

# MENJONG SORIG PHARMACEUTICALS CORPORATION LIMITED



## Directors' Annual Report

(Endorsed by the Shareholder)

July 2017 to December 2018

*Prepared in compliance to the Companies Act of Kingdom of Bhutan 2016*



## Directors' Report

(July 2017- Dec 2018)

On behalf of the Board and management of Menjong Sorig Pharmaceuticals Corporation Limited (MSPCL in short or the Company), as a Chairman, I am pleased to present the Company's first Directors' Report for the year 2017 & 2018. The Board welcome the shareholders' representatives to this first annual general meeting (AGM) of the Company.

The Company was incorporated in July 2017. Since it was already half way through when corporatized, therefore the auditing period commenced from July 2017 to Dec 2018 with the prior approval of the Registrar of the Companies, MoEA. The Company's core mandate is to manufacture traditional medicines (TMs) for the Ministry of Health (MoH). Other mandate includes production of health promoting supplements (HPS) besides research and development on new products. Currently, we have 52 staff including 2 drungtshos and 3 GMP certified professionals.

### Operational Performance Highlights

During the first 6 months of the transition phase (July to Dec 2017) routine/ normal operation was carried out as done under civil service system mainly there was no CEO to drive the Company forward in a desired direction. It was headed by an interim CEO then. With the joining of the new CEO in January 2018, the Company was set on the new footing. The new management immediately took the charge of the Company and undertook the following important initiatives /reforms which are indeed great achievement for the Company:

1. Introduced 4 new products to its portfolio;
  - a. Two types of soaps using local herbs;
  - b. One hand sanitizer (made from rhododendron oil);
  - c. Anti-wrinkle cream made from Himalayan gooseberry.
2. Introduced corporate governance culture through streamlining of decision making & delegation of powers;

  
**CHAIRMAN**

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Menjong Sorig Pharmaceuticals Corporation Limited

  
**CHIEF EXECUTIVE OFFICER**  
Menjong Sorig Pharmaceuticals Corporation Limited



3. New Service Rules introduced for effective and efficient management of HR & administration including code of conduct for employees;
4. Introduced and implemented annual performance compact, similar to APA in the government – very effective for production and monitoring;
5. Assets and inventory management streamlined;
6. Trade marks obtained for 3 products and another 3 have been processed for Royal Seal – very good marketing strategy;
7. Export of some HPS or commercial products have started & picking up;
8. In 2018 alone, participated in 6 trade shows/ exhibition including one in New Delhi as a part of marketing and awareness on use of local products;
9. ISO & GMP certification under process which will not only boost the quality assurance system but also marketing of products;
10. New machinery installed and commissioned for tea packing;
11. Internal control system in place to seal the leakage of raw materials and finished products;
12. Another 5 products under R&D stage.

In the initial years of operation, though the Company faced a lot of challenges, yet we are able to take a significant stride.

Operation targets achievement

Sl #	Key Performance Indicator (KPI)	Activity	Target output	Remarks
1	Traditional Medicines	Traditional Medicines produced and supplied.	13.40 MT	Achieved
2	Commercial Products	Commercial products produced.	2 MT	



3	Raw Materials	High altitude RM collection completed.	2.58 MT (dry weight)	Achieved
3a	Raw Materials	Low altitude RM collected completed.	3.2 MT (dry)	Achieved
3b	Raw Materials	Imported items procurement completed	5.20 MT (dry)	Overachieved with 7.30 MT
4	Quality Assurance	Quality control handbook 2nd edition prepared and implemented.	Published	Completed
5	New Product	New products launched	2 new products	Cordyceps tea and Anti-Cellulite massage Oil
6	Sales Counter	New sales counter operatized	May	Target achieved
7	Product Innovation	New packaging designed and implemented	3 products	Achieved
8	DRA Compliance	5 recommendations implemented	All implemented	All achieved

Organizational Management/Corporate Governance

Sl. #	Key Performance Indicator	Activity	Target output	Remarks
1	Service Rules and	Internal Service Rules	Endorsed by	Target achieved



	Regulations	and Regulations developed & endorsed	MoLHR	
2	DOP	Delegation of power prepared & approved.	Approved by the Board	Target achieved
3	Pricing Strategy for Traditional Medicines	Pricing strategy for TM prepared/ developed	Approved by the Board	Achieved but could not implement*
4	ERP/Tally	Tally ERP installed & implemented.	System implemented	Target achieved
5	Website development	Corporation's website developed and launched.	Launched	Target achieved

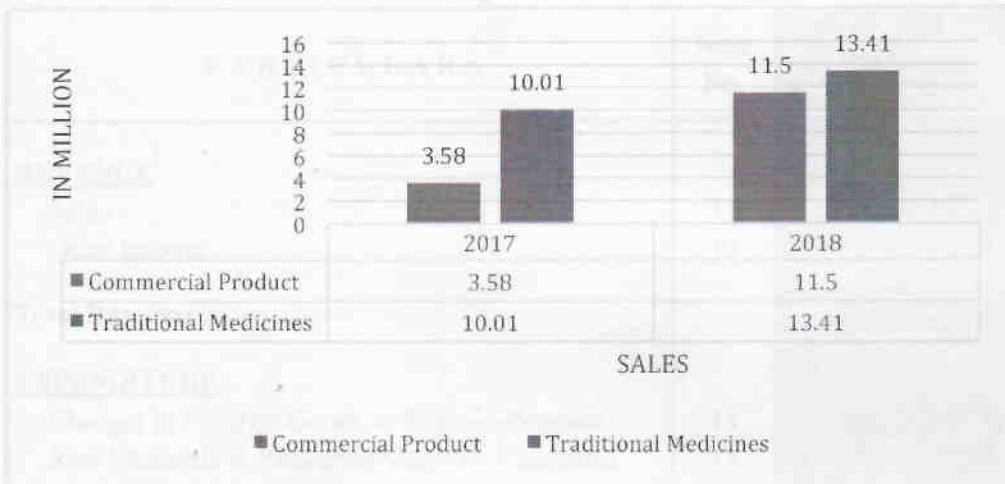
### Financial Performance Highlights

In terms of workload, 80% of the effort is dedicated to the manufacturing of traditional medicines (TMs) with only 20% for commercial products / HPS. However, revenue generated from sale of HPS is comparatively higher as the management had authority to respond appropriately to the market conditions. However the Company does not have authority to fix Sale revenue from HPS increased by almost 100% in 2018. However, the gross sales revenue for 2018 was Nu. 26.5 million against Nu. 14.4 million in 2017 (half year).

The chart below depicts revenue from TMs and HPS for 2017 (half year).

  
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It is reported that the Company could not breakeven, as there is no increase in prices for TMs. The prices for TMs were fixed in 2015 on the basis of cost of raw materials plus 15. These prices do not take into account cost of manufacturing, HR and other overheads including depreciation value. The management proposed for new prices taking into account all these associated costs. However, the Board could not fully approve the new prices because of the Public Finance Act 2007 states that prices of all products which are monopoly in nature shall be regulated by the Government. Though the Board directed the management to get views and endorsement on the new prices from relevant stakeholders such as MoH, Bhutan Health Trust Fund and MoF, however, a series of meeting with these agencies also proved futile. However, the Company did quite well in sale of HPS on the other hand.

Further in order to achieve the target, the Management took an initiative to develop a pricing strategy 2018 in order to transfer all labour cost, manufacturing and administrative overheads to the individual products. However, as mentioned above, the Board could not approve the new prices. Since fixing of prices of TMs is beyond the control of the management, the Board rated the Company's overall performance as Commendable, next to Outstanding based on achievements of operational targets.

The following is the detailed Statement of comprehensive income.

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**CHIEF EXECUTIVE OFFICER**  
 Menjong Sorig Pharmaceuticals Corporation Ltd.

*[Signature]*  
**CHAIRMAN**  
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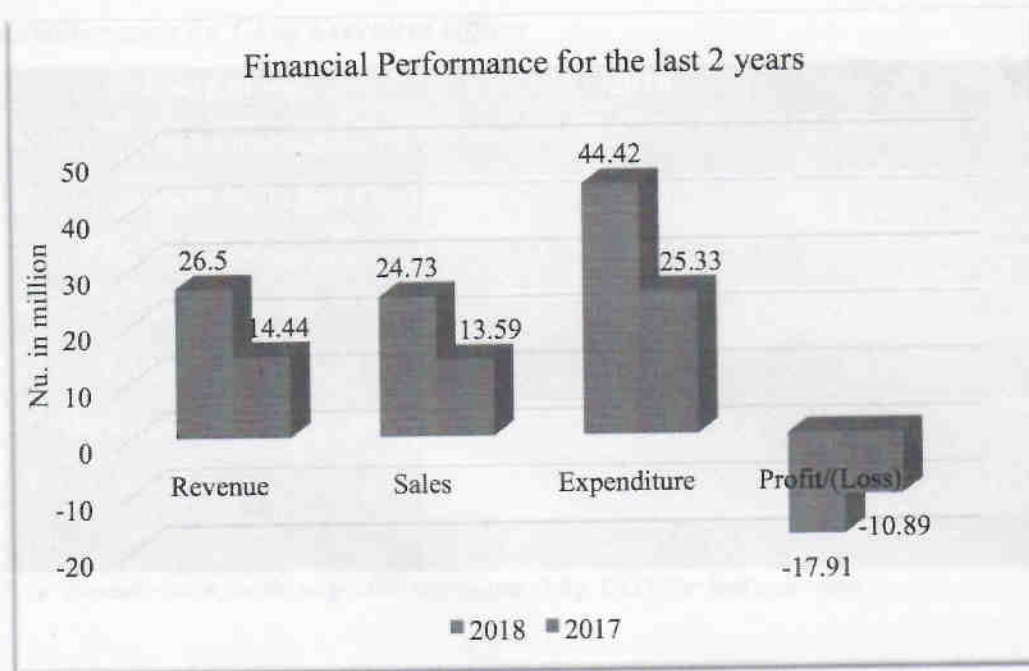


PARTICULARS	Note No.	YEAR ENDED	YEAR ENDED
		31-12-2018	31-12-2017
		(Nu.)	(Nu.)
<b>REVENUE</b>			
Sales	12	24,732,870.30	13,587,640.50
Other Income	13	1,770,365.26	850,032.38
<b>Total Revenue</b>		<b>26,503,235.56</b>	<b>14,437,672.88</b>
<b>EXPENDITURE</b>			
Changes in Finished Goods & Work-in-Progress	14	(4,126,258.41)	2,979,864.85
Raw Materials & Packaging Materials Consumed	15	16,489,785.23	6,638,173.77
Manufacturing Expenses	16	3,293,609.35	1,422,276.88
Employee Benefit Expenses	17	17,469,300.00	8,461,728.00
Finance Cost	18	600.00	350.00
Depreciation & Amortization	01	8,668,374.52	4,070,969.83
Administrative & Other Expenses	19	2,618,140.76	1,757,779.79
Bad Debt		2,500.00	-
<b>Total Expenditure</b>		<b>44,416,051.45</b>	<b>25,331,143.12</b>
<b>Profit/(Loss) before Tax</b>		(17,912,815.89)	(10,893,470.24)
<b>Tax Expense</b>			
Current Tax		-	-
<b>Net Profit/(Loss) for the Year</b>		<b>(17,912,815.89)</b>	<b>(10,893,470.24)</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of post-employment benefit obligations		(94,700.00)	-
Income tax relating to above item		-	-
<b>Other comprehensive income, net of tax</b>		<b>(94,700.00)</b>	<b>-</b>
<b>Total comprehensive income</b>		<b>(18,007,515.89)</b>	<b>(10,893,470.24)</b>
<b>Earnings per equity share</b>			
Basic and diluted			
Notes on Financial Statements forms integral part of Accounts	20	(9.82)	(5.97)

The income state for the last two years is depicted below:

  
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If the full year's sale figure was taken into account in 2017, it will be noticed that the net loss of the Company was around Nu 21 million. This loss was brought down to Nu 17.91 million for the year 2018. This is mainly due to 100% increase in revenue from sale of HPS when compared with 2017. Despite concerted efforts, financial target as agreed between the Board and the management could not be achieved due to underpricing of the TMs.

The target was Nu 44 million where the Company earned only Nu 26 million. Expenses have shot up mainly due to mandatory requirements expenses as per the Drug Regulatory Authority's standard and quality monitoring system.

**Remuneration for Chief Executive Officer and Board of Directors**

*Board Sitting Fees other than CEO*

	2018	2017
Sitting Fees	Nu. 105,000/-	Nu. 70,500/-

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*Remuneration for Chief Executive Officer*

Particulars	2018	2017
Salary (includes allowances)	Nu. 1,200,000.00	Nu. 238,020.00
Contribution to Provident Fund	Nu. 92,400.00	Nu. 22,092.00
Board Meeting Sitting Fees	Nu. 22,500.00	Nu. 12,000.00
Leave Travel Concession	Nu. 15,000.00	Nu. 30,000.00
Leave Encashment Benefit	Nu. 70,000.00	Nu. 66,940.00
Performance Based Variable Allowance	Nu. 109,200.00	Nil
<b>Total</b>	<b>Nu. 1,509,100.00</b>	<b>Nu. 369,052.00</b>

*Note: Remuneration for the year 2017 represents Offtg. CEO (for half year only)*

**Dividend, Capital & Reserve:**

The net loss of Nu. 18 million for the year 2018 has been certified by the statutory Auditors. Since the Company ran into loss in two consecutive years, therefore, there is no declaration of dividend for both the years. Due to continuous loss for the past 2 years, the shareholder's original equity has been deteriorating and it has come down to Nu 159.3 million from Nu 182.4 million.

**Audit issues**

Burman Singh & Associates, Chartered Accountants from Kolkata was appointed to audit the books of accounts of the Company for the financial year 2017 & 2018.

There were no major audit issues but some emphasis that the Company has incurred loss during the year under review and previous year also, due to under-pricing of Traditional Medicines.

Non-qualified audit observations which pertains to 2017 are as follow:

- There is no credit policy framed by the Company of allowing the credit and credit limit to the customers till date;
- Price of the Traditional Medicines is much below the cost of production;
- Stock ledger not maintained in Computer software (Tally ERP9);
- No physical verification of Store and Fixed Assets during the year 2017; and
- Excess Bank balance lying in current account.

**CHAIRMAN**

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**Menjong Sorig Pharmaceuticals Corporation Ltd.**



All observations are being attended to by the management and the Board jointly to address the issues.

### Challenges/issues and supports needed

The major challenge of MSPCL are as follow:

- Underpricing of the TMs. As a result of stagnant prices for TMs, the Company still requires subsidy from the MoF. It is estimated that about Nu 20 million annual subsidy (in decreasing order) is required to meet the ever increasing expenses. Cost of raw materials has shot up tremendously. For example, tendered price for ghivang, one of the important raw materials is Nu 4,500 per gram. As per MOH's demand, the Company needed to buy ghivang worth Nu 8 million in 2018. However, total revenue generated from sale of more than 100 TMs to MOH is Nu 14 millions. We have 250 raw materials to be purchased and this is just one of them. Therefore, the Company's sustenance is stake if there is no intervention from the shareholder or the Government.
- Old infrastructure and machineries. Our machineries and equipments have become very old, beyond warranty period. They need to be replaced otherwise frequent breakdowns disrupt the production and supply of TMs on time. It is also expensive to repair frequently. Further, our infrastructure like buildings have also become old. DRA observed that the current buildings do not meet GMP standard requirement for production of medicines. For upgradation of the facility, we need a capital budget of Nu 440 millions.
- Sourcing and availability of raw materials posed the biggest threat due to seasonal nature and as materials are either depleting or need to import which takes considerable time due to supplier default and tendering process. Because the prices of raw materials are not increased, local communities are reluctant to collect the raw materials citing poor price.
- Lands are not registered with the Company. Currently, all lands belong to MoH. The Company has already put up to MoH for change of owernship. However, the MoH has not granted it yet.

  
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**Acknowledgement**


The Board would like to thank the Government & shareholder representative for the guidance and kind support too. Appreciation and thanks also goes to the management for commendable job despite challenges and issues.

Tashi Delek!

For and on behalf of the Board and the management.

  
(Dasho Kuenga Tshering)  
CHAIRMAN

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**Corporation Limited, Thimphu**

  
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