

Directors Report to the Shareholders for the year 2014
Food Company of Bhutan Limited
(For the period 1st January to 31st December 2014)

Introduction

On behalf of the Board of Directors the Food Corporation of Bhutan Limited, I am privileged to present the Annual Report of FCBL to its shareholders and other relevant and interested stakeholders. The report highlights the operational, financial and other relevant information pertaining to Financial Year 2014.

Company Profile

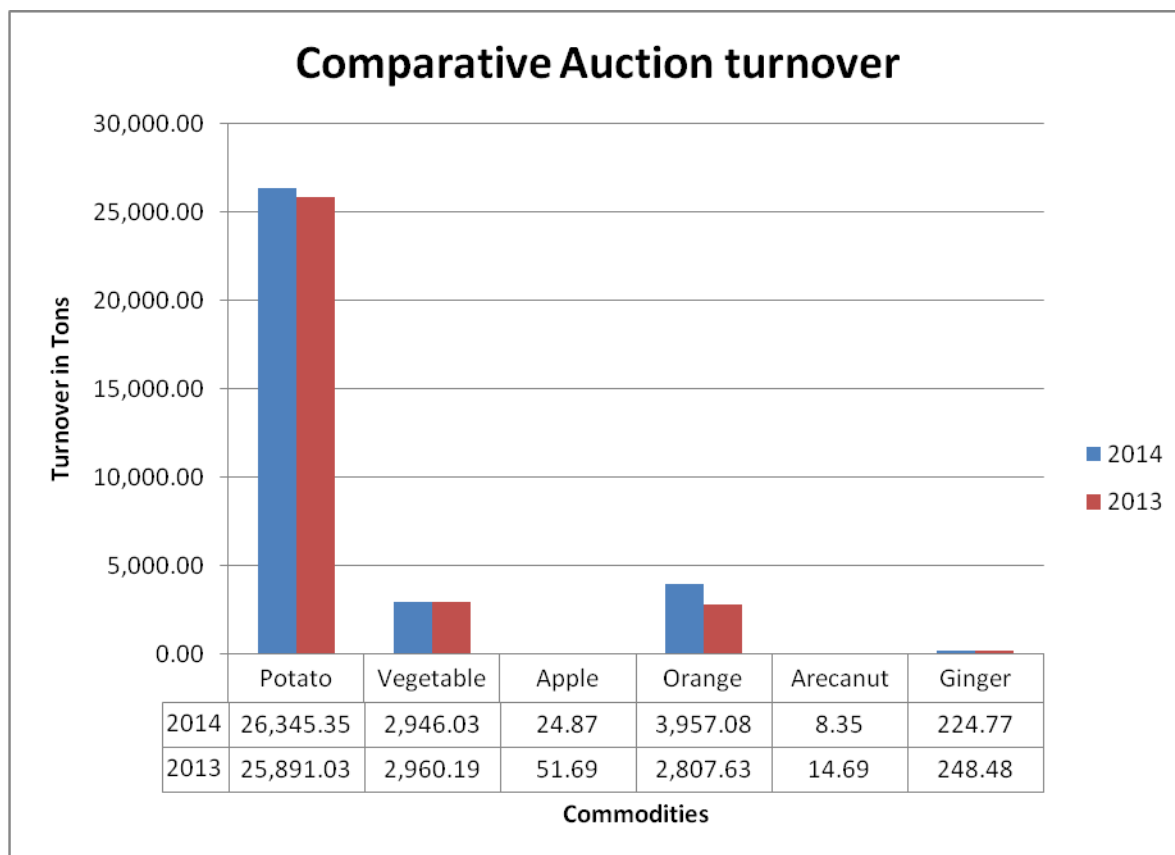
Food Corporation of Bhutan Limited (FCBL) was established on 9th September 1974 under the Royal Charter of His Majesty the Fourth Druk Gyalpo with the following mandates;

- 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) Facilitate school feeding program in Bhutan (WFP and RGoB funded)
- 6) Achieve market leadership in selling diversified consumer products within the domestic markets
- 7) Enhance market share by establishing itself as a dependable and reliable export firm for quality Bhutanese agriculture products.

Operational Performance

1) Performance at Auction Yards

The overall performance at the Auction Yards in 2014 has improved significantly compared to 2013. The overall turnover at the auction yard has increased by 4.79% compared to 2013. The income generated for the farmers at the auction yards has increased from Nu. 527.965 million in 2013 to Nu. 843.893 million in 2014, an increase of 59.84%. FCBL earned favorable revenue at the auction yards. Comparative turnover is presented below;



2) Royal Government School Feeding Program

Based on the RGoB directive, in 2014 FCBL delivered 1,540.81 MT of Rice, 253.63 MT of pulses, 166.61 MT of oil and 187.25 MT of other commodities worth Nu. 66.721 million to schools across in the country. The deliveries were made as a part of the school feeding program.

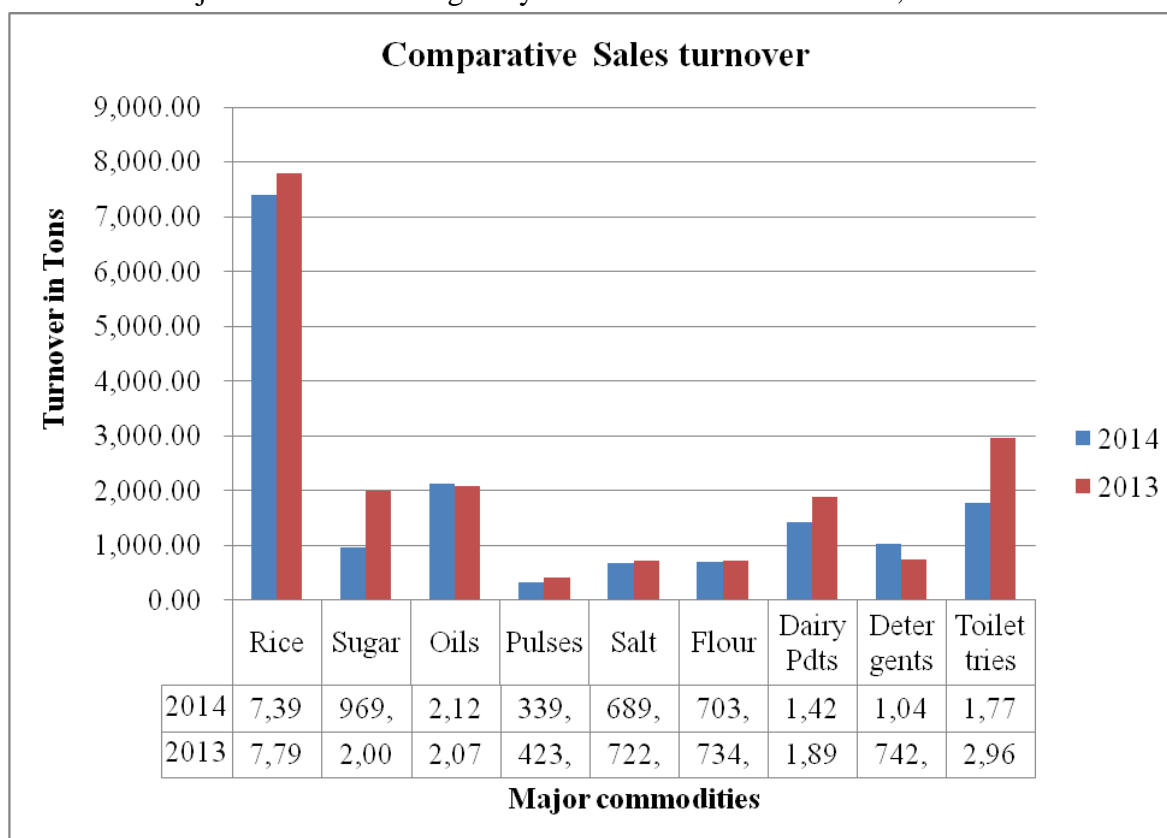
The school feeding exercise resulted into immense opportunity loss for FCBL in 2014. The amount spent by FCBL for school feeding amounting to Nu. 27.372 million (net of advance) was refunded late resulting into fund crisis for 2-4 months during which FCBL could have generated millions.

From 2015 onwards the Ministry of Education has agreed to release 100% of the school feeding fund in advance as deposit works so that FCBL's normal operation is not compromised as it happened in 2014.

3) FCBL Trading business

The sales revenue of the Company has increased by Nu. 43.553 million in 2014 compared to 2013 due to increase in selling price but the quantity turnover has decreased by 11.37%. 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 in view of increased purchase for the school feeding program. The school feeding activities diverted both the financial and human resource of the company, partially affecting the 2014 performance. Further the Ministry of Agriculture & Forests directed FCBL to assist the

Royal Government in enhancing agricultural production in the country by venturing in marketing of the domestic products. Those activities were not commercially viable venture for the company resulting in decrease in profit during the year under report. Comparative turnover of major items sold during the year 2014 is submitted below;



Financial Performance

Fixed Assets

During the year fixed assets worth Nu. 7.109 million was acquired by the company consisting of furniture and equipment.

Net Worth

The net worth of the Company has increased by Nu.3.629 million in 2014 compared to 2012 mainly due the profit it has earned in 2014.

Revenue and Income

The service charge revenue at auction yard has increased by Nu. 16.258 million in 2014 compared to 2013. The increase is attributable to increase in arrival at auction yards coupled with record price the potatoes fetched during the bidding process. The sales revenue in 2014 has also increased by Nu. 43.553 million compared to 2013 due to increase in cost of goods and the resulted increase in selling price.

Expenditure

The overall expenditure in 2014 has increased by Nu. 87.681 million compared to 2013 with major increase in purchase cost by Nu. 50.732 million due to the inflation and increase in purchase cost. The employee cost increased also by Nu.28.923 due to pay revision and pay enhancement. Other expenses like administrative cost and depreciation also increased by Nu. 6.253 million and Nu. 1.670 million respectively.

Profit/Loss

FCB has generated a profit (before tax) of Nu. 1.350 million compared to profit of Nu. 55.252 million in 2013, a decrease of 97.56 %. The decrease in profit is mainly attributable to decrease in turnover in 2014 due temporary fund shortage created by diverting the fund to new activities which had no viable revenue. The decrease in profit was also due to reduction of profit margin by the management to make the products comparatively affordable to the general public in compliance to its mandate of price stabilization.

The Company's motive is not to maximize profit. It should earn profit only to sustain itself.

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 the Company for the year 2014 is Nu. 3.153 million compared to Nu.16.126 million in 2013.

Dividend

No dividend was declared for the financial year 2014 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 Company during the Year 2014.

Human Resource Management and Development

During the year under report, four senior employees of FCBL were sent to Development Financial Institute (DFI) in Philippines to get trained on Governance, Strategic Management and Food Chains. The course was tailor made to suit the need and relevance to the Company.

Thirty one employees had resigned from the Company but thirty seven new employees 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 Company.

Corporate Governance

During the year under report, five Board Meetings were held including the Annual General Meeting for the year 2013 which was held in April 2014.

The Board had approved the partial amendment of the Company's Service Rule 2013 based on justification submitted by the management citing redundancy and difficulty faced during the implementation of the Service Rule.

Company Board of Directors

Sl. No	Name & Designation	Designation in the Board
1	Dasho Tenzin Dhendup Secretary Ministry of Agriculture & Forests Thimphu	Chairman
2	Mr. Tshewang Tandin Director General Department of Adult & Higher Education Ministry of Education Thimphu	Director
3	Mr. Rabgay Tobden Dungpa Dungkhag Administration Chukha Dzongkhag Chukha	Director
4	Mr. Lekzang Dorji Director Department of National Budget Ministry of Finance Thimphu	Director
5	Mr. Karma Nidup Chief Executive Officer Food Corporation of Bhutan Phuentsholing	Member Secretary

Challenges

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

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

Future Plans

The Company 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 Company 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.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 Company and the Ministry had already geared up into the venture.

The Company 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. The Company aims to 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).

Auditors Qualifications for the year 2014

The auditors have issued following observations during their audit of the Company's books of accounts for the year 2014.

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 Company 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. Change in Accounting Policy

In 2014 the Company has charged accounting policy of valuing inventory from cost basis to cost or net realizable value whichever is lower. The change was made to comply to the new accounting standards in Bhutan (Bhutanese Accounting Standards).

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 Company'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.

Acknowledgement

On behalf of the Board of Directors, I would like to acknowledge the contributions made by the Management and Employees of the Company. Despite huge social mandate and stiff competition coupled by regional and global economic downturn, it has been able to generate modest profit and hope it would improve in future although profit maximization is not the motive of the Company.

We would also like to extend our sincere gratitude and appreciation to all the stakeholders and partners of the Company 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**

(Tenzin Dhendup)

Chairman

Dated: