

Directors Report to the Shareholders for the year 2016
Food Corporation of Bhutan Limited
(For the period 1st January to 31st December 2016)

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 2016.

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) 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.

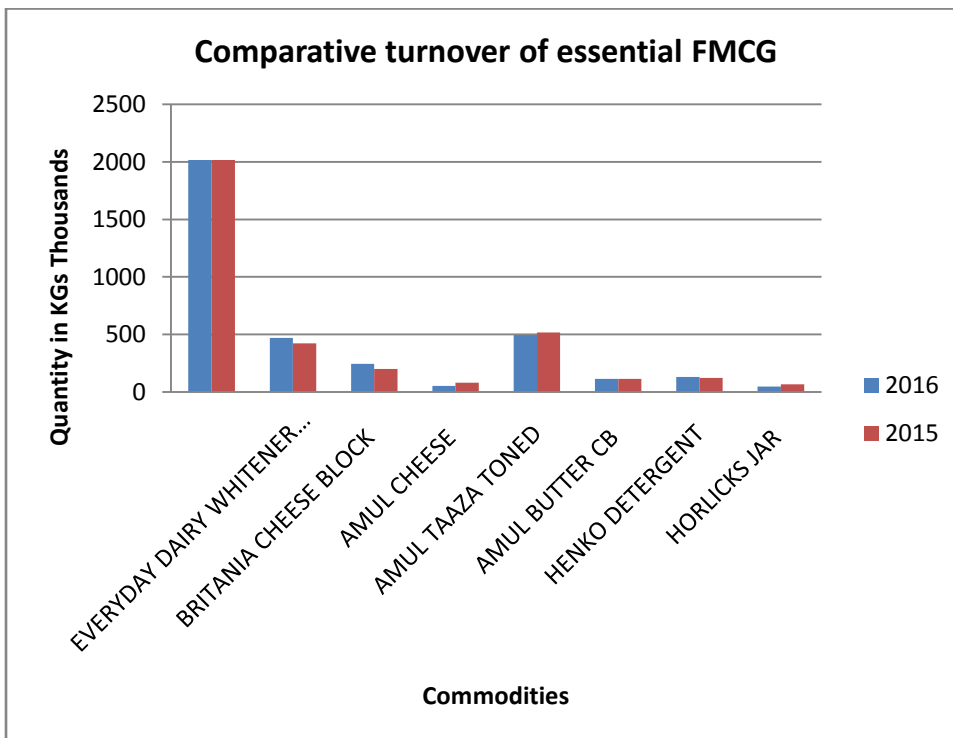
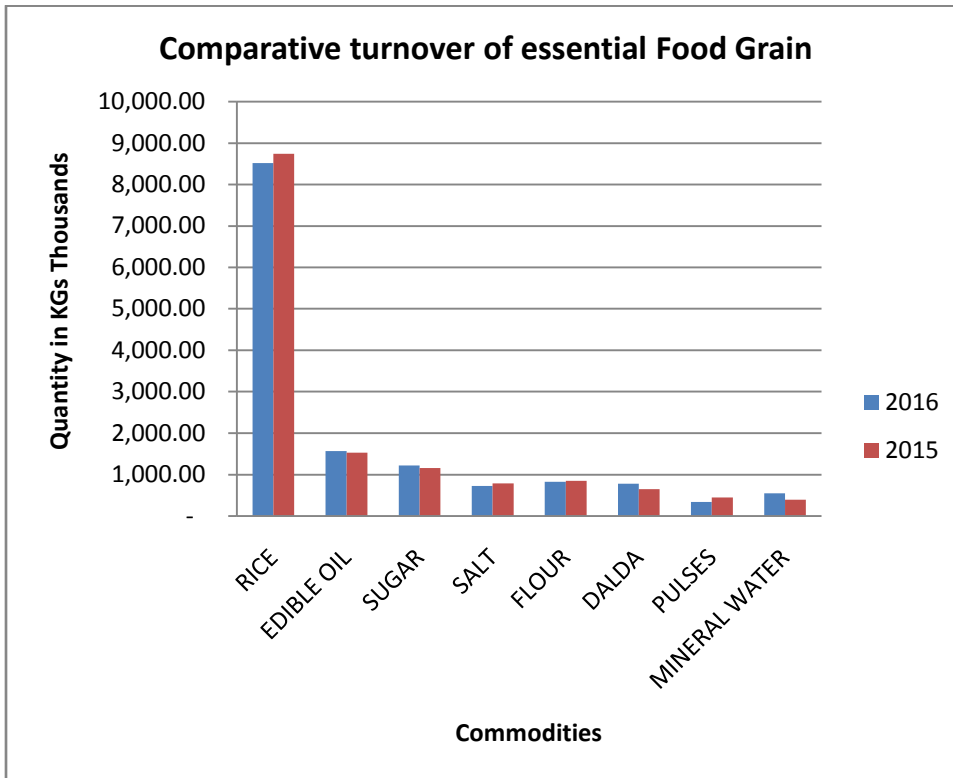
Operational Performance

A) Economic Activity (Trading business)

The overall sale revenue of the FCBL has increased to Nu. 62.51 million compared to 2015 registering the sales revenue increase of Nu. 28.44 million.

In Fast Moving Consumer Goods (FMCG) section, major items like dairy and hygiene products has increased respectively. FCBL also generated sales revenue of Nu. 20.81 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 26,127.07MT of potatoes, 3,603.58 MT of vegetables, 791.29 MT of oranges and 910.32 MT of other items in 2016 generating total income of Nu. 42845678.53 to the farmers. In 2015, it 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 2016 generating total income of Nu. 527,490,956.65 to the farmers.

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 2016, FCBL has established 87 Farm shops whole over Bhutan in collaboration with the Ministry of Agriculture & Forests. It has invested Nu. 14.052 million (RGoB refunded Nu.4.4 million) as establishment cost of 87 farm shops in 2016 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 Geog 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 2016 FCBL has procured and supplied following RNR inputs through the Farm Shops;

Details RNR Inputs purchased and distributed through Farm Shops in 2016

Name of Item	Purchase	
	Qty (Nos/Bags)	Amount (Nu.)
Farm Tools (Nos)	4,354.00	1,193,621
Animal Feeds (Bags)	7,877.00	9,095,010
Seeds (Packets)	4,529.00	281,280
Fertilizer (Bags)	585.00	286,145
Total	60,162.00	10,856,056

Financial Highlights

Fixed Assets

During the year 2016 fixed assets worth Nu. 42.498 million was acquired by the FCBL consisting of vehicle, furniture and equipment. Further addition of Nu. 13.026 million was made by way of adjustments in books of accounts (land & building). And during the year assets worth Nu. 4.670 million was also disposed/adjusted.

Revenue and Income

The sales revenue has increased by 62.51 million in 2016 compared to 2015. The increase was attributable to increase in sale of essential commodities like pulses, flour, salt, dairy products and hygienic products.

Expenditure

The overall expenditure in 2016 has increased by Nu. 96.211 million compared to 2015 with major increase being the purchase cost which increased by Nu. 65.913 million due to increase in sales turnover of major items, the inflation and increase in purchase cost.

The employee cost increased also by Nu.19.156 million due to increase in number of employees owing to opening of 87 farm shops in 2016. 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 are 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 increased by Nu. 4.243 million and depreciation has also increased by Nu. 4.158 million.

Profit/Loss

During the year under report, the FCBL was able to generate a modest profit of Nu. 4.201 million (before Tax) compared to Nu. 3.591 (restated) million in 2015.

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

Particulars	2016	2015	Variance
Total Revenue	1,151,255,622	1,054,424,611	96,831,011.00
Total Expenditure	1,147,054,780	1,050,833,325	96,221,455.00
Profit	4,200,843	3,591,286	609,557.00
Income Tax	293,442,363	919,124	292,523,239.00

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 2015. 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 2016 was Nu. 2.924 million.

Dividend

The Board was not able to declare dividend for the financial year 2016 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 2016.

Human Resource Management and Development

During the year under report, Forty two (42) senior employees of FCBL were sent to 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.

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 28th March, 2016.

The Composition of FCBL Board is as follows;

CBL 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
	Mr. Karma Yeshey Director General	Director

2	Department of School Education Ministry of Education Thimphu	
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 2016

The auditors have issued following observations during their audit of the FCBL's books of accounts for the year 2016.

ESTABLISHMENTS OF FARM SHOPS

FCBL acknowledges the statement made by the statutory auditors and would like to put on record that FCBL has sought clarity from MoAF on the operation of Farm Shops, as FCBL has to recover the investment made in operating the Farm Shops. As per the economic analysis on Farm Shop operation, FCBL will start generating some miniscule positive figure after 4th Year of its operation. As of 31st December 2016 there are 87 Farm Shops in operation with 118 farm shops yet to be opened which would demand/need substantial investment. As FCBL is already making losses in operation of the earlier Farm Shops, the Royal Government of Bhutan (RGoB) should provide budgetary support and also grant appropriate operation time to FCBL to allow it to recover the investments made.

ANALYSIS OF RESULT OF THE COMPANYVIS-À-VIS SOCIAL MANDATE

FCBL being a state owned entity owned entirely by the State with huge social obligations has no objective of profit maximization however it has to sustain its business to provide its services to the people of Bhutan. FCBL's earning from the auction yards which are dependent or cross subsidized by the others and similarly analysis of FCBL as a company should include all its business units as some which are profit centers subsidize the cost centers to fulfill its social obligations to the Nation.

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.

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: