# The Chairman's Statement

**Dear Shareholders:**

Welcome to the 35th Annual General Meeting of Renata Limited.

Most analysts agree that the pharmaceutical industry of Bangladesh is a genuine success story. This industry produces 97% of the domestic demand for medicines at among the lowest prices in the world. It is the highest employer of white collar workers, and the third largest contributor to the National Exchequer. Moreover, pharmaceutical is one of the few industries in Bangladesh that stands to replicate the export success of ready-made-garments.

Sadly, during much of 2007 we witnessed a disinformation campaign mounted by vested quarters about high drug prices and poor quality of medicines. The protracted nature and viciousness of this propaganda caused the Government to become tentative and overly cautious in its dealings with the pharmaceutical industry.

The allegations about rising drug prices and poor quality were eventually countered by Industry representatives, but not before losing valuable time. During this period Industry focus shifted from exploring and building for long-term growth to merely fighting for survival. Not since 1982 had the Industry witnessed such a crisis of confidence.

Despite such negatives, Renata posted net profit and sales growth of 38.7% and 31.5% respectively. This success, in an unfavourable business climate was largely achieved by making inroads into the market shares of our competitors through very aggressive sales and marketing.

In fact, aggressive sales and marketing is the call of the day for this Industry all over the world. The global product pipeline is quite dry. It is clear that the blockbuster era has come to an end for the moment. The large multinational inventor companies are the primary sufferers of this decline in R&D productivity. Total shareholder returns during 2001-2006 for these companies were but a tiny fraction of the returns for 1995-2006. This situation is unlikely to improve in the near future. During 1996-2006 global R&D investment nearly doubled. Yet, the number of new drugs declined by 60% from 53 in 1996 to 22 in 2006.

The lack of new drugs is also affecting the generic industry. As companies are compelled to look for growth from existing product portfolios, price competition is becoming fierce --- in turn lowering shareholder returns.

Within Bangladesh, this situation will intensify competition further and lower margins. However, the rising global demand for cost-effective medicines is likely to improve prospects for export. In addition, the global contract manufacturing market is expected to reach US$ 30bn by 2010. Bangladesh, with a low-cost base stands a reasonable chance of becoming an important player here, provided that the local factories are able to upgrade to the highest international standards.

In this regard, I am delighted to note that our Potent Product Facility was accredited by the Medicines and Healthcare products Regulatory Agency (MHRA) of the UK. It is the first potent product facility in Bangladesh to receive such recognition.

This certification demonstrates that Renata is capable of building and managing world-class facilities. Furthermore, this success provides us the confidence to build more facilities to access world markets.

I am happy to note that a brand new Cephalosporin Facility has been constructed on our Rajendrapur site. This facility is currently at the commissioning and validation stage. Commercial production is expected to begin in the third quarter of 2008.

Also on the Rajendrapur site, a new penicillin facility is being built. Commissioning is expected by Q1 2009.

The original Mirpur facility is getting a major facelift to enhance capacity as well as improve cGMP compliance. We are on target to complete works by Q4 of 2008.

Financially Renata continues to be strong. Capital expenditure in 2007 was Taka 418 million. The entire amount was generated internally, and moreover the Company remains free of long-term debt. It should also be mentioned that Renata contributed Taka 524 million to the National Exchequer.

Product registrations in ASEAN and African countries are going well. By the end of 2008 we expect to operate in four ASEAN countries. We are also hopeful that the appointment of additional partners in Sri Lanka and Vietnam shall provide a boost to existing exports. Finally, the UK business is poised to begin shortly.

I now take a brief look at our component businesses.

**Animal Health:** Chronic capacity shortages held back our performance. Nevertheless, sales grew by 23.3% compared to market growth of 19.6%. Moreover, we not only retained market leadership but also widened the sales gap with the second largest company in the industry.

Unfortunately, the outlook for 2008 is poor. Avian influenza (AI) has wiped out large poultry populations. It is unlikely that farmers would be confident about restocking unless the current prohibition against AI vaccination is relaxed by the Government.

Adding to gloom is the calamitous rise in vitamin prices. As part of cleaning-up the environment before the Olympic Games, the Chinese Government closed down several key vitamin manufacturing facilities. As a result, there has been up to a 10-fold rise in the prices of some vitamins.

As part of the damage limitation exercise, we shall attempt to increase our market share for large animal therapeutics. However, it is unlikely that de-growth in profits can be avoided.

**Pharmaceutical:** For the second year in a row, the pharmaceutical business notched a stellar performance. Sales grew by 35.9% compared to market growth of 15.8%. Our sales rank also improved from 8$^{th}$ to 7$^{th}$. In addition, we achieved product leadership in certain subclasses of antimicrobial therapy, pain medication, and hormone treatment. Renata is now clearly a formidable force in the domestic market.

The outlook for 2008 is however somewhat tempered. First, there are clear signs that after a hiatus of two years, the Industry is about to witness another round of price wars. Second, the increase in field force sizes in the Industry is approaching mind-numbing dimensions --- adding to expenses. Third, the appreciation of the Indian Rupee and Chinese Yuan are raising raw material costs.

In essence, difficult market conditions are likely to erode margins.

**Contract Manufacturing:** The fall in contract manufacturing revenues was anticipated. Two of our major clients, viz., Eskayef and SMC significantly curtailed their business. However, there is little reason for worry here. Contract manufacturing is subject to fluctuations by nature. Moreover, we expect significant revenues from Sprinkles in the near future. The demand for this novel product is growing worldwide, and as an approved UNICEF source for Sprinkles, Renata is poised to take advantage of this opportunity.

**Conclusion:** The erosion of the Animal Health business is likely to weigh heavily on overall Company performance. In addition, the rising trend in raw material and selling costs is worrying. It is unlikely that we will be able to hold on to the momentum of the last two years. Therefore we are expecting moderate growth in 2008.

S.H. Kabir
Chairman
April 22, 2008