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FOOD CORPORATION OF BHUTAN LIMITED
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CHHUKHA: BHUTAN



Food Corporation of Bhutan Limited
Directors Report to the Shareholders for the year 2017
(For the period 1st January to 31st December 2017)

Introduction

On behalf of the Board of Directors of the Food Corporation of Bhutan Limited (FCBL), I am privileged to present the Annual Report of FCBL to its shareholders and other major stakeholders. The report highlights the operational, financial and other relevant information pertaining to Financial Year 2017.

FCBL Profile

FCBL was established on 9th September 1974 under the Royal Charter of His Majesty the Fourth Druk Gyalpo with the following mandates:

- 1) To build-up and maintain satisfactory level of buffer and operational food and essential commodity stocks to ensure National Food Security Reserve and SAARC Food Security Reserve.
- 2) Procurement & distribution of food grains and other essential commodities for the country including institutional supplies.
- 3) Promote and facilitate trade in agricultural and horticultural produce to ensure fair prices for both growers and consumers.
- 4) To construct and operate adequate warehouses across the country to facilitate food items storage and distribution.

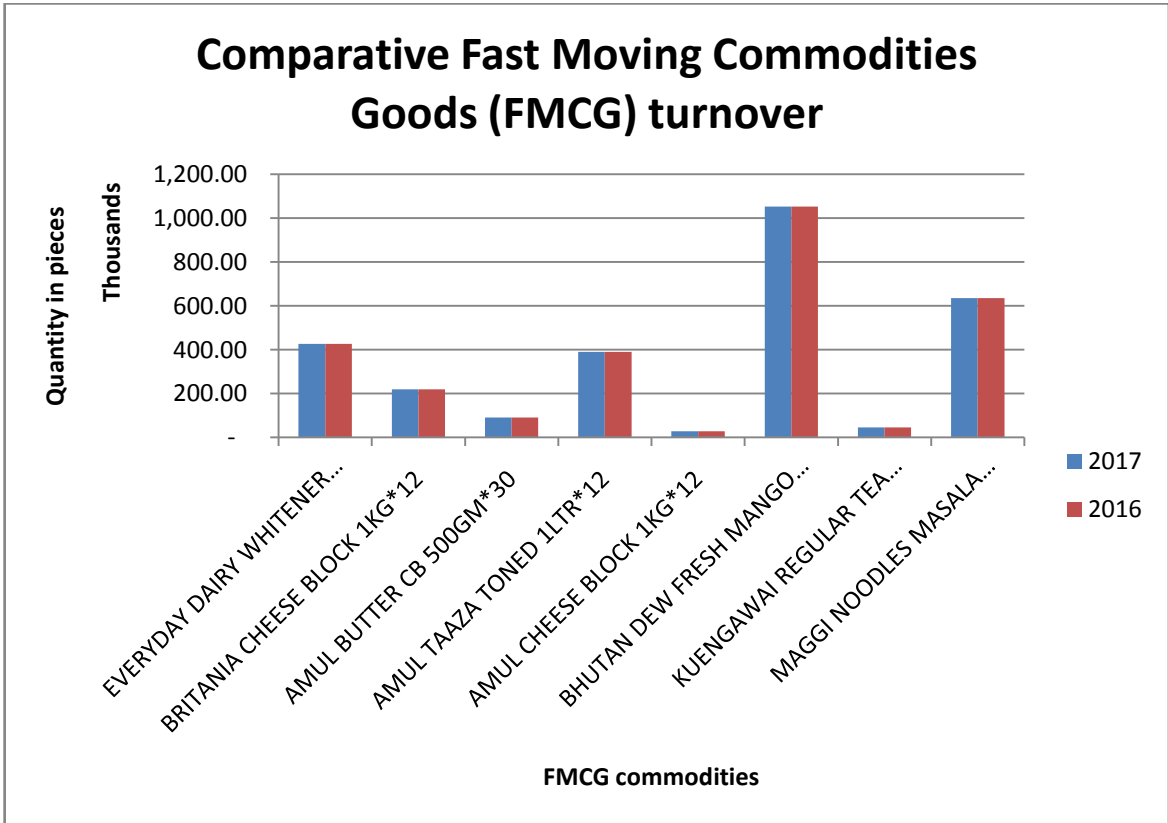
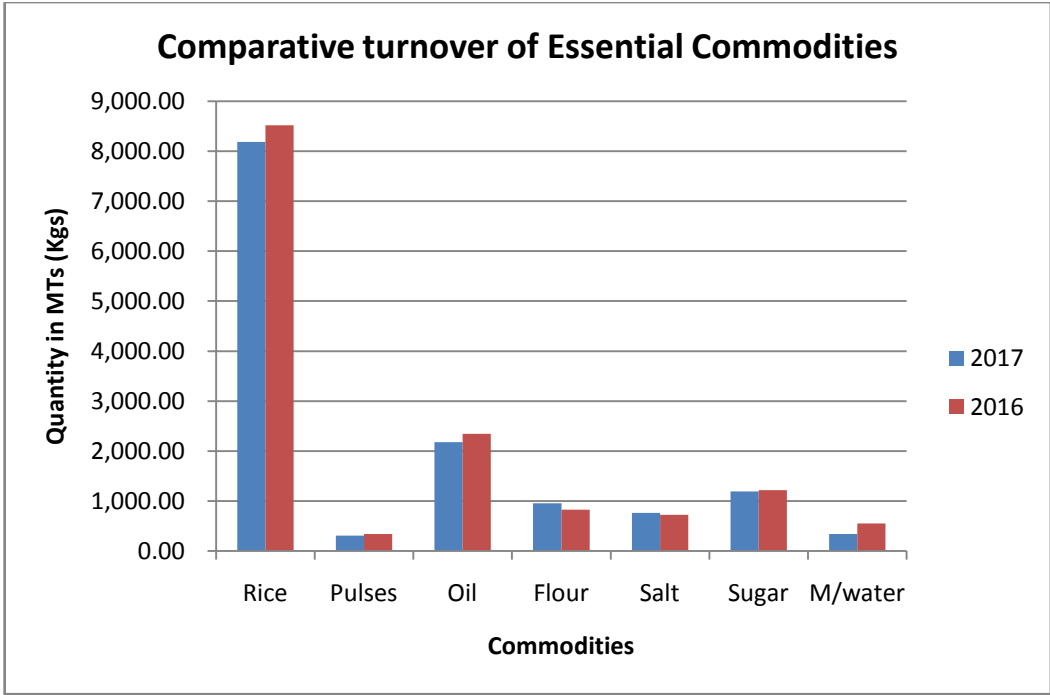
Operational Performance

A) Economic Activity (Trading business)

The overall sale revenue of the FCBL has decreased by Nu. 11.48 million in 2017 as compared to 2016 when it registered an increased sales revenue of Nu. 62.51 million only.

During the year, FCBL generated sales revenue of Nu. 29.48 million from sale of RNR products like local rice, animal feeds and agriculture inputs (farm tools, fertilizer and seeds etc.)

The comparative turnover of essential commodities and FMCG is submitted as follows;



B) Corporate Social Responsibility

a) Auction of RNR products at Auction Yards

During the Year, FCBL has auctioned 26,834.48 MTs of potatoes, 4,104.04 MTs of vegetables, 667.38 MTs of oranges and 1,111.02 MTs of other items in 2017 generating a total income of Nu.525.44 million to our farmers.

In 2016, FCBL has auctioned 26,127.07 MTs of potatoes, 3,603.58 MTs of vegetables, 791.29 MTs of oranges and 910.35 MTs of other items generating a total income of Nu. 714.28 million for the farmers.

b) RGoB School Feeding Programme

During the year under report FCBL catered to the procurement and distribution of nine essential food commodities (Rice-4780.400 MTs, Pulses-534.425 MTs, Oil-409.593MTs, Chick Peas-47.975 MTs, Milk Powder-87.220 MTs, Salt-82.726 MTs, Sugar-59.851 MTs, Tea leaves-17.382 MTs and Cheese-11.128 MTs) to the 137 schools around the country benefitting 37,354 students. FCBL levies a nominal fee of 5% for its services provided to the RGoB School Feeding Programme for its sustenance.

c) WFP School Feeding

FCBL has also assisted in distribution (at times procurement) of four essential commodities (Rice-823.875 MTs, Oil-61.625 MTs, Chick Peas-62.350 MTs and Pulses-62.475 MTs) for WFP School feeding program that supplied to 171 schools benefitting 16,860 students mostly in far-flung areas of the country.

FCBL levies a nominal fee of 5% for its services provided to the WFP School Feeding Programme for its sustenance.

d) Farm Shops

In 2017, FCBL established 148 Farm shops all over Bhutan in collaboration with the Ministry of Agriculture & Forests. It has invested Nu. 54.670 million in establishment cost as on 31st December 2017.

FCBL makes basic food and essential commodities available through its network of Farm Shops based on demand list finalized in consultation with the respective Gewog administration. It also supplies farming tools, seeds, fertilizers and animal feeds at an affordable price to assist the Government in enhancing the local agriculture production to minimize food import and generate income of the farmers.

During the year 2017 FCBL has procured and supplied following RNR inputs through the Farm Shops;

Details RNR Inputs purchased and distributed through Farm Shops in 2017

Name of Item	Purchase	
	Qty (Nos/Bags)	Amount (Nu.)
Farm Tools (Nos)	9,583.00	2,697,368.00
Animal Feeds (Bags)	11,548.00	13,904,469.92
Seeds (Packets)	6,204.00	375,292.75
Fertilizer (Bags)	496.00	232,365.00
Total	27,831.00	17,209,495.67

Financial Highlights

Fixed Assets

During the year 2017 fixed assets worth Nu.7.402 million was acquired by the FCBL consisting of vehicle, furniture and equipment. Further, addition of Nu.24.816 million was made by way of adjustments in books of accounts (land & building) and it also disposed/adjusted assets worth Nu. 7.250 million.

Revenue and Income

The sales revenue has decreased by Nu. 11.48 million in 2017. The decreased in sales revenue is mainly due to discontinuation of credit to the customers and fund shortages leading to decrease in purchases which ultimately affected the sales revenue.

Expenditure

The overall expenditure in 2017 has decreased by Nu. 15.418 million compared to 2016 with major increase being the purchase cost which decreased by 32.640 million due to fund shortages the indent made by the FCBL outlets could not be purchased.

The employee cost increased also by Nu.8.094 million due to increase in number of employees owing to opening of 148 farm shops as on 31st December 2017. The increase could have been even higher if farm shop employees were to be paid as per FCBL Pay Scale. They are employed under the Guaranteed Employment Program of the Ministry of Labour & Human Resources, an employment scheme under which the FCBL has need not have to pay as salary payment are all borne by the Government. The aforesaid arrangement is only for two year from the date of appointment after which FCBL will have to bear the full salary cost.

Other expenses like administrative cost have increased by Nu. 5.188 million and depreciation has also increased by Nu. 3.940 million.

Profit/Loss

During the year, the FCBL has incurred loss of Nu. (before Tax) compared to the modest profit of Nu. 4.201 million in 2016.

The overall increase in sales turnover contributed to the profit as submitted below;

Particulars	2017	2016	Variance
Total Revenue	1,106,654,099	1,151,255,622	(44,601,523)
Total Expenditure	1,132,999,700	1,147,054,780	(14,055,080)
Profit	(26,345,601)	4,200,843	(30,546,444)
Income Tax	-	2,934,424	(2,934,424)

Financial Reports

In pursuant to the circular issued by the Accounting and Auditing Standards Board of Bhutan (AASBB) and the Registrar of the Companies of Bhutan, FCBL has adopted new accounting standards (Bhutanese Accounting Standards BAS-SMEs) for reporting its financial statements from the financial year 2014. The impact of the change in the financial reporting system has been stated wherever necessary in the notes to the accounts.

Dividend

The Board was not able to declare dividend for the financial year 2017 in view of loss incurred by FCBL and also the huge social mandate entrusted to the company like the Farm shop operation besides the regular social mandates at no cost to the government.

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 FCBL during the Year 2017.

Human Resource Management and Development

The Company's policy considers human resource as its main asset for its success. Thus, it is imperative for the Company to have the right quality and quantity of people at the right place. During the year, 10 employees of FCBL were sent to Bangkok (Thailand) to get trained on Strategic Management and Food Supply Chains. In 2017 the Company has recruited 99 employees in various positions under Guaranteed Employment Scheme to operate the Farmshops and to monitor and meet the requirements of the FCBL.

The management has 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 FCBL.

Statutory Auditors

The 24th Annual General Meeting held on 31st March 2017, the board endorsed and approved the appointment of Statutory Auditors. M/s Gupta & Co. Chartered Accountant from Kolkota was appointed as Statutory Auditor of FCBL vide appointment no. RAA(SA-15)/CFID/2017/2846 Dated: 12 October 2017. As per the Royal Audit Authority regulations, an audit firm may audit an organization for a maximum three years. This is their first year with FCBL.

Corporate Governance

As on 31st December, 2017, the board of Directors comprised of five members from Ministry of Agriculture & Forest, Ministry of Finance, Ministry of Education, Ministry of Health and a representative from FCBL. There were four Board Meetings and two Emergency Board Meeting conducted excluding the Annual General Meeting for the year 2016 which was held on 31st March, 2017.

The details of the Composition of the FCBL Board are as follows:

Board of Directors

Sl. No	Name & Designation	Designation in the Board
1	Dasho Rinzin Dorji Secretary Ministry of Agriculture & Forest Royal Government of Bhutan Thimphu	Chairman

2	Mr. Karma Tshering Director General Department of School Education Ministry of Education	Director
3	Mr. Lekzang Dorji Director General Department of Macro Economic Affairs Ministry of Finance, Thimphu	Director
4	Mr. Laigden Dzed Senior Dietician Department of Public Health Ministry of Health	Director
5	Mr. Naiten Wangchuk Chief Executive Officer Food Corporation of Bhutan Limited Phuentsholing	Member Secretary

Annual General Meetings of Shareholders

The AGM provides the board and management with the opportunity to meet and engage directly with our shareholders. Shareholders who are not able to attend the meeting are always encouraged to send their representatives. The notices of meeting and related papers for the AGM are sent to the shareholders at least 21 days before the day of the meeting. The 24th Annual General Meeting of Shareholders was held on 31st March 2017 at the FCBL conference hall, Regional Office, Thimphu.

Challenges

1. The dual mandates (social as well the corporate) pose serious challenges to the FCBL. On one hand the FCBL is mandated to self sustain itself but on other hand it has to invest its time and resources in carrying out social mandates having minimal and negative economic returns. Balancing the two had been a difficult issue for the FCBL.
2. The motive of the FCBL is not to maximize the profit due to its social mandate and therefore strive to earn a nominal profit for its sustainability.
3. The establishment of farm shops, which are located at the remote areas, has posed major challenges to the FCBL in terms of service delivery. The farm shops lack storage facilities because of which stocks cannot be stored in sufficient quantity and have to resort to piecemeal delivery resulting in erratic supply and increase in overhead cost.
4. The lack of fund support on Farm shop operation loss which poses huge burden to FCBL.
5. The FCBL also relies on the service charge income generated from its Auction Yards for its sustenance, which fluctuates heavily depending on the open market prices dictated by the climatic conditions and the crop conditions in neighbouring countries.
6. One of the challenges to the FCBL is the lack of funds for investment in potential agricultural enterprises and other food related business ventures due to its high social obligations.
7. The FCBL expects the challenges to aggravate further when it starts the buyback facilities due to perishable nature of the agriculture produce coupled with the difficult logistic arrangements posed by challenging topography of the country.

8. Lack of appropriate modern storage and value addition facilities leading to high pilferage and post harvest losses.

Future Plans

1. The FCBL 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 client friendly utility facility.
2. The FCBL in collaboration with the Ministry of Agriculture & Forests, Royal Government of Bhutan has ventured into the revitalization of the domestic crop and livestock products marketing for import substitution and export promotion in Bhutan since 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 through cash income generation. The FCBL and the Ministry had already geared up into the venture.
3. The FCBL has initiated to invest in Commodity Exchange Market, which will facilitate online auctioning and also ease existing pressure FCBL face while carrying out the manual auctioning which shall gradually reduce dealing in imported commodities in near future and instead concentrate on domestic products which would not only make the country self reliant but also reduce pressure on foreign currency (INR/USD).

Auditors Qualifications for the year 2017

The auditors have issued following observations during their audit of the FCBL's books of accounts for the year 2017.

1. The nature of the Operation of the Company

At present the Company is doing its operation in two types viz Social and Commercial activities. The accounts are prepared in combination of two types of aforesaid operations. In our opinion, it's not possible to identify the expenses incurred for Social and Commercial Activities. Profit or Loss cannot be ascertained for each operation separately to take appropriate actions for lapses, if any. A system may be established from where two operation results can be separately identified for better Management Control.

2. National Food Security Reserve & SAARC Food Security Reserve

1400 MTs of Rice, 200 MTs of Sugar, 58 MTs of Oil and 360 MTs of Rice must be kept for National Food Security Reserve and SAARC Food Security Reserve respectively in the specific Bulks and Depots of FCBL but at the year-end the actual quantity of Food Security Reserves was not maintained. NFSR and SFSR quantity must be maintained with proper fund support from the Government

3. Age-analysis reports from the system

The age analysis of all Assets and Liabilities except capital and Reserves & Surplus must be implemented in New ERP System for better Management Control.

4. Other observations not in qualifying nature

The auditors also issued their opinion on the matters like doubtful advances, internal audit/control, manual compilation of Property, Plant & Equipments, Title deeds of the land should be obtained and Cash Embezzlement.

The management has submitted its explanation and justification as given in the management audit report on which deliberations were made during the exit meeting with the Royal Audit Authority.

Acknowledgement

On behalf of the Board of Directors, I would like to acknowledge the contributions made by the Management and Employees of the FCBL. Despite huge social mandate and stiff competition coupled with numerous challenges and setbacks, though the FCBL was in loss and hope it would improve in future although profit maximization is not the motive of the FCBL.

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

Tashi Delek

On behalf of the FCBL Board

(Rinzin Dorji)
Chairman

Dated: