

2014

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ஆண்டறிக்கை
Annual Report



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அரசு மருந்தாக்கற் பொருட்கள் உற்பத்திக் கூட்டுத்தாபனம்
State Pharmaceuticals Manufacturing Corporation of Sri Lanka



සමරු ඵලකයේ සටහන

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පරිත්‍යාගයකි.

1987

நுழைவாயிலில் இருக்கும் பதக்கப் பலகை

இம் முக்கியமான மருந்துகள் தயாரிக்கும் மருந்தாக்கல் கலைகள் நிலையம் யப்பான்
நாட்டிற்கும் இலங்கை சனநாயக சோசலிசக் குடியரசிற்கும்
இடையே இருக்கும் நட்புறவு மற்றும் ஒருமைப்பாட்டின் அடையாளமாக
யப்பான் நாட்டினால்
இலங்கை சனநாயக சோசலிசக் குடியரசிற்கு வழங்கப்பட்ட நன்கொடையாகும்.

1987

Plaque at the entrance

This Pharmaceuticals Formulation Centre for the essential drugs is an outright gift by the
Government of Japan to the Democratic Socialist Republic of Sri Lanka as a
token of friendship and co-operation between Japan & the
Democratic Socialist Republic of Sri Lanka.

1987



Annual Report - 2014

**State Pharmaceuticals Manufacturing Corporation
of Sri Lanka**

CONTENTS

Our Vision & Mission	-	144
Corporate Information	-	145
Establishment of SPMC and Key Objectives	-	146
Chairman's Review	-	147
Directors	-	149
Directors' Report	-	152
Report of the Audit Committee	-	154
Corporate Governance Report	-	155
Our Product Mix	-	157
Statement of Director's Responsibilities	-	158
Statement of Financial Position	-	159
Income Statement	-	160
Statement of Changes in Equity	-	161
Cash Flow Statement	-	162
Corporate Information & Significant Accounting Policies	-	164
Notes to the Accounts	-	171
Auditor General's Report	-	184
Chairman's Comments on Auditor General's Report	-	198
Graphical Review	-	204
Financial Highlights in the past 10 years	-	207

VISION

OUR VISION

To be an internationally recognized,
model manufacturing and
marketing organization for
pharmaceuticals and
health care products in South Asia.

MISSION

OUR MISSION

To manufacture **safe, effective** and
affordable medicinal drugs of superior quality
up to **international standards**
to the
local and international markets.

CORPORATE INFORMATION

NAME OF THE ORGANIZATION

State Pharmaceuticals Manufacturing Corporation of Sri Lanka

LEGAL FORM

Established in 1987 under the State Industrial Corporation Act No. 49 of 1957

DATE OF INCORPORATION

June 04, 1987

REGISTERED OFFICE

11, Sir John Kotelawala Mawatha, Kandawala Estate, Ratmalana, Sri Lanka.

BOARD OF DIRECTORS

Prof. S.D.Jayaratne	-	Chairman
K.D.A.Munasinghe (up to 01.10.2014)	-	Director
Dr. P.G.Maheepala	-	Director
Lalith Senanayake	-	Director
M.R.R.Abeywickrama (up to 03.06.2014)	-	Director
Sisira Jinendra Paranagama	-	Director
Nawaratne Bandara Alahakoon	-	Director
Miyuru Bhashitha Liyanage	-	Director
Jude Nilukshan (from 02.10.2014)	-	Director

AUDITORS

Auditor General, No.306/72, Polduwa Road, Battaramulla.

BANKS

Bank of Ceylon

People's Bank

National Savings Bank

MANAGEMENT COMMITTEE

S.W.Jayasundara	-	General Manager
K.D.A.Kuruppu	-	DGM (Quality Control)
M.D.A.R.Gunaratne	-	DGM (Engineering)
A.G.D.S.Athuraliya	-	DGM (Finance)
H.M.L.S.Dharshana	-	DGM (Planning & Procurement)
S.P.Jayaweera	-	DGM (Production)
H.M.Rathnayake	-	DGM (Formulation cum Research & Development)
S.Jayathillake	-	Acting DGM (Engineering)
V.P.Muthukuda	-	Mgr. (Production)
V.J.Bandarawatte	-	Internal Auditor
R.Gunaratne	-	Mgr. (Human Resources)
A.C.P.Anandakumara	-	Mgr. (Planning & Procurement)
H.K.P.A.Senadheera	-	Mgr. (Quality Control)
Amila Nuwan Hewagama	-	Mgr. (Production)
D.H.J.Gunawardena	-	Mgr. (Engineering)
A.M.T.P.Kulasekara	-	Mgr. (Sales Promotion)
P.Danthanarayana	-	Mgr. (Production)
R.M.R.M.Ranasinghe	-	Mgr. (Formulation cum Research & Development)

AUDIT COMMITTEE

M.R.R.Abeywickrama	-	Chairman (up to 03.06.2014)
K.D.A.Munasinghe	-	Chairman (up to 23.09.2014)
Jude Nilukshan	-	Chairman (from to 02.10.2014)
Lalith Senanayake	-	Member
Miyuru Bhashitha Liyanage	-	Member
Sisira Jinendra Paranagama	-	Member

ESTABLISHMENT OF SPMC & KEY OBJECTIVES

SPMC was established in 1987 under the Industrial Corporation Act No. 49 of 1957.

In 2014, State Pharmaceuticals Manufacturing Corporation completed 27 years of commercial production of essential Medicinal Drugs for the Health care of the Sri Lanka population. SPMC product range consists of 63 products of tablets and capsules. Out of this product range 40 products were actively formulated during the year. SPMC is the only State Sector Corporation engaged in manufacturing pharmaceuticals in Sri Lanka.

The main functions are,

- (1) Manufacturing, processing, stocking, packing and re - packing of drugs.
- (2) Provision of technical know-how of the above operation.
- (3) Pharmacological and pharmaceutical research and the standardization of drugs.
- (4) Marketing of drugs.

All products released to the market meet with our in-house specifications (SPMC) in addition to the British Pharmacopoeias (BP) and United State Pharmacopoeias (USP) requirements.

Implementation of cGMP (current Good Manufacturing Practices) regulations and procedures are regularly monitored through internal quality auditing and factory inspection.

CHAIRMAN'S REVIEW



It is with great pleasure that I, on behalf of the Board of Directors present the Annual Report and Audited Financial Statement comprising the Statement of Financial Position, Income Statement, Cash Flow Statement and Auditor General's report for the year ended 31st December 2014.

State Pharmaceuticals Manufacturing Corporation (SPMC) was established in 1987 under the Industrial Corporation Act No. 49 of 1957 with the commitment to manufacture quality, effective and safe drugs at affordable prices to the public. SPMC is the largest and leading state pharmaceutical manufacturer in Sri Lanka.

At present, SPMC manufactures 63 drugs under the generic names covering a wide range of pharmacological products. All products manufactured by SPMC have the required quality as per British Pharmacopoeia (BP), United State Pharmacopoeia (USP) and SPMC standards. Implementation of current Good Manufacturing Practices (cGMP), regulations and procedures are constantly monitored through internal quality auditing and factory inspection.

The pharmaceuticals manufacturing facility of the SPMC is equipped with modern Japanese, German and Korean machines. The manufacturing facility has an ultra-clean atmosphere and conforms to World Health Organization (WHO) and Good Manufacturing Practice (GMP) requirements.

SPMC products are valued and preferred by doctors, pharmacists and other professionals in the health sector. Our reputation as a manufacturer of quality pharmaceutical products is the key to our success.

PERFORMANCE

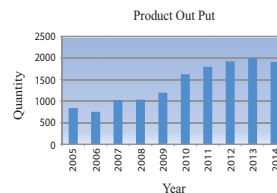
The SPMC delivered a fairly good performance in year 2014.

Graphs below represent the Operating Profit, the Net profit and the Turn Over for the year 2014.



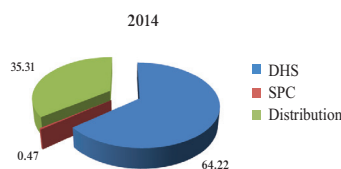
Production Output

The total production out put for the year 2014, amounted to 1909 tablets/capsules million units.



Turnover

Total turnover for the year 2014 amounted to Rs.1,712 million and out of the total sales, 64.20% of the sales were to Medical Supplies Division (MSD) of the Ministry of Health and the balance sales were to State Pharamaceuticals Corporation (SPC) and Private Pharamcies registered with us.



I am happy to note the SPMC has been well managed with its own resources to earn profits without any assistance of the treasury. In fact SPMC has paid Rs.25 million to the Treasury as contribution during the year 2014, fulfilling our responsibility as a public corporation.

DEVELOPMENT WORK

Factory Development

A new packing machine was added to the packing line to increase the production. The factory too was modernized with a state of the technology and the technicians were given adequate job training to work in the modern environment.

Expansion Projects

SPMC has obtained a funding line from JICA for the expansion of the factory which is expected to be completed by 2017. The expected output would increase to 3500 million unit tablets & capsules per annum with the proposed expansion.

Under this expansion programme, SPMC also plans to purchase new machines, refurbish the existing buildings and construct a building for storing raw materials and finished goods.

Quality Improvement

In 2014,03 new High Performance Liquid Chromatography spectrophotometers, UV spectrophotometer, Dissolution Tester and Auto Clave Sterilizer for Microbiology were installed in Quality Control department to support speedy production.

Research and Development

During the year 2014, a product was given formulation approval and four products were given production license. In addition to that, Atorvastatin Tablets IP 10.mg & Clarithromycin Tablets USP 250.mg were manufactured successfully and launched during the year as new products.

HUMAN RESOURCES DEVELOPMENT & WELFARE

SPMC had 235 employees as at 31.12.2014 including 25 Trainees who are engaged on the job training under the guidance of Senior Management of the SPMC for efficient and smooth operation of two shifts. 66 employees were trained through several programmes conducted by local Institutions and 11 employees were trained abroad.

SPMC continued to provide the basic welfare facilities requested by the employees. They were also encouraged to participate in social and welfare events such as Annual Trip, Get together, Sinhala New Year Celebrations and Sports Festival etc.

STRATEGY AND PROSPECTS

Our main aim is to provide an uninterrupted supply of pharmaceuticals required by the Medical Supplies Division (MSD) of Ministry of Health, State Pharmaceutical Corporations (SPC) Pharmacies and medical Professionals. To facilitate this process we have already expanded the building capacity for production, storing area and administration unit. The extension of highly equipped Laboratory area will ensure supplying of high quality drugs at affordable prices to the needy people in Sri Lanka.

This expansion will support us to improve the production, increase sales revenue, widen the products range and create new employment opportunities, enhance technical know-how and create a corporate image for SPMC.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I thank the Hon. Minister of Health Mr. Maithripala Sirisena, for his continued dedication to the progress of the Pharmaceutical Industries in Sri Lanka. We also value the guidance provided by the Secretary of the Ministry of Health Dr. Nihal Jayathilake and other officials of the Ministry of Health.

We also appreciate the contribution made by the officials of the various Departments of General Treasury.

It is a pleasure to note with gratitude that we had an excellent relationship with the State Pharmaceuticals Corporation (SPC), Medical Supplies Division (MSD), Pharmacies and medical professionals who contributed enormously to the success of our Corporation.

The commitment of the Managing Director, General Manager, Senior Managers, Executive Staff and all levels of employees of the SPMC in achieving positive results during the year 2014 is greatly appreciated.

Finally, I must thank the Board of Directors for their valuable contribution and guidance in steering corporation towards success.

Prof. S.D.Jayarathne

Chairman

State Pharmaceuticals Manufacturing Corporation of Sri Lanka

28th February 2014

DIRECTORS

Prof. S.D.Jayaratne - Chairman

Prof. S.D.Jayaratne is the Professor in Department of Medicine, University of Sri Jayawardenapura. Honorary consultant Physician, Colombo South Teaching Hospital and Chairman of the State Pharmaceuticals Corporation of Sri Lanka.

He holds F.R.C.P (London), M.D (Sri Lanka), M.R.C.P (UK), M.B.B.S (Ceylon) and the board certified as a specialist in General Medicine by the post Graduate Institute of Medicine Sri Lanka.

He also serves as the member of Ceylon Medical Council (Regd. No.6319), full registration in General Medical Council of UK, Life member of Ceylon Collage of Physicians and member of Gastroenterological and Endoscopic Society of Sri Lanka.

Dr. P.G.Maheepala – Director

Dr. P.G.Mahipala currently the Director General – Health Services of Ministry of Health.

He holds F.C.M.A, D.B.S, D.mgt D.D.M, D.E.D, M.B.A, M.D, M.Sc, and M.B.B.S (Ceylon).

He also served as Medical Officer of Health in Morawaka (Matara District) in 1995, District Medical Officer Base Hospital Matara in 1992, Medical Officer (Maternal & Child Health) – Galle District in 1995, Regional Director of Health Services – Hambantota RDHS office in 1995 – 1996, Director – Teaching Hospital Colombo North 1997 – 1998, Director – Territory care services – Ministry of Health in 1998, Acting Director of Medical Services – Ministry of Health 1998 – 2003, Acting Director – Mental Health – Ministry of Health in 2004, Acting Director (MSD) – Ministry of Health and Deputy Director General (Public Health Services) Ministry of Health in 2006 – 2010.

S. M. N. Lalith Senanayake – Director

Mr. Lalith Senanayake is a Chartered Accountant by Profession. Currently senior partner of the Tudor V. Perera & Co. Chartered Accountants, Director of Financial Consultants & Allied Services (Pvt) Ltd, Director of State Pharmaceuticals Corporation of Sri Lanka and Director of Central Engineering Consultancy Bureau.

He holds a fellow member of the Institute of Chartered Accountants of Sri Lanka, Bachelor of Science (Public Administration) Special degree – University of Sri Jayawardenapura and Higher National Diploma in Management Studies of the Open University of Sri Lanka.

He had held the posts of the Director State Timber Corporation, Director Ceylon Fertilizer Company Limited and the Director of the Paddy Marketing Board.

M.R.R.Abeyawickrama – Director

Mrs. M R R Abeywickrama is presently attached to the Department of National Budget of the Ministry of Finance and Planning in the Capacity of an Additional Director General and handling the health budget in the Department.

She joined the Sri Lanka Planning Service in 1994 and worked in the public services to date and held the posts of Assistant Director and Deputy Director in the departments of National Planning, Fiscal Policy and National Budget of the Ministry of Finance & Planning since 1994 – 2013. She has accumulated extensive experience in health financing and planning in the General Treasury.

She holds MSc in Health Economics and Health Policy (UK), Postgraduate Diploma in Economic Development (Colombo), LLB (OUSL) and BCom (Hon) (Colombo).

She serves as a Board of Director of the Wijaya Kumaratunga Memorial Hospital, Ayurveda Medical Council and Institute of Indigenous Medicine.

Sisira Jinendra Paranagama – Director

Mr.Sisira Jinendra Paranagama currently serves to the Board of Directors of State Pharmaceuticals Manufacturing Corporation.

He holds a Marketing Degree and he serves as a Vice Chairman of Ministry of Re – Settlement, Director of Sri Jayawardenapura Hospital, Member of the Sri Lanka Management Council and currently he is the Basnayake Nilame of the Maha Saman Dewalaya, Balangoda.

Nawaratne Bandara Alahakoon – Director

Mr.Nawaratne Bandara Alahakoon is retired Manager at Bank of Ceylon and currently the Chairman of the Local Visiting Committee of the Polonnaruwa District and also the Director of the Polonnaruwa District Rural Bank Society of the Ministry of Co-op Development.

He holds BA degree in Ceylon University and Entrepreneurships Diploma in Open University.

He is a retired Bank Manager and has joined to the banking services in year 1973 and had held the posts of Chairman – Polonnaruwa Co-operative Society (1983), Chairman – Rajarata Bus Company Limited (2005-2007), Director – Mahaweli Engineering Company Limited (2006-2007 Ministry of Land & Irrigation), Director – Agriculture Insurance Board (2007-2008 Ministry of Agricultural Service), Working Director – Thamankaduwa Fertilizer Company Limited (2007-2008 Ministry of Agriculture & Agricultural service) and Working Director – Ceylon Fertilizer Company Limited (2008-2010 Ministry of Agriculture & Agricultural service).

Miyuru Bhashitha Liyanage – Director

Mr. Miyuru Bhashitha Liyanage currently serves as the Coordinating Secretary to the Hon. Minister Maithreepala Sirisena, Chairman & Managing Director of Sarasa Group of Companies, Consultant in Journalism and Consultant in Police and Public Relations (External).

He holds special degree in Mass Communication, Higher Diploma of Fine Arts in Bellwood, Diploma in Business Management at NIBM, Diploma in Writership & Mass Communication at Sri Jayawardenapura University of Sri Lanka, Diploma in Journalism in Colombo University (2012), Certificate course in Writership and Mass Communication at Open University of Sri Lanka and at present he is following a post Graduate Diploma in Journalism & Masters in Mass Media Studies at Colombo University.

He worked as Journalist and Programme Presenter at Television and Radio.

K. D. Anoja Munasinghe – Director (Up to 01.10.2014)

Ms. K. D. Anoja Munasinghe currently the Director – Planning of Ministry of Hill Country New Villages, Infrastructure and Community Development.

She holds M.A. in Education and International Development, Institute of Education, University of London UK, Postgraduate Diploma in Sub National Level Development Planning, University of Colombo, Master of Science – Agricultural Biology, Postgraduate Institute of Agricultural, University of Peradeniya and B.Sc in Agriculture (Hons.), Faculty of Agriculture, University of Peradeniya.

She also served as Director (Planning) Ministry of Indigenous Medicine, Additional Director General (Fiscal Responsibility/Governance), Additional Director General, Department of Project Management and Monitoring, Director, Department of National Planning, Director, Department of Management Services, Director and Deputy Director, Department of National Budget, Ministry of Finance and Planning.

Jude Nilukshan – Director (From 02.10.2014)

Mr. Jude Nilukshan is presently attached to the Office of the Cabinet of Ministers as a capacity of Senior Assistant Secretary.

He joined the Sri Lanka Administration service and worked in the Public service and held the posts of Assistant Director, Deputy Director & Director - Budget, National Budget Department of General Treasury, Director & Director Excise Tax, Sri Lanka Customs, Assistant Secretary, Ministry of Finance and Planning and SLAS Cadet Officer, SLIDA, Ministry of Public Administration.

He holds MA in International Trade and Economic Cooperation (South Korea), B.Sc Management (Second Class Upper Division) University of Sri Jayawardenapura, Certificate of Public Administration (SLIDA), Advance Certificate in General Management (SLIDA) and several other trainings from reputed International Universities & Local Institutions.

He served as a Board of Director of the National Botanical Gardens Trust Fund, Independent Television Network Ltd (ITN), Marine Environment Protection Authority, National Building Research Organization (NBRO), etc.

DIRECTORS REPORT

The Directors have pleasure in forwarding their Report and Audited Accounts for the year ended 31st December 2014. The Accounts are set out on pages 159 – 183.

PRINCIPAL ACTIVITIES

The principal activities of the Corporation are,

- Manufacturing, processing, stocking, packing and re - packing of drugs.
- Provision of technical know-how of the above operation.
- Pharmacological and pharmaceutical research and the standardization of drugs
- Marketing of drugs.

There were no significant changes in the nature of the activities of the Corporation during the year.

REVIEW OF BUSINESS

The state of affairs of the Corporation as at 31st December 2014 is set out in the balance sheet on page 159.

An assessment of the corporation during the financial year is given in the Chairman's Review on pages 147 & 148.

TURNOVER & RESULTS

The Turnover, results for the year and the changes in the equity are set out in the income statement on page 160 and the statement of changes in equity on page 161 respectively.

FUTURE DEVELOPMENT

Future developments in business are given in the Chairman's Review on pages 147 & 148.

DONATIONS

During the year, no donations have been made by the Corporation.

PROPERTY, PLANT & EQUIPMENT

The movements in property, plant & equipment during the year are set out in Note 1 in the financial statement on page 171.

DIVIDEND / CONTRIBUTION

The Directors recommended and made a payment of Rs.25,000,000.00 by way of dividends to the consolidated Fund of the General Treasury.

RESERVES

Total Reserves of the Corporation and their composition have been given in the statement of changes in equity on page 161 in the financial statements.

DIRECTORS

The Board consists of six Directors, whom are appointed by the Minister of Health. One of the Directors is the Finance Ministry representative and the other is representing Ministry of Health.

NEW BOARD OF DIRECTORS

New Directors of the Board were appointed from the month of May 2013.

During the period, the Board of Directors had held twelve meetings. The Chairman and the Board of Directors take the responsibility for the affairs of the Corporation for the related period.

Prof. S.D.Jayaratne	-	Chairman	
Dr. P.G.Maheepala	-	Director	- Health Ministry Representative
Lalith Senanayake	-	Director	
M.R.R.Abeywickrama (up to 03.06.2014)	-	Director	- Finance Ministry Representative
Sisira Jinendra Paranagama	-	Director	
Nawaratne Bandara Alahakoon	-	Director	
Miyuru Bashitha Liyanage	-	Director	
K.D.A.Munasinghe (up to 01.10.2014)	-	Director	- Finance Ministry Representative
Jude Nilukshan (from 02.10.2014)	-	Director	- Finance Ministry Representative

ACCOUNTING POLICIES

The principal accounting policies of the Corporation are set out on pages 164 to 170.

ENVIRONMENTAL PROTECTION

It is the responsibility of the corporation to operate in a manner that will not have a detrimental effect on the environment and to provide products of the highest quality that have a beneficial effect for our customers and the communities within which we operate.

STATUTORY PAYMENTS

All statutory payments to the government and the employees have been made at the balance sheet date.

EVENTS AFTER BALANCE SHEET DATE

No events have occurred since the balance sheet date, which would require adjustments to, or disclosure in, the financial statements.

GOING CONCERN

The Financial Statements are prepared based on the going concern concept. The Board of Directors satisfied that the Corporation has adequate resources to continue its operations in the foreseeable future.

APPOINTMENT OF AUDITORS

In terms of the provision of Finance Act 1971, the Auditor General is the Auditor of the Corporation and had carried out his annual audit of the financial activities of the Corporation for the year ended 31st December 2014.

Prof. S.D.Jayaratne

Chairman

State Pharmaceuticals Manufacturing Corporation

REPORT OF THE AUDIT COMMITTEE - 2014

The Audit Committee constitutes in accordance with the provisions of the Public Enterprise Circular No. PED 55 of 14.12.2010.

The Audit Committee should assist the Board in the task of overseeing to ensure that financial reporting is done in compliance with relevant Sri Lanka Accounting Standards and other applicable legal requirements, to ensure that all relevant rules and regulations and circulars issued by the government are complied with continuously reviewing and monitoring making recommendations to the board on non-compliance, review the internal /external audit reports, management letters and recommendations of COPE, help the Board to take remedial actions, to introduce and implement adequate internal control systems.

The Audit Committee comprises four non – Executive Directors of the Corporation and chaired by the Director representing the Treasury.

Auditor General's Department representative participated as an observer as per the above Circular and Chief Internal Auditor of the Ministry of Health also participated as an observer as appointed by the Ministry of Health.

During the financial year 2014, five (05) Audit Committee meetings were held.

In the year 2014, the Committee

- Paid attention for the issue of Annual Reports for the year 2012 and 2013.
- Considered the Internal Audit reports, covering the nature of the issues, responses by the Departmental Heads and corrective actions that were taken by the Management to overcome the noted deficiencies.
- Reviewed & made suitable recommendations about several internal control systems in the areas of Stores & Inventories, Sales, Raw Material purchasing ,Finance, Human Resource such as interdepartmental transactions in order to ensure the smooth operations of the Corporation.
- Reviewed the follow up actions taken by the respective Manager / Officer on the recommendations of the Committee.
- Considered the recommendations made by Audit Committee Minutes of Health Ministry.
- Reviewed the Auditor General's Report - 2013 and made follow up actions for rectifying accounting deficiencies and non-compliance of rules mentioned therein.
- Considered the recommendations made by Ministry of Finance and Planning with regard to Auditor General Report – 2012 and Annual Report relevant to year 2013.
- Considered the comments presented by the Management of the Corporation on the matters raised by the Auditor General.
- Reviewed the Budget and capital Budget 2014.
- Reviewed the Financial Statements for the year ended 31.12.2013
- Paid due attention for monitoring of information generated by Enterprise Resource Planning system (ERP).
- Reviewed the recommendation made by Sri Lanka Accounting and Auditing Standards Monitoring Board. (SLAASMB)

The Audit Committee is of the opinion that terms of reference of the Committee cover the subjects in all material aspects.

Audit Committee Members

M R R Abhayawickrama	- Chairperson	- Director - SPMC/Treasury Representative (Up to 03.06.2014)
K D A Munasinghe	- Chairperson	- Director-SPMC/Treasury Representative (From 04.06.2014 to 23.09.2014)
Jude Nilukshan	- Chairperson	- Director-SPMC/Treasury Representative (From 02.10.2014)
Lalith Senanayake	- Member	- Director-SPMC
Miyuru Bhashitha Liyanage	- Member	- Director-SPMC
Sisira Jinendra Paranagama	- Member	- Director-SPMC

Jude Nilukshan

Chairperson – Audit Committee

10.09.2015

CORPORATE GOVERNANCE REPORT

Corporate Governance is the system by which companies are directed & controlled by the Management in the best interest of the stakeholders (investors, employees, suppliers, consumers, government & public) ensuring greater transparency, better and timely Financial reporting.

Board of Directors is responsible for the Governance of the Corporation.

DIRECTORS

The Board comprises professional and experienced persons from Engineering, Management, Pharmacology, Medicine, Marketing, Financial and Administration sectors.

The Board of Directors consists of one Executive Director who is the Chairman and six non-Executive Directors.

The Board meets monthly intervals and in addition special meetings are also arranged as required, unless otherwise in the event of parliament has been dissolved or Board has not been appointed by Hon. Minister.

During the period under review, twelve board meetings were held.

MANAGEMENT COMMITTEE

Corporate Management Committee is headed by Chairman of the Corporation. The Committee comprises Heads and Deputy Heads of the Departments of the Corporation.

Management Committee makes decisions on day to day operations of the Corporation, implements the policy decision and strategic objectives as well as makes recommendations as necessary for Board of Directors to take policy decisions.

Management Committee meets at monthly intervals.

AUDIT COMMITTEE

Audit Committee is constituted in accordance with the 'Public Enterprises Guideline for Good Governance' and Public Finance Circulars.

The Audit Committee is appointed by the Board and comprises four non – executive Directors of the Corporation. Director who represents Ministry of Finance chairs the Committee.

The Audit Committee independently examines and evaluates the activities of the Corporation. Internal Audit function carried out in accordance with "Internal Audit Plan" is approved by the Audit Committee with the notification of the Auditor General.

During the period under review, five Audit Committee meetings were held.

Audit Committee Report is set out in page 154.

INVESTOR'S RELATIONSHIP & PUBLIC ACCOUNTABILITY

Public Enterprises are established, owned and operated by the Government on behalf of the Public.

Therefore Board of Directors and Managers of the Corporation are responsible for managing the enterprises to the Ministry of Health as line Ministry and the General Treasury of the Finance Ministry.

Annual Report, Annual Accounts, Annual Budgets, Quarterly Performance Reports are forwarded to the same authorities, fulfilling the above responsibility.

Throughout the democratic world, Parliament, consisting of elected representatives of the people, has been accepted as the ultimate authority on public Finance.

Annual Report which embodies the performance of the Corporation, Financial Statements, and Auditor General's Report is tabled in parliament for review by the Members of Parliament.

Being a Public Enterprise, the Corporation is also accountable for the "Committee for Public Enterprises" (COPE) of Parliament.

REMUNERATION POLICY

Corporation's remuneration policy is set out on the recommendations of the Management Services Department of the General Treasury.

Director's allowances and perquisites are decided and paid in accordance with the applicable circulars in relation to allowances and perquisites of directors of Corporations issued by the General Treasury.

Employees' salaries are paid on salary scales prepared by Corporation, based on Public Administration salary scales with the approval of the Department of Management Services of the General Treasury.

A performance incentive scheme is in place to link rewards directly to the performance.

INTERNAL CONTROL

The Board has responsibility to ensure that Corporation maintains a system of Internal Control, which is designed to provide reasonable assurance that all transaction entered into by the Corporation are properly authorized, recorded & reported.

Functional Organization Structure is in operation. Departments are designed with defined activities such as Production, Quality Control, Maintenance, Finance, Planning, and Formulation Research & Development & Marketing.

Heads of each Department directly report to the General Manager who is the chief operating officer of the Corporation.

General Manager reports to the Managing Director, Chairman & the Board of Directors.

Internal Control system is augmented by the internal Audit function. The Internal Auditor reports direct to the

Chairman of the Corporation and Audit Committee, thereby strengthening the independence of the Internal Auditor.

Competitive Tender procedure for procurement process is followed by the corporation in order to maintain the transparency of the transactions and thereby giving equal opportunities to interested parties.

The Annual Budget which includes the capital budget are approved by the Board and forwarded to Ministries of Health and Finance.

OUR PRODUCT MIX

Item Wise Product Quantity in Million Units of Tablets/Capsules

Products	Quantity In Mn. Units	Products	Quantity In Mn. Units
Aluminium Hydro.Tab. BP 500mg	0.912	Frusemide Tab. BP 40mg	42.000
Amoxicillin Tab. USP 125mg	10.000	Gliclazide Tablets BP 80mg	17.500
Amoxycillin Cap. BP 250mg	90.300	Indomethacin Cap. BP 25mg	14.000
Amoxycillin Cap. BP 500mg	15.225	Losartan Potassium Tablets 50mg	0.812
Atenolol Tab. BP 50 mg	14.400	Mebendazole Tab. USP 500mg	0.640
Benzhexol Tab. BP 2mg	60.000	Mebendazole Tab. USP 100mg	45.000
Carbamazepine Tab. BP 200mg	15.250	Metformin Tab. BP 500mg	108.501
Cimetidine Tab. BP 200mg	4.160	Paracetamol Tab. BP 500mg	252.000
Cloxacillin Cap. BP 250mg	101.500	Phenoxyethylpenicillin Tab. BP 250mg	24.800
Cloxacillin Cap. BP 500mg	20.475	Prednisolone Tab. BP 5mg	145.600
Co-Trimoxazole Tab. BP 480mg (Adult)	9.000	Propranolol Tab. BP 40mg	22.000
Diclofenac Sodium Tab.USP 50mg	104.870	Salbutamol Tab. BP 2mg	122.400
Diethylcarbamazine Tab. BP 50mg	8.100	Salbutamol Tab. BP 4mg	12.000
Diethylcarbamazine Tab. BP 100mg	2.250	Spiranolactone Tab. USP 25mg	2.400
Diltiazem HCL Tablets 60mg	20.250	Theophylline Tab. ER USP 125mg	22.400
Enalapril Maleate Tablets USP 5mg	58.400	Trifluoperazine Tab. BP 5mg	3.750
Erythromycin Stearate Tab. BP 250mg	12.000	Verapamil Tab. BP 40mg.	26.400
Folic Acid Tab. BP 1mg	321.750	Vitamin B Tab. CHF	114.800
Famotidine Tablets USP 20mg	55.350	Vitamin B Complex Strong Tab. BPC	8.000

PRODUCTS TO BE LAUNCHED - 2015

- Losartan Potassium Tablets 50mg
- Gliclazide Tablets USP 40mg
- Tolbutamide Tablets BP 500mg
- Metronidazole Tablets USP 200mg
- Domperidone Tablets BP 10mg

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The responsibilities of directors, in relation to the financial statements, differ from responsibilities of the Auditors, which are set out in the Report of the Auditor General on pages 184 - 197.

Under the Financial Act No.38 of 1971, a public corporation shall cause proper accounts of the income and expenditure, assets and liabilities and of all other transactions of the corporation to be kept. A Public corporation shall prepare an annual statement of accounts and statistics relating to the activities of the corporation in such form and containing such particulars.

The Board of Directors has a statutory responsibility in the stewardship of the enterprise on behalf of the Government and stakeholders, they are responsible for ensuring that the corporation keep sufficient accounting records to disclose with reasonable accuracy the financial position of the corporation and for ensuring that the financial statements have been prepared and presented in accordance with Sri Lanka Accounting Standards and provide the information required by the Finance Act No.38 of 1971 and the directors continue to adopt the going concern basis in preparing the financial statements.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the corporation and in this regard to give proper consideration to the establishment of appropriate internal control systems comprising of internal audit, internal checks and financial reviews and detect fraud and irregularities.

Under the financial Act No. 38 of 1971, the Auditor General has examined the financial statements made available by the Board of Directors together with all the financial records and related data and expressed their opinions which appears as reported on page 184 - 197 of this report.

State Pharmaceuticals Manufacturing Corporation of Sri Lanka


STATEMENT OF FINANCIAL POSITION

As at 31.12.2014

(All amounts in Sri Lankan Rupees)

	Note	As at 31.12.2014	As at 31.12.2013
ASSETS			
Non Current Assets			
Property, Plant and Equipment	01	780,718,672	762,641,198
Intangible Assets	02	887,877	1,078,000
Other Non Current Assets	03	537,630	376,105
Work in Progress - Construction		1,001,934	935,067
Current Assets			
Inventories	04	532,554,618	561,248,472
Trade and Other Receivables	05	126,060,884	493,222,377
Prepayments	06	29,383,871	36,045,173
Other Financial Assets	07	913,443,179	429,896,526
Cash In Hand & At Bank	08	1,861,210	8,670,818
		1,603,303,763	1,529,083,367
Total Assets		2,386,449,875	2,294,113,736
EQUITY AND LIABILITIES			
Authorised Capital		850,000,000	850,000,000
Stated Capital	09	690,079,000	690,079,000
Retained Earnings		1,394,574,735	1,247,527,043
Total Equity		2,084,653,735	1,937,606,043
Non Current Liabilities			
Employee Benefit Liabilities		36,717,591	22,414,958
Deferred Tax Liability	10	126,369,007	140,956,542
		163,086,598	163,371,500
Current Liabilities			
Trade and Other Payables	11	92,689,682	79,693,150
Tax Payable		46,019,860	113,443,043
		138,709,542	193,136,193
Total Equity and Liabilities		2,386,449,875	2,294,113,736

The Accounting Policies on Pages 164 to 170 from and integral part of these financial statements. The Board of Directors are responsible for the operation & presentation of these financial statements. These financial statements are presented to Auditor General's department pending board of directors approval & signed on their behalf.

Chairman : Director : 

Date : 21.07.2015

DGM Finance : 

State Pharmaceuticals Manufacturing Corporation of Sri Lanka

STATEMENT OF INCOME

For the Year ended 31st December 2014

(All amounts in Sri Lankan Rupees)

	Note	For the year 2014	For the year 2013
Revenue	12	1,712,105,976	1,941,182,950
Cost of Sales	13	(1,319,715,006)	(1,513,899,412)
Gross Profit		392,390,970	427,283,538
Other Operating Income	14	6,514,655	5,983,263
Administrative Expenses	15	(133,933,461)	(106,096,193)
Selling & Distribution Expenses	16	(33,835,318)	(21,308,804)
Other Operating Expenses	17	(6,378,498)	(1,685,541)
Operating Profit		224,758,348	304,176,264
Finance Cost	18	(2,473,946)	(2,266,464)
Finance Income	19	44,196,991	28,059,081
Profit Before Tax		266,481,394	329,968,881
Tax Expenses	20	(82,632,711)	(120,814,029)
Profit for the Year		183,848,683	209,154,852
Statement of Comprehensive Income			
(-) Transitional Liability		-	(486,083)
(-) Experience Gain/Loss		(2,729,111)	(1,067,318)
Gain/Loss Due to Changes in Assumptions		(9,071,880)	-
Income Tax on Other Comprehensive Income		-	-
Other Comprehensive Income for the Year, Net of Tax		(11,800,991)	(1,553,401)
Total Comprehensive Income for the Year, Net of Tax		172,047,692	207,601,451

State Pharmaceuticals Manufacturing Corporation of Sri Lanka

CHANGES IN EQUITY STATEMENT

For the Year ended 31st December 2014

(All amounts in Sri Lankan Rupees)

	Stated Capital	Profit / (Loss)	Total
Balance as at 01.01.2013	690,079,000	1,059,925,592	1,750,004,592
Total Comprehensive Income	-	207,601,451	207,601,451
Contribution to Treasury	-	(20,000,000)	(20,000,000)
Balance as at 31.12.2013	690,079,000	1,247,527,043	1,937,606,043
Balance as at 01.01.2014	690,079,000	1,247,527,043	1,937,606,043
Total Comprehensive Income	-	172,047,692	172,047,692
Contribution to Treasury	-	(25,000,000)	(25,000,000)
Balance as at 31.12.2014	690,079,000	1,394,574,735	2,084,653,735

State Pharmaceuticals Manufacturing Corporation of Sri Lanka

CASH FLOW STATEMENT

for the Year ended 31.12.2014

(All amounts in Sri Lankan Rupees)

	For the year 2014	For the year 2013
Cash Flows from Operating Activities		
Net Profit/(Loss) before taxation & extraordinary items	266,481,394	329,968,881
Adjustments for :		
Depreciation on Fixed Assets	122,993,394	117,542,273
Current Service Cost	1,503,571	1,339,232
Employee Interest Cost	2,241,493	1,847,603
Profit / (Loss) on Disposal	(5,386)	87,463
Loss on Tools Written off	-	68,468
Cost of Damaged & Unused	12,794,736	332,154
Deferred Income	-	(14,263)
Interest Income	(40,646,708)	(25,314,785)
Operating Profit before Working Capital Changes	365,362,494	425,857,026
Changes in items of Working Capital		
(Increase) / Decrease in Inventories	28,693,854	86,311,094
(Increase) / Decrease in Debtors & Receivables	367,161,493	(199,848,664)
(Increase) / Decrease in Deposits & Prepayments	6,661,301	(30,065,017)
Increase / (Decrease) in Liabilities	12,996,535	(1,634,409)
Cash generated from operations	780,875,677	280,620,031
Gratuity paid	(1,243,424)	(315,240)
Tax paid	(164,643,431)	(20,336,569)
Net cash from operating activities	614,988,822	259,968,222
Cash Flows from Investing Activities		
Short term Investments (Note A)	(483,680,026)	(218,013,466)
Acquisition of Fixed Assets	(153,802,459)	(44,156,578)
Proceeds from the sale of Disposal of Property	65,497	3,300
Interest received	40,780,082	24,122,819
Other Non Current Assets	(161,525)	795,777
Net cash used in investing activities	(596,798,431)	(237,248,148)
Cash Flows from Financing Activities		
Treasury Contribution	(25,000,000)	(20,000,000)
Net cash used in Financing activities	(25,000,000)	(20,000,000)
Net Increase / (Decrease) in Cash & Cash Equivalents	(6,809,608)	2,720,073
Cash & Cash Equivalents at the beginning of the period	8,670,818	5,950,745
Cash & Cash Equivalents at the end of the period (Note B)	1,861,210	8,670,818

Note A - Cash flow from investing activities

Cash Inflows during the period	8,013,378,957	4,208,107,601
Cash Outflows during the period	(8,497,058,983)	(4,426,121,067)
Net Cash Flow	(483,680,026)	(218,013,466)

Note B**Cash & Cash Equivalents**

Bank of Ceylon - Ratmalana Branch	131,449	299,207
Bank of Ceylon - Corporate Branch	1,114,152	7,869,329
Peoples Bank - Ratmalana Branch	486,546	167,870
Peoples Bank - Corporate Branch	79,494	297,572
Cash Balance	32,260	26,840
Petty Cash	17,309	10,000
	1,861,210	8,670,818

State Pharmaceuticals Manufacturing Corporation of Sri Lanka

CORPORATE INFORMATION & SIGNIFICANT ACCOUNTING POLICIES

1. CORPORATE INFORMATION

GENERAL

State Pharmaceuticals Manufacturing Corporation is incorporated under Industrial Corporation Act No. 49 of 1957. It is a Government Corporation located at No. 11, Sir John Kotelawala Mawatha, Ratmalana.

The Corporation prepares Financial Statements for the year ended 31st December 2014 and these Financial Statements were authorized by the Board of Directors.

PRINCIPAL ACTIVITIES

The main functions are,

- (a) Manufacturing, processing, stocking, packing and re - packing of drugs.
- (b) Provision of technical know-how of the above operation.
- (c) Pharmacological and pharmaceutical research and the standardization of drugs.
- (d) Marketing of drugs.

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

The Financial Statements have been prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRS/LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka.

2.2 BASIS OF MEASUREMENT

The Financial Statements have been prepared on the historical cost basis. The Corporation financial statements are presented in Sri Lankan Rupees.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies set out below are consistent with those used in the previous year other than allocation between overheads 5.1.5

3.1.1 PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Corporation derecognizes the replaced part, and recognizes the new part with its own associated useful life and depreciation. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred.

3.1.2 DEPRECIATION

Full year's depreciation is provided in the year of purchase and no provision is made in the year of disposal on straight line basis. Estimated useful life Property, Plant & Equipment are as follows.

Leasehold Land	Over the period of Lease (99 years)
Landscaping Expenses	Over the period of Lease (99 years)
Buildings	30 to 4 years
Vehicle Shed	4 years
Plant & Machinery	15 to 1 year
Motor Vehicles	15 to 3 years
Motor Bicycle	15 to 4 years
Equipment	10 to 2 years
Computer Accessories	5 to 1 year
Computer Software	5 to 1 year
Furniture & Fittings	10 to 3 years
Tools	15 to 1 year
Library Books	5 years

3.1.3 INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

3.1.4 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The carry value of property, plant and equipment is reviewed for impairment either annually or when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount the assets are written down to their recoverable amount. Impairment losses are recognized in the income statement unless it reverses a previous revaluation surplus for the same asset.

3.1.5 IMPAIRMENT OF NON FINANCIAL ASSETS

The Corporation assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

3.1.6 TAXATION

3.1.6.1 CURRENT TAXATION

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Taxation Authorities in respect of the current as well as prior years. The tax rate and tax laws used to compute the amounts are those that are enacted or substantially enacted by date of Statement of Financial position.

Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provision of the Inland Revenue Act No: 38 of 2000 and the Amendments thereto, the rates specified in the act. Provision for the current year taxation made according to the accounting profit subject to the rate specified by act.

3.1.6.2 DEFERRED TAXATION

In respective of each type of temporary differences recognized in the Statement of Financial Position, we considered the Deferred Tax Liabilities and Assets. In our Financial Statements mainly we recognized a Deferred Tax Liability for Book & Tax

written down value of Fixed Assets & Deferred Tax Asset for Provision for Retiring Gratuity. Deferred Tax Assets & Liabilities are measured at the Income Tax Rate.

3.2 INVENTORIES

Inventories are recognized at cost and net realizable value which ever is lower after making due allowance for obsolete and slow moving items which are valued at 'First In First Out' basis.

3.2.1 MEASUREMENT OF INVENTORIES

COST OF INVENTORIES

RAW MATERIALS

Cost of purchases together with any incidental expenses.

WORK IN PROGRESS

Raw material cost and variable manufacturing expenses in full.

FINISHED GOODS

Raw material cost and variable manufacturing expenses in full.

OTHER STOCKS

Cost is arrived at weighted average basis

3.2.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. The Corporation has not provided any impairment for trade debtors as there is no long outstanding as at 31-12-2014.

3.2.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and bank balance and short term investment.

3.2.4 RELATED PARTY TRANSACTIONS

3.2.4.1 COMPENSATION OF BOARD OF DIRECTORS

TRANSACTIONS WITH STATE AND STATE CONTROLLED ENTITIES

In the normal course of its operations, the Corporation enters into transactions with related parties. Related parties include the Government of Sri Lanka (State: as the ultimate owner of the Corporation), various government departments, and State controlled entities. Particulars of transactions, and arrangements entered into by the Corporation with the State and State controlled entities which are individually significant and for other transactions that are collectively, but not individually significant are as follows:

NATURE OF TRANSACTION	2014	2013
TRANSACTION		
Investment in Sri Lanka Government Securities Held by Corporation	909,926,775	426,246,751
Paid Surplus to Government during the year	25,000,000	20,000,000
Sales to DHS & SPC	1,107,572,146	1,421,737,923
OUTSTANDING BALANCE		
Receivable from SPC	590,000	1,296,680
Receivable from DHS	20,824,677	404,315,959

3.2.5 CAPITAL

There is no change in the Authorized Capital during the year ended 31st December 2014.

3.2.6 EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

All the material events after the date of Statement of Financial Position have been considered and appropriate adjustment and disclosures have been made in to the financial statement, where necessary.

3.2.7 RESEARCH COST

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

4. LIABILITIES AND PROVISIONS

4.1 RETIREMENT BENEFIT OBLIGATION

4.1.1 DEFINED BENEFIT PLAN – RETIREMENT GRATUITY

The Corporation is liable to pay Gratuity in terms of the Payment of Gratuity Act No.12 of 1983. The liability for gratuity to an employee arises only on completion of five years of continued service with the Corporation. In order to meet this liability, a provision is carried forward in the Statement of Financial Position. The resulting difference between the brought forward provision at the beginning of a year and the carried forward provision at the end of the year is dealt with in the Income Statement.

Corporation measures the present value of the promised retirement benefit of gratuity with the advice of the Actuary for the year 2014.

The principal assumptions used in the calculations are as follows.

		2014	2013
Expected Annual Average Salary Increment Rate	-	8.00%	4.00%
Discount Rate / Interest Rate	-	10.00%	10.00%
Staff Turnover Factor	-	3.40%	2.03%

The liability is not externally funded. The item is grouped under Non-Current Liabilities in the Statement of Financial Position.

4.1.2 DEFINED CONTRIBUTION PLANS – EMPLOYEES PROVIDENT FUND & EMPLOYEES TRUST FUND

All employees who are eligible for Employees' Provident Fund Contribution and Employees' Trust Fund Contribution is covered by relevant contribution funds in line with respective regulation.

Obligations for contributions to Provident Fund and Trust Fund covering the employees are recognized as an expense in the Income Statement.

4.1.3 TRADE AND OTHER PAYABLES

Trade and other payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. The corporation has not provided any subsequent measured cost as there is material effect as at 31-12-2014

4.1.4 PROVISION

GENERAL

Provisions are recognized when the Corporation has a present obligation (legal or Constrictive) as a result of a past event, it is probable that an outflow of resource embodying economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the corporation expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

5 INCOME STATEMENT

For the purpose of presentation of the Income Statement, the function of expenses method is adopted, as it represents fairly the elements of corporation performance.

5.1.1 TURNOVER

The State Pharmaceuticals Manufacturing Corporation turnover comprises sales to Department of Health Service, Distributors and State pharmaceuticals Corporation.

5.1.2 REVENUE RECOGNITION

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Corporation has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also met before revenue is recognized.

SALE OF GOODS

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

5.1.3 EXPENSES

All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

Repair and renewals are charged to profit and loss in the year in which the expenditure is incurred.

5.1.4 FINANCE EXPENSES

Finance expenses comprise of overdraft interest, letter of credit opening expenses & credit facility agreement charges.

5.1.5 ALLOCATION BETWEEN OVERHEADS

In the Financial Statements, Overheads allocation method as follows.

EXPENSES

- (a) Rates & Taxes, Electricity, Water Charges
- (b) Insurance, Maintenance of Equipment, Maintenance – General, Maintenance – Building, Depreciation.
- (c) Insurance of Health Insurance Scheme, Staff Welfare, Uniform & Shoes, Transport Charges
- (d) Directors Fees, Other Incentives, Repairs & Maintenance of Motor Vehicles, Fuel & Lubricants for Vehicles, Postage & Fax, Telephone Charges, Security Charges, License Fee-Vehicles & Drugs, Printing & Stationery, Office Expenses, Audit Fee, Rent Charges, Advertisements, Trade Subs.& Periodicals, Legal & Inquiry Expenses, Professional Charges, Entertainment, Annual Subscription, Annual Conference & Meetings, Stamp Fee, Stationery Adj.-Stock take.
- (e) Staff Benefits & Other Expenses

ALLOCATION METHOD

- (a) Common Actual cost is apportioned based on percentage 70% & 30% between Production & Administration.
- (b) If the actual cost is directly related to the Production or Administration, apportioned on that basis. Other common actual cost is apportioned based on percentage 70% & 30% between Production & Administration.
- (c) Cost is apportioned based on actual number of employees in each section.
- (d) Actual cost method is used
- (e) Actual Cost method is used

6. FINANCIAL INSTRUMENTS – INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

6.1 FINANCIAL ASSETS

6.1.1 INITIAL RECOGNITION AND MEASUREMENT

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate and determine the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

The Corporation financial Assets include cash and short term Treasury bill investment, trade and other receivable, staff loans and other receivable.

6.1.2 SUBSEQUENT MEASUREMENT

The subsequent measurement of financial assets depends on their classification as follows

6.1.3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

6.1.4 LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking in to account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized in the income statement in finance cost.

6.1.5 HELD – TO – MATURITY INVESTMENTS

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to- maturity when the Corporation has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized as finance cost in the income statement in finance cost. The Corporation did not have any held –to- maturity investments during the year ended 31 December 2014.

6.1.6 AVAILABLE – FOR – SALE FINANCIAL INVESTMENTS

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available for- sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognized in profit or loss.

The Corporation evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term is still appropriate. When the Corporation is unable to trade these financial assets due to inactive markets and

management's intention to do so significantly changes in the foreseeable future, the Corporation may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Corporation has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial assets reclassified out of the available for sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the assets are subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement. The Corporation did not have any available for –sale financial investments during the year ended 31 December 2014.

6.1.7 DERECOGNITION

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when,

- i). The rights to receive cash flows from the asset have expired
- ii). The Corporation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
 - (a) The Corporation has transferred substantially all the risks and rewards of the asset, or
 - (b) The Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

6.1.8 IMPAIRMENT OF FINANCIAL ASSETS

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

6.1.9 FINANCIAL ASSETS CARRIED AT AMORTIZED COST

For financial assets carried at amortized cost, the Corporation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The Corporation is performed specific impairment for each debtor categories.

Notes to the Financial Statements for the year ended 31.12.2014
NOTE - 01

PROPERTY, PLANT & EQUIPMENTS - DEPRECIABLE ASSETS
2014

Cost		2014					
Description	Cost As At 01.01.2014	Acquisitions During the Year	Disposals During the Year	Balance As at 31.12.2014	Damaged & Unused Adjustments	Balance After Adj. of Damaged & Unused As At 31.12.2014	
Depreciable Assets							
Leasehold Land	4,920,845	-	-	4,920,845	-	4,920,845	
Land Scaping Expenses	6,113,388	-	-	6,113,388	-	6,113,388	
Land	-	23,214,262	-	23,214,262	-	23,214,262	
Buildings	385,844,130	826,856	-	386,670,986	-	386,670,986	
Vehicle Parking Shed	1,170,063	-	-	1,170,063	-	1,170,063	
Plant & Machinery	666,336,769	112,794,183	(563,900)	778,567,452	(34,145,300)	744,422,152	
Motor Vehicles	52,196,800	7,975,800	-	60,171,800	-	60,171,800	
Motor Bicycle	100,000	198,640	-	298,640	-	298,640	
Equipment	124,175,892	4,388,838	(4,550)	128,560,181	(13,342,547)	115,217,633	
Computer Accessories	8,715,420	730,214	(380,595)	9,065,128	(263,400)	8,801,728	
Furniture & Fittings	20,821,435	3,419,800	(16,425)	24,224,811	(235,431)	23,889,379	
Bicycle & Carts	31,987	-	-	31,987	-	31,987	
Tools	7,796,480	45,000	(1,125)	7,840,355	(1,071,050)	6,769,305	
Library Book	63,069	-	-	63,069	-	63,069	
Fully Depreciated Assets							
Library Book	2,435,973	-	-	2,435,973	-	2,435,973	
Total Value of Assets	1,280,722,252	153,592,793	(966,105)	1,433,348,940	(45,147,729)	1,388,201,211	

Depreciation		2014					
Description	Accumulated Dep. As at 01.01.2014	Depreciation For the Year	Acc. Dep. Related to Disposals	Damaged & Unused Adjustments	Balance As at 31.12.2014		
Depreciable Assets							
Leasehold Land	1,342,519	49,706	-	-	1,392,225		
Land Scaping Expenses	1,672,972	61,751	-	-	1,734,723		
Land	-	-	-	-	-		
Buildings	107,100,786	32,233,209	-	-	139,333,995		
Vehicle Parking Shed	749,602	277,555	-	-	1,027,157		
Plant & Machinery	249,843,849	61,208,882	(27,779)	(9,457,903)	301,567,050		
Motor Vehicles	24,730,528	6,825,176	-	-	31,555,703		
Motor Bicycle	59,999	52,993	-	-	112,993		
Equipment	90,976,729	38,098,030	(3,750)	(8,206,431)	100,864,577		
Computer Accessories	6,747,613	745,062	(243,375)	(109,025)	7,140,275		
Furniture & Fittings	8,620,833	2,792,107	(6,090)	(51,546)	11,355,303		
Bicycle & Carts	14,394	4,798	-	-	19,192		
Tools	5,203,174	303,456	(1,000)	(625,325)	4,880,304		
Library Book	55,322	7,748	-	-	63,069		
Fully Depreciated Assets							
Library Book	2,435,973	-	-	-	2,435,973		
Total	499,554,292	122,660,471	(281,994)	(18,450,230)	603,482,540		

Written Down Value		2014	
Description	Cost as at 01.01.2014	Depreciation	Balance As at 31.12.2014
Depreciable Assets			
Leasehold Land	3,528,620	-	3,528,620
Land Scaping Expenses	4,378,665	-	4,378,665
Land	23,214,262	-	23,214,262
Buildings	247,336,991	-	247,336,991
Vehicle Parking Shed	142,906	-	142,906
Plant & Machinery	442,855,102	-	442,855,102
Motor Vehicles	28,616,097	-	28,616,097
Motor Bicycle	185,647	-	185,647
Equipment	14,353,056	-	14,353,056
Computer Accessories	1,661,453	-	1,661,453
Furniture & Fittings	12,544,076	-	12,544,076
Bicycle & Carts	12,795	-	12,795
Tools	1,889,000	-	1,889,000
Library Book	-	-	-
Fully Depreciated Assets			
Library Book	-	-	-
Total	780,218,672		780,218,672

2013

Cost		2013					
Description	Cost As At 01.01.2013	Acquisitions During the Year	Disposals During the Year	Balance As at 31.12.2013	Damaged & Unused Adjustments	Balance After Adj. of Damaged & Unused As At 31.12.2013	
Depreciable Assets							
Leasehold Land	4,920,845	-	-	4,920,845	-	4,920,845	
Land Scaping Expenses	6,113,388	-	-	6,113,388	-	6,113,388	
Land	-	-	-	-	-	-	
Buildings	343,915,999	41,928,531	-	385,844,130	-	385,844,130	
Vehicle Parking Shed	1,170,063	-	-	1,170,063	-	1,170,063	
Plant & Machinery	647,702,109	19,865,660	(1,231,000)	666,336,769	(16,205,633)	650,131,136	
Motor Vehicles	44,046,800	8,150,000	-	52,196,800	-	52,196,800	
Motor Bicycle	100,000	-	-	100,000	-	100,000	
Equipment	120,892,137	3,292,505	(8,750)	124,175,892	(1,796,329)	122,379,563	
Computer Accessories	8,316,310	512,030	(112,920)	8,715,420	(276,025)	8,439,395	
Furniture & Fittings	18,507,862	2,316,598	(3,025)	20,821,435	(1,777,925)	20,643,510	
Bicycle & Carts	31,987	-	-	31,987	-	31,987	
Tools	7,971,054	(174,574)	-	7,796,480	(70,850)	7,725,630	
Library Book	63,069	-	-	63,069	-	63,069	
Fully Depreciated Assets							
Library Book	2,435,973	-	-	2,435,973	-	2,435,973	
Total Value of Assets	1,206,187,197	76,065,324	(1,530,269)	1,280,722,252	(18,526,762)	1,262,195,490	

Depreciation		2013					
Description	Accumulated Dep. As at 01.01.2013	Depreciation For the Year	Acc. Dep. Related to Disposals	Damaged & Unused Adjustments	Balance As at 31.12.2013		
Depreciable Assets							
Leasehold Land	1,294,814	49,706	-	-	1,344,520		
Land Scaping Expenses	1,611,220	61,751	-	-	1,672,971		
Land	-	-	-	-	-		
Buildings	74,781,051	32,319,735	-	-	107,100,786		
Vehicle Parking Shed	472,047	277,555	-	-	749,602		
Plant & Machinery	195,565,153	54,463,311	(45,316)	(139,299)	249,843,849		
Motor Vehicles	18,702,852	6,027,676	-	-	24,730,528		
Motor Bicycle	56,666	3,333	-	-	59,999		
Equipment	70,816,308	20,381,013	(3,000)	(217,592)	90,976,729		
Computer Accessories	5,965,077	879,842	(26,146)	(71,160)	6,747,613		
Furniture & Fittings	6,514,916	2,117,122	(1,170)	(10,035)	8,620,833		
Bicycle & Carts	9,596	4,798	-	-	14,394		
Tools	4,682,984	643,596	(104,806)	(18,600)	5,203,174		
Library Book	46,849	8,473	-	-	55,322		
Fully Depreciated Assets							
Library Book	2,435,973	-	-	-	2,435,973		
Total	382,953,506	117,237,910	(180,438)	(456,686)	499,554,292		

Written Down Value		2013	
Description	Cost as at 01.01.2013	Depreciation	Balance As at 31.12.2013
Depreciable Assets			
Leasehold Land	3,578,325	-	3,578,325
Land Scaping Expenses	4,440,417	-	4,440,417
Land	-	-	-
Buildings	278,743,345	-	278,743,345
Vehicle Parking Shed	420,461	-	420,461
Plant & Machinery	400,287,287	-	400,287,287
Motor Vehicles	27,466,272	-	27,466,272
Motor Bicycle	40,001	-	40,001
Equipment	31,402,884	-	31,402,884
Computer Accessories	1,691,782	-	1,691,782
Furniture & Fittings	12,022,677	-	12,022,677
Bicycle & Carts	17,593	-	17,593
Tools	2,522,866	-	2,522,866
Library Book	7,748	-	7,748
Fully Depreciated Assets			
Library Book	-	-	-
Total	762,601,198		762,601,198

NOTE - 02
INTANGIBLE ASSETS

2014

Cost		2014				
Description	Cost As At 01.01.2014	Acquisitions During the Year	Disposals During the Year	Cost as at 31.12.2014	Damaged & Unused Adjustments	Balance after adj. of Damaged & Unused 31.12.2014
Computer Software	15,434,142	142,800	-	15,576,942	(50,000)	15,526,942
Total Value of Assets	15,434,142	142,800	-	15,576,942	(50,000)	15,526,942

Depreciation

Depreciation		2014				
Description	Accumulated Dep. As at 01.01.2014	Depreciation For the Year	Acc. Dep. Related to Disposals	Damaged & Unused Adjustments	Balance As at 31.12.2014	
Computer Software	14,306,142	332,923	-	-	14,639,065	
Total	14,306,142	332,923	-	-	14,639,065	

Written Down Value

Written Down Value		Balance as at 31. 12. 2014	
Description			
Computer Software			887,877
Total			887,877

2013

Cost		2013				
Description	Cost As At 01.01.2013	Acquisitions During the Year	Disposals During the Year	Cost as at 31.12.2013	Damaged & Unused Adjustments	Balance after adj. of Damaged & Unused 31.12.2013
Computer Software	14,450,726	983,416	-	15,434,142	(50,000)	15,384,142
Total Value of Assets	14,450,726	983,416	-	15,434,142	(50,000)	15,384,142

Depreciation

Depreciation		2013				
Description	Accumulated Dep. As at 01.01.2013	Depreciation For the Year	Acc. Dep. Related to Disposals	Damaged & Unused Adjustments	Balance As at 31.12.2013	
Computer Software	14,001,779	304,363	-	-	14,306,142	
Total	14,001,779	304,363	-	-	14,306,142	

Written Down Value

Written Down Value		Balance as at 31. 12. 2013	
Description			
Computer Software			1,078,000
Total			1,078,000

NOTE - 03**OTHER NON CURRENT ASSETS**

	As at 31.12.2014	As at 31.12.2013
Deposits	294,840	114,840
Security Deposits	242,790	261,265
	537,630	376,105

NOTE - 04**INVENTORIES**

	As at 31.12.2014	As at 31.12.2013
Raw Materials	266,319,137	245,457,246
Packing Materials	22,673,562	22,717,688
Finished Goods	63,627,246	134,839,374
Work-in-Progress	71,078,704	61,357,267
Goods in Transits - R/M	8,370,029	12,296,168
Inventory - Formulation, Research & Development	8,855,085	-
Spare Parts - Plant & Machinery	89,393,321	82,674,541
Fuel & Lubricants	1,626,285	1,222,083
Inventory - Stationery	611,250	684,106
	532,554,618	561,248,472

NOTE - 05**TRADE DEBTORS & RECEIVABLES**

	As at 31.12.2014	As at 31.12.2013
Debtors - SPC	590,000	1,296,680
Debtors - DHS	20,824,677	404,315,959
Debtors - Distributors	81,826,579	66,498,813
(-) Provision for Doubtful Debts	(570,257)	(570,257)
Debtors Control - General	-	3,360
Distress Loans	22,117,373	20,854,961
Cycle Loans	129,132	104,562
Staff Loans	106,500	95,334
Festival Advance	445,500	340,600
Import Deposits Refunds	135,817	245,000
Ins.Claim Receivable for Damaged R/M	-	20,041
Salary Overpayment Receivables	-	14,480
Inventory - Loan Given	455,563	2,845
	126,060,884	493,222,377

NOTE - 06**PRE-PAYMENTS**

	As at 31.12.2014	As at 31.12.2013
Advance Payments	1,297,568	1,695,305
Advance Payments - Machinery & Spare Parts	20,650,731	26,473,484
Prepayments	4,805,310	3,674,090
Prepaid Staff Cost	2,630,261	4,202,295
	29,383,871	36,045,173

NOTE - 07**OTHER FINANCIAL ASSETS**

	As at 31.12.2014	As at 31.12.2013
Treasury Bills	886,209,592	404,981,262
Treasury Bills at NSB	9,330,699	8,622,394
Investments in trust fund	17,902,888	16,292,870
	913,443,179	429,896,526

NOTE - 08**CASH IN HAND & AT BANK**

	As at 31.12.2014	As at 31.12.2013
Bank of Ceylon - Ratmalana	131,449	299,207
Bank of Ceylon - Corporate	1,114,152	7,869,329
Peoples Bank - Ratmalana	486,546	167,870
Peoples Bank - Corporate	79,494	297,572
Cash in Hand	32,260	26,840
Petty Cash	17,309	10,000
	1,861,210	8,670,818

NOTE - 09**STATED CAPITAL**

Stated Capital is made up by Grant amounting to JY. 2.564 million converted at the average rate of Rs. 0.186 amounting to Rs. 476,904,000.00 and the funds contributed by the General Treasury amounting to Rs. 208,375,000.00 and the value of land amounting to Rs. 4,800,000.00 transferred from the State Pharmaceuticals Corporation.

NOTE - 10**DEFERRED TAX LIABILITY**

	As at 31.12.2014	As at 31.12.2013
Balance at the Beginning of the Year	140,956,542	158,766,584
Charge/(Reversal) as Deferred Tax during the year	(14,587,535)	(17,810,042)
	126,369,007	140,956,542

NOTE - 11**TRADE AND OTHER PAYABLES**

	As at 31.12.2014	As at 31.12.2013
Purchase Provision - Imported R/M	(5,151,505)	(962,378)
Purchase Provision - Packing Materials	(258,578)	(23,007)
Creditors Control - Packing Materials	8,686,818	8,090,828
Creditors Control - Raw Materials	10,106,225	4,895,773
Creditors Control - Stationery	108,997	168,686
Creditors Control - Equipment & Machinery	13,503,485	5,728,347
Creditors Control - Chemicals	1,275,885	2,289,768
Creditors Control - Welfare	44,350	110,316
Creditors Control - General	7,117,840	5,787,593
Creditors Control - Bank	19,300,122	18,408,466
Creditors Control - Employees	4,400	106,388
Creditors Control - Services	4,323,184	4,355,276
Creditors Control - Other FA	24,655,216	24,637,178
Payables to Depositors - Cashiers	11,223	9,716
Payables to Depositors - Stores Assistant	231,568	251,549
Bid Bonds Payable	6,790,496	4,068,450
VAT 1/3 Payable	633,049	633,049
Stamp Duty Payable	25	(175)
Paye Tax Payable	(23,880)	-
E.P.F. & E.T.F. Payables - 25%	333,183	107,457
Salaries Control	997,579	1,029,867
	92,689,682	79,693,150

NOTE - 12**REVENUE**

	For the year 2014	For the year 2013
Sales - SPC	8,053,400	9,605,490
Sales - DHS	1,099,518,746	1,412,132,433
Sales - Distribution	604,533,830	519,445,028
	1,712,105,976	1,941,182,950

NOTE - 13**COST OF SALES**

	For the year 2014	For the year 2013
Cost of Sales - SPC - New	5,718,671	7,836,919
Cost of Sales - SPMC - New	426,478,537	346,531,974
Cost of Sales - DHS - New	701,685,058	1,009,279,551
Cost of Sales - Raw Materials	421,756	47,381
Cost of Sales Invoice Variance	(44,311)	(314,317)
Finished Goods Adj-Stock take	-	(1,000,934)
Production Expenses (Note - 21)	185,455,295	151,518,838
	1,319,715,006	1,513,899,412

NOTE - 14**OTHER OPERATING INCOME**

	For the year 2014	For the year 2013
Miscellaneous Income	5,712,329	4,711,151
Finished Goods & Raw Material Sales	796,941	62,037
Exchange Gain	-	1,297,539
Profit or Loss on Disposal	5,386	(87,464)
	6,514,655	5,983,263

NOTE - 15		
ADMINISTRATION EXPENSES	For the year 2014	For the year 2013
Salaries & Wages	17,512,982	15,384,253
Casual Salaries	276,125	174,875
Cost of Living	4,969,604	3,467,886
Travelling Incentive	3,305,852	3,291,137
E.P.F. & E.T.F. - 15%	3,452,037	2,465,855
Overtime	2,558,940	2,322,909
Attendance Incentive	2,478,054	2,556,952
Performance Incentive	5,116,583	5,459,563
Annual Bonus	700,349	506,055
Current Service Cost	425,119	469,173
Shift Incentive	131,700	133,400
Staff Cost	908,454	573,286
Staff Medical Expenses	910,170	837,495
Housing Loan Int.Reimbursement	586,200	541,863
Special Acting Incentive	112,898	84,000
PAYE Tax	441,969	477,737
Telephone Bill Reimbursement	225,532	211,414
Ins.of Health Insurance Scheme	821,853	1,087,624
Staff Welfare	4,641,799	4,539,689
Staff Training	192,001	1,035,162
Uniforms & Shoes	223,488	346,166
Travelling - Overseas	265,504	489,727
Directors Fees	640,600	796,397
Other Incentives	1,115,575	1,349,025
Rates & Taxes	264,658	276,231
Electricity	12,679,183	11,731,003
Water Charges	702,301	663,010
Insurance	905,596	1,128,822
Rapairs & Maintenance of Motor Vehicles	3,349,472	2,597,090
Fuel & Lubricants for Vehicles	2,810,678	2,644,272
Maintenance of Equipment	1,082,712	1,126,024
Maintenance-Administration	2,180,852	1,305,067
Maintenance of Building	1,686,555	-
Depreciation	23,269,067	22,961,607
Transport Charges	579,103	573,615
Postage & Fax	225,902	181,721
Telephone Charges	837,494	825,123
Security Charges	4,584,973	2,888,591
Donations	2,016,639	1,234,772
Licence Fee - Vehicles	110,468	94,335
Licence Fee - Drugs	649,278	680,296
Licence Fee - Others	5,040	1,120
Printing & Stationery	2,866,534	3,312,143
Office Expenses	309,220	78,432
Audit Fee	500,000	455,398
Rent Charges	2,672,721	836,807
Advertisements	3,516,658	874,048
Trade Subs.& Periodicals	134,835	131,055
Legal & Inquiry Expenses	66,000	218,912
Professional Charges	386,759	129,054
Entertainment	627,276	88,008
Annual Subscription	58,000	59,960
Annual Conference & Meetings	-	31,000
Stamp Fee	48,625	38,550
Cost of Damaged & Unused	12,794,736	332,154
Stationary Adj-Stock take	(1,264)	(3,664)
	133,933,461	106,096,193

	For the year 2014	For the year 2013
NOTE - 16		
SELLING & DISTRIBUTION EXPENSES		
Promotional Discounts	18,634,433	9,556,014
Sales Promotion Expenses	15,140,852	11,752,789
Exchange Loss	60,033	-
	33,835,318	21,308,804
NOTE - 17		
OTHER OPERATING EXPENSES		
Formulation, Research & Dev.	6,378,498	1,685,541
	6,378,498	1,685,541
NOTE - 18		
FINANCE COST		
Bank Charges	231,451	417,142
O.D. Interest	1,000	1,718
Employee Interest Cost	2,241,495	1,847,604
	2,473,946	2,266,464
NOTE - 19		
FINANCE INCOME		
Staff Loan Interest	730,864	695,662
Treasury Bill Interest	40,646,708	25,314,785
Deffered Income	-	14,263
Interest Income - Staff Loan	2,819,419	2,034,370
	44,196,991	28,059,081
NOTE - 20		
INCOME TAX EXPENSE		
Current Tax Expense Note - 20 A	74,133,197	101,327,815
Deferred Tax Expense Note - 20 B	(14,587,535)	(17,810,042)
Deemed Dividend Tax	23,087,049	37,296,256
	82,632,711	120,814,029
NOTE - 20 A		
CURRENT TAX EXPENSE		
Income Tax on Profit for the year Note - 20 A (i)	74,133,197	100,783,856
Over / Under Provision for Income Tax	-	543,959
	74,133,197	101,327,815

NOTE - 20 A (I)**INCOME TAX ON PROFIT FOR THE YEAR**

	For the year 2014	For the year 2013
Profit before Taxation	266,481,394	329,968,880
Disallowable Expenses	131,481,521	123,379,811
Allowable Expenses	(121,588,152)	(84,938,782)
Tax exempt Income	(40,646,708)	(25,314,785)
Tax Income from Treasury Bill Interest	45,163,009	28,127,539
Assessable Income	<u>280,891,064</u>	<u>371,222,663</u>
Qualifying Payments	-	-
Taxable Income	<u>280,891,064</u>	<u>371,222,663</u>
Tax Rate on Taxable Income	28%	28%
Income Tax on Taxable Income	78,649,498	103,596,610
Nortional Tax	(4,516,301)	(2,812,754)
Total Income Tax	<u><u>74,133,197</u></u>	<u><u>100,783,856</u></u>

NOTE - 20 B**DEFERRED TAX****Charge/(Reversal) as Deferred Tax during the year**

	For the year 2014	For the year 2013
Deferred Tax on Deferred Tax Liabilities	136,649,932	147,232,730
Deferred Tax on Deferred Tax Assets	(10,280,925)	(6,276,188)
Deferred Tax Liability at the end of the year	<u>126,369,007</u>	<u>140,956,542</u>
Deferred Tax Liability at the beginning of the year	140,956,542	158,766,584
Charge/(Reversal) as Deferred Tax during the year	<u><u>(14,587,535)</u></u>	<u><u>(17,810,042)</u></u>

NOTE - 21	For the year 2014	Sub Note	For the year 2013
PRODUCTION COST			
Direct Labour (Production)			
Salaries & Wages	127,000	Note 21 A	337,495
Casual Salaries	125,057	Note 21 A	-
Cost of Living	-	Note 21 A	96,383
Travelling Incentive	-	Note 21 A	541,600
E.P.F. & E.T.F. - 15%	245,490	Note 21 A	394,912
Overtime	2,944,041	Note 21 A	1,046,075
Attendance Incentive	1,041,439	Note 21 A	3,864,188
Performance Incentive	2,846,916	Note 21 A	6,539,410
Annual Bonus	1,170,104		70,695
Current Service Cost	542,353		496,982
Shift Incentive	706,871	Note 21 A	1,498,750
Staff Medical Expenses	631,140	Note 21 A	446,624
Housing Loan Int.Reimb.	1,141,011		941,801
Staff Cost	1,181,699		887,799
	12,703,121		17,162,715
Indirect Manufacturing Cost (QC, FD, Plan, Main)			
Salaries & Wages	12,626,981	Note 21 A	5,315,842
Casual Salaries	427,367		287,694
Cost of Living	5,593,493	Note 21 A	2,003,711
Travelling Incentive	2,478,294	Note 21 A	1,259,253
E.P.F. & E.T.F. - 15%	3,416,727	Note 21 A	2,050,397
Overtime	2,478,268		2,296,559
Attendance Incentive	2,856,069	Note 21 A	2,793,442
Performance Incentive	6,311,849	Note 21 A	6,708,083
Annual Bonus	894,715		601,180
Current Service Cost	536,099		373,077
Shift Incentive	321,000		347,000
Staff Cost	729,266		573,286
Staff Medical Expenses	1,169,816		990,542
Housing Loan Int.Reimbursement	1,045,367		713,216
Special Acting Allowance	21,751		-
PAYE Tax	712,515		540,910
Telephone Bill Reimbursement	12,550		11,035
Insurance of Health Ins.Scheme	1,434,189	Note 21 A	2,881,772
Staff Welfare	8,477,358	Note 21 A	3,420,898
Staff Training	1,335,474		1,590,984
Uniforms & Shoes	337,695		503,586
Water Charges	116,862	Note 21 A	150,178
Rates & Taxes	-	Note 21 A	(513,060)
Electricity	46,131	Note 21 A	-
Maintenance of Equipment	427,535	Note 21 A	5,016

Maintenance-Production	438,966	Note 21 A	284,279
Maintenance-Building	164,437	Note 21 A	171,521
Depreciation	99,724,327		94,580,667
Transport Charges	1,032,952		792,276
Compensation	-	Note 21 A	400,000
Consumption - Spare Parts	41,134	Note 21 A	-
Repairs & Maintenance P & M	596,381	Note 21 A	-
Quality Control Expenses	3,286,766		135,506
R/M Destruction Charges	192,652		606,606
Cost of Rejected Raw Materials	13,067,681		525,269
Cost of Rejected Paking Materials	-		1,002,480
Cost of Rejected Work in Progress	455,496		1,196,977
Cost of Damaged Raw Materials	(24,000)		(24,000)
Raw Material Adj-General Drugs	(565,346)		131,168
Raw Material Adj-Penicillin Drugs	1,523		(104,977)
Packing Material Adjustment	-		13
Raw Material Adj-Stock Take	(207,394)		216,897
Packing Material Adj-Stock Take	23,117		4,634
Stock Take Adjustment - Main	675,720		(498,750)
Work-in-Progress Adj-Stock Take	40,392		30,958
Transfer to the Cost of Sales which were not absorbed to the Product Cost	185,455,295		151,518,838

NOTE 21 A**PRODUCTION COST**

	Unabsorbed Cost	Absorbed Cost to the Cost of Sales	Total 2014	Total 2013
Direct Labour(Production)				
Salaries & Wages	127,000	24,310,213	24,437,213	21,421,003
Casual Salaries	125,057	826,484	951,541	1,356,191
Cost of Living	-	8,658,433	8,658,433	6,785,214
Travelling Incentive	-	3,491,670	3,491,670	3,291,285
E.P.F. & E.T.F. - 15%	245,490	4,755,202	5,000,692	4,424,275
Overtime	2,944,041	1,935,291	4,879,332	5,520,550
Attendance Incentive	1,041,439	2,805,177	3,846,616	4,213,472
Performance Incentive	2,846,916	6,817,389	9,664,305	8,931,704
Annual Bonus	1,170,104	-	1,170,104	777,395
Current Service Cost	542,353	-	542,353	496,982
Shift Incentive	706,871	783,429	1,490,300	1,498,750
Staff Medical Expenses	631,140	840,765	1,471,905	1,277,688
Housing Loan Int.Reimb.	1,141,011	-	1,141,011	941,801
Staff Cost	1,181,699	-	1,181,699	887,799
	12,703,121	55,224,054	67,927,175	61,824,109
Indirect Manufacturing Cost (QC, FD, Plan,Main)				
Salaries & Wages	12,626,981	6,624,598	19,251,580	17,037,560
Casual Salaries	427,367	-	427,367	526,703
Cost of Living	5,593,493	779,861	6,373,354	5,096,982
Travelling Incentive	2,478,294	295,400	2,773,694	2,651,440
E.P.F. & E.T.F. - 15%	3,416,727	478,689	3,895,416	3,379,474
Overtime	2,478,268	-	2,478,268	2,516,876
Attendance Incentive	2,856,069	434,668	3,290,736	2,793,442
Performance Incentive	6,311,849	624,465	6,936,314	6,708,083
Annual Bonus	894,715	-	894,715	601,180
Current Service Cost	536,099	-	536,099	373,077
Shift Incentive	321,000	-	321,000	347,000
Staff Cost	729,266	-	729,266	573,286
Staff Medical Expenses	1,169,816	-	1,169,816	990,542
Housing Loan Int.Reimbursement	1,045,367	-	1,045,367	713,216
Special Acting Allowance	21,751	-	21,751	-
PAYE Tax	712,515	-	712,515	540,910
Telephone Bill Reimbursement	12,550	-	12,550	11,035
Insurance of Health Ins.Scheme	1,434,189	1,249,541	2,683,730	2,881,772
Staff Welfare	8,477,358	5,004,960	13,482,318	11,692,014
Staff Training	1,335,474	-	1,335,474	1,707,924
Uniforms & Shoes	337,695	-	337,695	655,096
Water Charges	116,862	1,529,965	1,646,828	1,547,026
Rates & Taxes	-	617,535	617,535	644,539
Electricity	46,131	29,589,444	29,635,575	27,372,342

Insurance	-	1,045,597	1,045,597	563,063
Maintenance of Equipment	427,535	2,530,352	2,957,887	1,518,801
Maintenance-Production	438,966	4,498,376	4,937,343	5,720,713
Maintenance-Building	164,437	538,654	703,091	171,521
Depreciation	99,724,327	-	99,724,327	94,580,667
Transport Charges	1,032,952	-	1,032,952	1,507,135
Compensation	-	-	-	400,000
Consumption - Spare Parts	41,134	8,017,121	8,058,255	14,375,326
Consumption - Fuel & Lubricants	-	18,387,223	18,387,223	22,836,604
Repairs & Maintenance P & M	596,381	-	596,381	1,845,047
Quality Control Expenses	3,286,766	-	3,286,766	408,986
R/M Destruction Charges	192,652	-	192,652	606,606
Cost of Rejected Raw Materials	13,067,681	-	13,067,681	525,269
Cost of Rejected Packing Materials	-	-	-	1,002,480
Cost of Rejected Work in Progress	455,496	-	455,496	1,196,979
Cost of Damaged Raw Materials	(24,000)	-	(24,000)	(24,000)
Raw Material Adj-General Drugs	(565,346)	-	(565,346)	131,168
Raw Material Adj-Penicillin Drugs	1,523	-	1,523	(104,977)
Packing Material Adjustment	-	-	-	13
Raw Material Adj-Stock Take	(207,394)	-	(207,394)	216,897
Packing Material Adj-Stock Take	23,118	-	23,118	4,635
Stock Take Adjustment - Main	675,720	-	675,720	(175,790)
Work-in-Progress Adj-Stock Take	40,391	-	40,391	30,958
	185,455,295	137,470,505	322,925,799	300,523,728

NOTE 22**RETIREMENT BENEFIT OBLIGATION**

The amounts recognized in the Financial Position are as follows.

	31.12.2014	31.12.2013
Net Liability at the beginning of the Year	22,414,958	17,989,961
Transitional Liability	-	486,083
Current Service Cost	1,503,571	1,339,232
Interest Cost	2,241,495	1,847,604
Changes in Assumptions	9,071,880	-
Liability Experience Loss	2,729,111	1,067,318
	<u>37,961,015</u>	<u>22,730,198</u>
Less:		
Payment made during the Year	<u>(1,243,424)</u>	<u>(315,240)</u>
	<u>36,717,591</u>	<u>22,414,958</u>

The Retirement benefit Liability of the Corporation is based on the actuarial valuation carried out by Piyal S. Gunathilleke and Associates. The Principal assumptions used in determining the cost of retirement benefit were,

	2014	2013
Expected Annual Average Salary Increment Rate	8%	4%
Discount Rate	10%	10%
Staff Turnover Factor	3.4%	2.03%

The amounts recognized in the Income Statement are as follows.

Current Service Cost	1,503,571	1,339,232
Interest Cost	2,241,495	1,847,604

An Actuarial valuation was to assess the present value of the Financial Position date 31st December 2014 to bring their best estimates.

NOTE 23**RELATED PARTY DISCLOSURES**

Details of significant related party disclosures are as follows.

Organization	Relationship	Nature of Transaction	Sales During the year
Medical Supplies Division	Customer	Sale of Goods	1,099,518,746
State Pharmaceuticals Corporation	Customer	Sale of Goods	8,053,400

NOTE 24**SOLD OF IMPAIRED ASSETS**

During the year sold and written off Assets cost are Rs. 966,105. Out of this Rs. 624,000 Impaired Assets have been sold during the year 2014.

NOTE 25**CHLORAMPHENICOL RAW MATERIAL & WIP**

It revealed that still it has not been possible to produce Chloramphenicol Capsules amounting to Rs. 8,403,294 due to technical problem in raw material. Formulation & Research are being carried out in this regard.



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



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திகதி }
Date }

21 September 2015

The Chairman,

State Pharmaceuticals Manufacturing Corporation of Sri Lanka

Report of the Auditor General on the Financial Statements of the State Pharmaceuticals Manufacturing Corporation of Sri Lanka for the year ended 31 December 2014 in terms of Section 14(2)(C) of the Finance Act, No. 38 of 1971.

The audit of financial statements of the State Pharmaceuticals Manufacturing Corporation of Sri Lanka for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 29 of the State Industrial Corporations Act, No.49 of 1957. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14 (2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13 (7) (a) of the Finance Act, was issued to the Chairman of the Corporation on 26 May 2015.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

අංක 306/72, පොල්දො පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව, . - இல. 306/72, பொல்தாவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka



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கணக்காய்வாளர் துறைமன்ற ஆளுநர் திணைக்களம்
Auditor General's Department

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, except of the matters described in paragraph 2:2 of this report the financial statements give a true and fair view of the financial position of State Pharmaceuticals Manufacturing Corporation of Sri Lanka as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.



2.2 Comments on Financial Statements.

2.2.1 Sri Lanka Accounting Standards

- (a) According to LKAS 17, the lease value of lands should be classified as operating leases in the statement of financial position. However, the land received from the State Pharmaceutical Corporation under 99-year lease, had been shown under Property, Plant, and Equipment of the Corporation.
- (b) In accordance with the policy of depreciation for the non-current assets of the Corporation, an asset is fully depreciated in the year purchase, but not depreciated in the year it is sold. According to LKAS 16, depreciation of non-current assets should be commenced from the date it is made use of, whereas depreciation should be discontinued from the date an asset decided to be sold in accordance with SLFRS 05. Accordingly, the depreciation policy of the Institute contravened the accounting standards.

2.2.2 Accounts Payable

Action had not been taken up to the date of audit on 08 April 2015 to settle 03 liabilities valued at Rs. 1,305,578 remaining unsettled since the year 2010.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

Following Instances of non-compliance with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations and Management Decisions

Non compliance

- (a) Establishments Code of Democratic Socialist Republic of Sri Lanka

Paragraph 5 of Chapter XIX

Action had not been taken to recover rental for an official quarters occupied by an officer of executive grade during November and December of the year under review.



Chapter XXIV – 3.18.1

- The Corporation had not taken action to recover a distress loan balance of Rs. 40,893 from an officer who proceeded abroad on no pay leave with effect from 08 November 2013.
- (b) Public Finance Circular No. PF/PE/6 of 31 January 2000 PAYE tax amounting to Rs. 1,154,484 with respect to January to June of the year under review had been paid from the Corporation Fund contrary to instructions of the Circular.
- (c) Public Enterprises Circular No. PED/57 of 11 February 2011 The Corporation had made payments amounting to Rs. 3,507,000 to non-Government organizations as donations and sponsorship allowances in 09 instances during the year under review without obtaining the approval of the Minister of Finance and Planning.
- (d) The letter No. DMS/E4/10/4/090/2 of the Director General of Department of Management Services of the General Treasury dated 09 March 2009 addressed to the Secretary to the Health
- (i) Paragraph No. 02-01 Transport allowances amounting to Rs. 4,700 and Rs.3,000 had been paid monthly to each of the executive and non-executive grade officers respectively since 2009 without deciding on the transport allowance that should be paid to every officer based on the distance travelled. Transport allowance had been paid to officers who report for duty from areas close to the roads for which transport facilities had been provided by the Institute.
- (ii) Paragraph No. 02-02 The entire staff had been paid the production incentives with effect from 01 July 2011 with a monthly maximum of Rs. 12,000 without the



approval of the Department of Management Services. According to the letter addressed to the Secretary to the Health , the maximum production incentive payable to the 224 officers during the year under review , amounted to Rs. 10,752,000. Nevertheless, the Corporation had paid a sum of Rs. 14,275,348. Accordingly, an approximate sum of Rs. 3,523,348 had been over paid as the production incentive.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Corporation for the year ended 31 December 2014 had resulted in a net profit of Rs.172,047,692 as compared with the net profit of Rs.207,601,451 for the preceding year , thus indicating a deterioration of Rs.39,553,759 as compared with the preceding year. Increase in the administrative expenses, selling and distribution expenses , and research and development expense by 26.23 per cent, 58.78 per cent, and 278.42 per cent respectively had been the main cause for this situation.

3.2 Analytical Financial Review

As the current ratio was 11.56 , and the liquidity ratio was 7.72 in the year 2014, it was observed that the additional working capital had not been made use of in an effective manner.

3.3 Legal Cases Instituted by or Against the Corporation

A case had been filed under case No.B/5019/10 at the Court in Mount Lavinia against a debtor defaulted to pay a sum of Rs. 570,257 that remained recoverable since 2007. The case remained unsolved as the accused could not be found. This had been referred to the Attorney General's Department for legal instructions.



4. Operating Review

4.1 Performance

(a) Manufacturing Process

Comparative information in respect of types of drugs manufactured by the Corporation during the year under review and 04 preceding years is given below.

<u>Year</u>	<u>No. of types of Drugs</u>	<u>Production</u>
	<u>Manufactured</u>	Units in Millions
2010	38	1614.1
2011	37	1796.4
2012	40	1920.2
2013	40	2005.1
2014	38	1909.2

The following observations are made in this connection.

- (i) Manufacture of drugs had improved by 4.4 per cent in the year 2013, whereas it had decreased by 4.8 per cent during the year under review.
- (ii) In comparing the drugs manufactured in the year 2013 with that of the year under review, the number of items of drug, and the number of units manufactured had decreased by 02 numbers and 95.9 million respectively.
- (iii) Out of the total production of 1,909.2 million units of the 38 types of drugs manufactured during the year under review, 1,303.8 million units representing 68.2 per cent depended on 8 types of drugs, whereas 6,054 million units equivalent to 31.7 of the total production, depended on 30 types of drugs.



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 Auditor General's Department

(b) Research expenses amounting to Rs. 685,131 had been incurred on 04 items of drugs that were at research level over a duration of 4 – 14 years as at 31 December 2014. Nevertheless, it was failed to introduce those drugs into the market.

(c) Utilization of Machinery in the Process of manufacturing Drugs

The Corporation had utilized 12 machines during the year under review to manufacture 1,909.2 million units of drugs .

<u>Type of Machinery</u>	<u>Production in the year 2014 Units in million</u>	<u>Production in the year 2013 Units in million</u>
Tablet manufacturing machines 01, 02, 03, 04, 05, 06, ST 49, PP800, AP22	1,667.7	1592.96
Capsule manufacturing machines GKF 800, GKF 1500, SF 135	241.5 -----	412.13 -----
	<u>1,909.2</u>	<u>2005.09</u>

The following matters were observed in this connection.

- (i) Number of units of Amoxicillin manufactured by the capsule machines, *GKF 1500* and *SF 135* had decreased by 166.7 million or 61 per cent during the year under review as compared with that of the year 2013.
- (ii) The speed in the production of Bosch *G. K F. 800* machine received in the year 1987 as a donation from Japan was low, and the *Sanjin SF 135* machine had developed mechanical faults during the year under review.

(d) Marketing and Pricing

Information relating to the sales of the Corporation for the year under review and the preceding year is as follows.

	<u>Sales of Drugs</u>		<u>Sales Income</u>	
	<u>Units in Millions</u>		<u>Rs. Million</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
State Pharmaceutical Corporation	6.8	13.5	8.1	9.6
Director General of Health Services	1,397.0	1,507.1	1,099.5	1,412.1
Distributors	548.7	478.5	604.5	519.4
Total	<u>1952.5</u>	<u>1999.1</u>	<u>1712.1</u>	<u>1941.1</u>

The following observations are made in this connection.

- (i) The overall sales income of the corporation under review for the year amounting to Rs.1,712.1 million. As compared with that of the previous year amounting to Rs. 1,941.1 million, the overall income of the year under review had decreased by a sum of Rs. 229 million representing 11.8 per cent. The number of units sold had also decreased by 46.6 million or to 2.3 per cent.
- (ii) Drugs worth Rs. 1,099.5 million from the overall sales income of the year under review had been sold to the Director of Health Services, representing 64.2 per cent of the total sales. However, in comparison with the preceding year, the sales made to the Director of Health Services during the year under review had decreased by a sum of Rs. 312.6 million, representing 22.1 per cent.
- (iii) An income of Rs. 604.5 had been earned during the year under review by selling drugs to the distributors, representing 35.3 per cent of the overall income. Discounts and allowances aggregating Rs. 80,016,812 comprising a trade discount amounting to Rs. 61,382,388 , and a sum of Rs. 18,634,433 as an allowance for fulfilling the targets for each month, had been paid to the distributors.



- (iv) In considering the sale of drugs, 60.98 per cent of the total units of sales of drugs and 71.17 per cent of sales value had depended on 09 types of drugs.

<u>Item of Drug</u>	<u>Units Sold</u> <u>Millions</u>	<u>As a Percentage of Total Sales</u> <u>Units</u>	<u>Sales Value</u> <u>Rs.</u> <u>Million</u>	<u>As a Percentage of Sales Value</u>
Amoxicillin Cap BP 250 mg	99.5	5.1	205.5	12.00
Cloxacillin Cap BP 500 mg	24.82	1.27	89.32	5.21
Paracetamol Tab BP 500 mg	239.01	12.24	189.03	11.04
Prednisolone Tab 5 mg	189.98	9.73	220.11	12.85
Metformin Tab BP 500 mg	86.32	4.42	64.95	3.8
Cloxacillin Cap BP 250 mg	93.48	4.79	182.51	10.67
Folic Acid 1 mg	333.95	17.11	115.20	6.7
Diltiazem HCL 60 mg	105.37	5.4	75.41	4.4
Amoxicillin Cap BP 500 mg	19.68	1.01	77.64	4.5
	<u>1,191.66</u>	<u>60.98</u>	<u>1,130.34</u>	<u>71.17</u>



- (v) Out of the drugs ordered by the Medical Supplies Division for the year under review, 300.929 million units of 11 drug items valued at Rs. 299,479,285 could not be supplied during the year under review owing to reasons such as, technical faults of raw materials, inability to supply the raw materials in compliance with proper standards, faults of the production formulae, inadequacy of the capacity of the machines used to cover the tablets, and lack of adequate capacities of the laboratories.

(e) Pricing of Drugs

The Corporation had maintained 2 pricing strategies in the current year for the Medical Supplies Division, and the distributors who sold drugs. The following observations are made in that connection.

- (i) Prices of the drugs for the Medical Supplies Division had been decided with a 12 per cent profit margin on the standard cost of production. For the first half of the year 2014, the prices decided by the committee on 19 December 2013 and prices decided by the committee on 25 June 2014 had been used for the first and the second half of the year, 2014 respectively.
- (ii) Prices had been decided with a 15 per cent profit margin for the State Pharmaceutical Corporation the permanent distributor of the Corporation up to the year 2012, whereas the Corporation had not maintained a pricing strategy with a specific profit margin with respect to the distributors since the year 2013. Instead, each drug had been priced with variant profit margins.

Furthermore, prices relating to 23 items of drugs out of 54 included in the price list as at 31 December 2014, had remained unrevised over a period of 02 years. The profit margin of 05 items out of the said 23 items of drugs, had been at a very low level.

4.2 Management Inefficiencies

The following observations are made in connection with the new wholesale outlet commenced by the Corporation at No. 22, Dharmapala Mawatha, Colombo 07 on 06 January 2015 with the objective of wholesale marketing, and selling drugs to the medical officers.



- (i) The commencement of the said whole sales outlet had been approved by the procurement Board of the Department on 25 June 2014. However, no written agreement in connection with the renting of the premises at which the outlet is located, had been entered into with the owner of the building namely Mediacom (PVT) Ltd.
- (ii) Even though the Board of Procurement had informed that a feasibility study on the commencement of a sales outlet be conducted at the said location prior to opening the wholesale outlet, the Board of Directors had granted approval to open the sales outlet under a supervisory period of one year after the Board of Directors had been informed by the Assistant Manager, marketing and Promotions, that it was not possible to prepare an accurate feasibility report.
- (iii) Following a decision made by the Management Committee meeting held on 02 April 2015, the sales outlet had been closed down due to the fact that a loss aggregating Rs. 1,031,013 had incurred during the months of January, February, and March of 2015 in which the sales outlet had been maintained. It is the opinion of the audit that the Corporation would not have incurred the said loss, had a formal market research been conducted prior to the establishment of this sales outlet.

4.3 Operating Inefficiencies

The following observations are made.

- (a) The stock of Chloramphenicol BP – 2010 raw material, 935.8 Kg in weight valued at Rs. 5,041,649 had expired during the year 2014. Even though the audit had been informed by the Corporation that the expiry period of those raw materials could be revalidated by an year and be used in manufacturing drugs, only 2.96 million units of the said drug had been manufactured during the year 2014 by utilizing 66.9 Kgs of that raw material. The rest of the raw material lies in the warehouse even at present without being used, and 18.5 Kg of that had expired in the month of March, 2015, whereas the remaining 917.3 Kg is to be expired in the month of July, 2015. Hence, the audit observed that the Corporation would inevitably incur a financial loss amounting to Rs. 5,041,649 in case the stock of raw material was not made use within the next 2 months. No provision had also been made in the financial statements in that connection.



- (b) The stock of raw material, Folic Acid BP – 2010 brought under Indent No. 20142952, had been received by the Corporation in the month of January 2015. However, the quality control division of the Corporation had not issued a report on the quality of the stock of raw materials even by April 2015.
- (c) An agreement had not been entered into with the supplier even by the date of audit to obtain a stock in compliance with the specifications in place of the stock of raw material, Frusemide – BP 2010 valued at Rs. 4,084,816 that was reported to have failed the quality tests on 10 September 2014.

4.4 Transactions of Contentious Nature

The following observations are made.

- (a) Expenses amounting to Rs. 3,686,312 had been incurred in 05 instances on the activities contrary to the objectives of the establishment of the Corporation.
- (b) The State Engineering Corporation had been paid a sum of Rs. 1,349,312 without calling for competitive bids for the construction of a waiting hall for the patients visiting the Ward No. 01 of the Colombo South Teaching Hospital. The Corporation had not drawn the attention of the possibility of getting the aforesaid activity achieved at a lesser expense.

4.5 Irregular Transactions

A housing rental amounting to Rs. 60,000 for a period of 2 months had been paid to the owner in spite of the house not being occupied by an officer of the Corporation.

4.6 Idle and Under Utilized Assets

The following observations are made.

Due to damages and non-utilization, 112 units relating to 05 items of assets valued at Rs. 49,957,886 had remained idle at various divisions of the Corporation since the year 2009 to the date of audit in the year 2015



The reply to the audit query No. HM/A/SPMC/2014(02) dated 21 May 2014 about the damaged assets not being disposed if it was not possible to reuse after being repaired in an economically and effective manner, stated that action is being taken as per the report made by a Board of Survey appointed for that purpose. Nevertheless, those activities had not been completed even by February, 2015.

4.7 Un-economic Transactions

The following matters were observed.

- (a) The meeting of the Board of Directors had been held at a hotel in the month of December of the year under review. An additional expense amounting to Rs. 219,600 as food and accommodation charges had incurred due to the fact that 28 officers who had attended the meeting, and their family members who stayed at the said hotel.
- (b) Hotel charges amounting to Rs. 123,200 had been spent on the workshop for the preparation of the corporate plan of the Corporation for the period 2014 – 2018.

4.8 Identified Losses

The following observations are made.

- (a) Due to failure in quality tests, faults in formulae, non-issuance, and expiration, 6,202.61 Kg of raw materials of 16 items of drugs valued at Rs. 19,767,957, and 45.854 million units of raw materials of drugs, had remained in the warehouses without being used for manufacturing as at 31 December 2014. The Chairman had informed the audit that the Corporation had recovered a sum of Rs. 730,589 by June 2015 on behalf of those stocks, whilst the rest of the stocks valued at Rs. 19,037,368 had remained in the stores without being used for manufacturing.
- (b) As per a decision taken at the Board of Directors meeting, No. 339 held on 12 September, 2014, drugs and compounds of 261.58 Kg relating to 6 items of drugs totaling Rs. 455,496 that had expired in the during the years 2009, 2010, 2011, and 2012, had been destroyed.



4.9 Human Resources Management

There had been 27 vacancies as the approved cadre and actual cadre had been compared as at 31 December 2014.

5. Accountability and Good Governance

5.1 Budgetary Control

The budget relating to the year under review had been revised. In comparing budgeted expenses with the actual expenses, variations ranging from 25 per cent to 257 per cent had been observed relating to 03 Heads, whereas variations ranging from 30 per cent to 481 per cent had been observed relating to assets and liabilities, thus, the budget had not been use of as an effective instrument of management control.

6. Systems and Controls

Weaknesses observed in systems and controls during the course of audit were brought to the notice of the Chairman of the Corporation from time to time. Special attention is needed in respect of the following areas of control.

- (a) Fixed Assets
- (b) Stocks
- (c) Pricing
- (d) Production
- (e) Personnel Administration

W.P.C. Wickramaratne

Acting Auditor General.

COMMENTS OF THE CHAIRMAN ON THE REPORT OF THE AUDITOR GENERAL FOR THE YEAR 2014

2. Financial Statements

2.2.1 Sri Lanka Accounting Standards

- (a) This has been taken note of. Relevant corrections will be made in the Financial Statements next year.
- (b) This has been taken note of. Relevant corrections will be made in the Financial Statements next year.

2.2.2 Accounts Payable

- The matter with regard to the amount of Rs. 1,276,684.00 payable as salary arrears has been referred to the Board of Directors for its approval.
- The payment of Rs. 20,000.00 pertaining to the magazine titled 'Arogya' has not been made since the copies of the magazine concerned have not been received by our Corporation.
- Similarly, the amount of Rs. 8,894.00 payable to the State Pharmaceuticals Corporation has not been paid due to the absence of the relevant Goods Receiving Note.

2.3 Non-Compliance with Laws, Rules, Regulations and Management Decisions

(a) Chapter XIX

Action was not taken to collect house rent as it was not occupied by an officer continuously.

Chapter XIX – 15.10.1

Chapter XIX – 3.18.1

No risk exists with regard to the recovery of Rs. 40,893.00 payable by the officer who went abroad without pay with effect from 8 November 2013 as money payable to him has been withheld.

(b) Public Finance Circular No. PF/PE/6 Dated 31 January 2000

The Corporation paid PAYE on behalf of employees. However, action was taken to recover it from employees from July 2014 onwards. The amounts paid as PAYE payments by our Corporation during the period from January to June 2014 have been given in the Financial Statements.

(c) Public Enterprises Department Circular No. PED 57 Dated 11 February 2011

Our Corporation provides sponsorships with a view to promoting sales. It is carried out with the approval of the Board of Directors. At the same time, it is not practical to obtain the approval of the Minister of Finance and Planning pertaining to provisions of this kind.

(d) The letter No. DMS/E4/10/090/2 Dated 09.03.2006 by the Management Services Department of the Treasury Addressed to the Secretary to the Ministry of Health

i. Paragraph No. 02-01 (1)

The Corporation operates the shifts system from 06.00 in the morning to 10.00 in the evening in order to meet the need for essential drugs at government hospitals and the Corporation is located where public transportation facilities are not available. Therefore, it is essential to bring employees for their respective shifts, and in these circumstances, the employees residing closer to the Corporation are quite important in this regard. In view of such circumstances, transport allowance is paid with the approval of the Board of Directors according to the distances to their places of residence.

ii. Paragraph No. 02-02

The letter (DMS/E4/10/490/2) issued on 09.03.2009 by the Management Services Department states that the norms pertaining to the production incentive should change. As such, the existing norms were studied by a Committee, who submitted a proposal pertaining to the production incentive with the objective of encouraging production and based on the current need. Accordingly, the Board of Directors approved this proposal and payments were made according to that approval.

3. Financial Review

3.1 Financial Outcomes

This has been taken note of.

3.2 Analytical Financial Review

Although we had planned to use the additional working capital efficiently in the year under review, it had not been possible to implement activity by the targeted dates in implementing the plans. However, the Budget has been prepared and effective plans have been formulated for utilizing surplus capital effectively and mobilizing future investments in a proper manner.

3.3 Legal Actions Brought against or by the Corporation

Legal action has been taken in this regard.

4. Operational Review

4.1 Performance

(a) Manufacturing Activities

- i. The reduction in the orders received from the Medical Supplies Division in the year 2014 caused the reduction in the amount of drugs manufactured.
- ii. All manufacturing activities are carried out according to the orders received. Some drugs have a high demand but this demand also change from year to year. Manufacturing activities have been carried out according to the demand that prevailed in the year 2014.
- iii. In the year 2014, 38 varieties of drugs have been manufactured. However, manufacturing activities had not taken place due to non-receipt of orders in respect of some drugs, due to lack of raw materials of good quality for some other drugs, and due to technical defects in certain others.

(c) Use of Machinery for Manufacture of Pharmaceuticals

- i. It is only Amoxicillin and Cloxacillin capsules that can be manufactured using the GKF 1500 machine and the SF 13 machines. The reason for the termination of the manufacture of drugs using these machines was not the lack of raw materials while the manufacturing of Amoxicillin capsules was stopped for a short time due to a complaint received regarding the quality in several batches.
- ii. Bosch GKF 800 capsule filling machine is operated at different speeds according to the kind of product manufactured. This has not caused an obstacle to the manufacturing process.

(d) Marketing and Pricing

- i. Price of pharmaceuticals affects the income from sales. When SPMC products are taken into consideration, prices of pharmaceutical products in the antibiotic zone (Penicillin Zone) take a higher value than the prices of pharmaceutical products in the General Products Zone (GD Zone). The minimal demand received for antibiotic products in the year 2014 as against the previous year also caused the sale income to drop to a very low level.
- ii. In addition, the Medical Supplies Division had requested that delivery of their orders be delayed due to the prevalence of surplus stocks (of general product items) at the Division and the number of unit of sale has also dropped comparatively as it was agreed to supply some of these items in the year 2015. In the year 2013, 1507 million units was supplied to the Medical Supplies Division and the supply for the year 2014 was 1396 million units.
- iii. Nearly 70% of the total production of the State Pharmaceuticals Manufacturing Corporation (SPMC) is supplied to the Medical Supplies Division and the rest is sold to the open market.

When operating in the open market, we have to face intense competition from other competing organizations, which prompt us to adopt various marketing tactics without which we will lose our market share as well as the present high demand for State Pharmaceuticals Manufacturing Corporation (SPMC) products.

In any case, the prices of pharmaceuticals (except for a few items) are decided taking into consideration competitive market prices as well as the aggregate value of the discounts given at sale and the allowance for meeting sales targets (15%).

Therefore it is not logical to compare this percentage to the income from sales.

- iv. Out of the 9 pharmaceuticals cited here, Paracetamol, Prednisolone, Metformin and Folic Acid received enormous orders from the Medical Supplies Division and commanded a high open market sale as well.

In addition, although the demand from the Medical Supplies Division for other pharmaceuticals, i.e. antibiotics, had gone down in the year 2014, the increase in the unit price and the high level of sales in the open market have caused the sales of the above mentioned drugs to stand at 60.98% in terms of units and 71.17% in terms of sale value out of the total sale of drugs.

Pharmaceutical Item Ordered	Amount supplied (Million units)	Shortfall in Supply in the Year 2014 (Million units)	Value of the Shortfall (Rs.)	Reasons for the Shortfall
Amoxicillin 250mg, 500mg, 125 mg	126	73.61	74,806,143	The Medical Supplies Division placed an order for 126 million units for the year 2014 and steps were taken to order raw materials accordingly. However, it was identified that there was a technical fault in the raw materials which were provided by the tenderer for manufacturing these items. Therefore, this consignment of raw materials had to be stopped and steps were taken to purchase the raw materials again. As a result, it was not possible to complete the order within the period for which order had been placed. Accordingly, 73.61 million units out of the total order were not supplied within the period concerned.
Carbamazepine 200 mg	28	13.37	20,762,656	No supplier came forth to supply the raw materials used for manufacturing this item that are of proper standard and easy to use in the production process. Owing to the technical defects that occurred during the production process as a result, it was not possible to complete this order.
Erythromycin Stearate BP 250mg	11	8.179	30,442,238	It was not possible to complete this order due to a technical defect that had existed in the raw materials used for manufacturing this product and a mechanical defect that had existed in the machine used for inspecting samples of the product at the laboratory.
Famotidine Tablets 20mg	100	61.69	34,610,334	The drug had to be re-developed due to a defect in the formula used in manufacturing this item. This process has not been completed.
Diclofenac Tablets 50mg	114	13.06	6,922,595	The tablets have to be coated in the process of manufacturing this item. As the capacity of tablet coating machines that we currently possess are not sufficient to meet the existing demand, inability to complete the whole order for such products (coated items) within the stipulated period is a continuous thing.
Metformin Tablets 500mg	100	33.617	25,649,771	As this item, too, requires coating during the process of production insufficiency of capacity in coating machines mainly affected its production as well. Further, in addition to the order of the Medical Supplies Division, reasons such as the comparative increase of demand from the distributors and having to meet the demand of the Rajya Osusala outlets influenced this. However, we took action to provide a large extent of our products, which means more than 75% of our total production, to the Medical Supplies Division.

Enalapril Maleate Tablets 5mg	95	60.997	50,627,510	This was caused because a higher number of batches always had to be held for quality control approval due to non-availability of sufficient laboratory facilities for quality inspection of the finished product of this item.
Frusemide Tablets 40mg	56	13.15	7,840,976	It was not possible to complete this order as the existing production capacity is insufficient to meet the current demand although the General Drug Production Zone is conducting its manufacturing activities with the maximum capacity.
Vitamin B Tablets	100	5.926	1,961,501	
Ascorbic Acid 100mg	40	40	16,680,000	The whole of this order remained unproduced by the end of the year due to the inability to obtain raw materials suitable for manufacturing this item. We informed the Medical Supplies Division of this situation and took steps not to accept orders for it for the year 2015.
Spironolactone 25mg Tablets	15	12.52	29,175,561	The Medical Supplies Division had ordered this product in very small packaging (100's pack) and it was not possible to complete the supply the way they had requested as it was difficult for us to supply products in small packaging and as time had to be spent to design a specific packaging unit (bottle) for the product.

(d) Determining the Price of Pharmaceuticals

I. Determining the Prices for the Medical Supplies Division

Prices of SPMC products supplied to the Medical Supplies Division are determined bi-annually by adding a 12% profit margin to the cost of each product.

II. Mostly SPMC products are sold to distributors at prices higher than the prices at which SPMC products are supplied to the Medical Supplies Division.

4.2 Management Inefficiencies

i. The commencement of this sales outlet had been subjected to discussion continuously and it was decided by the Board of Directors at its meeting held on 5 December 2014 that it should be done within January 2015. As such, steps were taken to open it on 3 January 2015 and a copy of the lease agreement prepared by the rental owner's party had been sent for our scrutiny on 29.12.2014.

Accordingly, this copy was given to a lady lawyer engaged in legal activities of the Corporation. Due to certain complicating terms of the agreement that had been prepared, both parties agreed to prepare the agreement anew and subsequently, the agreement was prepared by a lady lawyer who does the legal work of our Corporation and sent to us on 9 March 2015.

However, the low income state of this sales outlet by that time led to its referral to the Board of Directors for the purpose of removing the sales outlet and when the opinion of a lady lawyer was sought in regard to the agreement, she was of the opinion that it is not necessary to enter into an agreement if this business is not conducted any longer. This was further discussed at the meeting of the Board of Management held on 02.04.2015 and it was decided to close down the sales outlet with effect from 06.04.2015 subject to the covering approval of the Board of Directors.

As a result, it was not possible to enter into an agreement between parties with regard to this sales outlet, and the sales outlet was closed down on 06.04.2015.

ii. Although it had been informed that a feasibility study should be conducted according to the decision of the Procurement Board, the Board of Directors was informed that a more accurate feasibility study report could not be prepared (taking account of the factors such as the limitedness and specificity of the sales target group - viz pharmaceutical sales outlets and medical practitioners engaged in OPD consultation; the Corporation being confined to wholesale trade; limitedness of the SPMC product range) and a proposal was submitted to the Board of Directors to lease the sales outlet for a monitoring period of one year and to submit a financial analysis on it to the Board of Directors, to which approval has been signified by the Board of Directors.

- iii. As shown in the answer in (b) above, the Board of Directors was informed that a more accurate feasibility study report could not be prepared, which received the approval of the Board of Directors. However, the State Pharmaceuticals Corporation commenced purchasing our drugs from the very beginning of the year 2015 and as such our pharmaceuticals could be purchased at all SPC Osusala outlets. In addition, the Town Hall SPC Osusala is located in very close proximity to (around 500 metres from) our outlet. The Financial Division and the Audit Division reported in just two months that a financially unprofitable state existed. The main reasons that have been identified are:
- Sale of only SPMC pharmaceuticals at it (prevalence of only 27 pharmaceuticals out of all by that time) and
 - The issuing of pharmaceuticals being confined to medical practitioners and pharmacies.

As such, according to a decision made at the meeting of the Board of Management held on 2 April 2015, it was decided to close down the sales outlet subject to the covering approval of the Board of Directors.

4.3 Operational Inefficiencies

- (a) The Formulation, Research and Development Division has put in a great deal of effort to resolve its technical problems before the expiry of the consignment of pharmaceuticals. A lot of time was spent on it since 2012.

However, when manufacturing was carried out in large size (scale up) to suit the machines in the Manufacturing Division in small scale experiments, the product did not agree with the specifications in respect of dissolution in the finished drug and also caused disturbances on the general functioning of the capsule filling machine. At the same time, prescribing this drug for humans has also fallen rapidly due to side effects and other problems associated with the drug. It has become evident by the market surveys conducted that the drug is abundantly used (in an unofficial manner) in poultry farms and fish farms.

Similarly, at the time of preparing the Financial Statements, no definite decision had been reached with regard to the use of Chloramphenicol raw materials for manufacturing of drugs. Therefore it has been shown by way of a note in the Financial Statements.

- (b) The supplier concerned has returned the money on 25.05.2015.
 (c) The supplier has agreed to re-supply raw materials of exact specifications.

4.4 Transactions of Contentious Nature

- (a) Social welfare should also be provided while satisfying marketing concepts under the social marketing concept which exists in marketing. As such, expenditures mentioned here have been deployed as follows :-
- (b) At the time of constructing this building, the State Engineering Corporation of Sri Lanka had been providing consultancy services in respect of three buildings the State Pharmaceuticals Manufacturing Corporation (SPMC). Therefore, the designing and construction of this building has been awarded to the State Engineering Corporation of Sri Lanka with the approval of the Procurement Committee.

4.5 Irregular Transactions

The official quarters which was obtained on rent basis for executive officers/ members of the Board of Directors to stay when necessary (as per the decision of the Board of Directors which has not been confirmed) were also used by the former Managing Director when needed and when his letters dated 31.01.2015 and 12.02.2015 were received by me on 16.03.2015, and since no other executive officer or member of the Board of Directors had applied to use the official quarters, the house was handed over to the house owner on 08.03.2015 after finalizing the formalities required in terms of the agreement, and as a result, rent had to be paid for the months of January and February in 2015.

4.6 Non-Performing and Under-Utilized Assets

The relevant Board of Survey has submitted the files pertaining to these assets to the Administration Division on 01.04.2015. Quotations have been called from employees of the Corporation for the purpose of selling these items and the details were listed and submitted to the Technical Evaluation Committee.

4.7 Un-Economic Transactions

- (a) Updating of our Combined Plan contributes greatly to the institutional procedures and it has been prepared by holding brainstorming sessions with the participation of all executive officers of the Corporation and members of its Board of Directors with input from everyone. It is not felt to have brought no technical economic benefit but is felt as a long-term investment in human resources.
- (b) As a tradition, the final Meeting of the Board of Directors for the year is held outside the Corporation. The main objective of holding it outside the premises is to work as a further motivation to the Board of Management and to the Board of Directors to review the progress of the year and to work towards the advancement of the Corporation.

4.8 Identified Losses

- (a) A detailed analysis on this has been shown under the last audit query (14/2C) of the Auditor General.
- (b) These items were destroyed after obtaining the recommendations of the Audit Committee at its 82nd Meeting held on 26 August 2014 under the approval of the Manager (Quality Control) and Manager (Formulation, Research and Development) and submitting to the Board of Directors.

4.9 Human Resources Management

The vacancies concerned are being filled gradually.

5. Accountability and Good Governance

This has been taken note of.

5.1 Budgetary Control

This has been taken note of.

6. Systems and Controls

The weaknesses cited with regard to the aspects of controls will be given special focus and action will be taken to overcome the weaknesses.

GRAPHICAL REVIEW

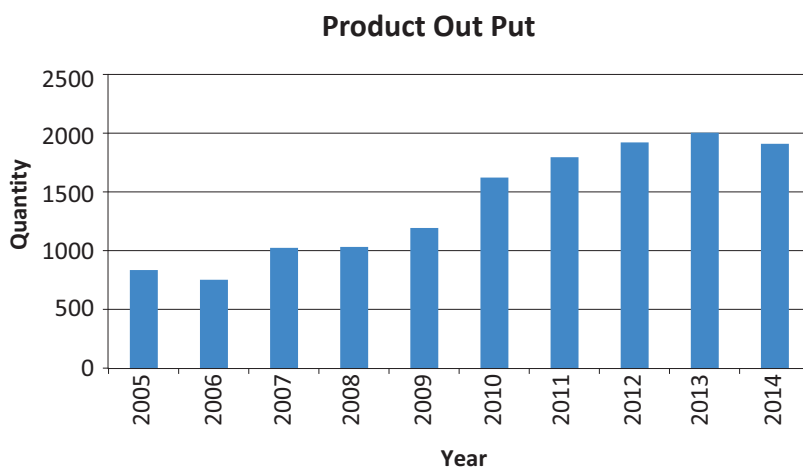
HUMAN RESOURCES

Year	No. of Employees
2005	148
2006	171
2007	189
2008	195
2009	209
2010	209
2011	208
2012	199
2013	211
2014	226



PRODUCTION

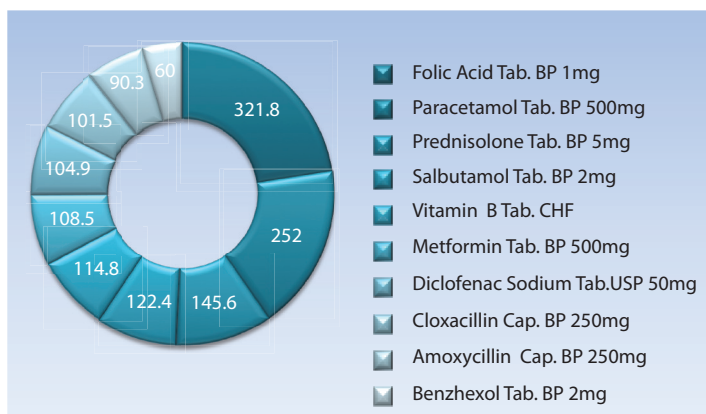
Year	No. of Tablets/ Capsules
2005	837
2006	752
2007	1025
2008	1032
2009	1195
2010	1623
2011	1796
2012	1922
2013	2003
2014	1909



MAJOR CONTRIBUTION TO THE PRODUCTION - 2014

	Tablets/Capsules (Millions)
Folic Acid Tab. BP 1mg	321.8
Paracetamol Tab. BP 500mg	252
Prednisolone Tab. BP 5mg	145.6
Salbutamol Tab. BP 2mg	122.4
Vitamin B Tab. CHF	114.8
Metformin Tab. BP 500mg	108.5
Diclofenac Sodium Tab.USP 50mg	104.9
Cloxacillin Cap. BP 250mg	101.5
Amoxycillin Cap. BP 250mg	90.3
Benzhexol Tab. BP 2mg	60

Major Contribution to the Production - 2014

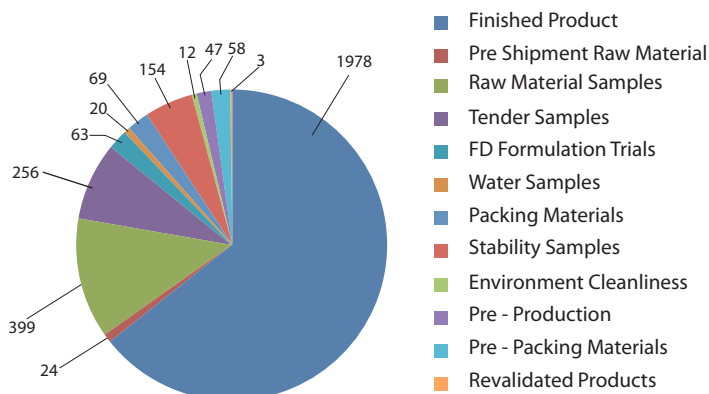


QUALITY CONTROL

Analysis of Performance - 2014

Performance	Nos.
Finished Product	1978
Pre Shipment Raw Material	24
Raw Material Samples	399
Tender Samples	256
FD Formulation Trials	63
Water Samples	20
Packing Materials	69
Stability Samples	154
Environment Cleanliness	12
Pre - Production	47
Pre - Packing Materials	58
Revalidated Products	3
Total	3083

Analysis of Performance - 2014

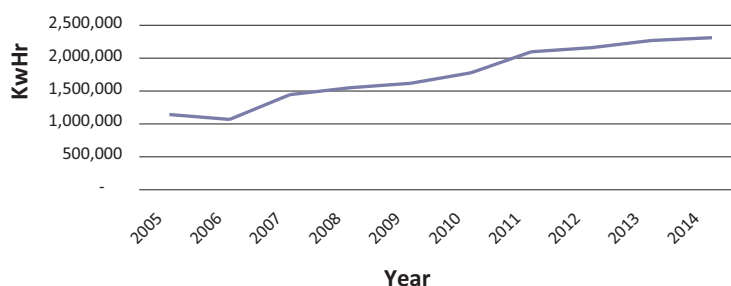


MAINTENANCE

Power Consumption

Year	Power Consumption
2005	1,142,690
2006	1,069,013
2007	1,446,112
2008	1,550,285
2009	1,616,464
2010	1,775,660
2011	2,096,330
2012	2,159,566
2013	2,268,250
2014	2,308,930

Power Consumption



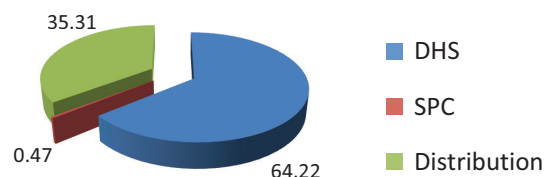
MARKETING

Turnover Segment (Rs. Million)

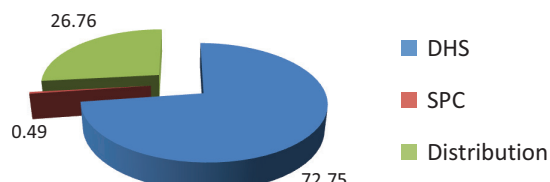
	2014	%
DHS	1,099.52	64.22
SPC	8.05	0.47
Distribution	604.53	35.31
Total	1,712.10	100.00

	2013	%
DHS	1,412.13	72.75
SPC	9.60	0.49
Distribution	519.34	26.76
Total	1,941.07	100.00

2014



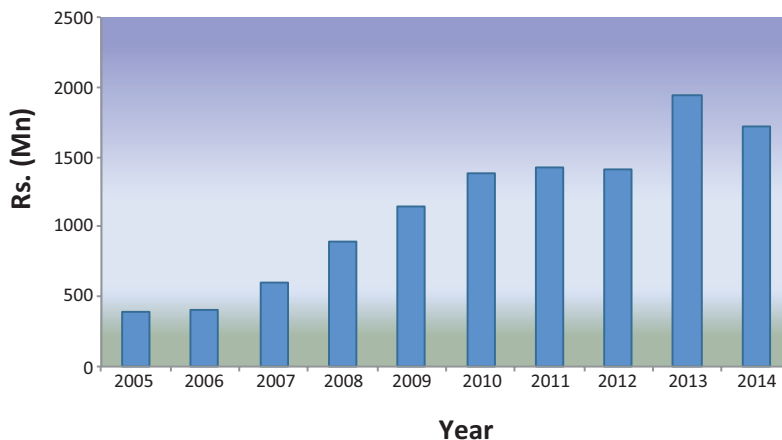
2013



Turnover (2005 - 2014)

Year	Turnover Rs.(Mn)
2005	387.69
2006	411.19
2007	599.03
2008	890.24
2009	1152.68
2010	1379.65
2011	1431.65
2012	1414.54
2013	1941.18
2014	1712.10

Turn Over (2005 - 2014)

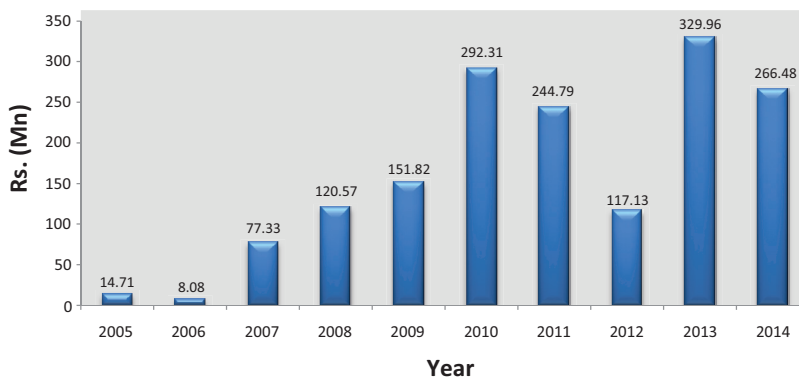


FINANCE

Net Profit/ (Loss)

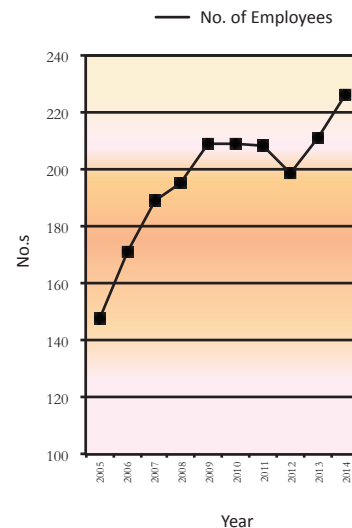
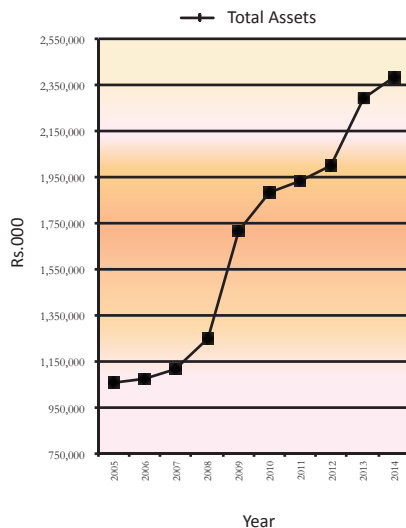
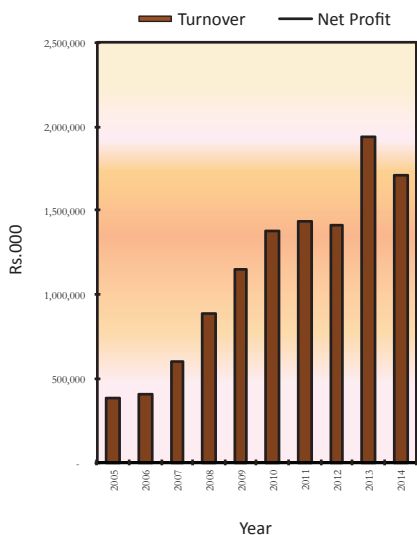
Year	Net Profit/Loss Rs.(Mn)
2005	14.71
2006	8.08
2007	77.33
2008	120.57
2009	151.82
2010	292.31
2011	244.79
2012	117.13
2013	329.96
2014	266.48

Net Profit/(Loss)



FINANCIAL HIGHLIGHTS IN THE PAST 10 YEARS

	(Rs.000)									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Turnover	387,696	411,194	599,035	890,244	1,152,684	1,379,652	1,431,655	1,414,546	1,941,182	1,712,105
Cost of Sales	328,536	371,315	500,444	765,247	932,212	1,030,545	1,130,961	1,220,523	1,514,973	1,319,715
Gross Profit	59,159	39,878	98,590	124,997	220,472	349,107	300,693	194,023	427,283	392,391
Operational Profit	(5,398)	(20,469)	37,141	63,403	121,423	266,166	218,593	85,292	302,725	224,758
Administration Overhead	39,719	41,939	53,947	47,162	60,243	62,869	73,062	82,390	105,237	133,933
Interest Income	20,111	30,282	41,462	60,904	33,479	30,752	23,067	31,843	25,314	44,196
Net Profit	14,713	8,087	77,339	120,572	151,827	292,317	241,118	117,136	329,968	266,481
Fixed Assets	547,919	429,144	421,085	408,129	815,342	914,716	855,660	804,305	762,641	778,077
Short Term Investment	250,812	296,905	281,107	265,893	201,529	243,264	337,229	210,691	429,896	913,443
Total Assets	1,056,501	1,076,470	1,117,587	1,251,026	1,718,461	1,887,430	1,933,205	2,003,258	2,292,663	2,386,449
No. of Employees	148	171	189	195	209	209	208	199	211	226



SPMNC

ලියාපදිංචි කාර්යාලය

11, සර් ජෝන් කොතලාවල මාවත,
කදවල වත්ත,
රත්මලාන.

දුර : 2635353, 2637574, 2636967 (ADSL)
ෆැක්ස් : 2634771, 2626621, 2623553
ඊ - තැපෑල : spmclanka@sltnet.lk
වෙබ් අඩවිය : www.spmclanka.lk

සහායක

දුර : 2623238 (සෘජු)
2635353, 2637574 (පොදු)

සාමාන්‍යකරණ

දුර : 3153835 (සෘජු)
2635353, 2637574 (පොදු)

නිෂ්පාදන දෙපාර්තමේන්තුව

නියෝජ්‍ය සාමාන්‍යකරණ - නිෂ්පාදන
දුර : 2623521 (සෘජු)

සැලසුම් හා ප්‍රසම්පාදන දෙපාර්තමේන්තුව
නියෝජ්‍ය සාමාන්‍යකරණ - සැලසුම් හා ප්‍රසම්පාදන

දුර: 2623298 (සෘජු)

අලෙවි දෙපාර්තමේන්තුව

අලෙවි කළමනාකරණ
දුර : 3163308 (සෘජු)

තනිව පාලන දෙපාර්තමේන්තුව

නියෝජ්‍ය සාමාන්‍යකරණ - තනිව පාලන
දුර : 5512945 (සෘජු)

විට්ටෝර, පර්යේෂණ හා සංවර්ධන දෙපාර්තමේන්තුව
නියෝජ්‍ය සාමාන්‍යකරණ - විට්ටෝර, පර්යේෂණ හා සංවර්ධන

දුර : 5512950 (සෘජු)

මූල්‍ය දෙපාර්තමේන්තුව

නියෝජ්‍ය සාමාන්‍යකරණ - මූල්‍ය
දුර : 2626630 (සෘජු)

මූල්‍ය කළමනාකරණ

දුර : 2623276 (සෘජු)

තනිව දෙපාර්තමේන්තුව

නියෝජ්‍ය සාමාන්‍යකරණ - ඉංජිනේරු
දුර : 2623246 (සෘජු)

කළමනාකරණ - ඉංජිනේරු

දුර : 2623239 (සෘජු)

අභ්‍යන්තර විගණක දෙපාර්තමේන්තුව

අභ්‍යන්තර විගණක
දුර : 2626619 (සෘජු)

මානව සම්පත් දෙපාර්තමේන්තුව

මානව සම්පත් කළමනාකරණ
දුර : 2636234 (සෘජු)

පතිච්ඡායා සම්පූර්ණව අලුත්වීම

11, ශ්‍රී ලංකා කොන්දාමාලා මාවත,
කන්දවාල, රත්මලාන,
රත්මලාන

දුර: 2635353, 2637574, 2636967 (ADSL)
දුර: 2634771, 2626621, 2623553
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තොරතුරු

දුර: 2623238 (දුර)
2635353, 2637574 (පොදු)

පොදු මුද්‍රාණය

දුර: 3153835 (දුර)
2635353, 2637574 (පොදු)

ප්‍රධාන නිලධාරීන්

ප්‍රධාන නිලධාරී මුද්‍රාණය
දුර: 2623521 (දුර)

නිලධාරීන්, කොන්දාමාලා, ප්‍රධාන නිලධාරීන්

නිලධාරීන්, කොන්දාමාලා මුද්‍රාණය
දුර: 2623298 (දුර)

ප්‍රධාන නිලධාරීන් මුද්‍රාණය

දුර: 3163308 (දුර)

ප්‍රධාන නිලධාරීන් මුද්‍රාණය

ප්‍රධාන නිලධාරීන් මුද්‍රාණය
දුර: 5512945 (දුර)

ප්‍රධාන නිලධාරීන් මුද්‍රාණය

ප්‍රධාන නිලධාරීන් මුද්‍රාණය
දුර: 5512950 (දුර)

නිලධාරීන් මුද්‍රාණය

නිලධාරීන් මුද්‍රාණය
දුර: 2626630 (දුර)

ප්‍රධාන නිලධාරීන් මුද්‍රාණය

දුර: 2623276 (දුර)

ප්‍රධාන නිලධාරීන් මුද්‍රාණය

ප්‍රධාන නිලධාරීන් මුද්‍රාණය
දුර: 2623246 (දුර)

ප්‍රධාන නිලධාරීන් මුද්‍රාණය

දුර: 2623239 (දුර)

ප්‍රධාන නිලධාරීන් මුද්‍රාණය

ප්‍රධාන නිලධාරීන් මුද්‍රාණය
දුර: 2626619 (දුර)

ප්‍රධාන නිලධාරීන් මුද්‍රාණය

ප්‍රධාන නිලධාරීන් මුද්‍රාණය
දුර: 2636234 (දුර)

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Chairman

Tel : 2623238 (Direct)
2635353, 2637574 (General)

General Manager

Tel : 3153835 (Direct)
2635353, 2637574 (General)

Production Dept.

DGM Production
Tel : 2623521 (Direct)

Planning & Procurement Dept.

DGM Planning & Procurement
Tel : 2623298 (Direct)

Marketing Dept.

Manager Marketing
Tel : 3163308 (Direct)

Quality Control Dept.

DGM Quality Control
Tel : 5512945 (Direct)

Formulation, Research & Development Dept.

DGM Formulation, Research & Development
Tel : 5512950 (Direct)

Finance Dept.

DGM Finance
Tel : 2626630 (Direct)

Finance Manager

Tel : 2623276 (Direct)

Maintenance Dept.

DGM Engineering
Tel : 2623246 (Direct)

Manager Engineering

Tel : 2623239 (Direct)

Internal Audit Dept.

Internal Auditor
Tel : 2626619 (Direct)

Human Resources Dept.

Manager Human Resources
Tel : 2636234 (Direct)

