

ANNUAL REPORT



2021



MENJONG SORIG

PHARMACEUTICALS CORPORATION LTD

A  Company

Annual Report 2021

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THE YEAR IN REVIEW

The year 2021 continued to be a very challenging one for everyone around the world due to COVID-19 pandemic causing economic perturbation. Menjong Sorig Pharmaceutical Corporation Limited (MSPCL) too had to withstand the worst of this pandemic. Nevertheless, the Company strived hard to deliver its mandate.

Following are some of the highlights of the year:

1. MSPCL's ownership was transferred from Ministry of Finance, Royal Government of Bhutan to Druk Holding and Investments (DHI) as the fully owned company of the latter;
2. Despite lockdowns as a result of surge in COVID-19, the Company was able to function in a containment mode at around 20% production capacity in order to deliver its important mandate of making traditional medicines available throughout the year;
3. As part of the Company's initiative to stand in solidarity with the nation, hand sanitizers were made affordable by selling at 60% discount which is a loss to the Company but beneficial for the customers and other institutional users;
4. In line with the DHI's Roadmap, the management reviewed CSP 2021-2026 and developed a new FYIFP which were approved by the Board;
5. On bio-prospecting and R&D front:
 - a. The Company introduced Black Turmeric in the local market after successful trial production;
 - b. The trial production of one cannabis-related namely ***Menjang Analgesic Balm*** was carried out but not released for open market;
6. With the kind support and guidance from the new shareholder (DHI), the Company saw an impressive growth in its revenue and profit after tax;
7. The statutory auditors have released a very clean report for the year 2021;
8. On national integrity assessment 2020-2021 conducted by the Anti-Corruption Commission (ACC), the Company scored 61.7% which ACC commended as "very good" amongst other similar companies.

The Board and the management thank DHI and all relevant stakeholders for their kind support despite COVID-19 challenges.

Looking ahead for a prosperous 2022!



Thukten Choeda

CEO

COMPANY PROFILE

Background of the Company

Menjong Sorig Pharmaceuticals Corporation Limited was established as a cottage manufacturing facility in 1967 under the Ministry of Social Services and later the Ministry of Health. In 1982, the production of traditional medicines was mechanized through WHO support. In 2017, it was incorporated as Menjong Sorig Pharmaceuticals Corporation Limited, first as state-owned enterprise and now as a DHI company under the Companies Act and management of Board Directors appointed by the Royal Government of Bhutan and DHI.

Menjong Sorig Pharmaceuticals Corporation Limited is the sole manufacturer of Sowa Rigpa based Traditional Medicines in Bhutan and its core mandate is to manufacture and supply Traditional Medicines to the Ministry of Health and other health-promoting supplements and wellness products for the general populace. The qualities of medicines are ensured through strict monitoring and evaluation through laboratory analysis while the quality of raw materials is monitored right at the collection sites in the fields starting from inspection, sorting, post-harvest care and transportation to the factory site.

The Menjong Sorig Pharmaceuticals Corporation Limited functions as a DHI company with oversight and directions from Board of Directors and DHI. MSPCL functions under the dynamic leadership of Chief Executive Officer supported by three Departments viz. Production and Engineering, Quality Assurance and Research and Corporate Services. Further, Drungtsho Advisor who has vast Sowa Rigpa knowledge and experiences and the Company Secretary assist the management in the delivery of its core mandates.

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Vision

Be a premier research and manufacturing centre for safe and quality traditional medicines and natural healthcare products.

Mission

- Manufacturing high-quality traditional medicines and natural healthcare products;
- To create a leading research and innovation hub in the field of traditional medicines and natural healthcare products;
- Adhere to quality management system and regulatory requirements;
- Implementing sustainable sourcing of raw materials; and
- Enhancing community livelihood and customers' satisfaction.

Quality Policy

Menjong Sorig Pharmaceuticals Corporation limited commits to manufacture quality products consistently that meet or exceed the requirements and expectations of its regulators and customers.

Menjong Sorig shall actively work towards achieving excellence in quality, safe and effective medicinal products and leadership through programs that enable each employee to do their job right the first time and every time.

Mission Oriented

- Engage in the production of quality Traditional Medicines as our core business.
- Produce Sowa Rigpa based natural healthcare and wellness products.
- Sustain and develop business growth and Intellectual Property.
- Consider social and ethical concerns as the basis of our guiding principles.
- Adhere to quality management system and other regulatory requirements.

Customer Focused

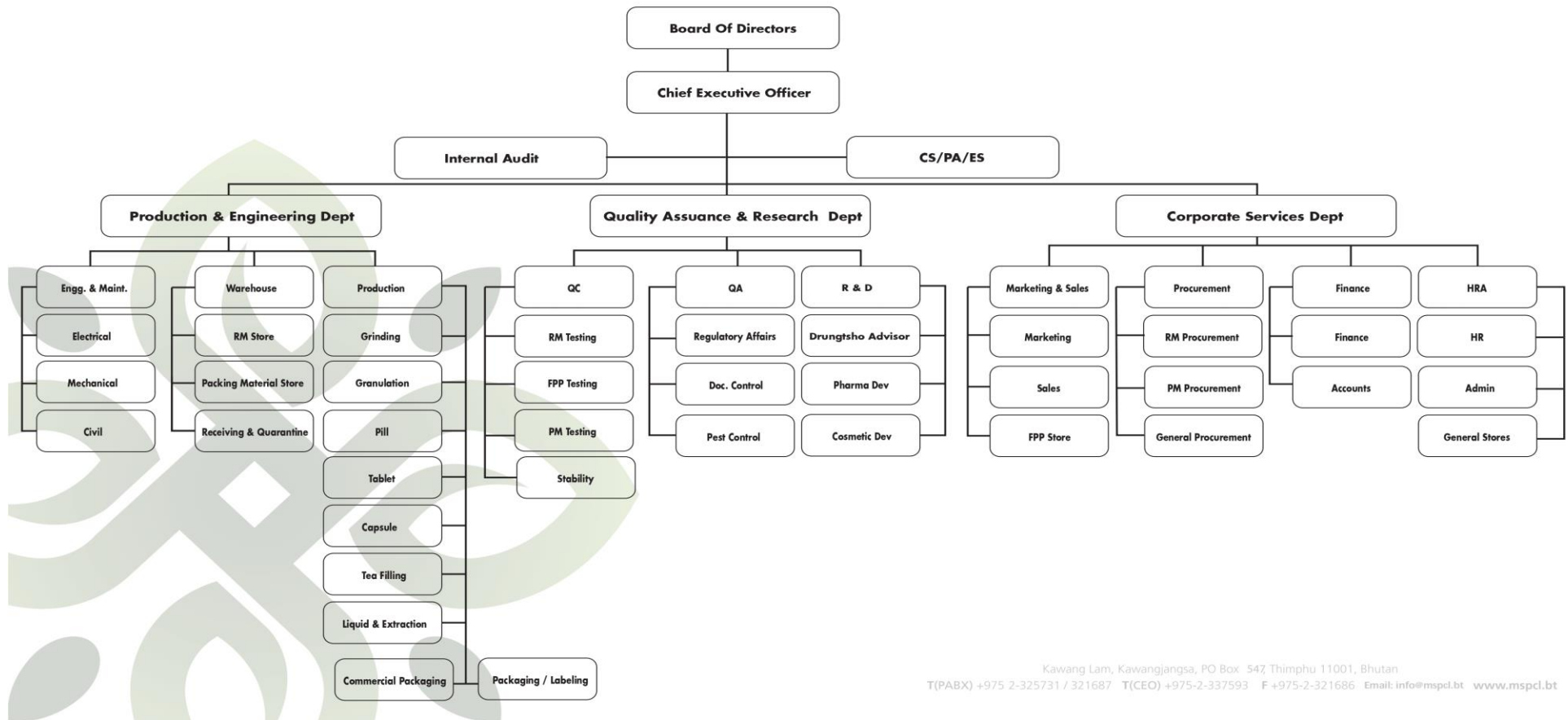
- Satisfy our shareholder/customers' needs and expectations.
- Manufacture products of only superior quality through research and development.

Performance Driven

- Verify that our products and services meet customers' requirements.
- Monitor, benchmark and continuously improve our business, and products, organization and employees' performance through continuous improvement program(s).



Organizational Structure



BOARD OF DIRECTORS



Dasho Thinley Namgyel is the current Chairman of MSPCL. He is the Secretary of Ministry of Agriculture and Forest from 2021. He was also the Secretary of Gross National Happiness Commission since 2016. He has master's degree in Business Administration from University of Canberra, Australia.



Dasho Tashi Wangmo is the Independent Non-Executive Director of MSPCL Board. She is the Secretary of Ministry of Labour and Human Resources from 2021. She was also the eminent member of National Council since 2018. She has Master's degree in Public Policy and Bachelors in Mechanical Engineering (Honours).



Mr. Karma Thinley is the Independent Non-Executive Director of MSPCL Board. He was appointed as Zimpon Wogm in the Office of Gyalpoi Zimpon in 2007. He is presently the Project Director of the Royal Academy Construction Project, Pangbisa, Paro. He has a Bachelor of Agricultural Science degree from the University of Melbourne, Australia and Masters in Forestry from the Australian National University.



Mr. Pemba Wangchuk is the Non-Executive Director of MSPCL Board. He is the Director General of Department of Traditional Medicine Services, Ministry of Health. He has a Bachelor Degree in Economics from Sherubtse College and Masters in Health Management, Planning and Policy from University of Leeds, United Kingdom.

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Mr. Passang Wangchen Norbu is the Independent Non-Executive Director of MSPCL Board. He is the Advisor to Department of Forest and Park Services, Ministry of Forest and Agriculture. He has Master of Sciences in Forest Survey from International Institute for Aerospace Survey and Earth Sciences, the Netherlands and Bachelor of Science degree from Sherubtse College, Kanglung, Bhutan.



Mr. Ngawang Norbu is the Non-Executive Director of MSPCL Board. He is the Associate Director of InnoTec Department, Druk Holding and Investments. He has Master in Engineering (Electrical and Information Engineering) from King Mongkut's University of Technology North Bangkok, Thailand and Bachelor of Technology in Electrical Engineering from Indian Institute of Technology (IIT) Roorkee, India.



Mr. Thukten Choeda is the Executive Director/Member Secretary of MSPCL Board. He is the current CEO of MSPCL. He holds Master's degree in Urban and Regional Planning from Australia (2005) and Bachelor degree in Civil Engineering from India (2000). He is the first CEO of the Company and has been working in the same post since 2018. He worked in DHI, SMCL and DCCL since 2012 till 2017 in various capacities. He also served as Board Director in several companies under DHI.



Ms. Dechen Zangmo is the Company Secretary of MSPCL. She holds Post Graduate Diploma in National Law (PGDNL) from Royal Institute of Management (2017) and Bachelor's degree in BA LLB from India (2011).

MANAGEMENT TEAM



Thukten Choeda
Chief Executive Officer



Sherab Tenzin
Director, QARD



Tashi
Associate Director, PED



Samten
Deputy General Manager



Kezang Nenda
Senior Finance Manager



Tenzin Wangmo
Executive Secretary



Dechen Zangmo
Company Secretary

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MENJONG SORIG

PHARMACEUTICALS CORPORATION LTD

THE DIRECTORS' REPORT

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Dear Shareholder,

On behalf of the Board and the management of Menjong Sorig Pharmaceuticals Corporation Limited (MSPCL), the Board of Directors extends a very warm welcome to the Shareholder and other officials to this 4th annual general meeting (AGM) of the Company. As the Company enters its 5th year of operation as a corporation, the Board is pleased to present the Company's 4th Directors' Report for the year 2021.

Highlighting briefly 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 such as health supplements and herbal products for Bhutanese markets as well for export. Besides, the Company also undertakes research and development on new products and for improvement of quality of TMs. Currently, the Company has 57 staff at its manufacturing facility located at Kawa Jangsa, Thimphu.

Although the COVID-19 pandemic continued to wreak havoc for the Company, the Board and the management survived the onslaught through a new normal strategy such as working in containment mode. The sale of health supplements and herbal products was hit the hardest.

I. OPERATIONAL PERFORMANCE HIGHLIGHTS

A summary of operational performance, mentioned in DHI-Board's Annual Compact (APC 2021), are highlighted hereunder:

1. The signing of the share transfer agreement between the Ministry of Finance (MoF) and DHI on 9th April 2021 was an important milestone as the MSPCL became the latest entrant into DHI as one of its DHI companies;
2. MSPCL's Service Rules and Regulations (SRR) were harmonized with DHI's standard guideline for DOCs on the development of SRR;
3. As a part of new normal strategy during lockdowns, MSCPL carried out vigorous marketing & advertisements through the BBS, reality shows and other print media;
4. In line with the DHI's Roadmap, the management reviewed CSP 2021-2026 and developed a new FYIFP at the same time. The Board approved both the documents;
5. The management introduced & showcased the Company's important products during the 35th DHI Group CEOs Round Table Meeting & sale of customized gift hampers followed subsequently;
6. On bio-prospecting and R&D front:
 - a. The Company introduced Black Turmeric in the local market after successful trial production;

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- b. The trial production of one cannabis-related product was also carried out. Its commercial name is **Menzang Analgesic Balm**. It's for external application only which is used to relieve pain and swelling;
 - c. The R&D initiative on cannabis products continues;
7. A study on ERP implementation was done and accordingly, a contract was signed with Thimphu Tech-Park Limited on the implementation of ERP Next;
 8. The Company has also instituted an e-payment system through the "flat files" tool devised by the BoBL. Therefore, the Company no more uses the traditional payment system of issuing a cheque.

II. ANNUAL PERFORMANCE COMPACT (APC) ACHIEVEMENTS

A. Financial compact (60%)

s.n	Key Performance Indicators (KPI)	2020 Actual (Nu in mn)	2021 Target (Nu in mn)	Remarks	Weight (%)	Mgmt's Score	Board's Score
1	Sales Revenue	61.2	71.26	Sales revenue target achieved with actual sales of Nu 72.04 millions	35%	35%	35%
2	Containment of Controllable expenses in million Nu.	1.46	6.87	Target achieved with the actual controllable expenses of Nu 3.70 million.	5%	5%	15%
3	Profit After Tax (Nu. Million)	-10.43	3.00	8.33 m	20%	20%	20%
Total					60%	60%	60%

B. Non-Financial Compact (40%)

a. Core Activities (30%)

s. n	Performance Indicator	Target output	Remarks	Wt. (%)	Mgt. Score	Board Score
1	Achieve 100% MoH requirement for traditional medicine	13 MT	Achieved the target with the actual supply of 13.98 MT traditional medicines to DoMSHI.	12%	12%	12%
2	Good manufacturi					

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	ng practice (GMP) certification process	<p>a. Land for GMP certified new facility identified (2 points)</p> <p>b. RFP for feasibility study floated (1 point)</p>	<p>a. 5 acres land identified at/ near Yangphel colony, Chamjakha, Kawang gewog, Thimphu. The Thimphu Dzongkhag officials, DoPFS Thimphu Div's CFO/DFO & gewog officials visited the proposed site, & asked MSPCL to proceed with public clearance. The visiting team had no issue. The MSPCL team also visited gewog office. The Gup fully supported it.</p> <p>As per the green signal of DoFPS, Dzongkhag, and Gewog, public clearance was processed.</p> <p>i. Community rejected 2 times despite all the approaches from low to high level;</p> <p>ii. Preparation of Local government election started from end of October to December during negation with public could not be done. MSPCL wrote to Paro dzongkhag seeking assistance in identification of sites however it coincided with local election.</p> <p>b. Since the management was not able to obtain the land, feasibility could not be done. Had the feasibility study been done without community clearance, we would have wasted the resource.</p> <p>The management requests target to be treated as non-operational.</p>				1%	1%
3	Cannabis R&D							

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		<p>a. Consultant or strategic foreign partner for cannabis research project selected (1 point)</p> <p>b. Contract/ MoU signed (1 point)</p> <p>c. First phase of research completed (2 points)</p>	<p>a. DHI-MSPCL cannabis team had 9 meetings (online) with various foreign partners. Out of which Sejulus and PhytoXtract were proposed on 13th August 2021 to the DHI management. DHI management did not accept both as they neither have adequate industry-experience nor well-established markets. DHI asked MSPCL to explore more experienced ones. And MSPCL approached several big companies/firms. However, they were not interested in Bhutan. The ones who showed great interest do not meet our criteria. Since no global scale company has shown interest in Bhutan, this target may be treated as non-operational.</p> <p>b. Though the draft MoU has been prepared and reviewed several times as per comments received from DRA, NBC and OAG, it could not be signed as there was no foreign firm selected for this purpose. Kindly treat this target as non- operational as this target was contingent on above target (a). This target to be treated as non-operational.</p> <p>c. The management carried out small research on developing a balm/ herbal massage ointment from cannabis. The trial product is still being further assessed for stability.</p>	4%	1%	1%
4	Review of quality control	Manual approved by the Board.	The draft Quality Policy and the Manual were presented to the Board on its 31 st sitting on 3 rd			

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	manual / policy		November 2021. Since the Board members could not deliberate on it in detail, the Board directed the management to email the draft for further comments/review. However, the Board considered the drafts as approved contingent on some online feedbacks which were later received and incorporated.	3%	3%	3%
5	Realigning CSP with DHI	CSP revised and approved by the Board	The revised CSP was approved during 31 st BM held on 3 rd Nov 2021.	4%	4%	4%
6	Formulation of Team Appraisal System	TAS approved by Board	The Board approved the TAS on its 29 th sitting on 29 th June.	4%	4%	4%
Total				30%	25%	25%

b. Corporate Governance/Organization & Management (10%)

S I. #	Performanc e Indicator	Target output	Remarks	Wt. (%)	Mgt.S core	Board 's Score
1	Closing accounts	i. Annual accounts (pre-audit) closed and submitted to Board and DHI	Achieved.	0.50 %	0.5%	0.5%
		Annual audited accounts submitted to DHI (deadline: Feb)		0.50 %	0.5%	0.5%
2	Resolve all audit issues	All audit issues for audit conducted in 2020 and before resolved.	All the audit issues including statutory audits conducted in 2020 & before are resolved.	2%	2%	2%
3	Risk Management Framework	Risk management framework and risk register endorsed by the Board.	In the 30 th BM on 12 th August 2021 approved.	2%	2%	2%
4	Five Year Investment Plan	Submitted to DHI	In the 30 th BM held on 12 th August 2021 approved and submitted to DHI within the deadline.	2%	2%	2%
5	Waste Management	Waste Management policy developed and implementation report submitted	The waste management SOP from DHI, through Mr. Ngawang Norbu received on 18 th November. Waste	1%	1%	1%

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			implementation report from November-December 2021 was submitted on 31 st December 2021. The target is achieved.			
6	e-Payment system	e-Payment system developed and implemented	In the MTR BCPM considered replacing the target with 'study on implementation of ERP'. Study was done and a contract was signed with Tech-Park on the implementation of ERP next. Meantime, the company has also instituted e-payment system through flat files. Achieved.	2%	2%	2%
Total				10%	10%	10%

The overall achievement for the compact for 2021 is 95 out of 97 as targets for 3 points were treated as non-operational. Thus, the final score converted to 100 is 97.94% from the company and the Board awarded a final score of 97.94%.

III. HIGHLIGHT ON THE FINANCIAL PERFORMANCE

As presented during the APC, the Company recorded net sales revenue of **Nu. 71.32 million** for the year (Nu. 55.21 million from TMs and Nu. 16.11 million from health supplements). This resulted in sales revenue growth of 12.33% in comparison to the sales revenue of Nu. 63.49 million for the year 2020. Further Nu. 5.80 million was generated from other sources of income. The grand total revenue in the year 2021 is **Nu 77.12 million** which reflect an increase of 18.05%.

The total expenditure for the year decreased by 8.79% compared to the previous year (i.e. Nu. 70.15 million in 2021 against Nu. 76.90 million for the year 2020). With the increase in production, the consumption of raw materials & packaging materials too increased. With the increase in price of both raw materials and packaging materials, costs increased by 38.44%, and manufacturing expenses by 16.63%. Further, other expenses increased by 29.20%. However, the employee benefit expenses remained comparatively the same as the previous year.

With the increase in sales revenue and other income, the company was able to make a positive Profit after Tax (PAT) of Nu. 8.33 million for 2021.

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Following is the detailed Statement of Comprehensive Income.

STATEMENT OF COMPREHENSIVE INCOME			
for the Year Ended 31st December, 2021			
PARTICULARS	Note No.	As At 31-12-2021	As At 31-12-2020
		(Nu.)	(Nu.)
REVENUE			
Net Sales	15	71,319,971.88	63,492,530.10
Other Income	16	5,803,687.85	1,837,273.25
Total Revenue		77,123,659.73	65,329,803.35
EXPENDITURE			
Changes in Finished Goods & Work-in-Progress	17	(2,412,382.23)	10,344,004.89
Raw Materials & Packaging Materials Consumed	18	23,852,866.71	17,230,245.28
Manufacturing Expenses	19	4,223,617.35	3,621,454.16
Employee Benefit Expenses	20	30,880,579.08	33,439,387.00
Finance Cost	21	5,385.65	164,229.00
Loss/(Gain) on foreign currency fluctuation (net)		(2,994.86)	-
Depreciation & Amortization Expenses	01&02	9,258,547.41	8,743,803.37
Other Expenses	22	4,340,609.10	3,359,700.47
Total Expenditure		70,146,228.21	76,902,824.18
Profit/(Loss) before Tax		6,977,431.52	(11,573,020.83)
Tax Expense			
Current Tax		-	-
Deferred Tax:			
Current Year		(2,221,264.73)	(1,145,595.58)
Net Profit/(Loss) for the Year		9,198,696.25	(10,427,425.24)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of post-employment benefit obligations			
Actuarial gain/loss		(172,361.00)	(356,380.00)
Income tax relating to above item		51,708.30	106,914.00
Other comprehensive income, net of tax		(120,652.70)	(249,466.00)
Total comprehensive income		9,078,043.55	(10,676,891.24)
Earnings per equity share			
Basic and diluted		5.04	(5.72)
Notes on Financial Statements forms integral part of Accounts	23		

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Graphic representation of Financial Performance for the last 4 years

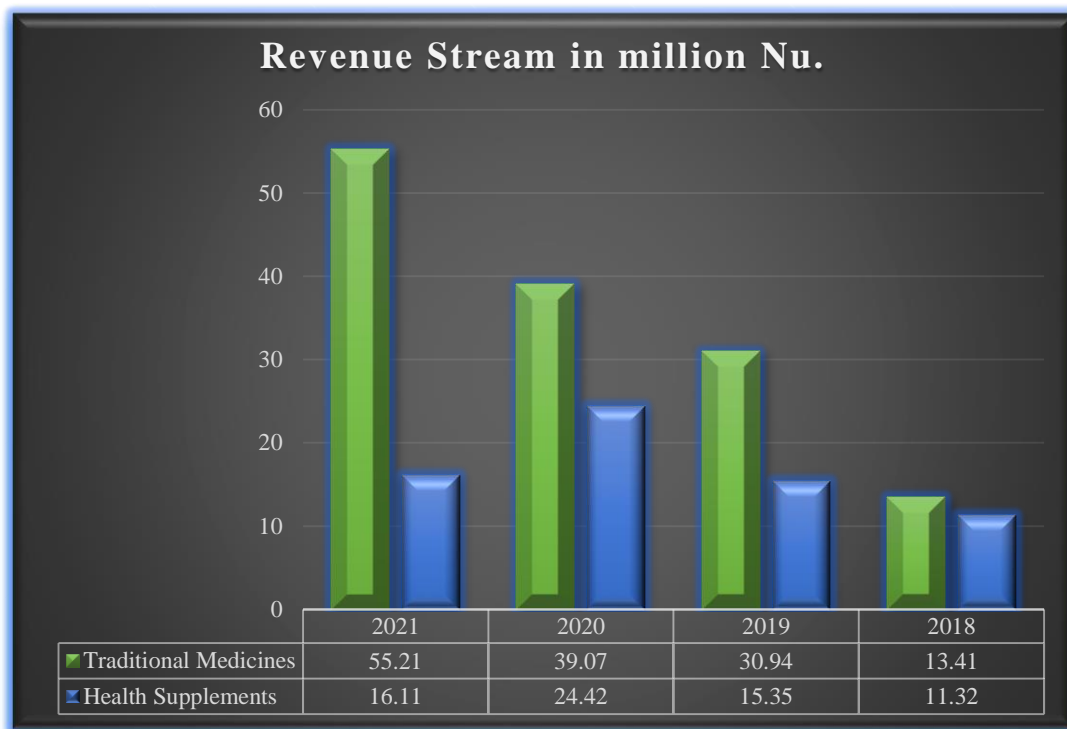


Figure 1: Revenue Streams in million Nu.

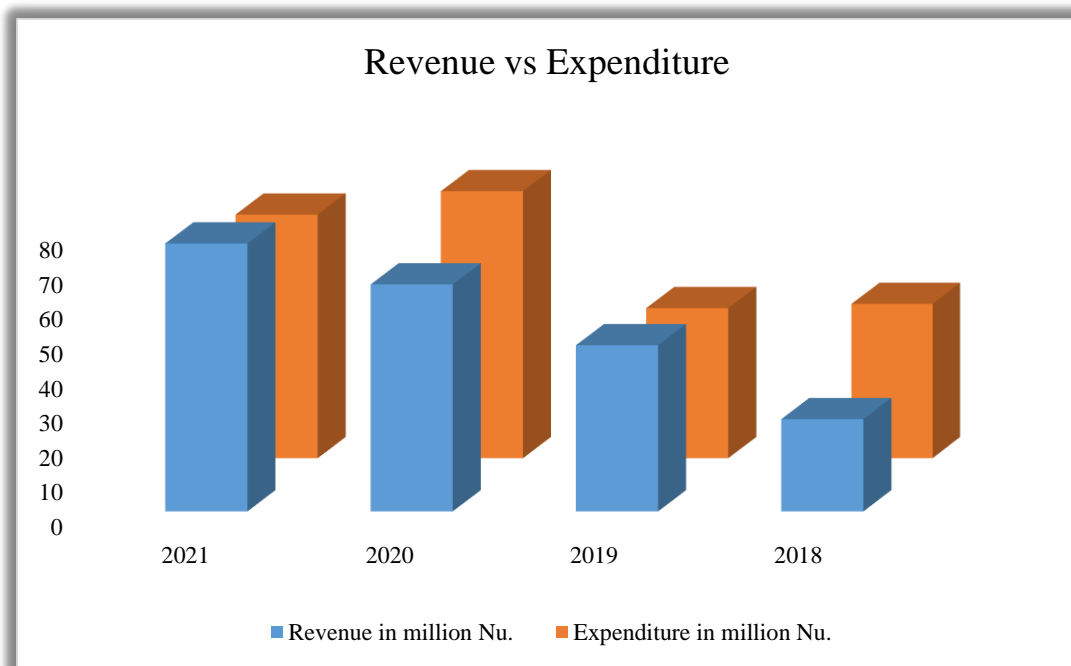


Figure: Revenue vs Expenditure

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Figure 3: Profit after Tax

IV. REMUNERATION TO THE BOARD OF DIRECTORS & TOP MANAGEMENT

1. Board Sitting Fees other than CEO

Sl. no	Name	Amount
1.	Mr. Thinley Namgyel, Chairman of the Board	Nu. 40,000/-
2.	Ms. Tashi Wangmo, Director of Board	Nu. 12,000/-
3.	Mrs. Kesang Deki (Resigned), Director of Board	Nu. 24,000/-
4.	Mr. Karma Thinley, Director of Board	Nu. 40,000/-
5.	Mr. Pemba Wangchuk, Director of Board	Nu. 44,000/-
6.	Mr. Phub Rinzin (replaced/resigned), Director of Board	0
7.	Mr. Passang Wangchen Norbu, Director of Board	Nu. 52,500/-
8.	Mr. Ngawang Norbu, Director of Board	Nu. 60,000/-
9.	Mr. Kuenga Tshering, Ex Chairman of Board	Nu. 10,000/-
10.	Mr. Tshering Dorji, Ex Director of Board	Nu. 12,500/-
11.	Drungtsho Karma Gayley, Ex Director of Board	Nu. 12,500/-
12.	Mr. Kezang Nenda, Member Secretary of BAC & BHRC	Nu. 7,250/-
13.	Ms. Dechen Zangmo, Company Secretary	Nu. 25,000/-
Total		Nu. 3,39,750/-

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2. Remuneration of Top Management (CEO, Director and Associate Director) for 2021 only:

	As At 31 st December, 2021	As At 31 st December, 2020
	Amount in Nu.	Amount in Nu.
Salary	3,077,538.00***	1,462,638.00**
Contribution to Provident Fund	245,688.00	102,864.00
Board Meeting Sitting Fees	59,000.00	40,000.00
Leave Travel Concession	45,000.00	15,000.00
Leave Encashment Benefits	268,250.00	80,625.00
Bonus	373,850.00	-
Performance Based Variable Allowance (PBVA)	433,215.00	234,464.00
Total	4,502,541.00	1,935,591.00

*** Salary for two directors and CEO for 2021.

**Salary for CEO only for 2020.

V. DECLARATION OF DIVIDEND

Though the Company has huge carry forward of the losses, as a token of kind gesture a 70% of Profit after Tax amounting Nu. 3,819,414.87 has been proposed as a dividend for the year 2021.

VI. AUDIT ISSUES

The statutory auditors (or simply auditor) for MSPCL is Dilli Yok & Associates (Chartered Accountants) from Thimphu. The firm was appointed to audit the books of accounts of the Company for the financial year 2021. There was no significant observation for 2021. However, the following two points have been noted as recommendatory in nature:

1. Amount of Bonus payment

In terms of paragraph, 4.11 Service Rules & Regulations (SSR-A2020) of maximum bonus payable for the year shall be 2 months basic pay. As per the present practice of the management, employees are eligible for 2 months basic pay when the employee renders 12 months service and in case service rendered by the employee is less than 12 months, the amount of bonus is calculated proportionately. However, such provision is not reflected in the current SRR of the Company.

In this regard, the auditors recommended incorporating this provision in the SRR to bring clarity to the bonus payout.

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2. Deduction and deposit of TDS

As per para 6.1.1 of Revised Tax Deduction at Source (3rd Edition) all government and semi-government agencies, NGOs, Companies, Businesses and person must deduct tax at the time of bill disbursement or credit in the books of accounts whichever is earlier. The amount deducted must be deposited to the concerned RRCO on or before the 10th day of the month from the date of deduction.

The present policy of deduction of TDS at the time of payment and depositing the same by the 10th of the following month had not attracted any penalties as of date. Therefore, the auditors recommended implementing para 6.1.1 of Revised Tax Deduction at Source (3rd Edition) from hereon.

VII. CHALLENGES/ISSUES

Despite the positive PAT for the year, the Company faced one major challenge in the year 2021. Sales of health supplements and herbal products went down in both domestic as well as international markets. Sales in the domestic markets were going up until the end of 2019 because of the international tourists. However, with exception of hand sanitizers and Nagpo Gujor in 2020, sales in all herbal product lines went down in the domestic markets. Besides, our sales to Hong Kong, Taiwan & Vietnam have come to a complete halt. Our sale of CordyACTIVE to the US came down drastically in 2020/2021 due to new restrictions in the US.

A marketing strategy is being developed to enhance the sales this year.

VIII. WAYFORWARD

The Company is once again revising the Corporate Strategic Plan to align its strategic objectives with DHI's broader visions/ targets.

- The Company considers R&D as the most important business portfolio for future sustenance and therefore a strategy will be developed to pave way for the future direction of the Company;
- The Company shall construct an international standard manufacturing facility, which fully complies with Good Manufacturing Practice (GMP)'s requirements of DRAWHO.
- The Company will also pursue products certifications to boost export. Both local and international certifications will be done on selected products.
- As a part of the digitalization initiative, the Company will embrace block chain technology for product traceability, which will help marketing and e-commerce.

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Acknowledgement

The Board would like to thank the Government and the Shareholder for their continuous guidance and kind support in setting up strategic direction for the Company. Appreciation and thanks also go to the management for the commendable job despite all the challenges and issues.

Tashi Delek!

For and on behalf of the Board and the management.

A handwritten signature in blue ink, appearing to read 'Chirley', with a long horizontal stroke underneath.

CHAIRMAN

(Board of Directors)

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MENJONG SORIG

PHARMACEUTICALS CORPORATION LTD

**REPORT ON CORPORATE
GOVERNANCE**

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REPORT ON CORPORATE GOVERNANCE

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. In the interests of transparency and accountability, it is important that corporate governance of all enterprises should operate to the highest standards applicable in the business world generally.

The Board of Directors of MSPCL is committed to ensuring that good corporate governance practices are implemented and maintained throughout the Company as a fundamental part of discharging its duties to enhance shareholder values consistent with the principles and recommendations for best practices as set out in the Corporate Governance Code.

The Board is pleased to set out the statement below, which describes how it has applied the principle of the code during the year 2021.

I. The Board

1. Purpose

This Board Charter sets out the principles for the operation of the board of directors (The Board) and describes the functions and powers of the board to ensure all the Board members are aware of their duties and responsibilities. The Board charter is in line with the Corporate Governance Code (CG series 2) of DHI.

2. Board size and Composition

Currently, the Board constitutes of seven (7) members, comprising of Chief Executive Officer, four Independent Non-Executive Directors and two non-Independent Non-Executive Directors. This composition ensures that there are majority of non-executive directors, and at least one which is an independent director as per the Corporate Governance Code, Appendix 1, Board Charter, Clause 2.2 (ii).

3. Board Responsibilities

The Board's responsibilities are as stated in the Corporate Governance Code Clauses 2.2.1, 2.4 and 2.5. The Board of Directors is given the ultimate responsibility for guiding the strategic direction and performance of MSPCL to achieve the targets. They oversee accountability and the process of disclosures to shareholders and stakeholders in ensuring the integrity of MSPCL's accounting, financial reporting and internal control systems and independent audit.

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4. Responsibilities of Chairman

The important role of the Chairman is to provide leadership to the board and to guide the work of the board. The Chairman of the board shall not chair any other Board Committees.

The roles of the Chairman include, but not restricted to the following:

- i. Lead the board to promote high standards of governance and to ensure board effectiveness and smooth functioning on all aspects of its role in a firm and objective manner;
- ii. Ensure effective accountability and governance of the company, consistent with relevant legislation;
- iii. Set the agenda and preside over board meetings to ensure that adequate time is available for discussion of all agenda items, in particular, on the strategic issues;
- iv. Conduct effective board meetings and encourage a culture of openness, active participation and constructive debate;
- v. Ensure accurate records of board meetings are taken and verifying that board decisions are implemented;
- vi. Ensure that the directors receive complete, adequate and timely information to enable quality and informed decision-making;
- vii. Encourage constructive relations within the board and between the board and management to ensure the company is managed effectively;
- viii. Participate in the selection and appointment of new board directors and the CEO in close collaboration with the shareholder(s);
- ix. Approve leave, ex-country travel and training of the CEO;
- x. Meet shareholder expectations by leading and ensuring effective annual board and CEO evaluation processes; and
- xi. Develop and maintain sound relations and communications with shareholders and stakeholders. This may include representing the company interests in meetings with ministries, foreign company representatives and with other organizations within the country.

5. Responsibilities of Chief Executive Officer

Apart from other responsibilities, following are also the key responsibilities of the CEO:

- i. Managing the company in accordance with the strategy and performance targets, policies and directives approved by the board;
- ii. Recommending long-term vision and strategy for the company to the board;
- iii. Leading the management team in managing the day-to-day operations of the organization, its people and resources;

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- iv. Implementing all board approved plans, policies and performance targets;
- v. Ensuring the authorities delegated from the board are exercised in a competent manner and within the intent of such delegation and referring all matters outside his delegation to the board for approval;
- vi. Acting as the company's interface with its operating environment and the business community;
- vii. Protecting and enhancing the image and reputation of the company;
- viii. Ensuring compliance with legal and regulatory obligations;
- ix. Promoting leadership development and proper succession planning for key positions in the company;
- x. Ensuring ethical standards as established by board are complied with;
- xi. Keeping the board apprised of all matters of significance;
- xii. Keeping the board chairman apprised of all matters of significance that occur the board meetings;
- xiii. Providing the board with accurate, relevant, timely and complete information; and
- xiv. Other responsibilities as designated by the board from time to time.

Board Members 2021

The details of the Board of Directors and the date of appointment.

Name	Designation	Appointment Date	Description	Status
Mr. Thinley Namgyel	Secretary, MoAF	9 th April 2021	Chairman	Independent
Ms. Tashi Wangmo	Secretary, MoLHR	15 th September 2021	Board of Director	Independent
Mr. Karma Thinley	Zimpoen Wogma	9 th April 2021	Board of Director	Independent
Mr. Pemba Wangchuk	Director General, DTMS, MoH	9 th April 2021	Board of Director	Non-Independent
Mr. Passang Wangchen Norbu	Advisor to DoFPS, MoAF	7 th June 2021	Board of Director	Independent
Mr. Ngawang Norbu	AD, DoIT, DHI	9 th April 2021	Board of Director	Non-Independent
Mr. Thukten Choeda	CEO, MSPCL	16 th December 2017	Member Secretary	Executive Director

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Board Members retired in 2021

Name	Designation	Appointment Date	Retired date	Description
Mr. Kuenga Tshering	Former DG, DTMS, MoH	17 th January 2017	9 th April 2021	Chairman
Mr. Tshering Dorji	Director, DoPA	17 th January 2017	9 th April 2021	Board of Director
Mr. Karma Gayley	Medical Superintendent, NTMH, MoH	17 th January 2017	9 th April 2021	Board of Director
Mr. Phub Rinzin	Dzongda, Trongsa Dzongkhag	9 th April 2021	7 th June 2021	Board of Director
Ms. Kesang Deki	Secretary, Ministry of Finance	9 th April 2021	18 th August 2021	Board of Director

Board Meetings

In 2021, 6 Board meetings and one AGM were held. The meetings were held as frequently as required and the gap between any two meetings never exceeded three months as required by “The Companies Act of Bhutan 2016”. The details of the Board attendance are as follows:

Board Meeting No.	Date	Members Present	Leave of Absence
27 th Board Meeting	5 th March 2021	<ol style="list-style-type: none"> Mr. Kuenga Tshering Mr. Tshering Dorji Mr. Passang Wangchen Norbu Drungtsho Karma Gayley Thukten Choeda 	
3 rd AGM	9 th April 2021	<ol style="list-style-type: none"> Mr. Kuenga Tshering Mr. Tshering Dorji Mr. Passang Wangchen Norbu Drungtsho Karma Gayley Thukten Choeda 	
28 th Board Meeting	9 th April 2021	<ol style="list-style-type: none"> Mr. Thinley Namgyel Mrs. Kesang Deki Mr. Karma Thinley Mr. Pemba Wangchuk Mr. Ngawang Norbu Mr. Thukten Choeda 	<ol style="list-style-type: none"> Mr. Phub Rinzin

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29th Board Meeting	29 th June 2021	<ol style="list-style-type: none"> 1. Mr. Thinley Namgyel 2. Mrs. Kesang Deki 3. Mr. Karma Thinley 4. Mr. Pemba Wangchuk 5. Mr. Passang Wangchen Norbu 6. Mr. Ngawang Norbu 7. Mr. Thukten Choeda 	
30th Board Meeting	12 th August 2021	<ol style="list-style-type: none"> 1. Mr. Thinley Namgyel 2. Mr. Pemba Wangchuk 3. Mr. Passang Wangchen Norbu 4. Mr. Ngawang Norbu 5. Mr. Thukten Choeda 	<ol style="list-style-type: none"> 1. Mrs. Kesang Deki 2. Mr. Karma Thinley
31st Board Meeting	3 rd November 2021	<ol style="list-style-type: none"> 1. Mr. Thinley Namgyel 2. Ms. Tashi Wangmo 3. Mr. Karma Thinley 4. Mr. Passang Wangchen Norbu 5. Mr. Ngawang Norbu 6. Mr. Thukten Choeda 	<ol style="list-style-type: none"> 1. Mr. Pemba Wangchuk
32nd Board Meeting	24 th November 2021	<ol style="list-style-type: none"> 1. Mr. Thinley Namgyel 2. Mr. Karma Thinley 3. Mr. Pemba Wangchuk 4. Mr. Passang Wangchen Norbu 5. Mr. Ngawang Norbu 6. Mr. Thukten Choeda 	<ol style="list-style-type: none"> 1. Ms. Tashi Wangmo

The Directors receive notices of meeting, generally at least three working days before the meeting along with the agenda complete both in soft and hard copies to give sufficient details of matters to have a comprehensive discussion and decision during the meeting.

The Company Secretary ensures to duly record and properly keep all the minutes of the Board meetings together with the decisions made by way of circular passed resolutions.

II. Board Committees

The Board may from time to time establish Board Committees as is considered appropriate to assist in carrying out its duties and responsibilities. The Board has delegated certain functions to the following Board Committees to assist in the execution of its responsibilities:

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1. Board Audit Committee;
2. Board HR Committee; and
3. Board Tender Committee.

1. Board Audit Committee

The Board Audit Committee was established to monitor the internal control system and internal audit activities of MSPCL. MSPCL does not have an established Independent Auditor function, considering that for a small business entity it will be just an additional function which will only add to the cost. Thus, BAC takes the direct role of the Independent Auditors functions as required in the Companies Act 2016 and Corporate Governance Code series 2.

The Board Audit committee was reconstituted during the 28th Board meeting held on 9th April 2021 with the appointment of new Board Directors. A total of two Board Audit Committee meetings were conducted after new appointments and once with the former BAC members in 2021.

Details of the BAC held in 2021 are as follows:

BAC no.	Dates	Members Present	Category	Leave of Absence
9th BAC meeting	3 rd March 2021	<ol style="list-style-type: none"> 1. Mr. Tshering Dorji 2. Mr. Passang Wangchen Norbu 3. Drungtsho Karma Gayley 4. Kezang Nenda 	<ol style="list-style-type: none"> 1. Chairman 2. BAC member 3. BAC member 4. Member Secretary 	None
10th BAC meeting	7 th May 2021	<ol style="list-style-type: none"> 1. Mrs. Kesang Deki 2. Mr. Karma Thinley 3. Mr. Ngawang Norbu 4. Mr. Kezang Nenda 	<ol style="list-style-type: none"> 1. Chairman 2. BAC member 3. BAC member 4. Member Secretary 	None
11th BAC meeting	10 th August 2021	<ol style="list-style-type: none"> 1. Mrs. Kesang Deki 2. Mr. Karma Thinley 3. Mr. Ngawang Norbu 4. Mr. Kezang Nenda 	<ol style="list-style-type: none"> 1. Chairman 2. BAC member 3. BAC member 4. Member Secretary 	None

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2. Board HR Committee (BHRC)

The function of the Board level Board Human Resource Committee is to assess the proposals related to the Human Resource (HR) issues recommended by the Management for approval or recommendation to the MSPCL Board.

The BHRC of the company comprises of the following members, all being appointed by the Board from time to time and the Chairman identified by the Board. The Finance Manager is the committee secretary. The BHRC meeting was held only once.

BHRC no.	Date	Members Present	Category	Leave of Absence
2 nd BHRC meeting	27 th July 2021	<ol style="list-style-type: none"> 1. Mr. Pemba Wangchuk 2. Mr. Passang Wangchen Norbu 3. Mr. Ngawang Norbu 4. Mr. Thukten Choeda 5. Mr. Kezang Nenda 	<ol style="list-style-type: none"> 1. Chairperson 2. BHRC member 3. BHRC member 4. BHRC member 5. Committee Secretary 	None

3. Board Tender Committee (BTC)

The function of the BTC is to satisfy itself that proper procurement procedures have been followed as per the norms provided in the Procurement Manual.

The BTC of the company consists of the following members who were approved by the Board. As of now, no BTC meeting was held in 2021.

Members of BTC	Category
1. Mr. Passang Wangchen Norbu	1. Chairman
2. Ms. Tashi Wangmo	2. BTC member
3. Mr. Ngawang Norbu	3. BTC member
4. Mr. Thukten Choeda	4. BTC member

III. Director's Remuneration

The DHI determines the sitting fee of the Board members. The fees are fixed sum and not by a commission on or percentage of profits or turnover.

The remuneration of the Board Directors for the year 2021 is as follows:

Directors	Fees
Full Board	Nu. 287500.00
Board Audit Committee	Nu. 36750.00
Board HR Committee	Nu. 18000.00

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Mid-Term Review Meeting	Nu. 12000.00
Annual General Meeting	Nu. 27500.00
TOTAL	Nu. 381750.00

IV. Annual General Meeting

The 3rd Annual General Meeting was held on 9th April 2021 at the Conference Hall of DHI with the representatives from DHI. The following businesses were transacted during AGM:

- i. consideration of audited accounts for the financial year ended 31st December 2020, Auditors' report and Directors' Report;
- ii. Declaration of Dividend, if any;
- iii. Consideration of appointment/retirement of Board Directors;
- iv. Appointment of, and fixing the remuneration of Statutory Auditors; and
- v. Declaration of remuneration paid to Chief Executive Officer.

The AGM was attended by the shareholders, Board of Directors and the key members of the management team.

V. Risk Management and Internal Control

The Risk Management Framework/Policy of MSPCL considers risk management as fundamental to corporate governance. It is an integral part of the management's decision-making process, which contributes to the achievement of the strategic and operational goals of the company. It seeks to identify, rationalize, institutionalize, provide and ensure that all the significant risks to the company are identified, assessed and where necessary treated and reported to the management promptly.

The framework is administrated by various risk management policies, activities and exercises, which are updated to the management and board periodically.

VI. Corporate Social Responsibility

As per the guidelines on the CSR of DHI, the company ensures on-to implementation of meaningful and sustainable CSR programs under three basic categories specifically, legal compliance, operation and charitable contributions.

The objective of CSR is to provide support to the government and be responsible for a better environment, improved community and society's lives around whereby, the company operated. Further, in line with its business operation, the company also aims to support sustainable rural livelihoods and contribute to the conservation of biodiversity in the country.

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In 2021, MSPCL has contributed Nu 25,000/- to support Zhung Dratshang to publish a special book to commemorate the 25 years of His Holiness the 70th Je Khenpo Trulku Jigme Choeda's enthronement.

VII. Board and CEO Evaluation

DHI conducts an annual online questionnaire-based evaluation whereby feedback is collected from the Chairman and CEO on the performance of the individual board directors in the DHI owned Companies. The key issues covered include the board directors' dedication and preparedness for the meeting, professional and ethical attributes, teamwork and their contribution to the meeting.

The annual performance evaluation of the CEOs of DHI owned companies is based on two parts:

1. A questionnaire-based leadership assessment which accounts for 20% weight of the overall evaluation; and
2. An annual compact performance that accounts for 80% of the weight.

The leadership assessment which is administered online by DHI is undertaken by all the Directors. The combined score is used to pay out the CEO's performance-linked incentives and is also considered during the renewal of contracts of the CEO.



MENJONG SORIG

PHARMACEUTICALS CORPORATION LTD

**INDEPENDENT AUDITOR'S
REPORT**