



Directors' Report (December 2019)

On behalf of the Board and the management of Menjong Sorig Pharmaceuticals Corporation Limited (MSPCL in short or the Company), as a Chairman, I am pleased to present the Company's second Directors' Report for the year 2019. The Board welcome the shareholders' representatives to this annual general meeting (AGM) of the Company. 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 56 staff including 2 drungtshos and 6 GMP certified professionals.

Operational Performance Highlights

The management undertook the following important activities/reforms which are indeed great achievement for the Company:

1. Developed Early Retirement Scheme (ERS) in order to enhance efficiency of the Company which is similar to RCSC;
2. Recruitment of eight FoTM trainees after conducting thorough interview;
3. Restructured the organization to enhance the efficiency- strengthening HR in the marketing and reassigned roles in production with defined timeline;
4. Developed detailed project proposal on cannabis which was submitted to all the stakeholders and to the Cabinet for the final approval.
 - An MOU was signed with Mr. Christopher Lim from Singapore to engage him in the cannabis project as an advisor.
5. Developed innovative packaging for all the commercial products;
6. For the sustainability of the Company, new prices were enacted for 11 ghi-vang related traditional medicines and the rest of TMs products (transferred the costs of HR, manufacturing & administrative overheads, depreciation);



7. Distributed our product to the retailers directly without an agent or dealership so that cost component of middlemen is avoided;
8. Foreign markets are being explored continuously and new business is under study;
9. Developed and implemented Corporate Strategic Plan (CSP) of the Company which is based on balance scorecard method for strategic planning and implementation of the plan;
10. Sales & Credit policy implemented for enhancing sales through various promotional schemes, credit sales and discounts on the items; and
11. Advertisement on the products are done through the following means:
 - Druk gi Kalapingka;
 - MoU with LEO Entertainment who will advertise our products during all its 25 episodes in BBS as well as in Australia.
 - New brochures which are also translated into English/Chinese (mandarin for use in Hong Kong, Taiwan and China).

Operation Target Achievement

Sl #	Key Performance Indicator (KPI)	Activity	Target output	Deadline	Remarks	Weight (%)	Self-Score	
1	Traditional Medicines	Traditional Medicines produced and supplied.	15 MT	Dec	Total achievement 14.4 MT (Actual 13.38 MT plus 1.02 MT in WIP). The target was unable to achieve due to shortage of raw materials due to	15	15	14.5

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CHAIRMAN
 Menjong Sorig Pharmaceuticals Corporation Limited, Thimphu



					poor yield at the source. Due to such reason, the management awarded full score.			
2	Health Promoting Products	Health promoting products produced.	Nu. 12.61 million	Dec	Target achieved with actual sales of Nu. 16.13 million	15	15	15
3	Raw Materials	High altitude RM collection completed.	1.5 MT (dry)	Sept	Target achieved with collection of 2.55 MT	5	5	5
3a	Raw Materials	Low altitude RM collected completed.	2.14 MT (dry)	July	Target achieved with actual quantity of 4.91 MT	5	5	5
3b	Raw Materials	Imported items procurement completed	5.76 MT	Dec	Target achieved with 6.6 MT	5	5	5
4	Revision of Quality Control SOPs	Review & revise	Implemented	June	The SOPs were reviewed and updated wherever necessary such as update of list for high & low altitude raw materials, animal origin, controlled raw materials. New SOP for change control procedure has been developed. Hence, target is achieved and completed the revision in the month of February.	3	3	3

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5	Quality monitoring of Medicinal plants collection.	Conduct field monitoring of raw material collection to ensure the quality of medicinal plants	Task conducted	Feb & July	Target achieved with the deputation of employees to the collection areas to review and ascertain the quality of herbs while collecting from the public.	2	2	2
6	Regulatory (DRA) Compliance	CAPA plan implemented against GMP audit findings.	All implemented	December	CAPA plans are implemented based on the priority except for restoration of Air system as there is no expertise to assess the current air system. Invited an engineer to try the initial assessment though.	5	5	4.9

Organizational Management/Corporate Governance (5%)

S l. #	Key Performance Indicator	Activity	Target output	Deadline	Remarks	Weight (%)	Self - Score	Final Score
1	Workshop for Farmers Group	Provide exposure trip/workshop for farmers as a moral support	Workshop completed	June	Some of the management team along with the CEO made a	2	2	2

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					visit to Lingzhi and conducted a day long workshop regarding the identification and proper way of herbs collection. Hence, target is achieved			
2	Corporate Strategic Plan (CSP)	Prepare and develop CSP for the next 5 years	CSP completed	December	A team led by the CEO conducted a week long workshop in Phobji and developed comprehensive CSP. The draft CSP has been presented to the Board for further comments and approval.	3	3	3

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					Thus, target is achieved.			
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Financial Performance Highlights

In terms of workload, 80% of the effort is dedicated to the manufacturing of traditional medicines (TMs) and only 20% is dedicated for commercial products/HPS. After numerous approaches, the management was able to implement the new price for TMs at the end of 2nd quarter only, which pulled down the sales of Nu. 4.79 million. However, revenue generated from sale of HPS is comparatively higher as the management had authority and responded appropriately to the market conditions. Hence, the Company had recorded net sales revenue of 46.29 million for the year 2019 which showed a significant growth compared to previous year.

The chart below depicts revenue from TMs and HPS for 2019.



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 Menjong Sorig Pharmaceuticals Corporation Limited, Thimphu



The following is the detailed statement of comprehensive income.

PARTICULARS	No te No.	YEAR ENDED 31-12-2019	YEAR ENDED 31-12-2018
		(Nu.)	(Nu.)
<u>REVENUE</u>			
Sales	14	46,285,155.00	24,732,870.30
Other Income	15	1,515,119.10	1,770,365.26
Total Revenue		47,800,274.10	26,503,235.56
<u>EXPENDITURE</u>			
Changes in Finished Goods & Work-in-Progress	16	(17,233,553.74)	(4,126,258.41)
Raw Materials & Packaging Materials Consumed	17	21,558,735.15	16,489,785.23
Manufacturing Expenses	18	3,855,001.99	3,293,609.35
Employee Benefit Expenses	19	21,521,572.00	17,469,300.00
Finance Cost	20	900.00	600.00
Depreciation & Amortization	01	8,651,193.83	8,668,374.52
Other Expenses	21	4,858,378.07	2,618,140.76
Bad Debt		-	2,500.00
Total Expenditure		43,212,227.31	44,416,051.45
Profit/(Loss) before Tax		4,588,046.79	(17,912,815.89)

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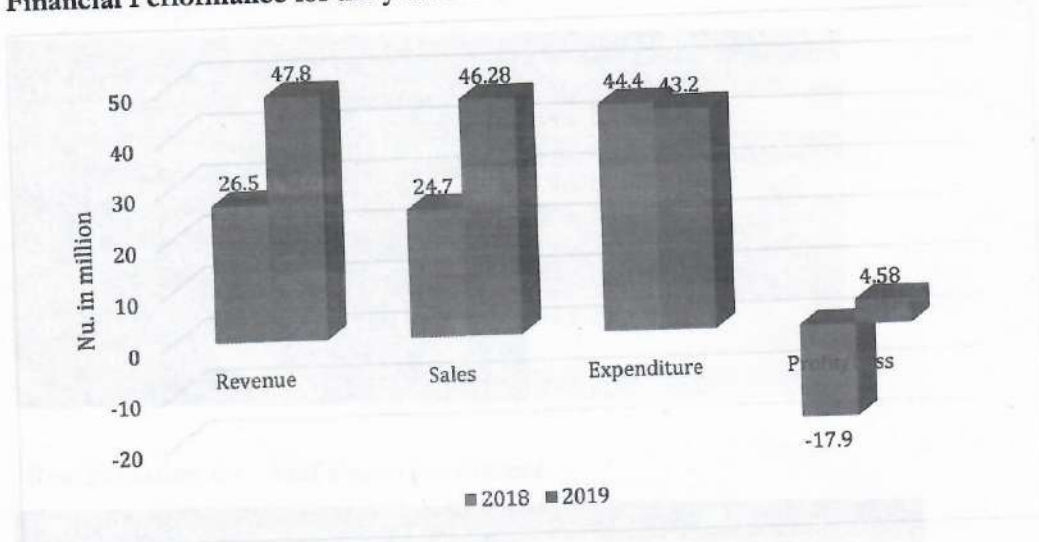
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Tax Expense)
Current Tax		-	-
Deferred Tax:			
Current Year		1,500,987.04	-
Net Profit/(Loss) for the Year		3,087,059.75	(17,912,815.89)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of post-employment benefit obligations		(1,018,080.00)	(94,700.00)
Income tax relating to above item 2019		305,424.00	
Income tax relating to above item 2018		28,410.00	-
Other comprehensive income, net of tax		(684,246.00)	(94,700.00)
Total comprehensive income		2,402,813.75	(18,007,515.89)
Earnings per equity share			
Basic and diluted			
Notes on Financial Statements forms integral part of Accounts	22	1.69	(9.82)



Financial Performance for the year 2019



The Company was able to make some profit due to the management's tireless effort, initiatives, with vigorous export marketing activities. Though the consumption of raw and packaging materials, employee benefit expenses and other expenses have increased from the 2018, the total expenditure for 2019 has been decreased by 2.71% against previous year.

Therefore, with the increase in sales revenue and closing stock of finished goods, the Company has generated profit before tax of Nu. 4.59 million. This is a significant achievement compared to the previous year's loss of Nu. 17.91 million. However, the Company is not liable to pay tax for the year due to offsetting of prior period losses.

The Company's profitability ratio of 10%, Return on Investment of 2.7% and 1.9% on Return on Equity. The Debtor turnover ratio has shown significant improvement being collected debts within 18 days compare to 86 days of previous year. However, there is still poor inventory turnover which has further decreased from the year 2018.

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Remuneration for Chief Executive Officer and Board of Directors

Board sitting fees other than the CEO.

	2019
Dasho Kuenga Tshering, Chairman	Nu. 50,000.00
Mr. Tshering Dorji, Director	Nu. 52,500.00
Mr. Passang Wangchen Norbu, Director	Nu. 37,500.00
Mr. Drungtsho Karma Gayley, Director	Nu. 60,000.00
Mr. Kezang Nenda, Member Secretary of Board Audit Committee Meeting (BAC)	Nu. 3750.00
Ms. Dechen Zangmo, Company Secretary	Nu. 25,000.00
TOTAL	Nu. 2,28,750.00

Remuneration for Chief Executive Officer

Particulars	2019
Salary (includes allowances)	Nu. 1,583,838.00
Contribution to Provident Fund	Nu. 92,786.00
Board Meeting Sitting Fees	Nu. 47,500.00
Leave Travel Concession	Nu. 15,000.00
Leave Encashment Benefit	Nu. 71,750.00
Performance Based Variable Allowance	Nu. 128,757.00
Total	Nu. 1,939,631.00

Dividend, Capital & Reserve:

The net profit of Nu. 4.59 million for the year 2019 has been certified by the statutory Auditors. Since the Company ran into loss in the past two consecutive years (2017, 2018), there is no declaration of dividend for the year 2019 because the profit will be offsetting the prior period losses.

Audit issues

Burman Singh & Associates, Chartered Accountants from Kolkata was appointed to audit the books of accounts of the Company for the financial year 2019. There was

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CHAIRMAN
Menjong Sorig Pharmaceuticals Corporation Limited, Thimphu

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nosignificant observation reported other than the non-implemented observations of previous year and few new observations on sales record keeping as mentioned below:

1. To renegotiate price of Traditional Medicine to be completed at the earliest to cover up the gap due to salary hike and increase in raw material cost and cost control should also be implemented where ever possible;
2. Stock ledger should be maintained in Tally system (Tally ERP9) used by the company for better control over stock and proper accounting of the same;
3. Excess Bank balance lying in current account;
4. Computerization of cash sales instead of issuing hand written cash memos;
5. There is under casting of cash sales; and
6. Non obtaining of performance or other guarantees.

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

Challenges/Issues and supports needed

The major challenge of MSPCL are as follows:

- Underpricing of the TMs. After several round of meetings conducted with stakeholders, the pricing strategy 2018 developed by the management was implemented only at the end of 2nd quarter which affected the sales of 2019. However, due to subsequent upward revision in pay scale of the employees significantly from December 2019 and as well as significant increase in Raw material prices, there is a need to relook at the pricing of Traditional Medicines at the earliest to cover up the gap due to salary hike and increased cost of raw materials. Apart from that, the holistic approach should be toward reduction of cost by applying all cost control measures, failing which the Company may slip into RED in the coming years which may cause threat the sustainability of the Company in the long run;

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- Old infrastructure and machineries. Our machineries and equipment have become very old, beyond the warranty period. They need to be replaced otherwise frequent breakdown 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 capital budget of Nu. 440 million;
- Sourcing and availability of raw materials posed the biggest threat due to seasonal nature and materials are either depleting or need to be imported which takes considerable time due to tendering processes and frequent supplier's problem of not supplying on time.. Because the prices of raw materials are not increased, local communities are reluctant to collect the raw materials citing poor price; and
- Lands are not registered with the Company. Currently, all lands belong to MoH. The Company has already put up to MoH for change of ownership. However, the MoH has not granted it yet.

Acknowledgement

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

TashiDelek!

For and on behalf of the Board and the management.

Thukten Choeda
(CEO/Executive Director)

CHAIRMAN
Menjong Sorig Pharmaceuticals
Corporation Limited, Thimphu

DashoKuenga Tshering
(CHAIRMAN)