AMMENDED POLICY

OF

SUSPEND OF DEALING WITH SUPPLIERS

OF

STATE PHARMACEUTICALS CORPORATION

POLICY NO : SPC/BOD/PDO/01/2026

EFFECTIVE DATE : 26.02.2026 (Board paper No 826/BP/17/2/2026 dated 25.02.2026)

REVISION HISTORY

1)Board Paper Ref : BP/132/09

Approved by : Board of Directors of State Pharmaceutical Corporation

Released Date : Policy Released on 02nd October 2009

2)new condition to previously approved suspended dealing policy.

Board Paper Ref : CIR/5/9/25

Approved by : Board of Directors of State Pharmaceutical Corporation

Released Date : Policy Released on 16.09.2025

This is revised policy comes into effect upon approval by the Board of Directors and supersedes all previous suspended dealing policy and its amendments.

1. Purpose

This policy sets out the procedures, conditions, and guiding principles under which the State Pharmaceuticals Corporation (SPC) may suspend or restrict business dealings with local agents/suppliers/manufacturers. Such action may be taken in instances involving breaches of contractual terms, performance deficiencies, non-compliance with applicable legal or regulatory frameworks, or any other circumstances deemed reasonable and justifiable in the interest of the Corporation.

2. Scope

This policy shall apply to all departments, divisions, and functional units within the State Pharmaceuticals Corporation (SPC) that are involved in or associated with the procurement, acquisition, and supply chain management of goods and services,

This policy shall cover all procurement activities, including:

- Supplies made for the Department of Health Services,
- Supplies made for the SPC open market,
- Procurements carried out by the Administration Department,

Irrespective of the nature, value or category of such transactions."

3. Definitions

Supplier/Manufacturer/ Local agent	**:** Any individual or entity that provides goods or services under formal or informal agreement with State Pharmaceuticals Corporation.
Suspension	**:** A temporary or indefinite ban on procurement dealings with a supplier.
Sanction	**:** A formal action taken by a contracting authority against a supplier due to misconduct, breach of contract, or unethical behavior.
Defaulting	**:** Permanent disqualification from future dealings.
Debarment	**:** Disqualified or prohibited from participating in tenders, contracts, or procurement activities due to serious violations of laws, regulations, or ethical standards.

4. Policy Statement

The State Pharmaceuticals Corporation (SPC) is steadfastly committed to upholding the highest standards of ethical conduct, transparency, and efficiency in its procurement processes. In circumstances where a local agent/supplier/manufacturer fails to fulfill contractual obligations, contravenes applicable laws or codes of conduct, or engages in unethical behavior, the Corporation expressly reserves the right to suspend, sanction, defaulting and debarment all further business dealings with the said local agents /suppliers/manufacturers.

5. Grounds for Penalties

Accordingly, in accordance with the provisions of this policy, the Corporation shall initiate procedures for penalties with suppliers in the instances outlined below. Such action shall be taken where suppliers are found to be in breach of the prevailing laws, regulations, or the contractual terms and conditions established under agreements entered with the Corporation.

5.1 Suspension of Dealings, Sanctions, Defaulting, or Debarment of Suppliers Due to Quality-Related Issues

5.2 Suspension of Dealings, Defaulting, or Debarment Due to Non-Settlement of Claims

5.1. Suspension of Dealings, Sanctions, Defaulting, or Debarment of Suppliers Due to Quality-Related Issues

There should be a recommendation from the National Medicine Quality Assurance Laboratory (NMQAL), National Medicine Regulatory Authority (NMRA) or Quality Assurance Laboratory of SPC to withdraw a product.

5.1.1 De-Registration by NMRA

When a product withdrawal reported and cancelling the registration of the particular product informed by NMRA, Such Manufacturer shall be treated as defaulter for that particular product until the deregistration revoked by NMRA followed by a directive from the Board of Directors of SPC. It is responsibility of the Deputy General Manager (Technical and Laboratory) to submit the such cases reported to him or her to the Board of Directors.

5.1.2. Product withdrawals

If the SPC identifies five (05) batch withdrawals of a particular product by SPC Quality Assurance Laboratory or NMQAL leading to a product withdrawal. The SPC shall notify MSD, and manufacturer within fourteen (14) days from the date of withdrawal is identified and inform NMRA for further actions. Manufacturer associated with such product withdrawal will not be considered for future tenders for the specific product until a formal directive is received from the NMRA.

5.1.3. Open market Supplies

The test reports issued by the SPC Quality Assurance Laboratory shall be final and binding.

5.1.3.1.

(a) When a product withdrawal is reported by the Quality Assurance Laboratory of SPC for a particular product, the manufacturer shall be treated as a defaulter for that specific product for a period of three (03) years, effective from the date of Board approval. Such approval shall be based on a directive issued by the Board of Directors of SPC. It is the responsibility of the Deputy General Manager (Technical, Laboratory, and Production) to submit all such reported cases to the next available meeting of the Board of Directors.

(b)The supplier treated as a defaulter under this category can make a request to the Chairman, SPC, for removal of its name from the Register of Defaulted suppliers after the period of three (03) years, subject to settlement of the any claims under 5.2 (if any) along with past supplied history of the relevant product in private market during the suspension period. It is the responsibility of the Deputy General Manager (Technical, Laboratory and Production) to submit such reported cases to the next available meeting of the Board of Directors for approval.

5.1.3.2.

(a)When there are two (02) product withdrawals involving products supplied by the same manufacturer occur within a 12 month period or when more than five (05) product withdrawals from the same manufacturer have occurred within past 5 years at the same manufacturing site - despite the NMRA deregistration of those products - the Deputy General Manager (Technical, Laboratory and Production) should submit reports on quality failure reported to the next available meeting of the Board of Directors through the General Manger, recommending to suspend of dealing with the manufacturer for entire range of their products for the period of five (05)years from the date of the last of quality failure reported.

(b) After completion of suspension period, the supplier has the right to submit an appeal to the Chairman, SPC, requesting the removal of the suspension, subject to settlement of any claims under 5.2 (if any) along with an affidavit confirming sales details for private market. Deputy General Manager (Technical, Laboratory and Production) should submit a board paper including the details for the products supplied to private market and the supplier's past supply history for the relevant products , during the suspension period.

(c) The Board of Directors will review the supplier's past supply history for the relevant product (s), during the suspension period. Suppler should have ensured the product/products supplied to private market during the suspension period should have not quality complaints.

5.2. Suspension of Dealings, Defaulting, or Debarment Due to Non-Settlement of Claims

5.2.1.

(a) Claims arising on supplier's faults described below, should be communicated to the manufacturer, supplier, and local Agent of the Supplies by the authorized officers in the DGM (P & I) I / DGM (P & I) II / DGM (HR & Administration) of SPC within 07 working days from the date of concluding the claim.

- Quality Failures (Batch withdrawals /product withdrawals /discontinued to use)

- 25% Administrative Charges on Batch withdrawals/product withdrawals/discontinued to use
- Voluntary Re-calls & 25% Administrative Charges on same (if applicable)
- Short Packing and 25% Administrative Charges on same
- Claims on Rejected items/consignments and 25% Administrative Charges on same
- Damages
- Penalty imposed by MSD for non- compliance regarding labelling
- Additional Charges for storage/labelling/unloading /transport
- Destruction Charges
- Demurrages
- Penalty on Late Delivery/Penalty for delayed delivery (0.5% or 25%)
- Penalty on Short Shelf life / Import control Department penalty
- Surcharges on local purchases
- Unused/Expiry Stocks
- Delay in Supply
- 25% administrative surcharge for short supply
- LC opening and cancellation charges
- Container deposit/damage charges
- Any Other claims

(b) The Local Agent, Supplier, or Manufacturer is allowed to submit any objection or appeal, if any, against the claim within fourteen (14) days from the date of receiving the claim notice and it should be addressed to relevant department heads (DGM (P &I) I, DGM (P& I) II and DGM (HR & Admin)) as applicable.

(c) If an appeal is received within the fourteen (14) days, it will be considered and reviewed by SPC prior to releasing the claim debit note by DGM (P&I) I, DGM (P&I) II, and DGM (HR & Admin) as applicable.

(d) If no appeal is received within the fourteen (14) days, the procurement officer of the Department of Imports / the Department of HR & Admin of SPC should raise a Debit Note for such claims within twenty- eight (28) days from the date of appeal called.

(e) If the Supplier fails to settle the claim within sixty (60) days from the date of raising the Claim Debit Note by SPC. SPC have a right to claim it from according to condition of Contact, it is a responsibility of the DGM (P &I) I, DGM (P& I) II and DGM (HR & Admin) of SPC as applicable to bring it to the notice of the General Manager of the SPC.

(f) The authorized officer when appointed by the Chairman should issue the Show-Cause Notice, **(**Final Notice) offering them thirty (30) days period , specifically stating that the State Pharmaceuticals Corporation is compelled to Suspend Dealings with them for the Entire range of their product if they fail to settle the claim within thirty (30) days period or submit written explanation showing causes as to why the suppliers company should not be listed as defaulted and why SPC should not initiate legal actions against suppliers company to recover the claim.

(g) If the Supplier fails to settle the claim within the period offered from the date of show-cause notice, it is a responsibility of the Deputy General Manager(P&I) I & II and DGM (HR and Admin) of SPC as applicable, to submit the paper to the Board of Directors of SPC to place the supplier/manufacture/local agent in the list of defaulted suppliers.

(h)The Board of Directors shall take a decision to Suspend Dealings with the supplier for the Entire range of their products or to call explanation from the supplier and/ clarifications from relevant authorities (SPC, NMRA and NMQAL), if the Board decides to do so.

(i) In case of calling further explanation from the Supplier/Manufacturer/local agent and a clarification from relevant authorities (SPC, NMRA and NMQAL), the Board of Directors will take a decision by reviewing the explanations/clarifications given and in accordance with the relevant policies, contractual obligations, and organizational interests.

5.2.2.

When the Board of Directors approves proceeding with the suspension of all dealings with the concerned local agent, supplier or manufacturer under section 5.2.1. due to non- settlement of claims, Such suspension not apply to supplies for which **contracts** have already been duly executed for the procurement of Pharmaceuticals and Surgical, lab items for DHS and SPC and the procurement done by Administration department shall continue to be implemented in accordance with the terms and conditions stipulated in the respective contracts until completion of the said supplies.

6. suspension Procedure

6.1 Show Cause Notice: A formal final notice shall be issued to the supplier, clearly outlining the grounds for the proposed action, and the supplier shall be granted a period of thirty (30) days from the date of issuance to submit a written response, along with any supporting documentation or representations deemed relevant.

6.2 Review the Position

This review shall be conducted in consultation with the respective Department Head to verify whether there are any partial deliveries pending, ongoing or upcoming orders to be processed or awarded, outstanding claims to be settled, claims to be lodged, or claims to be revised.: Management assistants of the relevant sections ((DGM (P & I)I , DGM (P&I) II and DGM (HR & Admin)of SPC))for reporting and reviewing the most recent status of the cases concerning suppliers or manufacturers proposed for suspension

6.3 Informed to Board : If the supplier fails to respond to the final notice and/or does not take appropriate corrective action within the stipulated grace period, the relevant section (DGM (P & I) I, DGM (P&I) II and DGM (HR & Admin) of SPC) shall report the matter to the Board of Directors, together with a formal recommendation to proceed with the suspension of all dealings with the concerned local agent, supplier or manufacturer.

6.4 Final Decision : Based on the supplier's response and the supporting evidence presented, the Board of Directors shall assess the merits of the case and, if deemed appropriate, issue a formal suspension order. Where necessary, the Board shall also instruct the Legal Division to initiate appropriate legal proceedings against the concerned supplier or manufacturer.

6.5 Notification : The suspension decision shall be formally communicated to the concerned supplier / manufacturer/local agent, as well as to all relevant departments and regulatory authorities. Additionally, the suspension shall be duly recorded and updated in the Supplier Management System for reference and compliance purposes.

6.6 Entering to Database : It is responsible of the Deputy General Manager (Technical, Laboratory and Production)/Deputy General manager (HR and Admin) to maintain a register for the purpose of recording details on suspended suppliers/manufacturers/local agent. Relevant Sectional heads should forward a copy of board paper with a copy of board decision.

6.7 Publishing in the Web : It shall be a mandatory requirement to publish the list of suspended suppliers on the official website of the State Pharmaceuticals Corporation (SPC). It shall be the responsibility of the Deputy General Manager (Technical, Laboratory, and Production) / Deputy General manager (HR and Admin) to take the necessary steps to ensure such publication.

7. Removing the name from the list of suspended dealing

Supplier treated as defaulter for a particulate product under the point no 5.1.1, can make a request to delete their name from the Register of Defaulted suppliers after revoking the de-registration by NMRA provided that they obtain a fresh registration from the NMRA for the particular product and after completion the Settlement of Claim**s (if any)** under point no 5.2

Suppliers suspended under point no. 5.2, can make an appeal the decision by submitting a written appeal to the Chairman of SPC to delete their name from the register of suspended local agent /suppliers/manufacturers after settling the defaulted payments and any other charges to the Corporation.

Chairman shall call for necessary reports/explanations from the General Manager/relevant Deputy General Managers when necessary. Chairman SPC takes decisions on revoking suspension of suppliers /manufacturer /local agent after making full settlement of the claim to the Corporation.

It is the responsibility of DGM (P&I) I, DGM (P&I) II, and DGM (HR & Admin) of the SPC (as applicable) to bring the settlement of the claim to the notice of the Chairman within fourteen (14) days of such settlement and inform notification to Board of Directors

8. Responsibilities of policy amendments

The operational manual, procurement-related contracts/agreements, and tender conditions shall be amended as required to reflect these policy changes. The respective department heads are responsible for ensuring that the necessary procedural updates and system changes are implemented and for monitoring their effective enforcement.

9. Policy Review

This policy shall be reviewed on upon significant legal/regulatory changes, time to time.

10. Language version and publishing

This policy shall be issued in three official Languages English, Sinhala and Tamil

All three versions should be published in SPC web site in PDF format