013	(Unaudited) December 31, 2012 *	(Audited) June 30, 2013	(Audited) June 30, 2012
	Rupees in '000			
Impact on Condensed Interim Profit and Loss Account / Profit and loss account for the year ended June 30, 2013				
Decrease in administrative and general expenses	-	123	246	-
Effect of related taxation	-	(42)	(84)	-
Increase in profit after taxation	-	81	162	-
Impact on Condensed Interim Statement of Comprehensive Income / Statement of Comprehensive Income for the year ended June 30, 2013				
Remeasurements of post employment obligations	213	916	1,832	-
Impact on Condensed Interim Statement of Changes in Equity / Statement of Changes in Equity for the year ended June 30, 2013				
Increase / (decrease) in unappropriated profit				
- Cumulative effect - prior years	(4,038)	(6,032)	(6,032)	(6,032)
- Gain / (charge) for the current period	213	997	1,994	-

	(Unaudited) December 31, 2013	(Unaudited) December 31, 2012 *	(Audited) June 30, 2013	(Audited) June 30, 2012
	Rupees			
Increase/ (decrease) in earning per share - basic and diluted	-	0.01	0.01	-

There is no impact of this change on the cash flow statement for the current or prior periods.

*Determined on a proportionate basis

3.2 There are certain other new and amended standards and interpretations that are mandatory for the Company's accounting periods beginning on or after July 1, 2013 but are considered not to be relevant or do not have any material effect on the Company's operations and are, therefore, not detailed in this condensed interim financial information.

	Note	(Unaudited) December 31, 2013	(Audited) June 30, 2013
		Rupees in '000	
4 PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	4.1	222,380	246,343
Capital work-in-progress	4.2	494,727	201,227
		717,107	447,570

4.1 The following additions to and disposals of operating fixed assets have been made during the period:

	Half year ended December 31, 2013					
	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles	Fork lifter	Total
	Rupees in '000					
Additions	3,833	1,722	863	997	-	7,415
Disposals:						
Cost	-	-	217	63	-	280
Accumulated depreciation	-	-	(217)	(40)	-	(257)
	-	-	-	23	-	23

	Half year ended December 31, 2012					
	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles	Fork lifter	Total
	Rupees in '000					
Additions	464	30,387	1,019	5,224	-	37,094
Disposals:						
Cost	-	20	676	2,606	-	3,302
Accumulated depreciation	-	(17)	(676)	(1,690)	-	(2,383)
	-	3	-	916	-	919

		Note	(Unaudited) December 31, 2013	(Audited) June 30, 2013
4.2	**Capital work-in-progress**		Rupees in '000	
	Stores and spares held for capital expenditure		8,053	8,316
	Expenditure incurred in relation to Balancing, Modernisation and Replacement (BMR) Project		399,038	53,827
	Plant and machinery for BMR Project in transit		-	136,132
	Others		87,636	2,952
			494,727	201,227

5 LONG TERM FINANCE - SECURED

	Note		
From banking company			
Total facility utilised under mark-up arrangements	5.1	325,000	100,000
Less: Current maturity		(54,167)	-
		270,833	100,000

5.1 As at December 31, 2013, the Company has fully utilised the term finance facility available from the Bank of Tokyo-Mitsubishi UFJ, Limited amounting to Rs 325 million. This loan is being used to finance the BMR project which is currently in progress. The loan is repayable in semi-annual instalments by January 2017. It carries markup at the rate of 6 months KIBOR + 1.75% per annum on the outstanding balance of the facility. The facility is secured by first pari-passu hypothecation and / or first equitable mortgage charge on all of the Company's present and future fixed asset including but not limited to land, buildings, plant and machinery, equipment, furniture and fixtures, etc.

6 CONTINGENCIES AND COMMITMENTS

6.1 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 (June 30, 2013: Rs 5.721 million) including additional tax amounting to Rs 0.457 million (June 30, 2013: 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 1.50 million (June 30, 2013: Rs 1.50 million). The Company has filed an appeal against the order of the DCIT which is pending adjudication. As on December 31, 2013, no provision has been made in this condensed interim financial information in respect of the amount of Rs 5.721 million (June 30, 2013: Rs 5.721 million) as the management is confident that the matter will be decided in favour of the Company.

On December 30, 2013, a notice under section 122(9) of the Income Tax Ordinance, 2001 was served by the Additional Commissioner Inland Revenue (ACIR) which required the Company to furnish explanations in respect of certain issues that were identified in the tax return of tax year 2012 filed with the Federal Board of Revenue (FBR). The Company has submitted the desired explanations through their tax advisors for which a response is awaited.

		(Unaudited) December 31, 2013	(Audited) June 30, 2013
6.2	Commitments represent:	Rupees in '000	
	Capital expenditure contracted for but not incurred	29,116	73,708
	Letters of credit	17,543	201,269
	Letters of guarantee	9,287	9,287

There were no other contingencies and commitments outstanding as on December 31, 2013 and June 30, 2013.

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7 TRANSACTIONS WITH RELATED PARTIES

	(Unaudited) Half year ended December 31, 2013					(Unaudited) Half year ended December 31, 2012
	Parent company	Other associated undertakings	Key management personnel	Other related parties	Total	
	---------- Rupees in '000 ----------					
Transactions during the period						
Net sales net of discounts allowed Rs 51.604 million (2012: Rs 60.740 million)	-	301,064	-	-	301,064	354,173
Inventory purchased	33,796	59,902	-	-	93,698	45,549
Advance to Efroze Chemicals Industries (Private) Limited	-	-	-	-	-	4,799
Consultancy fees	-	-	1,200	-	1,200	1,200
Salaries and benefits to key management personnel	-	-	34,080	-	34,080	31,908
Contribution to Employees' Provident Fund	-	-	1,719	-	1,719	1,583
Contribution to Employees' Gratuity Fund	-	-	997	-	997	1,052

	(Unaudited) As at December 31, 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 against sale of goods	-	83,772	-	-	83,772	95,119
Advance to Efroze Chemicals Industries (Private) Limited	-	11,198	-	-	11,198	11,198
Trade and other payables						
Payable to Otsuka Pharmaceutical Company Limited, Japan	33,796	-	-	-	33,796	-
Payable to PT Otsuka, Indonesia	-	1,028	-	-	1,028	-
Payable to Microport Medical, Shanghai	-	18,956	-	-	18,956	27,570
Payable to Otsuka Pharmaceutical Factory Incorporation	-	2,099	-	-	2,099	1,824
Payable to Thai Otsuka Pharmaceutical Company Limited, Thailand	-	19,986	-	-	19,986	18,473
Payable to Employees' Provident Fund	-	-	-	1,905	1,905	2,157
Payable to Employees' Gratuity Fund	-	-	-	8,053	8,053	2,546

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.

Remuneration to key management personnel is based on the agreed terms of employment with such personnel.

Contributions to and accruals in respect of staff retirement benefit plans are made in accordance with actuarial recommendations and terms of contribution plans.

8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following items included in the condensed interim balance sheet:

	(Unaudited) December 31, 2013	(Unaudited) December 31, 2012
	----Rupees in '000----	
Cash and bank balances	3,826	1,839
Short-term running finance utilised under mark-up arrangements	(460,583)	(490,742)
	(456,757)	(488,903)

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9 SEGMENT INFORMATION

9.1 This condensed interim financial information has been prepared on the basis of a single reportable segment.

Sales from Intravenous Solutions represent 80.45 percent while sales from others represent 19.55 percent (December 31, 2012: 85.74 percent and 14.26 percent) respectively of the total sales of the Company. Sales have been geographically restricted to Pakistan during the current and the prior period.

Sales to Hospital Supply Corporation (a related party of the Company) which is the sole distributor in the southern region was around 55.49 percent during the period ended December 31, 2013 (December 31, 2012: 53.10 percent).

9.2 All non-current assets of the Company as at December 31, 2013 are located in Pakistan.

10 PLANT CAPACITY AND PRODUCTION

	Half year ended December 31, 2013		Half year ended December 31, 2012	
	Capacity*	Actual production	Capacity*	Actual production
	---------- million bottles ----------			
I.V. Solutions	16.0	1.9	16.0	15.6
Plastic Ampoules	4.2	4.3	4.2	4.2
	20.2	6.2	20.2	19.8

The Company's under-utilised capacity was mainly due to the stoppage of production of IV solutions (excluding 500ml glass bottles and 100ml plastic bottles) from February 16, 2013 onwards for BMR Project. This has had an impact on the financial performance of the Company during the period.

Renovation work in relation to the aforementioned project has been completed and the Company has applied to the Drug Regulatory Authority to inspect the production facility and grant approval to commence commercial production. Production will resume when the approval is granted.

* On proportionate basis

11 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified wherever necessary for the purpose of comparison and better presentation. There were no major reclassifications in this condensed interim financial information during the current period.

12 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on Feb. 18, 2014 by the Board of Directors of the Company.

13 GENERAL

Figures in this condensed interim financial information have been rounded off to the nearest thousand rupees.

Chief Executive

Director