

**Directors Report to the Shareholders for the year 2015**  
**Food Corporation of Bhutan Limited**  
(For the period 1<sup>st</sup> January to 31<sup>st</sup> December 2015)

**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 2015.

**FCBL Profile**

FCBL was established on 9<sup>th</sup> September 1974 under the Royal Charter of His Majesty the Fourth Druk Gyalpo with the following mandates;

- 1) Build and maintain stocks of essential food commodities to meet emergencies for the Nation & SAARC countries.
- 2) Trade in Agricultural and Horticultural produce in order to ensure fair price for both growers and consumers.
- 3) Construct & operate warehouses in different parts of the country to the extent necessary to ensure better storage facilities and meet the objectives (1 and 2) above.
- 4) To ensure price stabilization of food and essential commodities through effective procurement and establishment of nationwide distribution network.
- 5) Achieve market leadership in selling diversified consumer products within the domestic markets
- 6) Enhance market share by establishing itself as a dependable and reliable export firm for quality Bhutanese agriculture products.

**Operational Performance**

**A) Economic Activity (Trading business)**

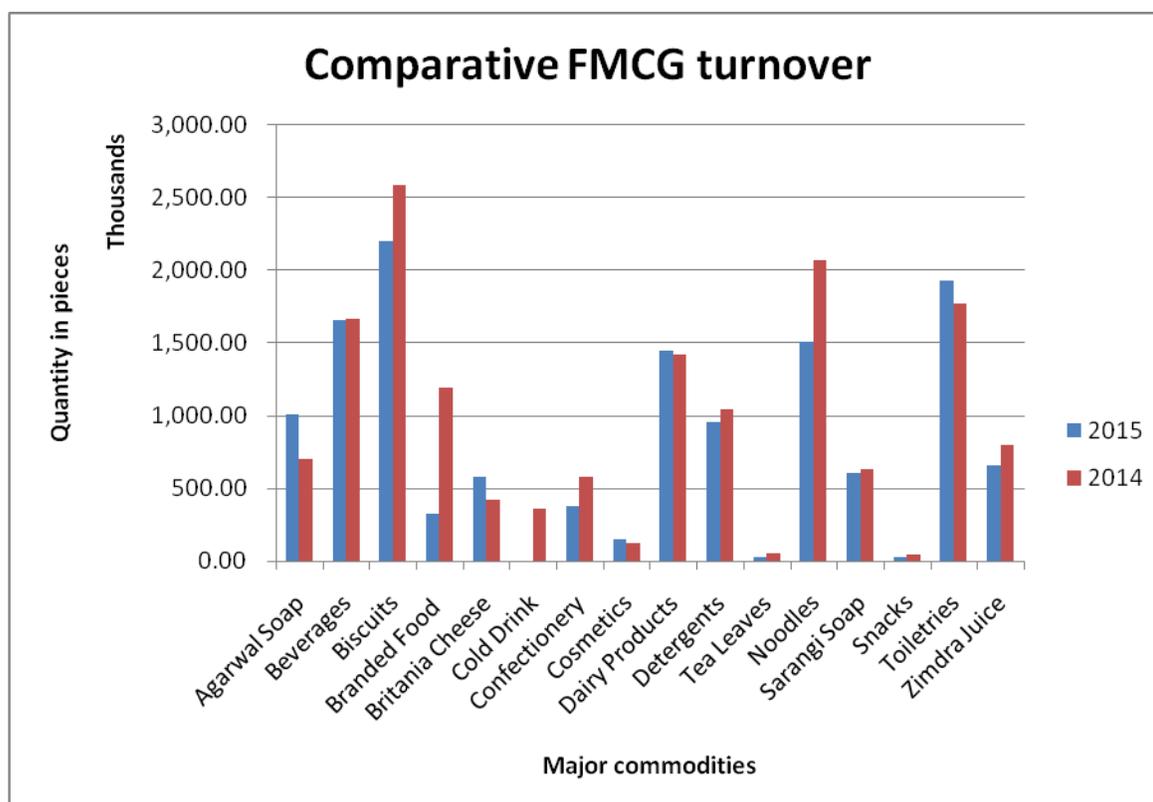
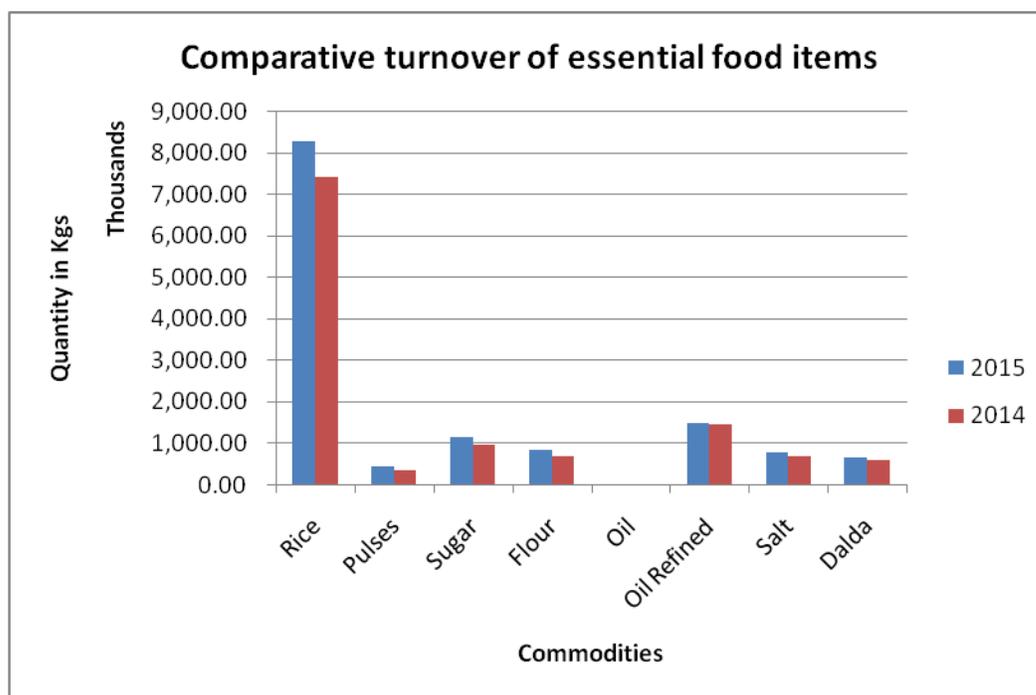
The overall sale turnover (quantity) of the FCBL has increased by 13.36 % in 2015 compared to 2014 registering the sales revenue increase of Nu. 28.445 million.

The sale of major items like rice, pulses & sugar has increased by 11.8%, 27.3% and 18.5 % respectively.

In Fast Moving Consumer Goods (FMCG) section, major items like dairy and hygiene products has increased by 2.1% and 9.3% respectively. The overall business in FMCG section however has decreased by 162.4% due to management diversion of fund to supply essential food items to the farm shops.

FCBL also generated sales revenue of Nu. 13.935 million from sale of 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) Social Activity

### a) Auction of RNR products at Auction Yards

During the Year, FCBL has auctioned 22,597.24 MT of potatoes, 3,841.41 MT of vegetables, 1,870.52 MT of oranges and 319.52 MT of other items in 2015 generating total income of Nu. 527,490,956.65 to the farmers. In 2014, it auctioned 26,345.71 MT of potatoes, 2,924.365 MT of vegetables, 2,041.59 MT of oranges and 835.62 MT of other commodities earning income of Nu. 803,543,756.08.

There was decrease in volume arrival (by 9.89%) as well the price in 2015.

### b) RGoB School Feeding Program

During the year under report FCBL has catered to the procurement and distribution of nine essential food commodities to the schools around the country. It has delivered food commodities to 114 schools benefitting 37,870 students.

The FCBL charges 5% nominal charges for its services.

### c) WFP School Feeding

FCBL has also assisted in distribution (at times procurement) of 3 essential commodities (rice, oil and pulses) to 194 schools benefitting 25,041 students in far flung areas of the country. FCBL levies nominal service charges for its sustenance.

### d) Farm Shops

In 2015, FCBL has established 35 Farm shops mostly in the eastern and central Bhutan in collaboration with the Ministry of Agriculture & Forests. It has invested Nu. 10.528 million (RGoB refunded Nu.4.4 million) as establishment cost of 35 farm shops in 2015 for procurement of furniture, office equipments and value addition equipments like dryer, display fridge etc.

FCBL supplies essential commodities at the Farm Shops based on demand list of commodities finalized by the respective Gewog administration.

It also supplies farming tools, seeds, fertilizers and animal feeds at a nominal price to assist the Royal Government in enhancing the local agriculture production to minimize food import.

During the year 2015 FCBL has procured and supplied following RNR inputs through the Farm Shops;

#### Details RNR Inputs purchased and distributed through Farm Shops in 2015

Name of Item	Purchase	
	Qty (Nos/Bags)	Amount (Nu.)
Farm Tools (Nos)	4,250.00	996,180.95
Animal Feeds (Bags)	2,729.00	2,991,335.97
Fertilizer (Bags)	116.00	49,040.00
Seeds (Packets)	5,917.00	352,250.00
Jute Bags (Nos)	47,150.00	660,100.00
<b>Total</b>	<b>60,162.00</b>	<b>5,048,906.92</b>

## **Financial Highlights**

### **Fixed Assets**

During the year 2015 fixed assets worth Nu. 27.754 million was acquired by the FCBL consisting of vehicle, furniture and equipment. Further addition of Nu. 1.814 million was made by way of adjustments in books of accounts (land & building). And during the year assets worth Nu. 2.784 million was also disposed/adjusted.

### **Net Worth**

The net worth of the FCBL has increased by Nu.1.127 million in 2015 compared to 2014 mainly due the nominal profit it has earned in 2015.

### **Revenue and Income**

The sales revenue has increased by Nu. 28.445 million in 2015 compared to 2014. The increase was attributable to increase in sale of essential commodities like pulses, flour, salt, dairy products and hygienic products.

The service charge revenue from auction yard has decreased by Nu. 18.447 million in 2015 compared to 2014. The decrease was mainly due to significant decrease auction price coupled with decrease in arrival of goods at auction yards in 2015.

Other income on account of rent, claims from suppliers have increased by Nu. 4.252 million.

### **Expenditure**

The overall expenditure in 2015 has increased by Nu. 55.669 million compared to 2014 with major increase being the purchase cost which increased by Nu. 49.108 million due to increase in sales turnover of major items, the inflation and increase in purchase cost.

The employee cost increased also by Nu.7.264 million due to increase in number of employees owing to opening of 35 farm shops in 2015. The increase could have been even higher if farm shop employees are paid as per FCBL Pay Scale. They are employed under the Guaranteed Employment Program of the Ministry of Labor & Human Resource, an employment scheme under which the FCBL has to pay only Nu. 3,250 per employee and balance borne by the Royal Government. The aforesaid arrangement shall be only for one year from the date of appointment after which FCBL will have to bear the full salary cost.

Other expenses like administrative cost have decreased by Nu. 3.196 million and depreciation has also increased by Nu. 0.122 million.

### **Profit/Loss**

During the year under report, the FCBL was able to generate a modest profit of Nu. 3.591 million (before Tax) compared to Nu. 4.086 (restated) million in 2014.

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

<b>Particulars</b>	<b>2015</b>	<b>2014</b>	<b>Variance</b>	<b>%</b>
Total Revenue	1,054,424,611	999,249,218	55,175,393	5.52%
Total Expenditure	1,050,833,325	995,163,400	55,669,925	5.59%
Profit	3,591,286	4,085,818	(494,532)	12.10%
Income Tax	919,124	3,913,929	(2994,805)	7.65 %

### **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 where ever necessary in the notes to the accounts.

### **Tax**

The self assessed tax liability of FCBL for year 2015 was Nu. 0.919 million.

### **Dividend**

The Board was not able to declare dividend for the financial year 2015 in view of nominal profit.

### **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 2015.

### **Human Resource Management and Development**

During the year under report, twenty eight (28) senior employees of FCBL were sent to Abacus Seed Company in Bangkok (Thailand) to get trained on Strategic Management and Food Supply Chains. The course was tailor made to suit the need and relevance to the FCBL.

Seven employees had resigned from the FCBL (including ones on MoLHR Guaranteed Employment Program (GEP)) but one hundred one (including 74 under MoLHR GEP) were recruited.

The management has also implemented 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 FCBL.

### **Corporate Governance**

During the year under report, four Board Meetings were held including the Annual General Meeting for the year 2014 which was held on 30<sup>th</sup> May 2015.

The Composition of FCBL Board is as follows;

### FCBL Board of Directors

Sl. No	Name & Designation	Designation in the Board
1	Mr. Nim Dorji Director General Department of Agriculture Ministry of Agriculture & Forests Thimphu	Chairman
2	Mr. Karma Yeshey Director General Department of School Education Ministry of Education Thimphu	Director
3	Mr. Lekzang Dorji Director Department of National Budget Ministry of Finance Thimphu	Director
4	Mr. Laigden Dzed Senior Dietician Department of Public Health Ministry of Health Thimphu	Director
5	Mr. Karma Nidup Chief Executive Officer Food Corporation of Bhutan Phuentsholing	Member Secretary

### Challenges

1. The major challenge to the FCBL is the growing number of the competitors giving the FCBL a stiff competition. During the last decade, many entrepreneurs have come up engaging in the same business as that of the FCBL where it once had an edge.
2. 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 to erratic supply. It also faces severe challenges in transportation as the private transporter either charge high price resulting in increase in price of commodities or they refuse to ply on farm roads.

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 logistic arrangements given the difficult topography of the country.

3. The FCBL also relies on the service charge income generated from its four Auction Yards for its sustenance, which fluctuates heavily depending on the market prices dictated by the climatic conditions and the crop conditions in neighboring country.
4. 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 time and resource in carrying out social mandates having minimal economic returns. Balancing the two had been a tricky issue for the FCBL.

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.

### **Future Plans**

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 staff, farmer and client friendly utility facility.

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.

The FCBL has plans to invest in Commodity Exchange Market, which will facilitate online auctioning and also ease existing pressure FCBL face while carrying out the manual auctioning. It was offered to invest Nu. 8.8 million as Equity contribution to BCE, 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 2015**

The auditors have issued following observations during their audit of the FCBL's books of accounts for the year 2015.

#### **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 FCBL 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.

**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 old receivables not adjusted or recovered on time, non availability of inventory policy and not strictly adhering to the FCBL'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.

The Board directed management to address the audit observations and improve further.

**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, the FCBL was able to generate nominal profit 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**

(Nim Dorji)

**Chairman**

Dated: