

DIRECTORS' REPORT

The Directors are pleased to present the Annual Report of the company for the year ended June 30, 2012.

Business Review

The year under review was impacted by two events both of which would have long term impact on the operations of the company and therefore need proper disclosure.

During the current year, Ministry of Health eventually realized the difficulties faced by the infusion solutions manufacturers and allowed one time price increase of 40% on all de-controlled products and 30% on controlled products in April 2012. This was a very wise step on the part of the Government which prevented the ultimate collapse of this vital segment of the health industry. We expect that the Ministry, now Drug Regulatory Authority will continue to make such bold decisions and allow price increases which are in line with the cost increases to enable the manufacturers to survive and invest for the future.

Your company manufacturing facilities have now completed more than twenty years of continuous operations and require major overhauling. We have initiated this exercise and it will be completed over a period of one year.

Based on our new philosophy of having a synchronized production line, we have discontinued production of 1000ml and are only producing 500ml products at our plant. This has resulted in loss of sales revenue during the current year.

Because of price increases and good sales mix, we managed to achieve sales of almost Rs1.6 billion which is 7% higher than the previous year. Sales could have been higher if we had sold out the entire produced quantities. As per planning to address the market we are also holding sizeable inventory.

Gross Profit as % of sales increased from a dismal low of 23.7% last year to 29.2% during the current year. Even this is low compared to industry average as according to Ministry of Health own formula of fixing prices on cost plus 90% basis, Gross Profit % should be at a minimum of 34%. We do hope that in the coming years with the implementation of the above formula by DRA, this percentage will further improve.

During the current year, there has been a marked increase in financial charges. This has been because of our decision to carry inventory of our products with us to meet next years' sales requirements. This is one time increase and will reduce next year as soon as our stocks are sold out. However, during the coming years, interest expense is expected to increase as a result of capital expenditure which will have to be incurred for renovation of our facilities. The amount to be spent on upgrading our facility and machines during the next year is expected to be in the vicinity of four hundred and fifty million Rupees which will be financed by bank loans.

As a result of improved Gross Profit %, Profit before tax increased from a paltry Rs.69.4 million achieved last year to Rs.146.3 million during the current year. In terms of percentage of sales this works out to only 9.2% which is still far below the industry average.

Financial Results

	(PKR in Million)
Profit before taxation	146
Provision for taxation	53
Profit after taxation	<u>94</u>
Accumulated Profit brought forward	13
Profit available for appropriation	<u>107</u>
Appropriations:	
Transfer to revenue reserve	80
Final cash dividend	<u>Nil</u>
Un-appropriated profit carry forward	<u>27</u>

Appropriations

The directors propose to transfer a sum of Rs. 80 million in revenue reserve and keeping in view of liquidity crunch because of increased stocks balance and higher overdraft, the directors purpose Nil dividend for the year ended June 30, 2012.

Earning Per Share

The earning per share for the year ended June 30, 2012 works to Rs. 9.38 per share (2011 Rs. 4.40 per share).

Future Outlook

The future of your company is directly linked to the Government Pricing Policy for infusion solutions. On our part we are investing a significant amount to upgrade and modernize our facilities. However, we are still unable to make fresh investment to increase our capacities. We have been operating at 100% capacity for a number of years and despite our best efforts have been unable to persuade our Head Office to make fresh investment because of lack of uniform and just pricing policy in the country. Unlike other pharmaceutical products, cost of manufacturing infusion products is directly related to oil prices and therefore there is a dire need to deal this group of products separately from other pharmaceutical products. If this is not done there is a growing fear that quality manufacturers of infusion solutions will be weaned out thus increasing the sufferings of the people of Pakistan. As per our information, prices of infusion products even after the recent price increases are among the lowest in the world. We therefore hope that the Government formulates a policy which as a minimum allows manufacturers to increase prices of their products on annual basis based on cost increases. Also where prices are lower than the Governments' own formula of Cost plus 90%, these should be immediately increased in line with the formula.

Corporate Governance

As required under Corporate Governance, the Directors are pleased to confirm the following:

- a. That the financial statements, being presented present fairly its state of affairs, the result of its operating cash flows and changes in equity.
- b. That proper books of accounts of the company have been maintained.
- c. That appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d. That International accounting standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- e. That the system of internal control is sound in design and has been effectively implemented and monitored.

- f. That there are no significant doubts upon the company's ability to continue as a going concern.
- g. That there has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

Key Operating and Financial data

Key operating and financial data of last ten years is annexed with this annual report.

Value of investments of provident and gratuity funds

The following is the value of investments based on respective audited accounts:

Provident Fund	Rs. 87,443,587/-
Gratuity Fund	Rs. 42,017,979/-

Board of Directors

Two changes occurred during the year in the board Mr. Suseno Surjoseputro resigned from the board and Mr. Harry Bagjo has filled the casual vacancy, also he has been appointed as the new Chairman of the Board. The previous Director & Chairman Mr. Minoru Okamoto has retired after completion of his services from the Board and Mr. Kenji Itoh has filled the casual vacancy.

Board Meeting

During the year, five meetings of Board of Directors were held. Attendance by each Director is as follows:

Name of Directors	No. of Meetings attended
Mr. Abid Hussain	5
Mr. Mehtabuddin Feroz	5
Mr. Mohammad Abdullah Feroz	3
Mr. Nazimuddin Feroz	3
Mr. Tariq Mehtab Feroz (Alternate Director)	3
Mr. Mohammad Aslam (Alternate Director)	5
Mr. Hanif Sattar (Alternate Director) *	3
Mr. Habib A. Navaid (Alternate Director)	4
Mr. Sajid Ali Khan (Alternate Director) *	2
* Mr. Hanif Sattar has resigned from services from March 5, 2012 and Mr. Sajid Ali Khan has appointed in place of Mr. Hanif Sattar	
Mr. Minoru Okamoto	1
Mr. Kiyoshi Fukai	1
Mr. Takaharu Imai	None
Mr. Suseno Surjoseputro	None

Pattern of Shareholding

The Pattern of share holding of the Company as at June 30, 2012, is annexed with this annual report.

Trading in Shares

No transactions took place by the Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary and their spouses and minor children during the year.

Holding Company

The Company is an indirect subsidiary of Messrs Otsuka Pharmaceutical Company Limited, which is incorporated in Japan

Subsequent event

No material changes or commitment affecting the financial position of the company have take place between the end of the financial year and the date of this report.

Auditors

The present Auditors Messrs. A.F. Ferguson & Co., Chartered Accountants retire at the conclusion of the 24th Annual General Meeting and, being eligible, offer themselves for reappointment

Acknowledgement

The Board wishes to place on record its appreciation for the untiring efforts of all its employees in taking the company forward.

On behalf of the Board


Abid Hussain
Chief Executive Officer

Karachi

Dated: September 11, 2012

**OTSUKA PAKISTAN LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2012**

	Note	2012	2011
		-----Rupees in '000-----	
Net sales	19	1,594,772	1,495,255
Cost of sales	20	<u>(1,128,322)</u>	<u>(1,141,001)</u>
Gross profit		466,450	354,254
Selling and distribution expenses	21	(209,538)	(191,660)
Administrative and general expenses	22	<u>(75,225)</u>	<u>(63,408)</u>
		181,687	99,186
Other operating income	23	<u>27,342</u>	<u>26,557</u>
		209,029	125,743
Other operating expenses	24	<u>(30,934)</u>	<u>(30,790)</u>
Operating profit		178,095	94,953
Financial charges	25	<u>(31,805)</u>	<u>(25,515)</u>
Profit before taxation		146,290	69,438
Taxation - net	26	<u>(52,538)</u>	<u>(25,434)</u>
Profit after taxation		<u><u>93,752</u></u>	<u><u>44,004</u></u>
		-----Rupees in '000-----	
Earnings per share	27	<u><u>9.38</u></u>	<u><u>4.40</u></u>

The annexed notes 1 to 40 form an integral part of these financial statements.

Chief Executive

Director

OTSUKA PAKISTAN LIMITED
BALANCE SHEET
AS AT JUNE 30, 2012

	Note	2012	2011
		-----Rupees in '000-----	
ASSETS			
Non-current assets			
Property, plant and equipment	4	270,735	282,959
Long-term loans - considered good	5	6,550	5,205
Long-term deposits		743	743
		<u>278,028</u>	<u>288,907</u>
Current assets			
Stores and spares	6	51,409	45,704
Stock-in-trade	7	530,045	267,400
Trade debts - unsecured	8	171,551	165,661
Loans and advances - considered good	9	30,179	23,998
Trade deposits, short-term prepayments and other receivables	10	20,101	14,362
Taxation	11	20,093	25,448
Cash and bank balances	12	5,531	7,940
		828,909	550,513
Total assets		<u><u>1,106,937</u></u>	<u><u>839,420</u></u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	13	100,000	100,000
Revenue reserves		405,074	323,822
Shareholders' equity		<u>505,074</u>	<u>423,822</u>
LIABILITIES			
Non-current liabilities			
Deferred tax liability - net	14	21,023	23,425
Current liabilities			
Trade and other payables	15	256,471	254,594
Short-term running finance - secured	16	318,316	130,424
Mark-up accrued	17	6,053	7,155
		580,840	392,173
Total equity and liabilities		<u><u>1,106,937</u></u>	<u><u>839,420</u></u>
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Chief Executive

Director

OTSUKA PAKISTAN LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2012

	Issued, subscribed and paid-up capital	Revenue reserves			Total
		General reserve	Unappro- priated profit	Sub total	
----- Rupees in '000 -----					
Balance as at June 30, 2010	100,000	227,500	67,318	294,818	394,818
Interim cash dividend @ 15% for the year ended June 30, 2011	-	-	(15,000)	(15,000)	(15,000)
Appropriation to general reserve made subsequent to year end	-	40,000	(40,000)	-	-
Total comprehensive income for the year ended June 30, 2011	-	-	44,004	44,004	44,004
Balance as at June 30, 2011	100,000	267,500	56,322	323,822	423,822
Appropriation to general reserve made subsequent to year end	-	30,000	(30,000)	-	-
Interim cash dividend @ 12.50% for the year ended June 30, 2012	-	-	(12,500)	(12,500)	(12,500)
Total comprehensive income for the year ended June 30, 2012	-	-	93,752	93,752	93,752
Balance as at June 30, 2012	<u>100,000</u>	<u>297,500</u>	<u>107,574</u>	<u>405,074</u>	<u>505,074</u>

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Chief Executive

Director

OTSUKA PAKISTAN LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012	2011
		-----Rupees in '000-----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (used in) / generated from operations	31	(49,070)	126,385
Interest paid		(32,793)	(24,626)
Taxes paid		(49,585)	(49,179)
Increase in long-term loans		(1,345)	588
Net cash (used in) / generated from operating activities		<u>(132,793)</u>	<u>53,168</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		<u>(54,914)</u>	<u>(36,869)</u>
Proceeds from disposal of property, plant and equipment		9,846	5,323
Net cash used in investing activities		<u>(45,068)</u>	<u>(31,546)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		<u>(12,440)</u>	<u>(14,970)</u>
Net cash outflow on financing activities		<u>(12,440)</u>	<u>(14,970)</u>
Net (decrease) / increase in cash and cash equivalents		<u>(190,301)</u>	<u>6,652</u>
Cash and cash equivalents as at the beginning of the year		(122,484)	(129,136)
Cash and cash equivalents as at the end of the year	12.1	<u><u>(312,785)</u></u>	<u><u>(122,484)</u></u>

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Chief Executive

Director