

CHAIRPERSON'S STATEMENT – 2002

On behalf of the Board of Directors of the State Pharmaceuticals Corporation, I am pleased to present the Annual Report together with the Audited Accounts containing the Balance Sheet, Income Statement, Cash Flow Statement and the Auditor's Report for the year ended 31st December 2002. The SPC has almost completed 31 years of dedicated service to the nation at the end of year 2002. It is the sole importer of health care items for the Department of Health Services, which in turn supply those to all the Government Hospitals through out the island. It is also a leading importer of health care items to the private sector and competes with local and international pharmaceutical companies operating in Sri Lanka. SPC is always geared to provide quality assured products to the nation at very reasonable and affordable prices. Hence SPC's presence is vital for stabilizing prices of health care items within Sri Lanka.

FINANCIAL PERFORMANCE

In the thirty one years history of SPC, it has achieved best-ever result during the year 2002. SPC turnover has passed the Rs.2,000 million for the first time and recorded a turnover as Rs.2,007 million for the year 2002. This is an increase of 35% as against the turnover of Rs.1,489 million recorded in year 2001.

On the other hand Net Profit Before Tax has recorded as Rs.375 million in the year 2002, as against Rs.207 million recorded in year 2001. The percentage increase is an extra ordinary 81%.

Both Macro Economic Factors as well as Micro Economic Factors, contributed towards this extra ordinary achievement.

At the Macro level, it was the long awaited peace and the turn around in the economy (turning negative economic growth in year 2001 to positive growth in year 2002). With peace dawning to the country SPC managed to embark successfully to the North & the East Market. This contributed to a great extent in improving sales, followed up with the enhanced profit.

At the Micro Level it was the development and improvement in the infrastructure of the SPC, contributed to the success. This is mainly broad basing the distribution channels, by establishing two new Rajya Osu Salas, (Ampara and Kurunegala) appointing three new Franchise Osu Salas, three new distributors and seven authorized retailers.

SALES & TRADE PROMOTIONS

The promotional activities were given a new lease of life by launching an attractive advertising campaign through the electronic media, coupled with participation and sponsoring many events of the Medical profession.

SOCIAL MARKETING ACTIVITIES

As part of its Social Responsibility, the SPC have embarked on a programme to bring awareness to parents and the youth regarding sexually harassment, discretion, being abused, alcoholism and smoking.

Participation in health clinics particularly in remote inaccessible areas has been a regular feature.

In terms of disseminating information and knowledge, the SPC prints and distributes far among all government doctors a medical journal known as the “Prescriber”.

TECHNICAL & LABORATORIES

The quality assurance laboratory of SPC was accredited as per ISO/7025 during the year. This would invariably guarantee the quality standards of SPC drugs both in the pre market and post market stages.

It is mandatory that all western drugs imported into the country is registered with the Cosmetic Drugs & Devices Authority. While other importers adhere only to this, the SPC goes further. When tenders are called, samples have to be provided, and are tested. There has been several instances where the samples of registered parties have failed and hence their tender being rejected. If the tenderer is a new supplier pre-shipment samples are tested by an independent laboratory chosen by us. Once the goods are received testing is once again carried out prior to their distribution to the general public or the hospitals. Further a post-marketing surveillance is also carried out when the drugs are in circulation in the hospitals or in the private sector

pharmacies. This four stage quality testing in addition to the legally compulsory registration is carried out only at the SPC.

HUMAN RESOURCES MANAGEMENT

The structured training programmes designed by identifying training needs of employees is another contributory factor for the improved performance at the SPC.

ACKNOWLEDGEMENT

I would like to appreciate and commend, the contributions made by all levels of employees, towards this extra-ordinary success in the year 2002. Right through out the year, employee / union / management relationships were maintained at a very cordial level. There were no industrial disputes what so ever. Instead Osu Sala staff was serving the hospital patients, during the strikes among the hospital staff in several occasions.

I take this opportunity to thank the Managing Director and other members of the Board for their in-valuable service and support rendered to me. Also, I would like to commend the officials of the Ministry of Health & Ministry of Finance for their advises, guidance and support.

.....
Sunethra Ranasinghe
CHAIRPERSON

4.3.2003

STATE PHARMACEUTICALS CORPORATION OF SRI LANKA.
BALANCE SHEET AS AT 31ST DECEMBER 2002

	NOTE	2002 RS.	2002 RS.	2001 RS.
ASSETS				
NON- CURRENT ASSETS				
Property Plant and Equipment	6	231,259,469		233,362,002
Investment in Fixed Deposits		-		24,135,347
Other Financial Assets	6	925,863		705,193
			232,185,332	
CURRENT ASSETS				
Inventories	7	384,283,241		312,212,879
Trade & Other receivables	8	2,124,541,974		1,054,522,380
State Pharmaceuticals Manufacturing co.	9	-		36,613,483
Deposit & Prepayments	10	12,470,735		4,333,954
Cash and Cash Equivalents	11	23,676,851		3,512,590
			2,544,972,800	
TOTAL ASSETS			2,777,158,132	
EQUITY AND LIABILITIES				
Capital and Reserves				
Contributed Capital		35,042,000		35,042,000
Advance received for Share Capital		24,013,258		24,013,258
Revaluation Reserves		181,916,680		181,916,680
General Reserves		66,061,447		66,061,447
Grants		5,871,839		5,871,839
Accumulated Profits/(Losses)		443,585,852		269,345,485
			756,491,077	
NON- CURRENT LIABILITIES				
Retirement benefit obligation	12	28,834,534		27,483,658
			28,834,534	
CURRENT LIABILITIES				
Trade and other Payables	13	573,795,388		381,032,548
Short-term loans and borrowings	14	1,418,037,132		678,630,913
			1,991,832,520	
TOTAL EQUITY AND LIABILITIES			2,777,158,132	

.....
SUNETHRA RANASINGHE
CHAIRPERSON

.....
PROF. K.U KAMALGODA
MANAGING DIRECTOR

.....
MAHINDA GAMA
DEPUTY GENERA
- FINANCE

2001 RS.
258,202,542
1,411,195,286
1,669,397,828
582,250,709
27,483,658
1,059,663,461
1,669,397,828

.....
 .GE
 AL MANAGER

STATE PHARMACEUTICALS CORPORATION OF SRI LANKA
INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2002

	NOTE	OSUSALA TRADING ACTIVITIES	O.R.S. ACTIVITIES	BULK TRADING	TOTAL TRADING DHS INDENTING & OTHER ACTIVITIES 2002	TOTAL TRADING DHS INDENTING & OTHER ACTIVITIES 2001
		RS	RS	RS	RS	RS
Revenue		885,492,429	18,322,042	1,103,274,580	2,007,089,051	1,488,718,132
Add						
Transfer to Retail Shops		-	-	254,354,721	254,354,721	247,360,739
		885,492,429	18,322,042	1,357,629,301	2,261,443,772	1,736,078,871
Less						
Cost of sales & Transfers	1	760,175,968	4,946,478	1,188,098,705	1,953,221,151	1,484,281,851
Gross profit from Sales & Transfers		125,316,461	13,375,564	169,530,596	308,222,621	251,797,020
Less						
Provision Unrealized Profit			-	(2,395,637)	(2,395,637)	(2,933,862)
Surplus on DHS Indenting	2		-	428,467,678	428,467,678	316,327,510
Gross Surplus		125,316,461	13,375,564	595,602,637	734,294,662	565,190,668
Less						
Distribution Cost	3	2,695,641	2,271,260	24,673,740	29,640,641	23,592,005
Administrative Expenses	3	66,051,933	4,913,425	165,972,584	236,937,942	215,234,090
Other operating Expenses	3	-	-	364,688	364,688	329,616
Reimbursement of Overheads SPMC					-	(5,436,646)
Profit from Operation		56,568,887	6,190,879	404,591,624	467,351,390	331,471,603
Less						
Finance Cost	3	-	-	101,621,573	101,621,573	135,454,553
Add						
Other Income	4			9,211,297	9,211,297	11,288,561
Profit before Tax		56,568,887	6,190,879	312,181,348	374,941,114	207,305,611
Income tax Expenses		-	-	187,355,098	187,355,098	107,052,663
Profit after Tax		56,568,887	6,190,879	124,826,250	187,586,016	100,252,948
Net Profit from ordinary activities		56,568,887	6,190,879	124,826,250	187,586,016	100,252,948
Less: Extra- ordinary item						
Discontinued Operation -Bandaragama	5			(337,776)	(337,776)	(691,041)
Net Profit for the period		56,568,887	6,190,879	124,488,474	187,248,241	99,561,907

STATE PHARMACEUTICALS CORPORATION OF SRI LANKA
CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2002

	2002 Rs.	2001 Rs.
Cash flow from operating activities		
Net profit before taxation, and extraordinary item	374,941,114	205,888,094
Adjustments for		
Depreciation	16,676,995	15,396,561
Interest received	(710,772)	(6,170,719)
Extra Ordinary item -loss on Bandaragama	(692,874)	
Gratuity Proviton	2,354,131	
Prior year Adjustment	(3,007,873)	
Operation profit before working capital changes	389,560,721	215,113,936
Increase/Decrease in trade and other receivable	(1,070,019,594)	(629,169,015)
Increase/Decrease in Deposit & Prepayments	(8,136,781)	207,265
Increase/Decrease in inventories	(72,070,362)	74,434,525
Increase/Decrease in trade payables	91,229,326	29,080,691
Increase/Decrease in work in progress	(220,670)	7,922,005
Increase/Decrease in S P M C Current a/c	36,613,483	(24,393,368)
Cash generated from operations	(633,043,877)	(326,803,961)
Income tax paid	(85,466,480)	(119,326,186)
Gratuity paid	(1,003,255)	(938,067)
Paid to Consolidation fund	(10,000,000)	(5,000,000)
Cash flow after extraordinary items	(96,469,735)	(125,264,253)
Net cash from operating activities	(729,513,613)	(452,068,214)
Cash flow from investing activities		
Purchase of property,plant and equipment	(14,574,464)	(22,565,067)
Investment on fixed deposit	24,135,347	0
Interest on fixed deposit	710,772	6,170,719
Net Cash used in investing activities	10,271,655	(16,394,348)
Net increase in cash and cash equivalents	(719,241,958)	(468,462,562)
Cash and cash equivalents at beginning of period	(675,173,724)	(206,711,162)
Cash and cash equivalents at end of period (Note A)	(1,394,415,682)	(675,173,724)

Note A : Cash and Cash equivalents

	2002 Rs.	2001 Rs.
Cash in hand & at Bank	23,676,851	3,512,590.00
Bank Overdraft	(1,418,037,132)	(678,630,913.00)
Short-term Loan	(55,401)	(55,401.00)
	(1,394,415,682)	(675,173,724)

ACCOUNTING POLICIES

1 - GENERAL

Basis of Preparation

The Financial Statements are prepared in conformity with generally accepted accounting Principles. And the Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. These are been applied consistently on historical cost basis with no adjustments made for inflationary factors.

Where appropriate significant accounting policies are explained by making notes to the accounts.

2 - COMPARATIVE FIGURES

Where necessary previous year's figures are presented with the current year figures.

3 - ASSETS AND BASES OF THEIR VALUATION

Property Plant and Equipment

The cost of Property Plant and Equipment is the cost of acquisition or construction together with any expenses incurred in bringing the assets to its working condition for its intended use. The property plant and equipment are stated at cost or re-valuation less accumulated depreciation.

Consequent to a decision of Board of Direct are given below.

LOCATION	FREE HOLD LAND (Millions)	BUILDING (Millions)	TOTAL (Millions)
Head office	88.0	27.5	115.0
Osu Sala Colombo - 7	46.5	3.5	50.0
Osu Sala Colombo - 4	10.0	2.5	12.5
Ratmalana Stores Complex	-	15.5	15.5
	144.5	49.0	193.0

Depreciation

Freehold Land is not depreciated. Depreciation is charged on all other property, plant and equipment on the straight-line basis to write off the cost/valuation over the estimated useful life as follows.

	RATE - %	YEARS
Buildings	2.5	40
Motor Vehicles	25	04
Furniture & Fittings	10	10
Equipment	20	05
Plant & Machinery	12.5	08
Bicycles	15	6-7
Computers	25	04
Library Books	20	05

Full year depreciation is provided on property, plant and equipment purchased during the year, and in the year of disposal no depreciation is charged.

Leasehold Properties

Leasehold land and building under operating lease is been depreciated over the effective period of the lease.

Inventories

Inventories have been valued at the lower of cost or net realisable value, whichever is lower. Net realisable value is the estimated selling price in the ordinary course of business less the estimated selling expenses. Under normal operations cost is determined on F.I.F.O. basis. Provision has been made where necessary for obsolete and slow moving stocks.

Trade Debtors & Other Receivables

Debtors are stated at their estimated realisable amount Provision has been made for bad and doubtful debts.

4. LIABILITIES AND PROVISIONS

Liabilities

Current liabilities in the Balance Sheet are those which fallen due for payment on demand or within one year from the Balance Sheet date. Non current liabilities are those balance that fallen due for payment after one year.

Contingencies

There were twenty-two pending court cases including four District court cases at the end of the year.

Retiring Benefits

Provision has been made for retirement gratuities from the first year of service for all permanent employees in conformity with SLAS-16, However, under the payment of Gratuity Act. No 12 of 1983, the liability to an employee arises only on completion of 5 years of continuous service.

Foreign Currency Transactions

Foreign exchange transactions are converted at the rate of exchange prevailing at the date of transaction is effected.

Taxation

Provision of the Inland Revenue Act. No.28 of 1979, and amendment thereon is applied in determining the taxable income/(Loss) of the Corporation

Detail of the Income Tax

2002/2003	187,000,000
Tax Over Provision 2001/2002	1,533,514
	188,533,514

5 - REVENUE RECOGNITION

Revenue is generally accounted on an accrual basis, and is recognised as follows.

On sale of goods when all significant risk and reward of ownership have been transferred to buyer, which normally occurs with the delivery of goods.

6 INCOME STATEMENT

The profit on ordinary activities before tax as shown in the Income statement is after making provision for all known liabilities, and depreciation of Property, Plant and Equipment.

All expenditure incurred in the running of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the Profit/(Loss) for the year. Expenditure incurred for the purpose of acquiring extending or improving assets of a permanent nature by means of which to carry on business or for the purpose of increasing the earning capacity of business, has been treated as capital expenditure

7. SPECIAL TREASURY LEVY

The balance special levy of Rs. 10mn payable by the Corporation for the year 2001 have been waived in return for the Corporation reducing with effect from 1st August 2002. The sale prices of on-hand pharmaceuticals in respect of which the Corporation has already paid Rs 20mn as National Security Levy.

Above settlement has been done by the Corporation on the approval of the Ministry of Finance.