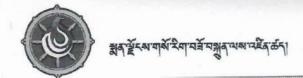
THE DIRECTORS' REPORT



FOR THE YEAR 2020



MENJONG SORIG PHARMACEUTICALS CORPORATION LIMITED



Introduction

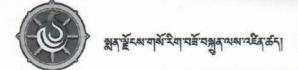
On behalf of the Board and the management of Menjong Sorig Pharmaceuticals Corporation Limited (MSPCL), the Board of Directors extend a very warm welcome to the Shareholder and other officials to this 3rd annual general meeting (AGM) of the Company. As the Company enters its 4th year of operation as corporation, the Board is pleased to present the Company's 3rd Directors' Report for the year 2020.

Highlighting briefly on the Company's mandates, manufacturing of traditional medicines (TMs) for supply to the Ministry of Health (MoH) is the core mandate whereas the Company also manufactures commercial products like health supplements and herbal products for Bhutanese markets as well for export. Besides, the Company also undertakes research and development on new products and improvement of TMs. Currently the Company has 56 staff at its manufacturing facility located at Kawajangsa, Thimphu.

Operational Performance Highlights

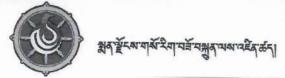
Besides the deliverables mentioned in the Annual Performance Compact (APC) 2020, the management undertook the following important activities/initiatives for the year 2020:

- In close collaboration with Department of Intellectual Property (DOIP) under the MoEA the Company successfully implemented IP Sharing Project with various partners in South Korea. Under this project, the Korean partners supported MSPCL with development of 3 herb drying machines along with the brand design for the Company.
- 2. The Board approved the production of hand sanitizers, under commercial brand Druk Hand Sanitizers, in accordance with WHO's recommended formulation. The production and process was registered with Drug Regulatory Authority after which mass production began. During the COVID-19 pandemic there was huge shortage of sanitizers in the markets and the Company was able to fill the gap;





- 3. With approval of the Board, the Company initiated production of "nagpo gujor" which is worn around people's necks as pendant to ward of flu related sickness. As a result, demand for this product was overwhelming although it is not necessarily for the COVID-19. The Company had to put extra effort to meet the demand, and accordingly there was a good sale too.
- 4. With the Cabinet's approval in 2019 to go ahead with the cannabis project, the Company prepared draft MOU for partnering with foreign expert firms in consultation with Office of Attorney General, National Biodiversity Centre, DRA and Bhutan Narcotics Control Authority. The draft is being reviewed by the Cabinet's sub-committee.
- The Company also went on to produce Menna Chema (great dharma pills)
 containing 170 different herbs for Zhung Dratsang which further distributed
 the pills to every Bhutanese after His Holiness the Je Khenpo blessed the
 medicine.
- 6. In order to comply with the GMP standards, the Company took an initiative to create extra space for 20 staff by constructing additional floor in one of the production buildings. In addition, the Company also constructed storm water drain & plinth slab along with the fencing as per the advice of the DRA for maintaining clean environment in order to avoid possible contamination from surrounding.
- 7. After series of negotiations amongst relevant agencies under the MoH, for the first time, the Company signed supply contract with Department of Medical Supplies and Health Infrastructures (DoMSHI) for supply of 13 MT of traditional medicines (TMs) for the fiscal year 2020-2021.
- 8. The management developed the Company's own procurement rules and regulations (PRR) 2020 and standard bidding documents (for goods and works separately). The Company also reviewed service rules and regulations. Both the procurement & service rules were endorsed by the Board for implementation.
- The management also developed SOP for operation of facility during the lockdown period. The SOP was approved by Central COVID-19 Taskforce led by Cabinet Secretary. It was implemented during the two lockdowns. This is







an extra initiative to keep the facility running even during lockdowns so that there is uninterrupted traditional health service.

10. The Company processed for land ownership transfer for the land at Kawajangsa, Lingshi and Langthel (Trongsa) since 2018. However, the MoH communicated their "no objection" to transfer these lands to MSPCL only in Dec 2020. Accordingly, the National Land Commission Secretariat (NLCS) issued land use certificate (LUC) for Kawajangsa to MSPCL.

Annual Performance Compact (APC) Achievements

s.n	Key Performance Indicators (KPI)	2019 Actual (Nu in mn)	2020 Target (Nu in mn)	Remarks	Weight (%)	Mgnt's Score	Board's Score
1	Sales Revenue	46.25	45.00	Sales revenue target achieved with actual sales of Nu 63.90 millions	40%	40%	40%
2	Controllable expenses contained	1.94	2.20	Target achieved with the actual controllable expenses of Nu 1.34 million.	10%	10%	10%
				Total	50%	50%	50%

B. Non-Financial Targets- 50%

a. Core activities (35%)

s.n	Performanc e Indicator	Target output	Deadli ne	Weig ht (%)	Mgnt's Score	Board's score	Remarks
1	Achieve 100% of MoH's requirement for traditional medicines.	13 MT	Dec	10%	9% 🛌	7%	Actual TMs supplied to MoH stood at 11.99 MT. The 100% supply was disrupted by COVID-19 & 2 lockdowns. Therefore, actual achievement is 92% only.





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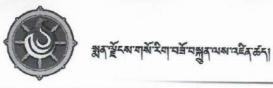
MENJONG SORIG



			Total	35%	34%	32%	
5	Marketing & Branding	done & 1 trademark obtained.	Dec	5%			branding have been registered with DOIP, MoEA on 21st October, 2020
		1 visual advertisement			5%	5%	Visual advertisement developed and four types of product
4	New R&D	1 product rolled out and 2 OTC launched	Dec	5%	5%	5%	Menjong Arura soap has been rolled out in the markets. Longevity capsule and men-na-phye-ma were the two OTC products launched.
3	Improve production efficiency & quality	a. SOPs reviewed b. 2 products listed with DRA	Dec	5%	5%	5%	20 numbers of SOPs were reviewed. Natural shilajit extract and turmeric tea were listed with DRA.
2	Enhance revenue from commercial products	Nu. 10 million	Dec	10%	10%	10%	Target achieved with Nu. 25.05 million of actual sales from commercial products.

b. Organizational /Corporate Governance Excellence (15%)

S	Performance Indicator	Target output	Deadlin e	Wei ght (%)	Mgnt Score	Board's score	Remarks
1	New Initiatives	Any new initiatives implemented	Decem ber	5%	5%	5%	Company produced nagpo gujor in the light of pandemic. Completed project on IP Sharing with South Korea under the guidance of DOIP, MoEA.







1	Quarterly	Quarterly	Within		201	201	Quarterly accounts submitted to MoF via
2	Quarterly financial statements	Quarterly Financial Statements	month after the quarter.	2%	2%	2%	email as per the deadline.
3	Resolve all audit issues	All audit issues for audit conducted in 2019 and before resolved.	Dece mber	2 %	2%	2%	Company resolved all Audit issues for 2019.
4	Closing of Accounts	Provisional Accounts of 2019 (pre- audit) closed and submitted to the Board & MoF	Jan 2020	1%	1%	1%	Since APC has been finalized only in the month of May with MoF, the target is considered achieved.
		Annual audited accounts 2019 submitted to MoF	Mar 2020	2%	2%	2%	Audited financial statements submitted to MoF on 17 th March, 2020.
5	Annual Performance Report submitted	Annual Performance Report of 2020 submitted to MoF	March 2021	2%	2%	2%	Submitted on 17 th March, 2020
6	Digital Transformatio n	Digital transformatio ns implemented	Decem ber	1%	0%	0	The Company was not able to institute any digitization in 2020.
		Total		15%	14%	14%	

The overall achievement for APC is 98% by the Company and the Board awarded a final score of 96%. As per the Performance Management System (PMS) of the MoF, this rating fetches a PBVA payout of 35% as the APC is tied up with PMS.





Financial Performance Highlights

As presented in the APC, The total revenue is Nu. 65.33 million against the previous year's revenue of Nu 47.80 millions. The reason for an increase is mainly due to unprecedented sale of nagpo gojur and hand sanitizers as a result of outbreak of coronavirus. These two products contributed a total sale of Nu 12.61 millions out of total commercial products sales of Nu 24.87 millions. However, the expenditure also increased correspondingly to Nu 76.90 millions. This is mainly due to increase in employees benefit expenses (accounting for 55.37% increase), which became effective in 2020. The government approved upward revision for pay for employees of all SOEs in Dec 2019. Therefore, the Company again slipped into net loss by Nu 10.43 millions.

The Company running to loss in 2018 and 2020 has eroded Nu. 28.94 million from its equity. Currently the Company's equity stands Nu. 153.48 millions from the total subscribed value of Nu 182.43 millions.





Following is the detailed statement of comprehensive income.

MENJONG SORIG PHARMACEUTICALS CORPORATION LTD. THIMPHU, BHUTAN

STATEMENT OF COMPREHENSIVE INCOME

for the Year Ended 31st December, 2020

PARTICULARS	Note No.	YEAR ENDED 31-12-2020	YEAR ENDED 31-12-2019
She divise the		(Nu.)	(Nu.)
REVENUE			
Net Sales	13	63,492,530.10	46,285,155.00
Other Income	14	1,837,273.25	1,515,119.10
Total Revenue		65,329,803.35	47,800,274.10
EXPENDITURE			
Changes in Finished Goods & Work-in-Progress	15	10,344,004.89	(17,233,553.74)
Raw Materials & Packaging Materials Consumed	16	17,230,245.28	21,558,735.15
Manufacturing Expenses	17	3,621,454.16	3,855,001.99
Employee Benefit Expenses	18	33,439,387.00	21,521,572.00
Finance Cost	19	164,229.00	900.00
Depreciation & Amortization	01	8,743,803.37	8,651,193.83
Other Expenses	20	3,359,700.47	4,858,378.07
Total Expenditure		76,902,824.18	43,212,227.31
Profit/(Loss) before Tax		(11,573,020.83)	4,588,046.79
Tax Expense			
Current Tax			
Deferred Tax:			
Current Year		(1,145,595.58)	1,500,987.04
Net Profit/(Loss) for the Year		(10,427,425.24)	3,087,059.75
Other comprehensive income Items that will not be reclassified to profit or loss Remeasurements of post-employment benefit obligations Acturial gain/loss		(356,380.00)	(1,018,080.00)
Income tax relating to above item Income tax relating to above item 2018		106,914.00	305,424.00 28,410.00
Other comprehensive income, net of tax		(249,466.00)	(684,246.00)
Total comprehensive income Earnings per equity share Basic and diluted		(10,676,891.24)	2,402,813.75
Notes on Financial Statements forms integral part of Accounts	21	(5.72)	1.69

This is the Statement of Comprehensive Income referred to in our report of even date.

For Burman Singh & Associates

Chartered Accountants

FRN No: 326113E

Chairman

Chief Executive Officer

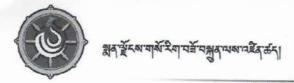
Ram Nath Singh (Partner)

Mem.No-063418 Place: THIMPHU

Date:

, 2021

Director



Board sitting fees other than the CEO

Amount	
Nu. 45,000/-	
Nu. 50,000/-	
Nu. 52,500/-	
Nu. 50,000/-	
Nu. 7,500/-	
Nu. 20,000/-	
Nu. 2,25,000/-	

Remuneration for Chief Executive Officer

Particulars	Amount
Salary (includes allowances)	Nu. 14,62,638/-
Contribution to Provident Fund	Nu. 1,02,864/-
Board Meeting Sitting Fees	Nu. 40,000/-
Leave Travel Concession	Nu. 15,000/-
Leave Encashment Benefit	Nu. 80,625/-
Performance Based Variable Allowance	Nu. 2,34,464/-
TOTAL	Nu. 19,35,591/-

Dividend Declaration

The net loss for the Company is Nu 10.43 million for the year 2020. The loss has been certified by the Statutory Auditors. Since the Company ran into loss, there is no declaration of dividend to the Shareholder for the year 2020.





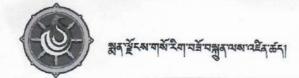
Audit Issues

Burman Singh & Associates, Chartered Accountants from Kolkata was appointed to audit the books of accounts of the Company for the financial year 2020. There was no significant observation for 2020. However, following points have been noted as recommendatory in nature:

- The ownership of the lands has not yet been transferred to the Company although the NLCS issued land use certificate (LUC). Ownership and LUC are legally different.
- Stock of raw material, finished goods & packing materials are maintained manually and partially in computer software (Tally ERP9). Stock ledger should be maintained in computer software (Tally ERP9) used by the Company for better control over stock and proper accounting of the same.
- 3. Company should invest its gratuity fund in a fixed deposit of a bank.
- Cash sales should be maintained in computer software (Tally ERP9) used by the company for better control over stock and proper accounting of the same.
- Provision of 35% budgeted for performance based variable allowance (PBVA)
 partially made the Company slipped into loss in 2020.
- The payment of bonus in 2019 also contributed into erosion of net worth of the Company.

Challenges/Issues

- The Company's machineries and equipment have become very obsolete, beyond warranty period. Most of them need to be replaced otherwise frequent breakdown disrupt the timely production and supply of TMs. DRA also observed that the current buildings do not meet GMP standard for production of medicines. For up-gradation of the facility along with its technology (machineries/equipment), the Company would require a capital budget of around Nu 440 millions.
- Although 80% of raw materials come from local farmers, sourcing of a few imported materials has become a challenge due to pandemic (lockdowns and





restrictions on movement of people and vehicles both in Bhutan and India). Prices for imported materials have gone up considerably.

Although the TMs are being produced under strict manufacturing processes
and SOPs as approved & monitored by the DRA, DoMSHI keeps on rejecting
certain TMs on the basis of poor quality. With all relevant systems and
approved SOPs in place besides 20 years of experience in manufacturing of
TMs including quality maintenance, unprecedented rejection of TMs in 2020
by DOMSHI without any scientific evidence is a cause of concern for the
management and the Board.

The Board and the management seek the Shareholder's kind support on the issues raised for the further growth of the Company besides creating value for the Shareholder.

Acknowledgement

The Board would like to thank the Government and Shareholder for the continuous guidance and kind support. Appreciation and thanks also goes to the management for commendable job despite all the challenges and issues.

Tashi Delek!

For and on behalf of the Board and the management.

CHAIRMAN

Menjong Song Pharmaceuticals Corporation Limited, Thimphu

(Board of Directors)

CHAIRMAN