



# ACCOUNTS

For the quarter ended

September 30, 2014

## Otsuka Pakistan Limited

(A Company of Otsuka Group Japan)

Otsuka-People Creating New Products For  
Better Health Worldwide

## Company Information

<b>Board of Directors</b>	:	Mr. Harry Bagjo (Chairman)	(Alternate: Mr. Tariq Mehtab Feroz)
		Mr. Abid Hussain	(Chief Executive Officer)
		Mr. Makoto Sekiyama	
		Mr. Mehtabuddin Feroz	
		Mr. Tetsuji Iwamoto	(Alternate: Mr. Mohammad Aslam)
		Mr. Mohammad Abdullah Feroz	
		Mr. Makio Osaka	(Alternate: Mr. Sajid Ali Khan)
		Mr. Nazimuddin Feroz	
	Mr. Noor Muhammad	(Independent Director)	

### Sub Committees of the Board:

<b>Audit Committee</b>	:	Mr. Noor Muhammad	(Chairman)
		Mr. Makoto Sekiyama	(Member)
		Mr. Mehtabuddin Feroz	(Member)

<b>Human Resources &amp; Remuneration Committee</b>	:	Mr. Makoto Sekiyama	(Chairman)
		Mr. Mehtabuddin Feroz	(Member)
		Mr. Abid Hussain	(Member)

**Company Secretary** : Mr. Sajid Ali Khan

**Auditors** : A.F. Ferguson & Co.  
(Chartered Accountants)

**Legal Advisors** : Hassan & Humayun Associates

**Bankers** : The Bank of Tokyo-Mitsubishi, UFJ Ltd.  
Bank Alfalah Limited  
The Bank of Punjab  
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](mailto:sakhan@otsuka.pk)  
[jnoor@otsuka.pk](mailto:jnoor@otsuka.pk)  
Website: [www.otsuka.pk](http://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 Shahra-e-Faisal  
Karachi-74400.  
Tel: Customer Support Services (Toll Free) 0800-CDCPL (23275)  
Fax: (92-21) 34326053  
Email: [info@cdcpak.com](mailto:info@cdcpak.com)  
Website: [www.cdcpakistan.com](http://www.cdcpakistan.com)

## Directors' Review

The Directors are pleased to present the accounts of the company for the quarter ended September 30, 2014.

### *Business Review*

After successful completion of major renovation of our Production Facility, we have resumed production since March 2014. However, during initial months we had to face some teething problems with newly installed automatic machines and a major break-down due to voltage fluctuation. Production remained suspended for almost one week as an Engineer had to be called from Italy to fix the problem.

Sales for the quarter have increased only by 17.8% compared with the same period last year. The low increase in sales was mainly due to non-availability of goods and required product mix. Our cost of production has also increased significantly because of low production and other costs increases. As a result, our Gross Profit for the quarter was only 5.9% of sales and almost 30% lower compared with last year. Because of lower sales and gross profit, strict controls were exercised on selling, distribution and administration expenses which remained almost at previous year level. However, because of higher interest expenses due to borrowing for renovation of Production Facility, loss before tax for the quarter increased to Rs.54.4 million compared with Rs.38.9 million incurred during the same period last year.

### *Future Outlook*

Although production has now reached to the normal level but the company is still facing serious issues due to increasing costs. Minimum wages has been increased substantially by the Government via the fiscal budget for 2014-15. Similarly, high increases are being witnessed in electricity, gas charges and all other expenses due to local inflation. On the other hand, prices of all our products have not increased since the last three years. This is resulting in tremendous pressure on our company and it is therefore imperative that a price increase is granted by the Government in line with the cost increases. Without such a price increase, profits of our company will continue to remain under pressure. We do hope that the Government realizes the severity of the situation and takes corrective actions accordingly. Except pricing factor, the Board doesn't see any internal or external threat to its future operations.

On behalf of the Board

Karachi  
Dated: October 22, 2014

**Abid Hussain**  
Chief Executive Officer

CONDENSED INTERIM BALANCE SHEET  
AS AT SEPTEMBER 30, 2014

	2014 Sept.30 (Un-Audited)	2014 June 30 (Audited)	
Note	----- Rupees in '000 -----		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	692,579	715,754
Long-term loans - considered good		5,067	5,123
Long-term deposits		783	783
Deferred tax asset - net		77,960	80,048
		<u>776,389</u>	<u>801,708</u>
<b>Current assets</b>			
Stores and spares		46,348	46,422
Stock-in-trade		415,185	476,290
Trade debts - unsecured		86,563	120,088
Loans and advances - considered good		43,157	22,776
Trade deposits, short-term prepayments and other receivables		26,465	25,041
Taxation		100,717	88,543
Cash and bank balances		9,511	3,680
		<u>727,946</u>	<u>782,840</u>
<b>Total assets</b>		<u><u>1,504,335</u></u>	<u><u>1,584,548</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital		110,000	110,000
Revenue reserves		120,138	180,110
<b>Total shareholders' equity</b>		<u>230,138</u>	<u>290,110</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term finance - secured		162,499	216,666
		<u>162,499</u>	<u>216,666</u>
<b>Current liabilities</b>			
Short-term loan from a related party - unsecured		73,095	73,095
Trade and other payables		213,810	301,691
Current maturity of long-term finance - secured		108,334	108,334
Short-term running finance - secured		689,489	557,459
Mark-up accrued		26,970	37,193
		<u>1,111,698</u>	<u>1,077,772</u>
<b>Total equity and liabilities</b>		<u><u>1,504,335</u></u>	<u><u>1,584,548</u></u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	5		

The annexed notes 1 to 11 form an integral part of these financial statements.

**Abid Hussain**  
Chief Executive Officer

**Mehtabuddin Feroz**  
Director

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)  
FOR THE QUARTER ENDED SEPTEMBER 30, 2014

	2014 Sept.30	2013 Sept.30
	----- Rupees in '000 -----	
Net sales	373,332	316,892
Cost of sales	(351,265)	(285,527)
Gross profit	22,067	31,365
Selling and distribution expenses	(41,337)	(39,754)
Administrative and general expenses	(14,585)	(16,048)
	(33,855)	(24,437)
Other income	10,228	6,671
	(23,627)	(17,766)
Other operating expenses	(3,717)	(10,936)
Operating (loss)	(27,344)	(28,702)
Finance cost	(27,059)	(10,158)
<b>Loss for the period before taxation</b>	<b>(54,403)</b>	<b>(38,860)</b>
Taxation - net	(5,569)	(2,328)
<b>Loss for the period after taxation</b>	<b>(59,972)</b>	<b>(41,188)</b>
	----- Rupees -----	
Loss per share	(5.45)	(3.74)

The annexed notes 1 to 11 form an integral part of these financial statements.

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)  
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

	<b>2014 Sept.30</b>	<b>2013 Sept.30</b>
	<b>-----Rupees in '000-----</b>	
<b>Loss for the period after taxation</b>	(59,972)	(41,188)
<b>Other comprehensive income:</b>	-	-
<b>Total comprehensive loss for the period</b>	<u>(59,972)</u>	<u>(41,188)</u>

The annexed notes 1 to 11 form an integral part of these financial statements.

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)  
FOR THE QUARTER ENDED SEPTEMBER 30, 2014

	Note	2014 Sept.30	2013 Sept.30
-----Rupees in '000-----			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss for the year before taxation		(54,403)	(38,860)
<b>Adjustment for non-cash charges and other items:</b>			
Depreciation		27,603	15,883
Gain on disposal of fixed assets - net		(862)	(9)
Provision for slow moving and obsolete stock-in-trade - net		(5,904)	(1,761)
Provision for stents - net		-	138
Impairment of trade debts - net		-	409
Mark-up on finances		27,059	10,158
		47,896	24,818
<b>Operating (deficit) / surplus before working capital changes</b>		(6,507)	(14,042)
<b>Movement in working capital</b>			
<b>Decrease / (increase) in current assets</b>			
Stores and spares		74	(949)
Stock-in-trade		67,009	115,788
Trade debts		33,525	17,835
Loans and advances		(20,381)	2,091
Trade deposits, short-term prepayments and other receivables		(1,424)	(1,003)
		78,803	133,762
<b>(Decrease) / increase in current liabilities</b>			
Trade and other payables		(87,881)	(61,776)
Interest paid		(37,282)	(15,139)
Taxes paid		(15,655)	(31,053)
Increase in long-term deposits		-	(40)
Decrease in long-term loans		56	261
		(52,881)	(45,971)
<b>Net cash (used in) / generated from operating activities</b>		(68,466)	11,973
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		(5,246)	(231,272)
Proceeds from disposal of property, plant and equipment		1,680	33
<b>Net cash used in investing activities</b>		(3,566)	(231,239)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Long-term finance obtained/(paid)		(54,167)	225,000
<b>Net cash generated from financing activities</b>		(54,167)	225,000
<b>Net (decrease) / increase in cash and cash equivalents</b>		(126,199)	5,734
Cash and cash equivalents at the beginning of the period		(553,779)	(362,690)
<b>Cash and cash equivalents at the end of the period</b>	8	(679,978)	(356,956)

The annexed notes 1 to 11 form an integral part of these financial statements.

**Abid Hussain**  
Chief Executive Officer

**Mehtabuddin Feroz**  
Director



CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)  
FOR THE QUARTER ENDED SEPTEMBER 30, 2014

	Issued, subscribed and paid- up capital	Revenue reserves		Sub total	Total
		General reserve	Unappro- priated profit / (loss)		
----- Rupees in '000 -----					
<b>Balance as at July 1, 2013</b>	100,000	377,500	14,445	391,945	491,945
Total comprehensive loss for the period ended September 30, 2013	-	-	(41,188)	(41,188)	(41,188)
<b>Balance as at September 30, 2013</b>	<u>100,000</u>	<u>377,500</u>	<u>(26,743)</u>	<u>350,757</u>	<u>450,757</u>
Balance as at June 30, 2014	110,000	367,500	(187,390)	180,110	290,110
Total comprehensive loss for the period ended September 30, 2014	-	-	(59,972)	(59,972)	(59,972)
<b>Balance as at September 30, 2014</b>	<u>110,000</u>	<u>367,500</u>	<u>(247,362)</u>	<u>120,138</u>	<u>230,138</u>

The annexed notes 1 to 11 form an integral part of these financial statements.



## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2014

### 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

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. The 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, the requirements of 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 said 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, 2014.

#### 2.2 Accounting convention

These financial statements have been prepared under the historical cost convention except that obligations in respect of certain staff retirement benefits are carried at present value of defined benefit obligation less fair value of plan assets and stock-in-trade is 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, 2014.

- 3.1 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, 2014 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	(Un-audited) Sept.30 2014	(Audited) June 30 2014
-----Rupees in '000-----			
<b>4</b>	<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Operating fixed assets	4.1	684,606	704,484
Capital work-in-progress		7,973	11,270
		<u>692,579</u>	<u>715,754</u>

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

	----- Quarter ended September 30, 2014 -----					
	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles		Total
----- Rupees in '000 -----						
Additions	637	6,365	362	1,179	-	8,543
Disposals:						
Cost	-	-	1,830	-	-	1,830
Accumulated depreciation	-	-	(1,012)	-	-	(1,012)
	-	-	818	-	-	818

	----- Quarter ended September 30, 2013 -----					
	Building on leasehold land	Plant and machinery	Furniture, fixtures and equipment	Vehicles		Total
----- Rupees in '000 -----						
Additions	166	483	298	929	-	1,876
Disposals:						
Cost	-	-	-	63	-	63
Accumulated depreciation	-	-	-	(40)	-	(40)
	-	-	-	23	-	23

## 5 CONTINGENCIES AND COMMITMENTS

- 5.1 On March 05, 2014, a notice of demand was served on the Company by the Additional Commissioner Inland Revenue (ACIR) for an amount of Rs 164.778 million under section 122 (5A) of the Income Tax Ordinance, 2001. The ACIR has added back certain items such as exchange loss, claims against provisions and write-offs of inventory & trade debts, disallowance of finance cost, etc. in the income returned for tax year 2012. The Company filed an appeal with the Commissioner Inland Revenue (Appeals) [CIR(A)] who upheld the action of ACIR on certain items against which the Company filed an appeal before the Appellate Tribunal Inland Revenue to review the action of the CIR(A) which is pending adjudication. As on June 30, 2014, no provision has been made in these financial statements in respect of this amount as the management expects a favourable outcome in respect of the above matter.

- 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 (2013: Rs 5.721 million) including additional tax amounting to Rs 0.457 million (2013: Rs 0.457 million) under sections 161, 162 and 205 of the Income Tax Ordinance, 2001. Out of the total demand, Company had already paid an amount of Rs 1.50 million (2013: Rs 1.50 million). The Company had filed an appeal against the order of the DCIT which is pending adjudication. As on June 30, 2014, no provision has been made in these financial statements in respect of the amount of Rs 5.721 million (2013: Rs 5.721 million) as the management is confident that the matter will be decided in favour of the Company.

(Un-audited) (Audited)  
**Sept.30** **June 30**  
**2014** **2014**

5.3 **Commitments represent:**

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

Letters of credit	20,637	8,257
Letters of guarantee	14,520	9,287

6 **TRANSACTIONS WITH RELATED PARTIES**

	(Un-audited) Quarter ended September 30, 2014					(Un-audited) Quarter ended September 30, 2013
	Parent company	Other associated undertakings	Key management personnel	Other related parties	Total	
-----Rupees in '000-----						
<b>Transactions during the period</b>						
Net sales net of discounts allowed Rs 26.708 million (2013: Rs 29.91 million)	-	174,735	-	-	174,735	175,008
Inventory purchased	-	25,652	-	-	25,652	16,253
Consultancy fees	-	-	660	-	660	600
Mark-up expense on short-term loan from a related party	-	108	-	-	108	108
Remuneration of the key management personnel	-	-	17,068	-	17,068	18,037
Charge relating to staff provident fund	-	-	719	-	719	872
Charge relating to staff gratuity fund	-	-	501	-	501	497
-----Rupees in '000-----						
	(Un-audited) Quarter ended September 30, 2014					(Audited) June 30, 2014
	Parent company	Other associated undertakings	Key management personnel	Other related parties	Total	
-----Rupees in '000-----						
<b>Balance outstanding as at the end of the period / year</b>						
Receivable from Hospital Supply Corporation	-	59,062	-	-	59,062	97,807
Advance to Efroze Chemicals Industries (Private) Ltd.	-	11,198	-	-	11,198	11,198
Payable to Otsuka Pharmaceutical Company Limited, Japan	32,950	-	-	-	32,950	65,760
Payable to PT Otsuka Indonesia	-	1,017	-	-	1,017	2,021
Payable to Otsuka OPV Joint Stock Company	-	-	-	-	-	865
Payable to Shanghai Microport Medical (Group) Company Limited	-	21,313	-	-	21,313	24,749
Payable to Otsuka Pharmaceutical Factory, Inc.	-	157	-	-	157	3,499
Payable to Thai Otsuka Pharmaceutical Company Limited, Thailand	-	9,484	-	-	9,484	19,038
Loan from Otsuka Pharmaceutical Factory, Inc.	-	73,095	-	-	73,095	73,095
Advance from key management personnel	-	-	-	1,314	1,314	1,314
Mark up payable on short-term loan from an associated company	-	125	-	-	125	17
Payable to Employees' Provident Fund	-	-	-	-	1,884	1,959
Payable to Employees' Gratuity Fund	-	-	-	-	1,508	5,543
Advance to Otsuka Welfare Clinic	-	-	-	-	-	360

The Company enters into transactions with related parties for the sale of its products, purchase of raw materials, finished goods and spare parts 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. 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.

## 7 SEGMENT INFORMATION

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

- 7.1 Sales from Intravenous Solutions represent 72.11 percent while sales from others represent 27.89 percent (September 30, 2013: 63.15 percent and 36.85 percent) respectively of the total sales of the Company. Sales have been geographically restricted to Pakistan during the current and the prior period.
- 7.2 Sales to Hospital Supply Corporation (a related party of the Company) which is the sole distributor in the southern region was around 50.05 percent during the period ended September 30, 2014 (September 30, 2013: 52.55 percent).
- 7.3 All non-current assets of the Company as at September, 2014 are located in Pakistan.

## 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:

	(Un-audited) Sept.30 2014	(Un-audited) Sept.30 2013
	----Rupees in '000----	
Cash and bank balances	9,511	8,138
Short-term running finance utilised under mark-up arrangements	(689,489)	(365,094)
	<u>(679,978)</u>	<u>(356,956)</u>

## 9 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.

## 10 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on October 22, 2014 by the Board of Directors of the Company.

## 11 GENERAL

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



Otsuka

**A Sign of Japanese Commitment to Better Health**