

Directors Report to the Shareholders for the year 2013

Food Corporation of Bhutan Limited

(For the period 1st January to 31st December 2013)

Introduction

As the Chairman of the Board, it gives me immense pleasure to present the Annual Report of the Food Corporation of Bhutan Limited (hereafter referred to as the Corporation) for the Year 2013 to its shareholders and the stake holders. The report highlights the operational and financial achievements during the financial year 2013.

Operational Performance

There was an improved performance at the Auction Yards in 2013 as the turnover at the auction yards has increased as compared to 2012. The turnover of potatoes, vegetable and oranges increased by 2.28%, 32.66%, and 14.16% respectively because of which the service charge revenue at auction yards also increased.

The sales revenue of the Corporation however has decreased by Nu. 18.641 million in 2013 compared to 2012 due to decrease in sales turnover. The sale of oil, pulses and sugar decreased by 16.56%, 17.24% and 50.56% respectively. The decrease in sales turnover was attributable to shortage of commodities at supply source and also due to competition in the market coupled with withdrawal of sugar quota to the Corporation received through the Royal Government.

Financial Performance

Fixed Assets

During the year, the Corporation invested in capital assets and has added fixed assets worth Nu. 19.636 million comprising of vehicles worth Nu. 6.943 million, office equipments worth Nu. 6.496 million, furniture worth Nu.1.929 million and building structures worth Nu.4.268 million. The old and unserviceable assets worth Nu.2.481 million had been disposed off.

Net Worth

The net worth of the Corporation has increased by Nu.42.229 million in 2013 compared to 2012 mainly due to the profit earned in 2013 and receipt of grant amounting to Nu. 5.973 million from World Food Programme in Thimphu for construction of additional Auction Yard structures in Phuentsholing.

Revenue and Income

The sales revenue in 2013 has decreased by Nu. 18.641 million compared to 2012 due to economic down turn both regionally and globally coupled with shortage of commodities at the supply source but the revenue from the service charge at the auction yards has increased by Nu. 3.011 million, interest income has increased by Nu. 3.296 million and other income by Nu. 6.787 million in 2013.

Expenditure

The overall expenditure in 2013 has decreased by Nu. 27.063 million compared to 2012 with major decrease in purchase cost by Nu. 21.131 as the suppliers were not able to meet the requirement of the Corporation because of which purchase has decreased. The

transportation, employee and other expenses also decreased by 19.18%, 7.58% and 4.42% respectively.

The administrative expense however increased by 13.78%.

Profit

The Corporation despite decrease in sales revenue managed to earn before profit of Nu. 52.432 million in 2013, which is marginally lesser than the profit earned in 2012, which was Nu. 52.552 million registering profit decrease of 0.23%. profit remained at par due to increase in other incomes and gains like interest on bank deposits, service charges and miscellaneous incomes.

Tax

The self assessed tax liability for the Corporation for the year 2013 is Nu. 15.388 million compared to Nu.16.516 million in 2012.

Dividend

The Corporation has not declared dividend for the Year 2013 owing to huge financial resource it will require to venture into “**Revitalization of the crop and livestock products marketing for import substitution and export promotion**” coupled by investments in improving and renovating the existing godowns and storages which are critical for ensuring food security in the country.

Capital Expenditure

Other than the investment in the Fixed Assets as reported above in Financial Performance, no other capital investment had been made by the Corporation during the Year 2013.

Human Resource Management

During the year under report twenty employees had resigned from the Corporation but fifteen new employees were recruited. The management has also implemented major reshuffles and transfers of staff to put in place a proper HR succession plan as approved by the Board and also to strengthen some of the branches and units to improve and increase the overall efficiency in the Corporation.

Corporate Governance

During the year under report, three Board Meetings were held including the Annual General Meeting for the year 2012 which was held in March 2013.

The management had revised the Corporation’s Service Rule 2008 to usher in overall improvement and enhance efficiency and effectiveness in Corporation. It was approved during the 80th Board Meeting held on 26th December 2012 and came into effect from 1st January 2013.

Challenges

The major challenge to the Corporation is the growing number of the competitors giving the Corporation a stiff competition. During the last decade, many entrepreneurs have come up engaging in the same business as that of the Corporation where it once had an edge. The Corporation also relies on the service charge income generated from its five Auction Yards, which fluctuates heavily depending on the market prices which is dictated by the climatic conditions and the crop harvest in neighboring country seasonally.

The motive of the Corporation is not to maximize the profit due to its social mandate and therefore earns a nominal profit for its sustainability.

uture Plans

The Corporation has proposal to revamp all the godowns in the country by incorporating modern amenities and also construct additional floors over the existing structure at Phuentsholing, Gelephu and S/Jongkhar auction yards to be converted into staff, farmer and client friendly utility facility.

The Corporation in collaboration with the Ministry of Agriculture & Forests, Royal Government of Bhutan is venturing into the revitalization of the domestic crop and livestock products marketing for import substitution and export promotion in Bhutan from 2014. The venture is aimed at making Bhutan self reliant and self sufficient in the agricultural products and also to improve the livelihood of the farmers. The Corporation and the Ministry had already geared up into the venture.

From July 2014 onwards the Corporation would be supplying 9 essential commodities to the Schools in Bhutan. A Memorandum of Understanding was signed between the Corporation and the Ministry of Education, Royal Government of Bhutan in February 2014.

Auditors Qualifications for the year 2013

The auditors have issued following observations during their audit of the Corporation's books of accounts for the year 2013.

1. Title deeds not obtained in respect of FCBL land

This is the continuation of last year's observation. The Management has followed up with National Land Commission Secretariat and other government agencies but due to the nationwide land survey currently on-going, the land commission is not able to issue the title deeds.

2. Year end confirmations for advances and claims receivables

The Management has written to the parties to confirm the amount that the Corporation had to receive from them. Most have not responded with some like government agencies having no system in place to provide the confirmations. In view of the practical difficulty, the confirmation could not be obtained. As suggested by the auditors we had stated in the letters that if the parties don't confirm balance within 15 days from the date of sending letter, the balance in our books is confirmed as receivable from them.

3. Depreciation on funded Assets

The depreciation on funded asset is in accordance with the guidelines issued and as per rule No. 2.9 (b) of the Income Tax Act of the Kingdom of Bhutan, 2001 and the same practice is followed by all other Corporations in Bhutan. It was also in line with the discussion that had taken place between Statutory Auditors, Royal Audit Authority and FCBL Management during the Audit Exit Meeting held every year after completion of Statutory Audits during which it was decided that such accounting system will be continued till Bhutan has its own accounting standards.

4. Valuation of stock not as per IAS 2

The valuation of inventories as on closing date cannot to be carried out due to huge number of items being handled by the Corporation and also due to different market rates at different point of time. It was explained to the auditors that the Corporation has a social mandate of price stabilization and therefore its selling price would be the lowest in the country.

The realization value of stock would be higher in the market and therefore it was prudent enough to value the stocks at cost which is in line with IAS 2.

Other observations not in qualifying nature

The auditors also issued their opinion on matters which is applicable as per the Companies Act of the Kingdom of Bhutan 2000. Amongst others, **the main ones include advances not adjusted or recovered on time, non availability of inventory policy, market study not done and not strictly adhering to the Corporation's credit policy.**

The Management has submitted its explanation and justification as given in the Management Audit report on which deliberations were made during the Audit Exit Meeting with Royal Audit Authority held after completion of statutory Audit.

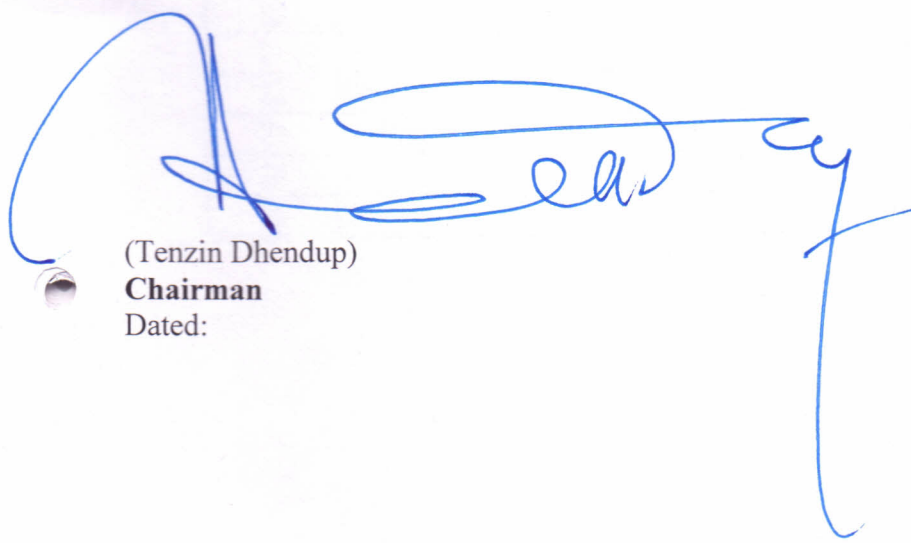
Acknowledgement

On behalf of the Board of Directors, I would like to acknowledge the contributions made by the Management and Employees of the Corporation. Despite huge social mandate and stiff competition coupled by regional and global economic downturn, it has been able to generate impressive profit.

We would also like to extend our sincere gratitude and appreciation to all the stakeholders and partners of the Corporation for their continued co-operation, assistance and association till date and looking forward to similar gestures in the future too.

Tashi Delek

For and on behalf of the FCBL Board



(Tenzin Dhendup)

Chairman

Dated: