Q3 QUARTERLY REPORT 2012



HIGHNOON LABORATORIES LIMITED

Financial Information

HIGHNOON LABORATORIES LIMITED





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Vision

We at Highnoon Laboratories Limited understand the duties of being responsible corporate citizen and stand true to our conviction and promise to work for the betterment and prosperity of our people.

"Highnoon for a Healthier Nation"

Mission

We strive to maintain excellence in our business practices with the objective to benefit the medical community, consumers, stakeholders and employees; and to improve quality of life by providing quality products.

Corporate Objectives

Excel in meeting customer needs.
Maintain leadership in national pharmaceutical industry.
Gain confidence of Doctors, Pharmacists and Consumers who use our products.
Seek employee involvement, continuous improvement and enhanced performance goals.
Enhance export business.

Company Information

Board of Directors

Mr. Tausif Ahmad Khan
(Chairman)

Mr. Anees Ahmad Khan
(Vice Chairman)

Mr. Baqar Hasan
(Chief Executive Officer)

Mr. Ghulam Hussain Khan
Mr. Shazib Masud
Mr. Taufiq Ahmed Khan
Mst. Siddiqa Begum
Mrs. Zainub Abbas

Chief Financial Officer

Mr. Javed Hussain
Tel: +92(42)37511953
Email: javed@highnoon.com.pk

Company Secretary

Mr. Khadim Hussain Mirza
Tel: +92(42)37510036
Email: khadim@highnoon.com.pk

Bankers
Habib Bank Limited
United Bank Limited
Faysal Bank Limited
Standard Chartered Bank Limited
J.S. Bank Limited
Allied Bank Limited

Registered, Head Office & Plant
17.5 Kilometer Multan Road,
Lahore - 53700, Pakistan
Tel: 111 000 465
Fax: +92 (42) 37510037
E-mail: info@highnoon.com.pk
URL: www.highnoon-labs.com

Legal Advisors
Raja Muhammad Akram & Company

Tax Advisors
Yousuf Islam Associates

Auditors
Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants.

Shares Registrar
Corplink (Pvt) Ltd.
Wings Arcade,
1-K Commercial,
Model Town, Lahore.
Ph: +92 (42) 35839182, 35887262
Fax: +92 (42) 35869637

CHAIRMAN'S REVIEW

On behalf of the Board of Directors, I am pleased to present the financial statements of your Company for the nine months ended 30 September 2012.

The Company continued to consolidate its position and concerted efforts were made to make up the loss of revenue due to reorganization of one of the major Principal. The Company has generated net sales revenue of Rs.1,858.767 million during the period under review compared to Rs.2,146.621 million in the corresponding period last year. I am pleased that despite loss in net sales revenue, the company has been able to maintain same level of profitability. The decrease in sales revenue was largely compensated by improvement in gross margins which increased to 40.19% compared to 33.44 % in the corresponding period. The increase in gross margin is an outcome of improved productivity, efficient sourcing and support from the foreign principals. Administrative expenses were kept under control; however Distribution and Selling expenses increased by 10.42% due to increased focus on promotion of our own brands. Better cash flow management has resulted in decrease in financial expenses, which are likely to reduce further on account of reduction in discount rate and renegotiation of mark up rates from the banks.

The Company continues to upgrade its manufacturing facility. As reported previously, the Company obtained approval to manufacture semi solid preparations and dry powder suspensions. In addition, the hormone facility has been upgraded. The facility is equipped with separate HVAC system for better circulation and complies with good manufacturing guidelines. The company is one of the few companies in the country which has such a facility dedicated entirely for the manufacture of hormonal products.

We as an industry are sensitive to the fact that Pakistan is a developing country and prices of essential pharmaceuticals must remain within limits. We stand with the Pakistani patient and undertake to provide essential medicines at affordable prices. However, the current policy of no price increase is bad for the local industry. We believe a market based pricing policy will bring pricing and quality efficiency in the industry.

On behalf of the Board, I would like to express my sincere gratitude to the Shareholders, Doctors, Pharmacist, Consumers, Business partners and the Bankers for the continued patronage and to the employees and management for their continued, dedicated, untiring efforts and hard work.

For & On behalf of the Board

Lahore: 23 October 2012

Tausif Ahmad Khan
Chairman

CONDENSED INTERIM BALANCE SHEET

	Note	Un Audited 30 September 2012	Audited 31 December 2011
		---------- (Rupees) ----------	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
AUTHORIZED SHARE CAPITAL			
Ordinary shares of Rs. 10 each 20,000,000 (2011: 20,000,000)		**200,000,000**	200,000,000
Share capital		**181,805,170**	181,805,170
Reserves		**413,236,526**	398,712,812
		595,041,696	580,517,982
Surplus on revaluation of fixed assets		**179,560,564**	183,153,055
NON CURRENT LIABILITIES			
Long term loans - secured		**51,428,002**	57,659,470
Liabilities against assets subject to finance lease		**9,664,343**	11,296,272
Long term advances		**20,436,423**	14,942,278
Deferred liabilities		**266,359,580**	265,856,776
		347,888,348	349,754,796
CURRENT LIABILITIES			
Trade and other payables		**185,108,678**	186,673,545
Markup payable on secured loans		**9,034,272**	10,436,070
Short term bank borrowings - secured	5	**197,549,568**	166,291,136
Current portion of long term liabilities		**36,566,955**	80,742,402
		428,259,473	444,143,153
CONTINGENCIES AND COMMITMENTS	6	-	-
TOTAL EQUITY AND LIABILITIES		**1,550,750,081**	1,557,568,986

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

BAQAR HASAN
Chief Executive Officer

AS AT 30 SEPTEMBER 2012

	Note	Un Audited 30 September 2012	Audited 31 December 2011
		---------- (Rupees) ----------	
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	7	**705,700,359**	715,604,221
Intangible assets		**100,565,447**	111,843,817
Long term deposits		**1,562,054**	1,562,054
		807,827,860	829,010,092
CURRENT ASSETS			
Stock in trade	8	**543,202,964**	518,480,424
Trade debts	9	**54,227,339**	55,269,355
Advances, deposits and prepayments		**58,765,815**	51,136,092
Other receivables		**19,657,948**	17,005,240
Income tax - net		**57,368,943**	74,070,798
Cash and bank balances		**9,699,212**	12,596,985
		742,922,221	728,558,894
TOTAL ASSETS		**1,550,750,081**	1,557,568,986

ANEES AHMAD KHAN
Director

CONDENSED INTERIM
PROFIT AND LOSS ACCOUNT (UN AUDITED)
for the nine months ended 30 September 2012

	Note	Nine Months Ended 30 September		Three Months Ended 30 September	
		2012	2011	2012	2011
		---------- (Rupees) ----------		---------- (Rupees) ----------	
Sales - net	10	1,858,766,753	2,146,620,650	633,093,491	681,515,113
Cost of sales	11	1,111,696,547	1,428,770,650	378,271,141	453,608,56
Gross profit		747,070,206	717,850,000	254,822,350	227,906,545
Operating expenses					
Distribution, selling and promotional expenses		458,484,547	415,120,968	155,241,000	126,208,164
Administrative and general expenses		145,622,710	141,463,798	47,139,277	49,673,724
Research and development expenses		6,341,378	5,435,531	3,111,292	1,288,070
Other operating charges		14,077,966	13,618,572	4,211,564	4,125,631
		624,526,601	575,638,869	209,703,133	181,295,589
		122,543,605	142,211,131	45,119,217	46,610,956
Other operating income		14,582,385	5,957,665	604,319	599,166
		137,125,990	148,168,796	45,723,536	47,210,122
Finance cost		38,220,166	57,922,030	11,991,645	13,979,967
Profit before taxation		98,905,824	90,246,766	33,731,891	33,230,155
Taxation		33,433,050	31,586,318	11,129,998	13,101,359
Profit after taxation		65,472,774	58,660,448	22,601,893	20,128,796
Earning per share-basic and diluted		3.60	3.23	1.24	1.11

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

BAQAR HASAN
Chief Executive Officer

ANEES AHMAD KHAN
Director

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN AUDITED)
for the nine months ended 30 September 2012

	Nine Months Ended 30 September	
	2012	2011
	---------- (Rupees) ----------	
Profit after tax for the period	**65,472,774**	58,660,448
Other comprehensive income	-	-
Total comprehensive income for the period	**65,472,774**	58,660,448

Surplus arising on 'revaluation of fixed assets' is presented under a separate head below equity as 'surplus on revaluation of assets' in accordance with the requirements specified by the Securities and Exchange Commission of Pakistan (SECP) vide its S.R.O.45(I)/2003 dated 13 January 2003 and Companies Ordinance, 1984 respectively.

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

BAQAR HASAN
Chief Executive Officer

ANEES AHMAD KHAN
Director

CONDENSED INTERIM CASH FLOW STATEMENT (UN AUDITED)
for the nine months ended 30 September 2012

	Nine Months Ended 30 September	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES	---------- (Rupees) ----------	
Profit before taxation	**98,905,824**	90,246,766
Add/(less): Adjustments for non-cash and other items:		
Depreciation	**47,278,313**	48,715,656
Amortization of intangible assets	**13,283,986**	13,166,418
Gain on sale of property, plant and equipment	**(12,592,661)**	(5,310,869)
Exchange loss	**7,382,359**	6,767,101
Provision for defined benefit obligation	**31,133,425**	31,511,232
Finance cost	**38,220,166**	57,922,030
	124,705,588	152,771,568
Profit before working capital changes	**223,611,412**	243,018,334
WORKING CAPITAL CHANGES		
(Increase)/decrease in current assets:		
Stock in trade	**(24,722,540)**	29,023,859
Trade debts	**1,042,016**	(4,228,785)
Advances, deposits and prepayments	**(7,629,723)**	(12,692,588)
Other receivables	**(2,652,708)**	4,604,051
(decrease) / Increase in current liabilities:		
Trade and other payables	**(15,337,986)**	121,621,995
	(49,300,941)	138,328,532
Cash generated from operations	**174,310,471**	381,346,866
Taxes paid	**(28,676,627)**	(53,150,065)
Gratuity paid	**(18,685,189)**	(9,886,106)
Finance cost paid	**(36,968,803)**	(62,563,140)
Long term advances - net	**(13,197,299)**	11,592,061
Net cash flow from operating activities	**76,782,553**	267,339,616
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed capital expenditures incurred	**(36,299,883)**	(48,910,991)
Intangible assets acquired	**(2,005,616)**	(265,881)
Sale proceeds from disposal of property, plant and equipment	**22,749,588**	11,583,364
Net cash used in investing activities	**(15,555,911)**	(37,593,508)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of finance lease liabilities	**(15,516,589)**	(29,598,158)
Long term loans repayment	**(31,715,471)**	(31,714,646)
Increase/(decrease) Short-term bank borrowings-net	**31,258,432**	(183,196,234)
Dividend paid	**(48,150,787)**	(39,812,974)
Net cash from used in financing activities	**(64,124,415)**	(284,322,012)
Net decrease in cash and cash equivalents	**(2,897,773)**	(54,575,904)
Cash and cash equivalents at beginning of the period	**12,596,985**	63,331,491
Cash and cash equivalents at end of the period	**9,699,212**	8,755,587

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

BAQAR HASAN
Chief Executive Officer

ANEES AHMAD KHAN
Director

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN AUDITED)

for the nine months ended 30 September 2012

	Share Capital	Revenue Reserves			Total
		General	Unappropriated Profit	Sub Total	
	---------- Rupees ----------				
Balance as at 01 January 2011	165,277,431	114,000,000	244,856,438	358,856,438	524,133,869
Final dividend @ Rs. 2.5 per share for the year ended 31 December 2010	-	-	(41,319,358)	(41,319,358)	(41,319,358)
Issuance of Bonus shares @ of 10%	16,527,739	-	(16,527,739)	(16,527,739)	-
Incremental depreciation relating to surplus on revaluation of fixed assets	-	-	3,991,657	3,991,657	3,991,657
Total comprehensive income for the period	-	-	58,660,448	58,660,448	58,660,448
Balance as at 30 September 2011	181,805,170	114,000,000	249,661,446	363,661,446	545,466,616
Balance as at 01 January 2012	181,805,170	114,000,000	284,712,812	398,712,812	580,517,982
Final dividend @ Rs. 3 per share for the year ended 31 December 2011	-	-	(54,541,551)	(54,541,551)	(54,541,551)
Incremental depreciation relating to surplus on revaluation of fixed assets	-	-	3,592,491	3,592,491	3,592,491
Total comprehensive income for the period	-	-	65,472,774	65,472,774	65,472,774
Balance as at 30 September 2012	181,805,170	114,000,000	299,236,526	413,236,526	595,041,696

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

BAQAR HASAN
Chief Executive Officer

ANEES AHMAD KHAN
Director

SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN AUDITED)

for the nine months ended 30 September 2012

1. THE COMPANY AND ITS OPERATIONS

Highnoon Laboratories Limited ('the Company") was incorporated as a private limited company in Pakistan in the year 1984 and converted into an unquoted public limited Company in the year, 1985. Its shares are quoted on all stock exchanges in Pakistan since January 1995. The Company is principally engaged in the manufacture, import and marketing of pharmaceutical and allied consumer products. The Registered office of the Company is situated at 17.5 KM, Multan Road, Lahore.

2. STATEMENT OF COMPLIANCE

2.1 This interim financial report of the Company for the nine months period ended 30 September 2012 has been prepared in accordance with the requirements of the International Accounting Standard 34 - Interim Financial Reporting and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.

2.2 This interim financial information is un-audited and is being submitted to shareholders, as required by section 245 of the Companies Ordinance, 1984.

3. BASIS OF PREPARATION

3.1 This interim financial information does not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 31 December 2011.

3.2 The accounting policies adopted for the preparation of this interim financial inforamtion are the same as those applied in the preparation of the preceeding annual published financial statements of the Company for the year ended 31 December, 2011 axcept for as disclosed in Note 3.3 below.

3.3 The Company has adopted following amended IFRSs which became effective during the period:

- IFRS 7 - Financial Instruments : Disclosures (Amendment)

- IAS 12 - Income Taxes (Amendment) - Recovery of Underlying Assets

The adoption of the above amendments did not have any effect on interim financial information.

4. ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of considensed interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation are the same as those that applied to the annual audited financial statements for the year ended 31 December 2011.

	Un Audited 30 September 2012	Audited 31 December 2011
	(Rupees)	

5. SHORT-TERM BANK BORROWINGS - SECURED

Running finance	**153,253,288**	166,291,136
Import credit	**44,296,280**	-
	197,549,568	166,291,136

6. CONTINGENCIES AND COMMITMENTS

Contingencies:

- There is no significant change in the contigencies since the date of the preceding published annual financial statements.

Commitments:

Commitments against irrevocable letters of credit include:

	Note	Un Audited 30 September 2012	Audited 31 December 2011
		(Rupees in thousands)	
Plant and machinery		**7,793**	-
Raw materials		**106,441**	100,988
Packing materials		**16,592**	17,017

7. PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets - (owned)	7.1	**619,743,701**	642,076,342
Operating fixed assets - (leased)	7.2	**43,795,479**	59,895,164
Capital work-in-progress	7.3	**42,161,179**	13,632,715
		705,700,359	715,604,221

7.1 Operating fixed assets - tangible

Opening book value		**642,076,342**	621,820,377
Add: Additions during the period/year-cost	7.1.1	**7,771,416**	60,256,271
Add: Transfers during the period/year		**20,515,754**	19,157,558
		670,363,512	701,234,206
Less: Deletions during the period/year	7.1.2	**10,156,929**	7,704,481
Less: Depreciation during the period/year		**40,462,882**	51,453,383
		50,619,811	59,157,864
Book value at the end of the period/year		**619,743,701**	642,076,342

	Un Audited 30 September 2012	Audited 31 December 2011
	(Rupees)	

7.1.1 Additions during the period / year - cost

Building on freehold land	-	22,740,078
Plant and Machinery	**139,200**	22,301,411
Laboratory equipment	**2,160,500**	4,712,711
Arms and ammunition	-	60,000
Furniture and fixtures	**85,000**	1,247,460
Electric and gas appliances	**790,318**	198,605
Office equipment	**1,194,898**	2,092,006
Vehicles	**3,401,500**	6,904,000
	7,771,416	60,256,271

7.1.2 Deletions during the period / year

Office equipment	**1,023,109**	318,323
Vehicles	**9,133,820**	7,386,158
	10,156,929	7,704,481

7.2 Assets subject to finance lease

Opening book value	**59,895,164**	75,117,071
Add: Additions during the period / year	**11,231,500**	17,860,500
	71,126,664	92,977,571
Less: Transfers during the period / year	**20,515,754**	19,157,558
Less: Depreciation during the period / year	**6,815,431**	13,924,849
	27,331,185	33,082,407
Book value at the end of the period / year	**43,795,479**	59,895,164

7.3 Capital work in progress

Civil works	**40,650,872**	13,281,988
Plant and machinery - owned	**1,510,307**	350,727
	42,161,179	13,632,715

8. STOCK IN TRADE

Raw materials		
In hand	**225,921,750**	218,192,744
In transit	**32,139,141**	39,165,327
	258,060,890	257,358,071
Packing material		
In hand	**69,957,116**	68,481,126
In transit	**4,791,003**	-
With third party	**130,084**	54,046
	74,878,202	68,535,172
Work in process	**24,221,968**	39,820,419
Finished goods		
In hand	**186,041,903**	152,766,762
	543,202,964	518,480,424

9. TRADE DEBTS-Considered good

These include Rs. Nil (31 December 2011: Rs. 13,670,149) due from related parties.

10. SALES - net

	Un Audited			
	Nine Months Ended		Three Months Ended	
	30 September		30 September	
	2012	2011	2012	2011
	---------- Rupees ----------			
Manufactured products				
Local	1,703,394,820	2,188,170,582	582,545,070	675,451,672
Export	129,687,857	94,993,629	47,147,455	45,531,065
	1,833,082,677	2,283,164,211	629,692,525	720,982,737
Sales compensation	-	7,895,700	-	2,319,275
Purchased products-Local	23,432,807	22,795,530	1,451,924	4,506,420
Third Party (toll manufacturing)	177,149,151	38,814,096	58,292,245	15,156,218
	2,033,664,635	2,352,669,537	689,436,694	742,964,650
Less: Discount	169,993,299	204,227,402	54,345,263	60,673,181
Sales tax	4,904,583	1,821,485	1,997,940	776,356
	174,897,882	206,048,887	56,343,203	61,449,537
	1,858,766,753	2,146,620,650	633,093,491	681,515,113

11. COST OF SALES

Opening stock of finished goods (excluding purchased products)	150,723,607	160,894,949	181,430,321	173,827,148
Cost of goods sold - Manufactured (including toll)	1,121,849,976	1,403,060,546	370,965,293	426,490,470
	1,272,573,583	1,563,955,495	552,395,614	600,317,618
Closing stock of finished goods	(177,124,727)	(150,024,781)	(177,124,727)	(150,024,871)
Cost of sale - Manufactured (including toll)	1,095,448,856	1,413,930,714	375,270,887	450,292,837
Cost of sale Purchased products	16,247,691	14,839,936	3,000,254	3,315,731
Cost of sale	1,111,696,547	1,428,770,650	378,271,141	453,608,568

12. RELATED PARTY TRANSACTIONS

The related parties and associated undertakings comprise of subsidiary, local associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and associated undertakings other than remuneration and benefits to key management personnel under the terms of the employment are stated below:

	Un Audited			
	Nine Months Ended		Three Months Ended	
	30 September		30 September	
	2012	2011	2012	2011
	Rupees			
Sales of goods				
Associated Company	22,393,094	25,780,540	14,068,647	7,853,173
Contribution towards employees' benefits				
Staff provident fund	11,105,165	9,910,742	3,473,162	3,341,008
Employees' welfare trust	905,750	838,495	305,500	324,525

13. GENERAL

13.1 The Board of Directors of the Company authorized the condensed interim financial information for issue on 23 October 2012.

13.2 Provisions in respect of Worker's Welfare Fund, Worker's Profit Participation Fund and Taxation are estimated and these are subject to final adjustment in the annual audited financial statements.

3.3 Figures have been rounded off to the nearest rupees.

BAQAR HASAN
Chief Executive Officer

ANEES AHMAD KHAN
Director

BOOK
POST

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