

ANNUAL REPORT

2017

THE YEAR IN REVIEW

On behalf of the Hon'ble Chairman, board directors, the management and the employees of DCCL and on my own behalf I would like to take this opportunity of conveying our heartfelt gratitude and appreciation to all our stakeholders, customers, suppliers and our business partners for their unstinted support and co-operation rendered to the company during the business transaction year 2017.

While reminiscing on the events and activities that had occurred during the year, there are certain milestones which have directly or indirectly helped the company in growing from strength to strength. Due to space constraint it may not be possible to enumerate the entire events and happenings in these few pages. However, I would like to highlight some of the key events of the year so that our valued readers get the snapshot of the year 2017.

Let me also offer my gratitude and appreciation to the former Managing Director, Mr. Dorji Norbu and his team for having continuously strived to bring the company thus far. At the same time when I joined office in July 2017, the warmth and cordiality pervaded the entire company's atmosphere, for which I must thank him and his team for the preparations made to make me and my family feel at home.

While much of the initiatives had already been taken to improve the performance of the company, still, much more needed to be done so that the company is able to turn around at a much faster pace.

One of the important initiatives that we undertook was to control the overall expenditure and other miscellaneous costs by cutting down on the quantity of spare parts that are being procured; reducing the power and fuel consumption; reducing the expenditure of overtime payments, machine hours and so on.


The other initiative was to ensure that we achieve higher plant capacity utilization and availability by ensuring that the plant is able to operate continuously without too many shut downs, thereby reducing the shut down cost as well as other associated costs to the company. The other initiative was to achieve a comfortable cash flow situation through parallel sale of substantial amount of clinker to various interested parties in Bhutan and India.

We are pleased to report that we had been able to make an upward revision of cement selling rates to hydro-power projects during the year; while at the same time, the credit recovery rate from the hydro project contractors had improved substantially due to constant follow ups at the management level. The other major reform in the export market is the initiation of the process to identify and appoint an export-marketing agent (EMA), through whom the sale of cement to export markets would be channeled.

While this year we had managed to reduce the loss by more than Nu 30.00 Million, in the coming years, we are hopeful and shall keep on endeavoring to bring substantial improvements in the overall performance of the company both in terms of production and sale of our products.

To conclude, I would like to solicit and urge our management team, the employees and all our valued stakeholders, vendors, transporters, customers, to once again commit and join hands with our company to take it forward with great enthusiasm, and ensure that it is finally able to come out of the red zone.

Tashi Delek!



Serjam Jigme
Chief Executive Officer



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COMPANY PROFILE

The Royal Government of Bhutan initiated Dungsam Cement Project (DCP) in 1982 with assistance from the Government of India. It was incorporated as Dungsam Cement Corporation Limited (DCCL) on September 10, 2009 under the Companies Act of the Kingdom of Bhutan 2000/2016 as a wholly owned subsidiary of Druk Holding and Investment Limited (DHI) which is an investment arm of the Royal Government of Bhutan.

The plant is located at Chengkari, Nganglam; under Pemagatshel Dzongkhag in the east Bhutan at an approximate distance of about 150 KM in North-West of Guwahati, Assam, India. The plant, with a production capacity of 1.2 million tons per annum, started its commercial operation from January 1, 2014, and has obtained permanent license from the Bhutan Standard Bureau (BSB) and Bureau of Indian Standards (BIS) to market its cement in Bhutan and India in January 2014. The products are marketed under the brand name "Dragon Cement"

VISION

To be the best in the industry, especially in terms of – Services, Quality, Environment, Safety, Innovation and Corporate Governance

MISSION

- Services – by nurturing talent, fostering team work, enhancing leadership capability;
- Quality – by becoming the supplier of choice and creating a value for our customers;
- Environment – by respecting the environment and caring for our communities;
- Safety – by providing a safe working place;
- Innovation – through leading edge technology in processes and products;
- Corporate Governance – emphasizing the need for full transparency and accountability in all its transactions, in order to protect the interests of its business partners.

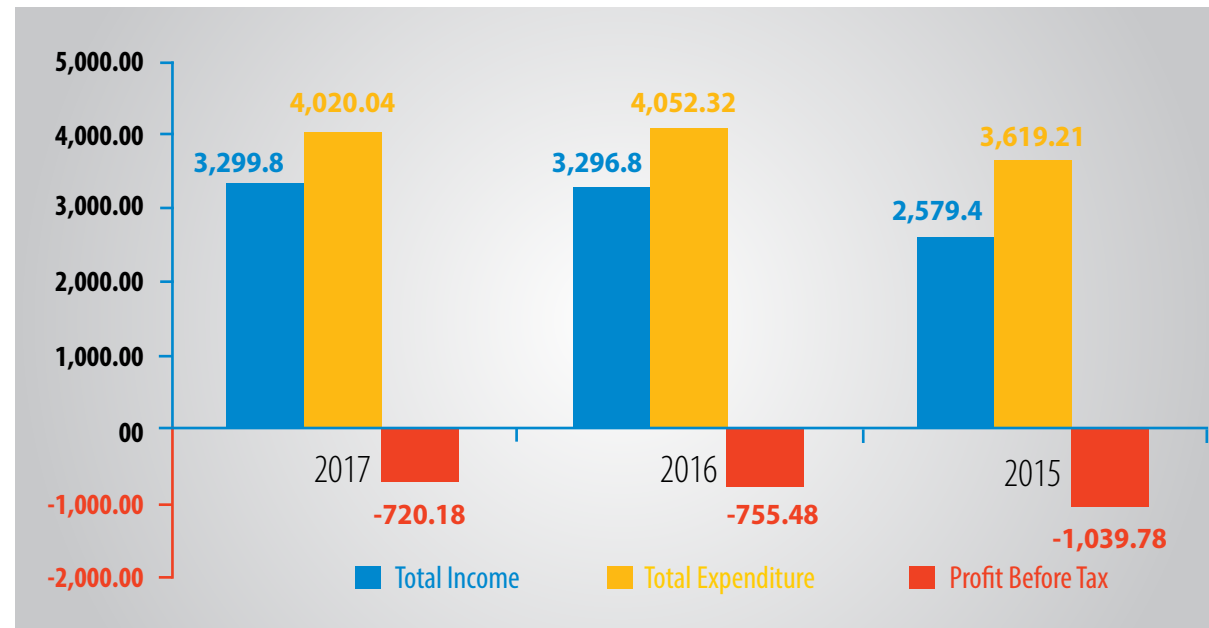
OUR MISSION EXTENDS TO

- Building the future through sustainability, people, knowledge, relationship and value.
- Enhancing the value of our customers, shareholders and employees through creation of an environment of empowerment with respect for company's values – leadership and integrity.
- Achieve Operational Excellence
- Corporate Social Responsibility to its employee and to the community through uplifting programs initiated in the areas of income generation, health and medical care, education and relief.
- Be a workplace of choice-Attract, Retain and grow Talent Pool.

OUR GUIDING PRINCIPLE

- Quality and Energy Conscious
- Employee And Environment Friendly
- Socially Responsive
- Customer Responsive
- Investor Rewarding

FINANCIAL PERFORMANCE FOR PAST 3 YEARS



DIRECTORS PORTFOLIO

DCCL Board of Directors



Dasho Karma Yezer Raydi – Chairman

Dasho Karma Yezer Raydi, Chief Executive Officer, DHI, obtained his Bachelors in Civil Engineering from IIT, Roorkee, India and Master Degree in Geotechnical Engineering from Nippon Institute of Technology, Saitama, Japan. Dasho served as Industrial Engineer, BDFC (1989 – 1995), Executive Engineer, Department of National Properties, MOF(1995 – 2000), Superintending Engineer, Department of Urban Development and Housing, MoWHS(2000 – 2006), Director, Standard and Quality Control Authority, MoWHS(2006 – 2008), Member of National Council (2008 – 2015), presently Dasho serves as the CEO of DHI.



Dasho Tobgyal Wangchuk – Director

Dasho Tobgyal Wangchuk obtained his Bachelor of Medicine and Bachelor of Surgery (MBBS) from AIIMS, Delhi, India and Master of Science in Ears, Nose and Throat (M.Sc ENT) from Institute of Medicine 1, Yangon, Myanmar. Dasho served as GDMO, Gelephu General Hospital (1992-1994), DMO, Sarpang Hospital (1994-1995), ENT Surgeon, JDWNRH, Thimphu (1998-2001), Medical Superintendent, Gelephu Hospital (2002-2003), Head of JDWNRH, Thimphu (2003-2007), Head, Medical Education, Royal Education Council (2008 - 2009). Presently Dasho serves as Changkhab, His Majesty's Secretariat.



Mr. Phuntsho – Director

Mr. Phuntsho obtained his Bachelor of Arts from Sherubtse College, Kanglung, Bhutan and Masters in Philosophy from University of Delhi, India. He served as trainee officer in Dratshang Lhentshog (1987-1988), Assistant Director Dratshang Lhentshog (1988-1992), Dy. Director of Ministry of Home and Cultural Affairs (2002-2008), Dy. Secretary of Cabinet Secretariat (2008-2010), also served as Director in National Council Secretariat (2012-2015). Presently he serves as Dzongda, Pemagatshel Dzongkhag.



Mr. Yonten Namgyel – Director

Mr. Yonten Namgyel, Director, Department of Revenue and Customs, under the Ministry of Finance (MoF) obtained his Bachelor in Commerce from Sherubtse College and Master's Degree in Commerce from University of Sydney, Australia. He served as the Joint Director, Head Office. (2003 – 2009), Regional Director, RRCO, Paro (2009 – 2013). He also served as Board Director in Business Opportunity and Information Center (BOIC).



Mr. Tashi Penjore – Director

Mr. Tashi Penjore obtained his Bachelor of Science (General) from Sherubtse College, Kanglung, Bhutan and Masters in Public Policy from Australian National University, Australia and Masters in International Development from Duke University NC USA. He served as Trainee officer in Royal Institute of Management, Assistant Meteorologist DRADS Ministry of Agriculture (2002-2009), also served as the Zimpon wogm, Office of Gyalpoi Zimpon, HMS and, presently serving as the Director of Department of Law and Order, Ministry of Home and Cultural Affairs, Thimphu.



Mr. Sherab Namgay – Director

Mr. Sherab Namgay obtained his Bachelor of Arts, from PSG College of Arts and Science, India and Master of Business Administration (MBA), Curtin University of Technology, Perth, Western Australia. He served as Marketing Executive, Kuensel Corporation Ltd, Thimphu (2004 – 2007), Business Development Manager, Kuensel Corporation Ltd (2009 – 2012), Company Secretary, Kuensel Corporation Ltd (2011 – 2012), Analyst, Consulting Services, DHI (2012 – 2014). Presently serves as Associate Director, Department of Investment, DHI.

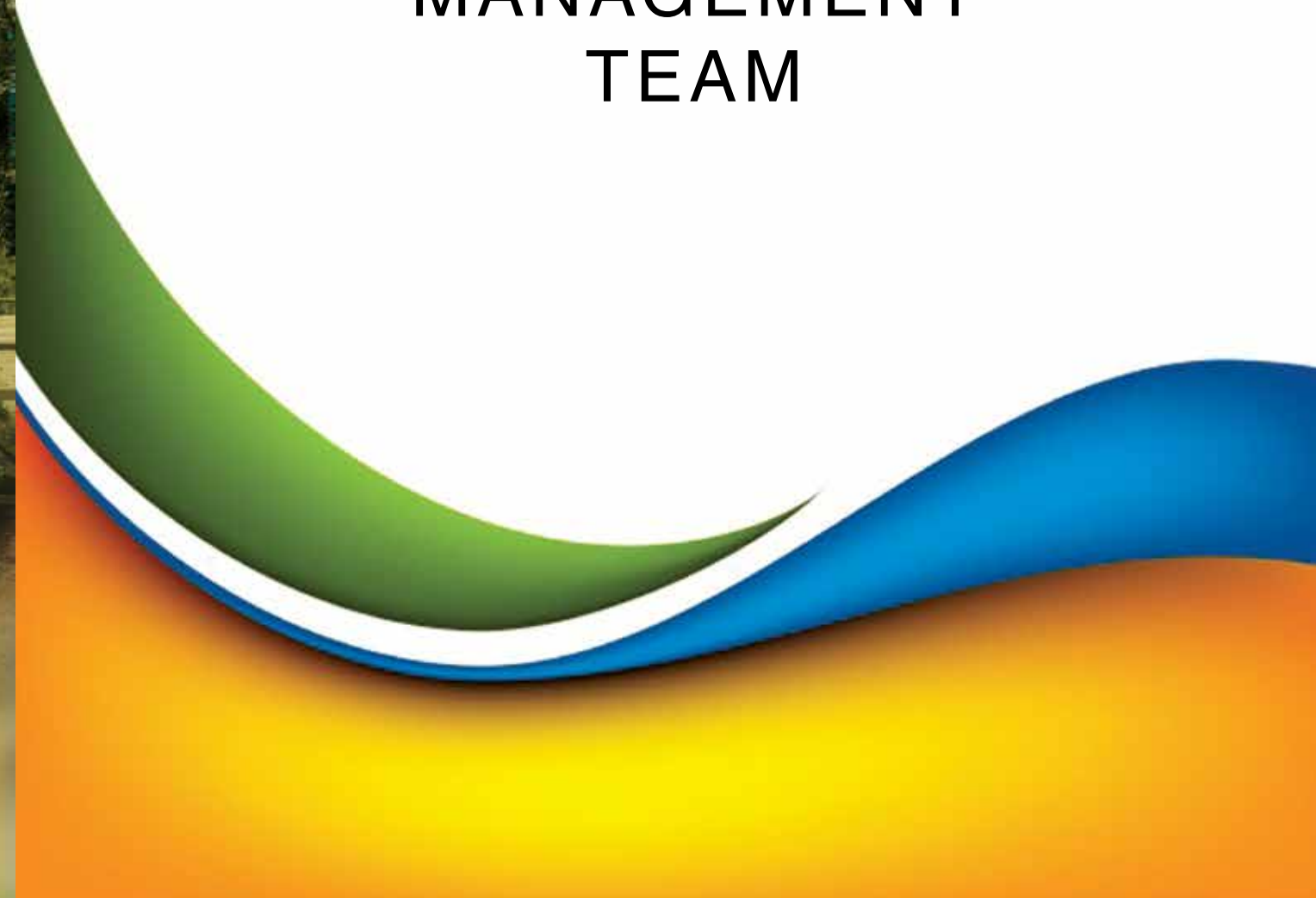


Mr. Sonam Jigme – CEO

Mr. Sonam Jigme obtained his Bachelor of Arts (General) from Sherubtse College, Kanglung, Bhutan and Masters in Business Administration from University of Thai Chamber of Commerce Bangkok, Thailand. He served as Militia officer in Royal Bhutan Army, (1991 – 1995), he also served as the Under Secretary, Project Development and Services Division, Department of Industry (2000-2002), Regional Director, Regional Trade and Industry Office, Samdrup Jongkhar and also served as the Dzongda of Gasa and Wangdue Dzongkhag. Presently he is serving as the Chief Executive Officer of Dungsam Cement Corporation Limited, Nganglam, Pemagatshel.



MANAGEMENT TEAM



MANAGEMENT TEAM

Head of Departments



Mr. Karma Gayleg

Dy. Chief Executive Officer (DCEO)

Mr. Karma Gayleg, Dy.CEO obtained his Bachelors of Engineering (Civil) from National Visvesvaraya Institute of Technology (VNIT), Nagpur, Government of India (GoI) Merit scholarship India in the year 1995. He also obtained Masters in Engineering (Soil Engineering/Geotechnical Engineering) from Asian Institute of Technology (AIT), Bangkok, Thailand, (ADB Scholarship) in the year 2000. He started his career as a Lecturer at RBIT and served as the Head of Department of Civil Engineering, College of Science and Technology (CST), Phuntsholing, Bhutan. He also served as the Director for Hotel and Tourism Management Training Institute (HTMTI), Thimphu, Bhutan. Before joining Dungsam Cement Corporation Limited he served as the General Manager, Project Department at DHI Infra Limited.



Mr. Tshen Norbu

General Manager (Finance and Accounts)

Mr. Tshen Norbu, General Manager (Finance and Accounts Department) obtained his Bachelor of Arts (Economics Honors) from Sherubtse College and Post Graduate Certificate in Financial Management from Royal Institute of Management. He also has Masters in Professional Accounting from Edith Cowan University in Western Australia. He served as Deputy Chief Budget officer, Department of National Budget (MoF), Thimphu before joining Dungsam Cement Corporation Limited.



Mr. Samdrup

General Manager (Plant and Mines)

Mr. Samdrup, General Manger (Plant and Mines Department) obtained his Bachelor of Science from Sherubtse College and Master of Science from Asian Institute of Technology (AIT), Bangkok, Thailand. He served as Head – Quality Division in Dungsam Cement Corporation Limited. Prior to joining Dungsam Cement Corporation Limited he served as Head – Production and Quality control in Penden Cement Authority Limited (PCAL), Gomtu, Samtse.



Mr. Alok Singh

Vice President (Sales and Marketing)

Mr. Alok Singh , Vice President (Sales & Mktg.) , obtained his B.E. (Civil) degree in 1992 from B.I.E.T , Davangere , Karnataka , India and his M.B.A. (Marketing) degree from University of Lucknow , India in 1995. With a total experience of 20 years in various Industries, he has served many reputed organizations i.e. The Triveni Engg. & Industries Limited, Sulzer Flovel Hydro Limited, ACC Limited, Kajaria Plus Limited, Birla Corporation Limited, JK Cement Limited and Heidelberg Cement India Limited. Prior to joining DCCL, his last assignment was with M/s Heidelberg Cement India Limited as General Manager (Sales and Marketing).



DIRECTORS REPORT



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Dungsam Cement Corporation Limited

Nganglam, Pemagatshel, Bhutan

Directors' Report for the Year 2017

To the Shareholders,

The Board of Dungsam Cement Corporation Limited (DCCL) is pleased to report to Druk Holding and Investments (DHI), Kidu Fund of His Majesty's Secretariat (HMS), Zhung Gerab Dratshang, National Pension and Provident Fund (NPPF), Bhutan Power Corporation Limited (BPCL) and the shareholders of DCCL, the performance of the Company for the period January 1 to December 31, 2017.

Operational Highlights

The financial year 2017 was another challenging year for Dungsam Cement Corporation Limited (DCCL) in terms of its Plant Production. Although the Plant had seen an increase in its capacity utilization compared to FY 2016, the low demand of cement due to various reasons in India like introduction of GST, demonetization among others had led to the plant being operated on low output.

The decrease in demand from hydro power projects in Bhutan because of geological surprises at the project sites had also affected the cement production. The Plant also faced shortage of raw materials like fly ash and slag due to railway restrictions and flooding during the monsoon seasons.

Other than two scheduled maintenance and failure of kiln support roller and bag house fan bearing there were no other major issues. A total of 532,913 MT of Clinker and 562,273 MT of Cement were produced in FY 2017. Further in the month of May, 2017, DCCL had also registered the highest monthly clinker production since its commissioning.

Some of the highlights of the plant in the year 2017 are:

1. Achieved the highest monthly clinker production (**61,776 MT**) in a particular year after its commercial operation date in 2014.
2. Achieved Plant availability of 84% in Clinkerisation unit and 60% in Grinding units.
3. Sale of 71,122 MT of Clinker and 564,372 MT of cement.



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Financial position and key financial performance highlights

For the year ended 31st of December 2017, the company has earned total revenue of Nu. 3,299.87 million as compared to Nu 3,296.85 million in FY 2016 which is a marginal increase of 0.09%. The total expenditure during the year was Nu 4,020.04 million against Nu 4,052.32 million in FY 2016. Although, there was a marginal increase in revenue, the company managed to reduce its losses by Nu 35.29 million by adopting various cost cutting measures in the FY 2017, which is a reduction in loss from Nu 755.47 million in 2016 to Nu 720.18 million in FY 2017.

The shareholders funds have decreased to Nu 3,635.06 million from Nu 4,187.38 million due to losses incurred during the years and the long-term loans stood at Nu 5,121.51 million by the end of the reporting period. The uses of fund comprised of Nu 8,632.63 million in fixed assets (net block) including capital work in progress of Nu 13,218.57 million.

Sales Division

Cement Sales compact target and achievement in 2017

Market Segment	Sales Target 2017 (MT)	Revised Sales Target 2017 (MT)	Sales Achievement (MT)	Sales Achievement (%)
Domestic Non Trade	420,000	430,032	294,028	68.4
Export Trade & Non Trade)	470,848	236,171	189,786	80.4
Domestic Trade	120,000	120,000	87,526	72.9
Total (Cement)	1,010,848	7,86,203	571,340	72.7
Clinker (MT)	-	30,000	75,421	251

The year 2017 started with a big dream to achieve 1,010,848 MT of cement sales in the different segments of the market (as shown in the table above). However, due to some economic reforms in India and decline in the demand from the domestic hydropower projects, the set targets could not be achieved as expected. The 100th Board Committee for Performance Management (BCPM) during its mid-term review meeting dated 22.08.2017 revised the sales compact targets; the domestic non-trade figure was increased to 430,032 MT from 420,000 MT and the export (trade and non trade) was reduced to 236,171 MT from 470,848 MT in order to overcome the challenges faced due to GST implementation in the export market w.e.f. 1st July 2017.



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The cement sales during the year decreased from 587,347 MT in 2016 to 571,340 MT. However, the revenue from sale of cement almost remained the same at Nu. 3,215.91 million in 2016 to 3,149.05 million in 2017. This is because of the increase in the price of domestic hydropower projects and cutting down the commission in the export market from the third quarter of the year 2017. Additional revenue of Nu. 245.30 million was generated through sale of clinker in the fourth quarter.

All other functions of the Sales as per the Compact and the Team Appraisal System (TAS) and Functional Pact of the company have been carried out successfully.

Marketing Division

The company considers marketing function as a very important component of its business success. For the year 2017 the company had initiated several marketing activities to enhance the brand image of our Dragon cement. Some of the major highlights of the marketing activities are listed below:

- Initiated and presented Marketing survey report for Bhutan (Western & Central region) and India (North Bengal) market to understand the market position of Dragon cement, growth prospects, consumer's buying trends, competition and prices. The findings were studied to generate effective strategies for implementation.
- Participated in the first ever construction expo organized by the Construction Association of Bhutan which helped DCCL gain publicity mileage as well as on the spot inquiry for cement by the private contractors and government projects alike.
- As DCCL invested enormously in outdoor advertisement since the commercial inception, DCCL in 2017 shifted its advertising strategies on low cost – high impact marketing. As such, a quarterly meeting with the Distributors and Dealers were organized to enhance sales.
- Initiated various pricing and incentive strategies with change in the market conditions, the most notable being the complete revision of the commission slabs introduced on 11th December 2017 for domestic trade market, which yielded a remarkable growth of 150% in the subsequent month's sale. Similarly, the company initiated upward revision of cement price by Nu.10.22 per bag on an average to all the hydro power projects.
- To bring about a change in the export distribution structure, the company initiated the development of a TOR for appointment of an Export Marketing Agent (EMA).



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- Spearheaded the launch of an annual DCCL marathon and its third season was organized on December 2017 to serve marketing as well as health and fitness objectives.
- Produced DCCL's merchandise items to promote Dragon Cement through its relevant stakeholders.

Logistics Division

Logistics is one of the key activities to ensure seamless transport of finished goods and semi-finished goods from the plant and also the transport of raw materials and other machine parts from both within and outside the country. Accordingly, the logistics function is categorized as follows:

- Inbound Logistics – import of raw materials and goods into the plant.
- Outbound Logistics – transport of finished and semi finished goods.

In the year 2017, the company had dispatched **571,878.1** MT of cement in total and **75,424.14** MT of clinker to various parties such as the Hydro Power Projects, Export Market (Trade and Non-trade), Domestic Market (Trade and Non-Trade), PCAL, Lhaki Cement and some grinding units in and around Guwahati and Berpata areas. To achieve this activity the company had engaged approximately 40,045 numbers of trucks.

Similarly, for the transport of raw materials and machine parts, a total of 10,971 numbers of trucks had been engaged to bring in 81,974.08 MT of Coal; 25,841.08 MT of Gypsum; 56,687.85 MT of fly ash; 15,974.25 MT of slag and 11,652 MT of iron ore.

Corporate Social Responsibility (CSR)

In 2017, DCCL under CSR charitable contribution and donation had provided financial support to almost 10 activities to external institutions amounting to total donations and contribution of Nu. 0.45 million.

Since CSR is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders, it may be stated that the majority of the activities supported were targeted to benefit the society at large. The purpose of CSR is to drive change towards sustainability. Being a manufacturing unit, CSR drives the potential benefits for better brand recognition of our products with positive business reputation and increase sales and customer loyalty.



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Human Resource and Administration Division (HRAD)

The year 2017 saw lots of event occurring in the Human Resource and Administration Division (HRAD). Out of the many event and assignment assigned to the HRAD, some of the important highlights of the HRAD assignment are as follows:

- Certification of Employees for National Competency 2 certificate by Ministry of Labor and Human Resource (MoLHR)
- Drafting of the Human Resource Strategic Plan (HRSP)
- Implementation of Team Appraisal System (TAS)
- Amendment of organogram of the company

In order to enhance the knowledge of the employees and to certify the employees in their respective fields, the management decided to undertake professional certification of the employees, in collaboration with the MoLHR. The management felt that certifying the employees will motivate the employees and boost the overall morale of the employees. Further, in the long run, the certification will help the employees to progress in their respective career ladder.

The certification process was a success and the certification of the employees helped 109 employees of the company in receiving National Competency 2 Certificate in their related field from MoLHR. The HRAD and the management hope to conduct similar exercise in the future to upgrade the competency level of the employees.

In order to have a clear plan to manage and develop the Human Resource of the company, the need to have a policy document was felt. The HRAD was assigned to develop the Human Resource Strategic Plan (HRSP) document. Aligning with the vision and mission of the company, the document was developed in-house that was approved by the board. With the HRSP in place, the HRAD hopes to implement the strategic plan as per the HRSP of the company in the year 2018 onwards.

Keeping in line with the DHI Performance Management System policy, HRAD initiated the implementation of the Team Appraisal System (TAS) in the company. The TAS was successfully implemented in the company resulting in improved performance.

The organogram of the company was amended to suit the business requirement of the company. Corporate Service Department (CSD) was created to support other key operational function and with this new department, the company now has four departments.



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Corporate Governance

The Company is in adherence and compliance to the Corporate Governance Code (CG Code), 2016, issued by the DHI, and the Companies Act of the Kingdom of Bhutan, 2016. Further, it has successfully implemented all the directives of the Board. Sub Committees like Board Audit Committee (BAC), Board Level Human Resource Committee (BLHRC) and Board Level Procurement Committee (BLPC) held their meetings as required by Rules of Procedures. The company is in compliance with the requirements stipulated by the Registrar of Companies and all the other regulatory authorities.

The DCCL Board consists of seven board directors including the CEO and seven board meetings were held in the year 2017. Further, Board Committees such as the Nomination and Governance Committee (NGC), Board Level Human Resource Committee (BLHRC) and Board Audit Committees (BAC) met regularly to consider and deliberate on various aspects of the company.

DCCL aims to achieve high standards of CG and ensure compliance with legislation, regulations and DHI CG Codes to guarantee sustainability of its business.

Auditors' Report

M/s S.K Mittal & Company from New Delhi was appointed as the Statutory Auditors for the year 2017 by the Royal Audit Authority. The observations and recommendations of the Auditors are being appropriately addressed by the Board and the management.

The Internal Audit Unit of the company continues to conduct regular auditing to ensure check and balance and proper management of its resources.

Key Challenges & Way Forward

Since the start of commercial operation, the company has made gradual progress in terms of plant stabilization, production, sales and marketing, system harmonization, institutional strengthening and other dimensions of its day-to-day functions. However, certain key challenges still remain to be addressed in our endeavor to achieve its full potential.

Main Challenges

Some of the main challenges facing the company are as stipulated below:

- Tax reforms in India by way of Goods and Services Tax (GST) that adversely affected the sale of cement in the export market since July 2017. For the first two



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months after the introduction of GST, the sale in the export market dropped almost to zero. However, there was a gradual improvement in the sales, but not appreciable enough to make up for the losses.

- (b) Cutthroat competition from other cement plants located in the region is a major challenge for the company and would continue to remain as a formidable challenge in the near future.
- (c) Raw material availability and supply from India is greatly affected due to numerous strikes, railway restrictions, flooding etc thereby disrupting the continuous production process of the company.
- (d) Shortage of housing and other entertainment facilities affects the morale, efficiency, mobility and productivity of the employees since the plant is being operated on 24x7 (three shifts) basis.
- (e) Frequent landslides, bad road conditions and road blocks during the monsoon seasons are major challenge for timely delivery of cement to various destinations.

While the above challenges may seem very daunting, yet, with proper planning, resources allocation, cooperation from all the employees and the management team, any challenges can be met and overcome. Thus, all round, year-by-year improvement of the company would be happening with time, thus ensuring the full realization of the potential of our company.

Way Forward

Despite numerous challenges, the way forward and the outlook towards the future remains very positive. However, for the company to prepare itself to meet and overcome the future challenges, the following activities need to be pursued in true earnest.

- (a) With the fifth year of the plants operation, it would be advisable to carry out the Energy Auditing of the entire plant processes through which the company would be able to cut down substantial cost related to energy consumption.
- (b) Installation of additional security cameras at selected and targeted locations to improve the safety and security of both the plant and the employees.
- (c) The company would be exploring the possibility of introducing profit centers in the areas of guesthouse, mechanical workshop, and motor rewinding services.



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- (d) With the opening of Nganglam Gyelposhing Highway, an initiative would be taken to secure a plot of land in the periphery of Gyelposhing Township for the location of Depot office to cater to four Dzongkhags of eastern Bhutan.
- (e) To encourage active participation and intellectual stimulation of our employees towards the events and happenings in the cement industry, a lecture series by prominent and eminent resource person and personalities shall be initiated. Further, to motivate and improve performance of the employees, training programs, study tours and field visits shall be planned and initiated from time to time.

Highlight of major events and occurrences for the year

In this section the company would like to highlight some of the major events and occurrences for the year 2017, as shown below:

- (a) The board, the management and the employees of the company were honored with the historic Royal visit of His Majesty the Druk Gyalpo on January 23, 2017. The Royal visit to the plant and production facilities was a great source of inspiration and motivation for the employees and the stakeholders of the company.
- (b) Upon the contract expiry of former CEO Mr. Dorji Norbu, Mr. Sonam Jigme, Former Dzongda of Wangdue Phodrang Dzongkhag was appointed as the new CEO of the company with effect from July 2017.
- (c) After the completion of two year Plant Operation Maintenance and Supervision Services (POMSS) contract with Humboldt Wedag India (HWI), a team of experts/Supervisors exited by the end of June 2017. Since then, the operation and process of the plant had been fully run by our national team.
- (d) The company's image had been severely stained by the embezzlement issue which was highlighted in the Special Audit Report findings in the year 2015. However, as of today the board and the management is pleased to report that out of 117 audit observations, 102 cases has been dropped or resolved or properties restituted. Considering the time span of two and half years, this is a major achievement in projecting a positive image for the company. Even today the management is in dialogue with the Office of the AAG in Samdrup Jongkhar and the RAA in Thimphu, based on which the management is hopeful that the remaining memos would be dropped or settled once and for all in entirety.



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Acknowledgment

The company would like to thank the Royal Government of Bhutan and its regulatory agencies such as the Department of Revenue & Customs, Geology and Mines, Forest and Park Services and the National Environment Commission (NEC) for their continued support and co-operation. We offer our most sincere gratitude to the leadership and officers of the Ministry of Economic Affairs and the Ministry of Finance for their critical support in dealing with issues related to the hydropower projects, import of raw materials and policy issues such as GST in India. We also look forward to working in close co-ordination with these agencies in the future.

Moreover, the Board and the management would also like to place on record our gratitude to DHI, the shareholders, for the key role played in the management of the company: particularly in arranging alternative financing and strengthening the systems and processes, especially the sales and marketing efforts.

The Board places on record its gratitude to the Board of Directors who served during the financial year 2017 and also the Board Directors who resigned during the past years for their tremendous and dedicated contribution to the progress of the company.

Further, the Board acknowledges and places on record our gratitude to other regulatory and governmental authorities, banks, the management of hydropower projects, institutions, transporters, contractors and suppliers, distributors and dealers for the cooperation and support extended to the Company.

The Board also places on record their appreciation and gratitude to the leadership provided by the Managing Director and his management team, and to all the employees for their dedicated services to the success of the company. As the company enters its crucial years of commercial phase, the Board expects, and requests the management and employees of the company to maintain their dedication and commitment to the success of the company.

Tashi Delek!
For and on behalf of the Board


(Dasho Karma Yezer Raydi)
Chairman

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

Dungsam Cement Corporation Limited (DCCL) aims to achieve high Corporate Governance (CG Code) standards and ensure compliance with legislation, regulation and DHI CG Code 2016.

DCCL has fully complied with the Companies Act of the Kingdom of Bhutan 2016, other statutory requirements and DHI CG Code for 2016.

CONSTITUTION OF THE BOARD AND ITS MEETINGS

Constitution of the Board of Directors:

As per the approval of the Annual General Meeting (AGM), the following senior officials have been appointed as the Board of Directors for the Dungsam Cement Corporation Limited.

Sl	Name	Addresses	Designation	Date of appointment	Status of Independent and non-independent Director
1.	Dasho Karma Yezer Raydi	CEO, Druk Holding & Investments Limited (DHI)	Chairman	March 2016	Non-Independent
2.	Dasho (Dr.) Tobgyal Wangchhuk	Changkhap, HMS Kidu Fund	Director	March 2016	Independent
3.	Mr. Phuntsho	Dzongda, Pemagatshel Dzongkhag	Director	July 2017	Independent
4.	Mr. Yonten Namgyel	Director, Department of Revenue and Customs	Director	March 2016	Independent
5.	Mr. Tashi Penjore	Director, Department of Law and Order	Director	March 2017	Independent
6.	Mr. Sherab Namgay	Associate Director, Department of Investment, DHI	Director	March 2017	Non-Independent
7.	Mr. Sonam Jigme	CEO, Dungsam Cement Corporation Limited	Director	June 2017	Non-Independent

BOARD MEETINGS:

To enhance good governance and provide appropriate policy directives to the company, seven (7) Board meetings were convened during the FY 2017. No Extraordinary General Meetings were convened. In all the Board meetings, quorum was maintained as required. The details of the board attendance are as follows:

Board Meeting No.	Dates	Members Present	Leave of absence
49	February 10, 2017	1. Dasho Karma Yezer Raydi 2. Mr. Sonam Topgay 3. Mr. Yonten Namgyel 4. Mr. Minjure Dorji 5. Mr. Sherab Namgay 6. Mr. Dorji Norbu	1. Dasho (Dr.) Tobgyal Wangchhuk
50	March 7, 2017	1. Dasho Karma Yezer Raydi 2. Mr. Yonten Namgyel 3. Mr. Minjure Dorji 4. Mr. Sherab Namgay 5. Mr. Karma Gayleg (Dy.CEO)	1. Dasho (Dr.) Tobgyal Wangchhuk 2. Mr. Sonam Topgay 3. Mr. Dorji Norbu
51	May 4, 2017	1. Dasho Karma Yezer Raydi 2. Mr. Yonten Namgyel 3. Mr. Tashi Penjore 4. Mr. Sherab Namgay 5. Mr. Karma Gayleg (Dy.CEO)	1. Dasho (Dr.) Tobgyal Wangchhuk 2. Mr. Minjure Dorji 3. Mr. Dorji Norbu
52	June 5, 2017	1. Dasho Karma Yezer Raydi 2. Mr. Yonten Namgyel 3. Mr. Tashi Penjore 4. Mr. Sherab Namgay 5. Mr. Dorji Norbu 6. Mr. Sonam Jigme	1. Dasho (Dr.) Tobgyal Wangchhuk 2. Mr. Minjure Dorji
53	August 1, 2017	1. Dasho Karma Yezer Raydi 2. Mr. Yonten Namgyel 3. Mr. Tashi Penjore 4. Mr. Sherab Namgay 5. Mr. Sonam Jigme	1. Dasho (Dr.) Tobgyal Wangchhuk
54	October 27, 2017	1. Dasho Karma Yezer Raydi 2. Mr. Phuntsho 3. Mr. Tashi Penjore 4. Mr. Sherab Namgay 5. Mr. Sonam Jigme	1. Dasho (Dr.) Tobgyal Wangchhuk 2. Mr. Yonten Namgyel

55	December 27, 2017	1. Dasho Karma Yezer Raydi 2. Mr. Phuntsho 3. Mr. Tashi Penjore 4. Mr. Sherab Namgay 5. Mr. Karma Gayleg (Dy.CEO)	1. Dasho (Dr.) Tobgyal Wangchhuk 2. Mr. Yonten Namgyel 3. Mr. Sonam Jigme
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BOARD SUB-COMMITTEE MEETINGS AND PROCEDURES:

Board Audit Committee Meetings (BAC)

Besides Seven (7) board meetings conducted, Six (6) Board Audit Committee meetings were also conducted. In all the BAC meetings, quorum was maintained as required. The details of the board attendance are as follows:

BAC Meeting No.	Dates	Members Present	Leave of Absence
13	January 21, 2017	1. Mr. Yonten Namgyel 2. Mr. Sherab Namgay	1. Mr. Sonam Topgay
14	March 4, 2017	1. Mr. Yonten Namgyel 2. Mr. Sherab Namgay	1. Mr. Sonam Topgay
15	May 1, 2017	1. Mr. Yonten Namgyel 2. Mr. Sherab Namgay	
16	July 31, 2017	1. Mr. Yonten Namgyel 2. Mr. Sherab Namgay	1. Mr. Tashi Penjore
17	October 26, 2017	1. Mr. Tashi Penjore 2. Mr. Sherab Namgay	1. Mr. Yonten Namgyel
18	December 17, 2017	1. Mr. Yonten Namgyel 2. Mr. Sherab Namgay	1. Mr. Tashi Penjore

Board Level Human Resource Committee (BLHRC)

During the year three (3) Board Level Human Resource Committee (BLHRC) Meetings were convened to decide on various aspects of the operations of the company. The details of the board attendance are as follows:

BAC Meeting No.	Dates	Members Present	Leave of Absence
4	February 4, 2017	1. Mr. Yonten Namgyel 2. Mr. Sherab Namgay 3. Mr. Dorji Norbu 4. Mr. Karma Gayleg	

5	July 6, 2017	1. Mr. Yonten Namgyel 2. Mr. Sherab Namgay 3. Mr. Sonam Jigme 4. Mr. Karma Gayleg	1. Mr. Tashi Penjore
6	July 31, 2017	1. Mr. Yonten Namgyel 2. Mr. Sherab Namgay	1. Mr. Tashi Penjore

Nomination and Governance Committee (NGC) for the selection of CEO

Former Chief Executive Officer (CEO) Mr. Dorji Norbu's contract agreement expired on June 2017. Subsequently, Mr. Sonam Jigme was appointed as the new CEO of the company in July 2017. As per the procedures of the CG Code four (4) NGC meetings was convened for the selection process of CEO as follows:

BAC Meeting No.	Dates	Members Present	Leave of Absence
1	April 5, 2017	1. Dasho Sangay Khandu 2. Dasho Karma Yezer Raydi 3. Mr. Tenzin Dhendup 4. Mr. Yonten Namgyel 5. Mr. Sherab Namgay	1. Dasho Ugyen Rinzin
2	April 13, 2017	1. Dasho Sangay Khandu 2. Dasho Karma Yezer Raydi 3. Mr. Tenzin Dhendup 4. Mr. Yonten Namgyel 5. Mr. Sherab Namgay	1. Dasho Ugyen Rinzin
3	April 17,	1. Dasho Sangay Khandu 2. Dasho Karma Yezer Raydi 3. Mr. Tenzin Dhendup 4. Mr. Karma Tsetop Rinchhen 5. Mr. Yonten Namgyel 6. Mr. Sherab Namgay	
4	May 1, 2017	1. Dasho Sangay Khandu 2. Mr. Tenzin Dhendup 3. Mr. Karma Tsetop Rinchhen 4. Mr. Yonten Namgyel 5. Mr. Sherab Namgay	1. Dasho Karma Yezer Raydi

Board Remuneration

As per the CG standards the board directors are entitled for certain remuneration for every board meeting as sitting fees. The details of the remunerations paid for the board directors are as follows:

SI	Board Meetings Held	Board Director	Remuneration paid (Nu)	Attendance
1	49th Board Meeting Venue: Migmar Hotel, Thimphu Date: February 10, 2017	Chairman Dasho Karma Yezer Raydi	8000	Present
		Dasho Tobgyal Wangchhuk	NA	Leave of absence
		Mr. Sonam Topgay	8000	Present
		Mr. Yonten Namgyel	8000	Present
		Mr. Minjur Dorji	8000	Present
		Mr. Sherab Namgay	8000	Present
		Mr. Dorji Norbu	8000	Present
2	50th Board Meeting Venue: Hotel Dorji Elements, Thimphu Date: March 7, 2017	Chairman Dasho Karma Yezer Raydi	8000	Present
		Dasho Tobgyal Wangchhuk	NA	Leave of absence
		Mr. Tashi Penjore	8000	Present
		Mr. Minjur Dorji	NA	Leave of absence
		Mr. Yonten Namgyel	8000	Present
		Mr. Sherab Namgay	8000	Present
		Mr. Dorji Norbu	NA	Leave of absence
3	51st Board Meeting Venue: Hotel Migmar, Thimphu Date: May 4, 2017	Chairman Dasho Karma Yezer Raydi	8000	Present
		Dasho Tobgyal Wangchhuk	NA	Leave of absence
		Mr. Tashi Penjore	8000	Present
		Mr. Minjur Dorji	NA	Leave of absence
		Mr. Yonten Namgyel	8000	Present
		Mr. Sherab Namgay	8000	Present
		Mr. Dorji Norbu	NA	Leave of absence
3	52nd Board Meeting Venue: DCCL Board Room, Nganglam Date: June 5, 2017	Chairman Dasho Karma Yezer Raydi	8000	Present
		Dasho Tobgyal Wangchhuk	NA	Leave of absence
		Mr. Yonten Namgyel	8000	Present
		Mr. Tashi Penjore	8000	Present
		Mr. Minjur Dorji	NA	Leave of absence
		Mr. Sherab Namgay	8000	Present
		Mr. Sonam Jigme	8000	Present

4	53rd Board Meeting Venue: Hotel Ariya, Thimphu Date: August 1, 2017	Chairman Dasho Karma Yezer Raydi	8000	Present
		Dasho Tobgyal Wangchhuk	NA	Leave of absence
		Mr. Yonten Namgyel	8000	Present
		Mr. Tashi Penjore	8000	Present
		Mr. Sherab Namgay	8000	Present
		Mr. Mr. Sonam Jigme	8000	Present

5	54th Board Meeting Venue: Hotel Ro Chog Pel Thimphu Date: October 27, 2017	Chairman Dasho Karma Yezer Raydi	8000	Present
		Dasho Tobgyal Wangchhuk	NA	Leave of absence
		Mr. Phuntsho	8000	Present
		Mr. Tashi Penjore	8000	Present
		Mr. Yonten Namgyel	NA	Leave of absence
		Mr. Sherab Namgay	8000	Present
		Mr. Sonam Jigme	8000	Present

6	55th Board Meeting Venue: Hotel Bhutan Ga Me Ga Phuntsholing Date: December 27, 2017	Chairman Dasho Karma Yezer Raydi	8000	Present
		Dasho Tobgyal Wangchhuk	NA	Leave of absence
		Mr. Phuntsho	8000	Present
		Mr. Tashi Penjore	8000	Present
		Mr. Yonten Namgyel	NA	Leave of absence
		Mr. Sherab Namgay	8000	Present
		Mr. Sonam Jigme	NA	Leave of absence

Annual General Meeting (AGM)

The 8th AGM for the financial year ended 2017 was convened on March 22, 2018 at Hotel Ro Chog Pel, Thimphu. The following agenda were deliberated during the 8th AGM:

1. Adoption of the 8th Annual General Meeting Agenda
2. Directors Report
3. Consideration of Audited Accounts for the financial year ended 31st December 2017, Audit report
4. Declaration of dividend for the year 2017 (If Any)
5. Appointment and Remuneration of Auditors
6. Retirements and Appointment of Directors
7. Remuneration of CEO and Directors
8. Review of the Annual Compact 2017
9. Any other matter

After the formulization of the appointment of the Board of Directors, there has been slight change in the constitution of the board during the year. Board Director Mr. Minjur Dorji, Dzongda, Chhukha Dzongkhag was replaced by Mr. Phuntsho, Dzongda, Pemagatshel Dzongkhag. Similarly, Mr. Sonam Jigme was appointed as the new Chief Executive Officer (CEO) in the month of June 2017.

Risk Management System

The DCCL Risk management frame work was implemented in 2016 after the endorsement by the board during the 51st board meeting. A risk register template was developed and distributed by DHI to the DHI Companies to encourage enterprise risk management within the company. DCCL has assigned and designated a Risk officer who is required to compile a risk report for management's information and action.

SL	IDENTIFIED RISK	MITIGATION	LOCATION
1	Inadequate physical safeguard of inventory stock	CCTV cameras. Proper boundary fencing. Security guard in the compound. Proper check at entry/exit point.	Store
2	Unavailability of spares parts	Reform procurement procedures for fast track delivery and OEM Services to be improved.	Maintenance
3	Lack of preventive maintenance (VRM, Cement mill & crushing section)	Strict implementation of weekly maintenance schedule and carry out daily coordination meetings (DCM) in the plant.	Maintenance
4	Biased or restrictive or inadequate specifications leading to delay in procurement, supply of items not as per specification, rejection etc.	Proper technical specifications emphasized at the time of raising PR.	Procurement
5	Ghost suppliers/vendors	Proper evaluation of vendors based on performance and submission of dealer/ distributors and authorized certificate is obtained prior to purchase order.	Procurement

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders. CSR is a concept with many definitions and practices, the way it is understood and implemented differs greatly for each company and country.

CSR is a very broad concept that addresses many and various topics such as human rights, corporate governance, health and safety, environmental effects, working conditions and contribution to economic development. The purpose of CSR is to drive change towards sustainability. As a Corporate Social Responsibility to help the local community and society at large, given below are list of contributions and donations towards the society by DCCL:

Expenses	Dates	Amount	Narration
CSR Expenses	24/02/2017	42,000.00	Contribution paid for Ku Sung Thuk Ten
	22/09/2017	50,000.00	To Bhutan Kidney Foundation
Donations	16/01/2017	15,000.00	Semso
	23/03/2017	70,000.00	Donation to Pemagatshel Melom Chhenmo
	26/04/2017	50,000.00	Donation to Blaster Training course
	08/06/2017	5,648.00	Donation for the transportation Rimdo
	14/06/2017	5,000.00	Maintenance for Guru's Statue in Nganglam
	04/09/2017	3,000.00	Semso
	17/11/2017	10,000.00	Contribution during HH Sungtrul Rinpoche's Visit to Nganglam
04/12/2017	195,000.00	Contribution for School Picnic at Nganglam	
Total Donation		445,648.00	

Policies and practices of CEO and board evaluation

The evaluation of CEO and the board is coordinated and done by DHI as per their DHI Guidelines and DCCL is in full adherence with the guidelines.



INDEPENDENT AUDITORS' REPORT

S.K. MITTAL & CO.
Chartered Accountants

Mittal House, E-29, South Extension, Part II
New Delhi-110049, Tel: 26258517, 41640694

INDEPENDENT AUDITOR'S REPORT

To the Members of
DUNGSAM CEMENT CORPORATION LIMITED
NGANGLAM, BHUTAN

1. Report on the Financial Statements

We have audited the accompanying financial statement of Dungsam Cement Corporation Limited ("the company") which comprise the Statement of Financial Position as at December 31, 2017, the Statement of Comprehensive Income, the statement of changes in Equity and the Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

2. Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Bhutanese Accounting Standards and the provisions of the Companies Act of Bhutan 2016 ("the Act"). This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error.

3. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the applicable auditing standards prescribed by the Accounting and Auditing Standards Board of Bhutan and the General Terms of reference for Auditors and minimum audit reporting requirements prescribed by Royal Audit Authority and Standards on Auditing issued by the Institute of Chartered Accountants of India. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the Company's preparation and presentation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

4. Basis for Qualified Opinion

Royal Audit Authority (RAA) has conducted two special audits during the year 2015 and 2016: (i) first one for the period covering 1st January 2011 to 31st January 2015, (ii) second one for the period covering 1st January 2010 to 31st December 2014; consequential effect of which on the financial statements of the company is not ascertainable- refer note no. 31.

5. Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, *except for the effects of the matter described in the Basis for Qualified Opinion paragraph above*, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the Bhutanese Accounting Standards and the provisions of the Companies Act of Bhutan 2016:

- i. in the case of Statement of Financial Position, of the state of affairs of the Company as at 31st December, 2017;
- ii. in the case of Comprehensive income, of the loss of the Company for the year ended on that date ;
- iii. in the case of Changes in Equity, of the changes in equity of the Company for the year ended on that date ; and
- iv. in the case of Statement of Cash Flows , of the movement of cash flows of the Company for the year ended on that date .

6. Emphasis of Matter

- (i) Certain Balance of advances to vendors and others, trade receivables, sundry creditors, intra group company balances, advances received from customers & others and other current liabilities are subject to confirmation / reconciliation and consequential adjustment if any, required- note no.38
- (ii) In terms of BAS-16 on property, plant and equipment (PPE), items such as spare parts, stand by equipment and servicing equipment are recognized under PPE when they meet the definition of PPE. Certain stores, spares and service equipment meeting the definition of PPE in terms of BAS-16 have not been shown under PPE, rather shown under inventory; consequently depreciation charge/provision due to technical or commercial obsolescence and wear & tear while an asset remains idle has not been considered.



Our opinion is not modified on these matters.

7. Report on other Legal and Regulatory Requirements

As required by section 265 of the Act, we report that:

- i. we have obtained all the information and explanations to the best of our knowledge and belief, were necessary, for the purposes of our audit;
- ii. in our opinion, proper books of account have been kept by the Company;
- iii. that the accompanying financial statements dealt with by this report are in agreement with the books of account; and
- iv. in our opinion, the accompanying financial statements dealt with by this report comply with the Bhutanese Accounting Standards and the provisions of the Companies Act of Bhutan 2016.

8. As required by the Act read with Minimum Audit Reporting Requirements in pursuance to section 266 of the Act, we enclose in Annexure a statement on the matters to the extent applicable to the Company.

Dated: 12 MAR 2018

Place: NEW DELHI

For S.K. MITTAL & CO.

Chartered Accountants
FRN: 001135N



K.S. Mittal
Partner K.S. MITTAL
Membership No. 010632

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

1. The Company has maintained proper records showing full particulars including quantitative details of fixed assets. The Company's internal Auditors have conducted Physical verification of fixed assets *other than plant and machinery* during the year. The discrepancies noted were not material and the same have not been dealt with in the books of account pending verification at management level.
2. As informed to us, none of the fixed assets were revalued during the year under audit.
3. The Company has carried out physical verification of inventories in respect of raw materials, work in progress, finished product, consumables, stores and spares in a phased manner in line with the policy of the company in this regard which in our opinion is reasonable and adequate in relation to the size of the company and the nature of its business. The discrepancies noticed on physical verification of stocks compared to the book records were not material in case of raw materials, finished goods and work in progress and have been properly dealt with in the books of account. *In respect of stores and spares, the discrepancies are not material in nature and are under reconciliation as informed to us and therefore the same have not been given effect in the books of account.*
4. In our opinion the valuation of stocks is fair and proper and in accordance with the normally accepted accounting principles. We are informed that the basis of valuation of stocks is the same as in the preceding year.
5. The rate of interest and other terms and conditions of loans availed from companies under the same management are prima facie not prejudicial to the interest of the company.
6. The company has not granted any loans, secured or unsecured, to companies, firms or other companies under same management during the year under audit.
7. According to information and explanations given to us, the advances granted to officers/staff are in keeping with the provision of service rules and by and large, no excessive / frequent advances are granted and accumulation of large advances against particular individual is generally avoided.
8. In our opinion and according to the information and explanations provided to us, the company has established the system of internal controls to ensure completeness, accuracy and reliability of accounting records, carrying out the business in an orderly and efficient manner, to safeguard the assets of the company as well as to ensure adherence to the rules/regulations and system and procedures. *However, in our*



opinion, the internal control system needs to be further strengthened w.r.t. to completeness and accuracy of inventory management and credit policy for customers.

9. The company follows a system of competitive biddings commensurate with the size and nature of its business for the purchase of goods and services.
10. Transactions for purchase and sale of goods and services with the director(s) or any other party (ies) related to the director(s) or with company or firms in which the director(s) are directly or indirectly interested are disclosed by the company in note no.34 of the financial statements. We are informed that these transactions have been made at prices, which are reasonable having regard to the prevailing market prices or at prices at which such transactions have been made with other parties.
11. The company has an Asset Write off and Disposal Committee in place to identify unserviceable or damaged stores, raw materials or finished goods etc. We are informed that the value of such items at year-end was not substantial and therefore no provision was considered necessary for the same. *However, no aging analysis of inventory has been carried out.*
12. In our opinion and according to the information and explanations given to us, records have been maintained by the company for the production of finished goods and physical safeguards exist to prevent unauthorized or irregular movement of such goods from the company.
13. The company is maintaining reasonable records for sales and disposal of realizable scrap. The company has no by-product. We have performed our audit function on the basis of random sampling related to sales and relied on the internal auditor's report.
14. According to the information and explanations given to us and the records examined by us, the company is generally regular in depositing rates and taxes, duties, royalties, provident fund and other statutory dues with appropriate authorities. The company is not required to make provision for corporate tax under the taxation policy as the company is having losses during the year.
15. According to the information and explanations given to us and on the basis of our observation, the following undisputed statutory dues were outstanding as on 31.12.2017 which have since been paid by the company:
 - Bhutan Sales Tax: Nu. 3,157,990
 - Employee tax : Nu. 502
16. As per the information and explanations given to us and as per the test checks performed by us, we have not come across or been informed of any personal expenses



being charged to the company accounts except as payable under contractual obligations/service rules.

17. *The system of recording receipts, issues and consumption of stores needs to be further improved to make it commensurate with its size and nature of its business.*
18. As informed to us, quantitative reconciliation has been made at the year end in respect of all major items of inventories i.e. finished goods and raw materials.
19. In our opinion and according to the information and explanations given to us, the company does not carry out any job work. Hence, reporting under para no. 24 of Minimum Audit Examination and Reporting Requirements is not applicable.
20. As per the information and explanations given to us, the company is following a reasonable system of price fixation taking into consideration the cost of production and market condition.
21. The company has made credit sales during the year. The company has formed a credit and collection policy. *However, the policy is silent in case recoveries are not made from customers within due time and security deposit to be given by a customer. Further, credit rating of the customers has also not been carried out.*
22. The system of screening commission agents is adequate considering the industry norms/ market conditions.
23. There is a reasonable system for continuous follow up with debtors and other parties for recovery of outstanding amounts. Age wise analysis of outstanding amounts is carried out for management information and follows up action. *However, year end balance confirmations have not been obtained.*
24. According to the information and explanations given to us and on the basis of our verification, the management of the liquid resources particularly cash, bank & short term deposits are adequate.
25. According to the information and explanations given to us and on the basis of our checking, we have not come across any activity carried by the company which is unlawful or ultra-vires to the Articles of Incorporation of the company.
26. All the activities/ investment decisions are made subject to prior approval of the Board and after ascertaining technical and economic feasibility of those ventures.
27. According to the information and explanations given to us, the company has established an effective budgetary control system.
28. The company has a system of establishing input-output relationship for manufacture of its products and has an established standard costing system for its finished goods and work in progress. *However, variance analysis have not been carried out at periodic intervals*



29. Valuation of finished goods and WIP is done on the basis of standard cost fixed during the year 2015 which should be reviewed and updated periodically

30. The details of remuneration and other payments made to the Board of Directors including the Chief Executive Officer by the company are disclosed in the notes to accounts. As explained to us by the management, no payments have been made to any relative of any director during the year.

31. According to the information and explanations given to us, the directives of the Board have been generally complied with.

32. On the basis of information and explanations given to us and based on the management representation, we are of the opinion that the officials of the company have not transmitted any price sensitive information which is not made publicly available, unauthorized to their relative/ friends/ associates or close persons which would directly or indirectly benefit themselves.

Computerized Accounting Environment

1. In our opinion the organizational and system development controls and other internal controls are adequate relative to size and nature of computer installations.
2. The Company has adequate safeguard measures and backup facilities.
3. As regards backup facilities and disaster recovery measures, we are given to understand that the backup files are kept at different locations.
4. The operational controls are found adequate to ensure correctness and validity of input data and output information.
5. Measures taken by the Company to prevent unauthorized access over the computer installations and files are generally adequate

33. Going Concern Problems

Based on the company's financial statements for the year ended 31st December 2017 audited by us, the company has continued to sustain losses during the year under audit. We have no reason to believe that company is not a going concern being the year under audit is fourth year of commercial production and has not yet achieved optimal capacity utilization. Accordingly, the financials have been prepared on the assumption that the company is a going concern.



34. Ratio Analysis

Financial and Operational Ratio Analysis in respect of the company are given below:

RATIO	BASIS	2017	2016
Earnings per share	Profit after Tax/ No of Shares Issued)	N/A*	N/A*
Net Profit Ratio	(Net Profit/ Turnover *100)	N/A*	N/A*
Return on Assets %	(Net Profit/ Total Assets*100)	N/A*	N/A*
Return on Equity (%)	(Net Profit/ Owners Equity*100)	N/A*	N/A*
Current Ratio	(Current Assets/ Current Liabilities)	0.57	0.77

*Not applicable as company has incurred loss.

35. Compliance of the Companies Act

The company has generally complied with the requirements of the Companies Act of Bhutan, 2016 concerning conducting of meetings, filing requirements, maintenance of records, issue of shares, raising of loans and all other matters specified in the said Act except as mentioned in the compliance checklist signed by us on the even date.



36. Adherence to Laws, Rules and Regulations

In the course of our audit, we have considered the compliance of the provisions of the Companies Act of Bhutan, 2016, Bhutanese Accounting Standards and its Articles of Incorporation. However, we are unable to state that the company has been complying with other applicable laws, rules and regulations, system, procedures and practices.

Dated: 12 MAR 2018

Place: NEW DELHI

For S.K. MITTAL & CO.

Chartered Accountants
FRN: 001135N



Partner *K.S. MITTAL*
Membership No. 010633

DUNGSAM CEMENT CORPORATION LIMITED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

(Amount in Nu)

PARTICULARS	Notes	31/12/2017	31/12/2016
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	2	8,632,631,766	9,036,281,597
Intangible Asset	3	53,961,629	57,282,139
Capital Work-in-Progress	4	13,218,573	6,227,429
Deffered tax asset	26	1,104,484,023	897,813,462
Other receivables	5	8,085,229	5,875,919
Other Non-Current Assets	6	20,311,423	17,878,932
		9,832,692,644	10,021,359,478
Current Assets:			
Inventories	7	818,475,552	982,418,877
Trade & Other Receivables	8	387,652,319	567,758,264
Cash and Cash Equivalents	9	41,391,603	46,782,191
Other Current Assets	10	150,838,016	106,682,963
		1,398,357,490	1,703,642,295
TOTAL		11,231,050,134	11,725,001,773
EQUITY AND LIABILITIES			
Shareholder's Equity			
Share Capital	11	6,373,947,900	6,373,947,900
Retained Earning / (Loss)		(2,738,887,688)	(2,186,564,268)
		3,635,060,212	4,187,383,632
Non-Current Liabilities			
Borrowings	12	5,121,516,609	5,318,839,458
Other Long-Term Liabilities	13	14,213,043	12,163,958
		5,135,729,652	5,331,003,416
Current Liabilities			
Short-Term Borrowings	14	1,679,516,417	1,425,400,158
Trade and Other Payables	15	741,114,383	719,179,925
Other Current Liabilities	16	39,629,470	62,034,642
		2,460,260,269	2,206,614,724
TOTAL		11,231,050,134	11,725,001,773

See accompanying notes to the financial statement 1-41

In-terms of our audit report of even date attached.

FOR S.K. MITTAL & COMPANY
CHARTERED ACCOUNTANTS
FRN:001135N

K.S. MITTAL
PARTNER
MEMBERSHIP NO. 010633

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

(SONAM JIGME)
CHIEF EXECUTIVE OFFICER

(DASHO KARMA YEZER RAYDI)
CHAIRMAN

PLACE : NEW DELHI

DATED : 12 MAR 2018

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED DECEMBER 31, 2017

Particulars	Note	(Amount in Nu)	
		For the year ended 31/12/2017	For the year ended 31/12/2016
Income			
Revenue from Manufacturing Sector	17	3,274,409,666	3,270,586,379
Other Revenue	18	25,450,678	26,258,301
Total Income		3,299,860,345	3,296,844,680
Expenditure			
Consumption of raw materials and changes in inventory	19	702,371,161	556,297,194
Power & Fuel	20	901,985,082	897,831,832
Employee benefit expenses	21	138,608,544	130,151,338
Depreciation and amortisation	22	423,173,205	422,130,470
Other Expenses	23	1,241,893,074	1,415,708,399
Finance Cost	24	612,009,094	630,200,652
Total Expenditure		4,020,040,161	4,052,319,885
Profit/(Loss) before Income Tax		(720,179,817)	(755,475,205)
Income Tax Income/(Expenses)	26	206,670,562	218,090,059
Profit/(Loss) After Income Tax		(513,509,255)	(537,385,146)
Other Comprehensive income/(Loss)			
Actuarial Gain/(Loss) on post employment benefit obligations		(1,020,150)	(1,773,876)
Net Other Comprehensive Income/(Loss)		(1,020,150)	(1,773,876)
Total Comprehensive Income/(Loss)		(514,529,405)	(539,159,022)
Basic and Diluted Earnings per share	25	(8)	(8)

In-terms of our auditor report of even date attached.

FOR S.K. MITTAL & COMPANY FOR AND ON BEHALF OF THE BOARD OF DIRECTORS
CHARTERED ACCOUNTANTS
FRN:001135N

(K.S. MITTAL) (SONAM JIGME)
PARTNER CHIEF EXECUTIVE OFFICER
MEMBERSHIP NO. 010633

(DASHO KARMA YEZER RAYDI)
CHAIRMAN

PLACE : NEW DELHI
DATED : 12 MAR 2018

DUNGSAM CEMENT CORPORATION LIMITED
STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2017

Particulars	(Amount in Nu.)	
	For the year ended 31/12/2017	For the year ended 31/12/2016
Cash Flow from Operating Activities		
Net Profit after Tax	(514,529,405)	(539,159,022)
Adjustment for		
Depreciation/amortisation	423,173,205	422,130,470
Interest on Borrowing	592,830,944	608,046,031
Provision for Deferred tax	(206,670,562)	(218,090,059)
Changes in Working Capital :	294,804,183	272,927,420
Adjustment for		
(Increase)/Decrease in Trade Receivable	180,105,945	13,918,029
(Increase)/Decrease in Other Current Assets	(44,155,053)	13,001,003
(Increase)/Decrease in Inventories	126,149,310	(220,361,921)
(Increase)/Decrease in Other Non-Current Assets	(4,641,802)	(3,728,001)
Increase/(Decrease) in Trade Payables	21,934,458	271,517,599
Increase/(Decrease) in Other Current Liabilities	(22,405,172)	(434,775,993)
Increase/(Decrease) in Other Long-Term Liabilities	2,049,085	2,610,617
	553,840,954	(84,891,246)
Less : Tax Paid	-	-
Net Cash used in Operating activities (A)	553,840,954	(84,891,246)
Cash Flow from Investing Activities		
Purchase of Fixed Assets and Capital Work in Progress	(23,194,009)	(26,668,369)
Fixed Deposit with Bank	-	-
Sale/withdrawal of Fixed Assets	-	-
Insurance claim received during the year	-	-
Net Cash used in Investing Activities (B)	(23,194,009)	(26,668,369)
Cash Flow from Financing Activities		
Issue of Share Capital	-	-
Short term Borrowings repaid	254,116,259	390,838,734
Long term Borrowings repaid/availed during the year	(197,322,849)	284,755,400
Interest Paid during the year	(592,830,944)	(608,046,031)
Cash flow from Financing Activities (C)	(536,037,533)	67,548,103
Net Increase/ (Decrease) in Cash & Cash Equivalents (A+B+C)	(5,390,588)	(44,011,512)
Cash & Cash Equivalents at the beginning of the year	46,782,191	90,793,703
Cash & Cash equivalents at the end of the year	41,391,603	46,782,191

- The above Statement of Cash Flow has been prepared under the "Indirect Method" as set out in the Bhutanese Accounting Standard-7 on 'Statement of Cash Flows'.
- Cash and Cash Equivalents include cash in hand and bank balances in current accounts [Refer Note No. 9 to the Accounts].
- Figures in brackets indicate cash outflows.

In-terms of our audit report of even date attached.

FOR S.K. MITTAL & COMPANY
CHARTERED ACCOUNTANTS
FRN:001135N

(K.S. MITTAL) (SONAM JIGME)
PARTNER CHIEF EXECUTIVE OFFICER
MEMBERSHIP NO. 010633

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

(DASHO KARMA YEZER RAYDI)
CHAIRMAN

PLACE : NEW DELHI
DATED : 12 MAR 2018

DUNGSAM CEMENT CORPORATION LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2017

Attributable to the Owners of the Company

Particulars	Ordinary Shares			Retained earnings	Total
	No. of Shares (issued and fully paid up)	Par value per share	Total value of share		
Balance as at 1 January 2016	63,739,479	100	6,373,947,900	(1,647,405,246)	4,726,542,654
Issue of share during the year				-	-
Profit/ (Loss) After Income Tax				(537,385,146)	(537,385,146)
Other Comprehensive income/(Loss)				(1,773,876)	(1,773,876)
Balance as at 31 December 2016	63,739,479	100	6,373,947,900	(2,186,564,268)	4,187,383,632
Balance as at 1 January 2017	63,739,479	100	6,373,947,900	(2,186,564,268)	4,187,383,632
Prior Period Store Issues Adjustment				(37,794,015)	(37,794,015)
Issue of share during the year				-	-
Profit/ (Loss) After Income Tax				(513,509,255)	(513,509,255)
Other Comprehensive income/(Loss)				(1,020,150)	(1,020,150)
Balance as at 31 December 2017	63,739,479	100	6,373,947,900	(2,738,887,688)	3,635,060,212

Authorized Capital

Particulars	31/12/2017	31/12/2016
80,000,000 Equity shares of Nu.100 each	8,000,000,000	8,000,000,000
20,000,000 Preference shares of Nu.100 each	2,000,000,000	2,000,000,000
Total	10,000,000,000	10,000,000,000

Equity shares issued by the company are of same class and the same rights attached.

FOR S.K. MITTAL & COMPANY
CHARTERED ACCOUNTANTS


FRN:001135N


(K.S. MITTAL)
PARTNER
MEMBERSHIP NO. 010633

PLACE : NEW DELHI
DATED : 12 MAR 2018

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS


(SONAM JIGME)
CHIEF EXECUTIVE OFFICER


(DASHO KARMA YEZER RAYDI)
CHAIRMAN

Note 1: Significant accounting policies of Dungsam Cement Corporation Limited

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements to the extent they have not already been disclosed in the other notes. These policies have been consistently applied to all the years presented, unless otherwise stated.

i) Reporting Entity

Dungsam Cement Corporation Limited (DCCL) is incorporated as public limited company under the Companies Act of the Kingdom of Bhutan 2000 on 10th September 2009. The principal activities of Dungsam Cement Corporation Limited covers manufacturing and selling of cement.

The DCCL is a limited liability company incorporated and domiciled in Bhutan. The company is a wholly owned subsidiary company of Druk Holding and Investments (DHI) Ltd.

The address of its principal place of business and Regd. Office is Nganglam, Pemagatshel, Bhutan.

ii) Basis of preparation

a) Compliance with Bhutanese Financial Accounting Standards (BAS)

The 'Accounting and Auditing Standards Board of Bhutan' (AASBB), has decided to adopt BAS in phases with minor changes. The Company in compliance with the Companies Act of Bhutan 2016 has adopted all the applicable Standards. The financial statements have been prepared in accordance with all applicable BAS and other applicable laws such as the Companies Act of Bhutan 2016. These financial statements are the first financial statements of the Company in compliance with complete BAS.

The preparation of financial statements is in conformity with BAS that requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

Property, plant and equipment: critical judgments are expected for period of use, condition of the asset, technological advances, regulation, and residual values.

Actuarial valuation of employee benefits: expected uptake of the gratuities and the discount rate used in the valuation.

The functional currency of preparation is the Bhutanese Ngultrum.

b) Historical cost convention

The financial statements have been prepared under the accrual, historical cost and going concern conventions, except for the following:

- certain financial assets and liabilities; and
- defined benefit plans – plan assets measured at fair value



iii) Foreign currency translation

Foreign currency transactions that are completed within the accounting period are translated into Bhutan Ngultrum using the exchange rates prevailing at the date of settlement. Monetary assets and liabilities in foreign currencies at balance sheet date are translated at the rates of exchange prevailing at balance sheet date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

iv) Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment, if any. Cost includes purchase price, taxes and duties, labour cost, direct financing costs, direct overheads for self constructed assets, borrowing costs, other direct costs incurred up to the date the asset is ready for its intended use including initial estimate of dismantling and site restoration cost.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Assets costing Nu.5,000 and below are expensed off when put to use. Assets that are fully depreciated but still in use are recorded at Nu.1 for each asset for the purpose of monitoring.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Building & Civil Structure	33 years
Plant & Machinery	20 years
Furniture & Fixtures	7 years
Office Equipment	5 years
Vehicle	7 years
Misc Fixed Assets	2-7years

Building includes semi-permanent buildings. Useful life of semi-permanent buildings is estimated at 10 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other Income' or 'Other expenses' as the case may be, in the income statement.



On transition to BAS, the Company has elected to measure its property, plant and equipment at cost or depreciated cost in accordance with IFRS as the deemed cost of the property, plant and equipment as at 1 January 2013.

v) Intangible assets

Acquired SAP ERP software, Central Control Room Software, Website and other Licences are capitalised on the basis of the costs incurred to acquire and bring it to use the specific software. These costs are amortised over their estimated useful lives of 20 years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

On transition to BAS, the Company has elected to measure its intangible assets cost or amortised cost in accordance with BAS as the deemed cost of the intangible assets as at 1 January, 2015.

vi) Impairment of Assets

The carrying amounts of assets are reviewed at each Statement of Financial Position date if there is any indication of impairment based on internal / external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

vii) Capital-Work-In-Progress

Costs of the fixed assets not ready for their intended use at the Statement of Financial Position date together with all related expenses are shown as Capital Work-in-Progress. The Capital Work in Progress is recorded as fixed asset only when it starts generating economic benefits and its cost ascertained based on the completion certificate issued by the concerned authority.

viii) Investments and other financial assets**a) Initial measurement**

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

b) Classification and subsequent measurement

For the purpose of subsequent measurement, financial assets of the Company are classified in the following categories:

- Financial assets measured at amortized cost;
- Financial assets measured at fair value through other comprehensive income (FVTOCI); and
- Financial assets measured at fair value through profit and loss (FVTPL)



The classification of financial assets depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of its financial assets at initial recognition.

Financial assets measured at amortized cost:

A financial asset is measured at amortized cost if both the following conditions are met:

- i. The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows; and
- ii. Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the profit or loss. The losses arising from impairment are recognized in the profit or loss. This category generally applies to trade and other receivables, bank deposits, security deposits, investment in Government Securities, bonds, cash and cash equivalents, employee loans, etc.

Financial instruments measured at fair value through other comprehensive income

A financial instrument shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- i. the objective of the business model is achieved by both collecting contractual cash flows and selling financial assets; and
- ii. the asset's contractual cash flow represent SPPI.

Financial instruments included within FVTOCI category are measured initially as well as at each reporting period at fair value. Fair value movements are recognized in other comprehensive income (OCI). Currently, the Company does not have any asset classified under this category.

Financial instruments measured at fair value through profit and loss

Fair value through profit and loss is the residual category. Any financial instrument which does not meet the criteria for categorization as at amortized cost or fair value through other comprehensive income is classified at FVTPL. Financial instruments included within FVTPL category are measured initially as well as at each reporting period at fair value. Fair value movements are recorded in statement of profit and loss.

c) Impairment of financial assets

The Company assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost and FVOCI debt instruments. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables only, the Company applies the simplified approach permitted by BFRS 9 Financial Instruments, which requires expected lifetime losses to be recognised from initial recognition of the receivables.



d) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised only when:

- The rights to receive cash flows from the asset have been transferred, or
- The Company retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients.

When the Company has transferred an asset, it evaluates whether it has substantially transferred all risks and rewards of ownership of the financial asset. In such cases, the financial asset is derecognized. When the Company has not transferred substantially all the risks and rewards of ownership of a financial asset, the financial asset is not derecognised.

When the Company has neither transferred a financial asset nor retains substantially all risks and rewards of ownership of the financial asset, the financial asset is derecognised if the entity has not retained control of the financial asset. When the entity retains control of the financial asset, the asset is continued to be recognized to the extent of continuing involvement in the asset.

e) Income recognition

Interest income: Interest income from debt instruments is recognised using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. When calculating the effective interest rate, the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses.

Dividend income: Dividends are recognised in profit or loss only when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Company, and the amount of the dividend can be measured reliably.

ix) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using moving average price for the materials procured from third parties and on standard cost basis for semi-finished and finished goods. The cost of finished goods and work in progress comprises of raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

x) Financial liability

a) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, borrowings, payables. All financial liabilities are recognized initially at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables and borrowings.



b) Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial Liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated as such at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. For liabilities designated as FVTPL, fair value gains/ losses attributable to changes in own credit risk is recognized in OCI. These gains/ loss are not subsequently transferred to P&L. However, the Company may transfer the cumulative gain or loss within equity. All other changes in fair value of such liability are recognised in the statement of profit or loss. The Company has not designated any financial liability as at fair value through profit and loss.

Borrowings

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity classify the liability as current, if the lender does not agreed not to demand payment as a consequence of the breach before reporting date..

Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

**c) Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other gains/(losses).

xi) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in Other Comprehensive Income. In this case, the tax is also recognised in Other Comprehensive Income.

The current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date in Bhutan.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

xii) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of a major capital project, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

xiii) Employee benefits**a) Retirement Benefits**

Under defined contribution scheme

Employees belong to a defined contribution Benefit plan managed by a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Under Defined Benefit Scheme

The company makes retirement payments based on the final salary and years of service.

The gratuity and leave encashment is accrued on the basis of actuarial valuation. Changes in service and interest are charged to the Profit and Loss Account. Changes to actuarial valuation are charged to the Statement of Comprehensive Income.

b) Other benefits

Other short-term employee benefits expected to be paid in exchange of the services rendered by employee is recognized during the period when the employee renders the service. This benefits includes salary, wages, short-term compensatory absences and bonus.

xiv) Provisions and Contingent Liabilities

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

A contingent liability is only disclosed in the notes to the account if an outflow of resources embodying economic benefits is possible.

Liabilities for reclamation and restoration costs w.r.t mined out area are recognized based on the Certificate of Mining Engineer.

The amount recognized is the present value of the estimated future expenditure determined using existing technology at current prices and escalated using appropriate inflation rate till the expected date of reclamation and restoration and discounted upto the reporting date using the appropriate risk free discount rate.

Any change in the present value of the estimated reclamation and restoration costs other than the unwinding of discount is adjusted to the decommissioning allowance and the carrying value of the provisions. The unwinding of discount on allowance is charged in the Statement of profit and loss as finance cost.

xv) Revenue recognition

The Company recognises revenue when the entity satisfies a performance obligation identified in the contract by transferring a promised good or service (i.e. an asset) to a customer and the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Company. An asset is assumed to be transferred to customer when (or as) the customer obtains control of that asset. Incremental cost incurred by the company for obtaining a contract with customer is recognised as assets if the recovery

of such cost is expected. Such assets are amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

Bilateral contracts between two entities in the same line of business for non-monetary exchange of goods and services to facilitate sales to its customers or potential customers are not accounted for as sales (revenue) as per IFRS 15. Any balance against such exchange contracts not settled during the same financial year are accounted for as payable/receivable and included under other current assets/liabilities in statement of financial position.

xvi) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The company leases certain property, plant and equipment. Leases of property, plant and equipment where the company has substantially transferred all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

xvii) Events after Balance Sheet Date

Material events occurring after the Statement of Financial Position date are taken into cognizance.

xviii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

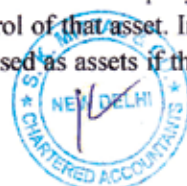
xix) Exploration for and Evaluation of mineral resources

The cost of exploration and evaluation are accumulated as Capital work in progress and not expensed. Once the operation commences, the cost are classified as tangibles or intangibles and depreciated based on the number of units produced.

XX) The Company did early adoption of BFRS 9 and BFRS 15 from 1 January 2017

XXI) Comparative information

Where necessary certain comparative information has been reclassified in order to provide a more appropriate basis for comparison.



DUNGSAM CEMENT CORPORATION LIMITED
NOTES FORMING PART OF STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

2. Property, Plant & Equipment	(Amount in Nu)							
	Freehold Land	Building & Civil Structure	Plant & Machineries	Furniture & Fixture	Office Equipment	MFA	Vehicles	Total
Balance as at 1 January 2017:								
Cost	143,302,788	4,714,991,062	5,379,741,451	19,536,744	31,627,823	63,859,046	15,791,951	10,368,850,865
Accumulated Depreciation	-	426,521,612	838,310,498	11,342,603	18,649,850	25,113,259	12,631,446	1,332,569,268
Book Value as at 1 January 2017	143,302,788	4,288,469,450	4,541,430,953	8,194,141	12,977,973	38,745,787	3,160,505	9,036,281,596
Changes in book value during the year:								
Addition	-	-	1,397,480	654,899	2,574,863	12,150,150	-	16,777,392
Deletion/ Adjustment	-	-	-	628,460	2,066,683	355,969	-	3,051,111
Depreciation on deletions and Adjustment	-	-	-	505,122	1,723,975	247,488	-	2,476,585
Depreciation for the year	-	137,661,526	265,415,601	2,141,523	4,066,025	9,326,435	1,241,585	419,852,695
Total Changes	-	137,661,526	266,813,081	3,930,003	10,431,546	22,080,043	1,241,585	442,157,784
Balances as at 31 Decembe 2017:								
Cost	143,302,788	4,714,991,062	5,381,138,931	19,563,183	32,136,003	75,653,227	15,791,951	10,382,577,145
Accumulated Depreciation	-	564,183,138	1,103,726,099	12,979,004	20,991,901	34,192,206	13,873,031	1,749,945,379
Book value as at 31 December 2017	143,302,788	4,150,807,924	4,277,412,832	6,584,179	11,144,103	41,461,021	1,918,920	8,632,631,766



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DUNGSAM CEMENT CORPORATION LIMITED
NOTES FORMING PART OF STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

3. Intangible Assets

(Amount in Nu)	
Cost	66,410,082
Accumulated Amortization	9,127,943
Balance as at 1 January ,2017:	57,282,139
Changes in book value during the year:	
Addition	-
Deletion/ Adjustment	-
Depreciation on deletions and Adjustment	-
Depreciation for the year	3,320,510
Total Changes	3,320,510
Balances as at 31 December,2017:	
Cost	66,410,082
Accumulated Amortization	12,448,453
Book value as at 31 December,2017:	53,961,629



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DUNGSAM CEMENT CORPORATION LIMITED
NOTES FORMING PART OF STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

	31/12/2017	31/12/2016
Note 4: Capital Work-in-Progress		
Land & Site Development	-	-
Building & Civil Structures	13,218,573	5,481,729
Plant & Machineries	-	-
Other Assets	-	745,700
Total	13,218,573	6,227,429
Note 5: Non-current Other receivables (Unsecured, Considered Good)		
Security Deposits	8,085,229	5,875,919
Total	8,085,229	5,875,919
Note 6: Other Non-Current Assets (Unsecured, Considered Good)		
Unamortised mine expenditure	17,497,377	15,226,026
Fixed Deposit with Bank (earmarked for gratuity liability)	1,895,768	1,895,768
Accrued Interest on Fixed Deposit (earmarked for gratuity liability)	918,278	757,138
Total	20,311,423	17,878,932
Note 7: Inventories (As taken, valued and certified by the management)		
Raw Materials	23,872,488	62,671,444
Fuel	116,891,825	209,150,141
Work in Progress	207,794,425	215,797,616
Finished Products	76,728,597	72,535,034
Stores, Spares & loose tools	393,188,217	422,264,642
Total	818,475,552	982,418,877
Note 8: Trade & Other Receivables (Unsecured, Considered Good)		
Trade & Other Receivables	393,296,995	573,308,261
Less provision for impairment	(5,644,677)	(5,549,997)
Total	387,652,319	567,758,265
Note 9: Cash and Cash Equivalents		
Cash-in-hand	8,508	82,090
Balances with Banks in Current Accounts	41,383,095	46,700,101
Total	41,391,603	46,782,191
Note 10: Other Current Assets (Unsecured, Considered Good)		
Advance payments-Employees	615,339	472,321
Advance to vendors	64,676,810	56,885,177
Less provision for impairment	(5,234,680)	(5,234,680)
Net advances to vendors	59,442,131	51,650,498
Advance payments to third parties	629,720	18,975
Advance to Related Parties	1,308	548,672
Prepaid Taxes	69,887,910	29,084,726
Pre-paid Expenses	20,261,608	24,907,771
Total	150,838,016	106,682,963

Note 11: Equity

Issued, Subscribed and Paid-up		
63,739,479 Equity shares @ Nu. 100 each fully paid up	6,373,947,900	6,373,947,900
Total	6,373,947,900	6,373,947,900

Terms/Rights attached to equity shares

The Company has only one class of Equity Shares having a par value of Nu. 100 per share. Each holder of Equity Shares is entitled to one vote per share. In the event of liquidation of the Company, the holders of Equity Shares will be entitled to receive remaining assets of the Company after distribution of all preferential amount. The distribution will be in proportion to the number of Equity Shares held by the share holders.

Note 12: Long-Term Borrowings

Term Loan (Secured) - Non Current Portion		
Ngultrum Borrowing	1,661,516,609	1,858,839,458
Ngultrum Bonds	3,460,000,000	3,460,000,000
Total	5,121,516,609	5,318,839,458

Details of Security

A. Consortium term loans in Ngultrum are secured by way of:

i. First mortgage on the project asset.

B. For remaining Ngultrum borrowing and bonds, except for corporate loans from DHI, corporate guarantee is given by Druk Holding and Investments Ltd.

Note 13: Other Long-Term Liabilities

Gratuity Liability - Non Current Portion	8,923,926	7,541,047
Defined Leave liability-Non Current Portion	5,289,117	4,622,911
Total	14,213,043	12,163,958

Note 14: Short-Term Borrowings

Working Capital Loan (Secured)		
Working Capital Loan from BNB	4,200	3,594
Current Maturities of Long-Term Borrowings	1,679,512,217	1,425,396,564
Total	1,679,516,417	1,425,400,158

Loan from BNB is secured through Corporate Guarantee given by the Holding Company, Druk Holding & Investments limited and current assets.

Note 15: Trade and Other Payables

Trade payable for Goods/Services & Expenses	568,065,072	581,648,527
Amounts due to Related Parties	151,052,807	120,812,938
Other advances	16,642,993	11,051,789
Retention Money payable	5,353,510	5,666,670
Total	741,114,383	719,179,925

Note 16: Other Current Liabilities

Advances received from Customers	25,666,410	48,322,857
Provision for mines reclamation and restoration	7,025,112	6,717,453
BST payable	3,157,990	1,605,813
TDS payable	502	1,760,968
Other Miscellaneous Liabilities	1,773,016	1,625,516
Gratuity Liability -Current Portion	1,680,814	1,677,658
Defined Leave liability-Current Portion	325,626	324,377
Total	39,629,470	62,034,642



DUNGSAM CEMENT CORPORATION LIMITED
NOTES FORMING PART OF STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

	(Amount in Nu)	
	For the year ended	For the year ended
Note 17: Revenue from Manufacturing Sector	31/12/2017	31/12/2016
Revenue from Sale of Cement	3,145,599,767	3,217,100,583
Revenue from Sale of Clinker	245,053,128	159,681,775
less: Discount/Rebate	(524,410)	(15,284,440)
Less: Commission	(115,718,819)	(90,911,540)
Total revenue from Mfg.	3,274,409,666	3,270,586,379

	For the year ended	For the year ended
Note 18: Other Income	31/12/2017	31/12/2016
Rental Income	4,450,571	4,273,889
Liquidated Damages	11,303,145	14,875,072
Income From Sale of Scraps	3,167,837	-
Audit Recoveries	1,301,064	166,250
Miscellaneous Income	4,408,272	6,250,330
Guest House Receipts	-	-
Recoveries from Employees	-	-
Interest Income	819,789	692,760
Total	25,450,678	26,258,301

	For the year ended	For the year ended
Note 19: Consumption of raw materials and changes in inventory	31/12/2017	31/12/2016
Consumption- Raw Materials	640,709,010	658,468,307
Consumption-Spare Parts	118,508,583	88,091,235
Consumption- Consumables	37,947,632	13,612,820
Consumption-Semi Finished Products	3,682,066,666	3,460,492,465
Cost of goods manufactured - Semi Finished Good	(4,143,651,499)	(4,289,947,758)
Cost of goods manufactured-Finished Goods	(2,084,185,136)	(1,962,040,576)
Cost of goods sold - Semi Finished Good	216,836,019	185,053,589
Cost of goods sold - Finished Good	2,113,213,783	2,122,616,211
Price Difference	120,926,104	279,950,901
Total	702,371,161	556,297,194

	For the year ended	For the year ended
Note 20: Power & fuel expenses	31/12/2017	31/12/2016
Electricity Charges - plant	203,817,178	203,836,063
Consumption- Fuel	698,167,904	693,995,769
Total	901,985,082	897,831,832

	For the year ended	For the year ended
Note 21: Employee benefit expenses	31/12/2017	31/12/2016
Allowances	29,869,641	27,716,720
Basic pay	65,184,668	58,422,359
Uniform & Liveries	35,365	745,305
Leave Travel Concession	4,512,163	3,963,831
Overtime Allowance	7,433,891	7,181,352
Repatriation Allowance	241,384	229,131
Shift Allowance	2,382,215	2,174,520
Transfer Grant	263,168	229,131
Medical Expenses	142,342	8,576

GPA Insurance	654,527	547,929
Subsidy to Dungsam Sport Club	360,000	360,000
Wages	11,555,496	14,901,519
Short-term training	1,156,744	128,743
Other Wages (Contingent Staff)	-	-
Training-Foreign training	806,017	512,256
Defined benefit plan expense	2,757,823	2,373,134
Leave encashment	3,926,998	4,422,343
Provident Fund -Matching Contribution	6,794,295	6,048,385
Gratuity	-	-
Carriage Charge of personal effects	192,203	186,106
Total	138,608,544	130,151,338

	For the year ended	For the year ended
Note 22: Depreciation & amortization	31/12/2017	31/12/2016
Depreciation	419,852,695	418,809,960
Amortization	3,320,510	3,320,510
Total	423,173,205	422,130,470

	For the year ended	For the year ended
Note 23: Other expenses	31/12/2017	31/12/2016
Operation & maintenance	154,878,716	141,331,432
Insurance	12,991,441	13,264,580
Material handling	23,303,001	26,775,796
Mining related expenses	162,109,208	190,448,796
Process loss	77,809,247	108,191,954
Selling & Marketing expenses	749,353,282	875,037,507
Administration expenses	60,521,695	59,252,046
River dredging expenses	926,485	1,406,289
Pre-operative/Pre-Incorporation Written off	-	-
Total	1,241,893,074	1,415,708,399

	For the year ended	For the year ended
Note 24: Finance cost	31/12/2017	31/12/2016
Interest on borrowings	525,541,347	513,119,248
Interest on loans from BoBL	57,044,458	62,555,662
Bank charges - others	6,698	48,217
Bank charges and fees paid to BoBL	657,720	660,796
Other borrowing cost	18,474,912	21,381,878
Interest on Working Capital	10,245,139	32,371,121
Interest expenses on Margin Money	38,821	63,730
Total	612,009,094	630,200,652

	For the year ended	For the year ended
Note 25: Earnings per share	3/31/2017	3/31/2016
Profit/(Loss) after tax	(513,509,255)	(537,385,146)
Other comprehensive income for the year	(1,020,150)	(1,773,876)
Profit/(Loss) used to determine basic earnings per share	(514,529,405)	(539,159,022)
Numbers of shares at the beginning of the year	63,739,479	63,739,479
Number of shares allotted	-	-
Number of shares at the end of the year	63,739,479	63,739,479
Weighted average number of ordinary shares in issue	63,739,479	63,739,479
Basic and Diluted Earnings per share	8	8




DUNGSAM CEMENT CORPORATION LIMITED

NOTES FORMING PART OF STATEMENT OF FINANCIAL POSITION AS AT
DECEMBER 31, 2017

Particulars	31/12/2017	31/12/2016
Note 26: Reconciliation of Deferred Tax		
Opening	(897,813,462)	(679,723,403)
Recognised during the year	(206,670,562)	(218,090,059)
Closing	(1,104,484,023)	(897,813,462)
Deferred tax assets	(1,873,930,113)	(1,511,063,330)
Deferred tax liabilities	769,446,089	613,249,868
Total	(1,104,484,023)	(897,813,462)
Deferred tax (assets) /liabilities in respect of		
Depreciation	752,910,024	556,572,475
Impairment of debtors	16,536,065	6,995,434
Unabsorbed losses and credits	(1,873,757,174)	(1,461,208,432)
Others	(172,939)	(172,939)
Total	(1,104,484,023)	(897,813,462)





27. The company has implemented the third phase of BAS with effect from 1st January 2017. Audited figures for the corresponding previous year 2016 have also been restated by the company with the help of an outside consultant to include implementation of phase III standards in 2016 accounts with the objective to make them comparable with current period figures.

28. Contingent Liabilities not provided for are as under:

Particulars	31.12.2017 Nu.	31.12.2016 Nu.
Counter guarantees given to banks in respect of bank guarantees issued by them on our behalf	5,304,500	
Claims against the company not acknowledged as debt in respect of DzambalaSuppliers	-	2,009,100

29. The Company has following one pending civil suit:

- (i) In the Court of Chief Judicial Magistrate, Kamrup at Guwahati against Dewan Engineering Private Limited for recovery of outstanding amount of Nu 2,839,315.19. The case is still under trial in the Guwahati court.

30. The matter of shortage of spare parts by 60,432,132 observed by internal audit during previous year has been resolved during the year 2017. Items worth Nu 22,638,117 have been found in store and for Nu 37,794,014 are identified already issued and used in prior period. Accordingly, an amount of Nu 37,794,015 has been charged to retained loss.

31. Management upon detection of some irregular transactions in December 2014 had reported the matter to the Board with recommendation to carry out independent audit. As requested by the DCCL Board, the Royal Audit Authority (RAA) had conducted two special audits: (i) first one for the period covering 1st January 2011 to 31st January 2015, (ii) second one for the period covering 1st January 2010 to 31st December 2014.

The first special audit report (AIN: 13021) dated 25th June 2015 highlighted that Nu. 22,584,643 were fraudulently siphoned off from DCCL for which a suit filed by Office of Attorney General (OAG) in Naganglam court has partly been decided in favour of company and Nu. 361,430 stand recovered during the year 2017. Presently, the matter is partially sub-judice at Pemagatshel District Court for a sum of Nu. 7,428,180

The second special audit report (AIN:13705) dated 31 March 2016 highlighted certain procedural lapses involving 48 audit paras; out of which 42 paras stand resolved as on date.



32. In the opinion of the Board current assets, loans & advances shall have a value on realisation in the ordinary course of business at least equal to the amount at which they are stated in the Statement of Financial Position, unless otherwise stated and adequate provisions for all known liabilities have been made.
33. Provision for gratuity and leave encashment has been made on the basis of actuarial valuation of these liabilities carried out by an independent valuer namely Royal Insurance Corporation of Bhutan, Thimphu as required by BAS -19 on "Employee Benefit".

A. Summary of the key results of Gratuity for the year ended 31 December 2017 are presented below:

A. ACCOUNTING EXHIBITS		In Ngultrums	
A1. Change in defined benefit obligation (DBO)		31-Dec-2017	30-Dec-2016
DBO at the beginning of the current period		9,218,704	6,608,087
Current service cost		2,205,806	2,001,597
Past service cost		-	-
Interest cost		600,318	442,472
Benefits paid by the plan		(2,428,937)	(1,416,919)
Benefits paid by the employer		-	-
Actuarial (gains)/losses due to plan experience		1,008,848	593,617
Actuarial (gains)/losses due to change in demographic assumptions		-	(75,173)
Actuarial (gains)/losses due to change in financial assumptions		-	1,065,023.00
DBO at the end of the current period		10,604,739	9,218,704
A2. Change in fair value of plan assets		31-Dec-2017	30-Dec-2016
Fair Value of Assets at the beginning of current period		2,880,351	4,136,130
Contributions paid into the plan		3,000,000	-
Expected return on the plan assets		237,441	257,075
Benefits paid by the plan		(2,428,937)	(1,416,919)
Return on plan assets greater or (less) than discount rate		(76,301)	(95,935)
Fair Value of assets at the end of the current the period		3,612,554	2,880,351
A3. Income statement		31-Dec-2017	30-Dec-2016
Current service cost		2,205,806	2,001,597
Past service cost		-	-
Net interest cost on net DB liability/(asset)		362,877	185,397



Net cost for the year recognised in income statement	2,568,683	2,186,994
A4. Other comprehensive income (OCI)		
Actuarial (gains)/losses due to liability experience	1,008,848	593,617
Actuarial (gains)/losses due to liability assumption changes	-	989,850
Return on plan assets (greater)or less than discount rate	76,301	95,935
Remeasurement (gains)/losses recognized in OCI	1,085,149	1,679,402

A5. Defined benefit cost		
Current service cost	2,205,806	2,001,597
Past service cost	-	-
Net interest cost on net DB liability/(asset)	362,877	185,397
Remeasurement (gains)/losses recognized in OCI	1,085,149	1,679,402
Total Defined Benefit Cost	3,653,832	3,866,396

A6. Development of net financial position		
Defined benefit obligation	(10,604,739)	(9,218,704)
Fair value of plan assets	3,612,554	2,880,351
Funded status - (deficit)/surplus	(6,992,185)	(6,338,353)
Net defined benefit asset/(liability)	(6,992,185)	(6,338,353)

A7. Reconciliation of net financial position		
Net defined benefit liability/(asset) at the beginning of current period	6,338,353	2,471,957
Amount recognized in the income statement	2,568,683	2,186,994
Amount recognized in the OCI	1,085,149	1,679,402
Contributions paid into the plan	(3,000,000)	-
Benefits paid by employer	-	-
Net defined benefit liability/(asset) at the end of current period	6,992,185	6,338,353

A8. Expected benefit payments for the year ending		<i>in Nu.</i>
December 31, 2018		1,680,814
December 31, 2019		1,948,545
December 31, 2020		2,274,536
December 31, 2021		2,611,277
December 31, 2022		3,335,381
December 31, 2023 to December 31, 2027		22,744,993



A9. Estimated term of liability (Years)	15.30 (2017)
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A.11 Sensitivity Analyses	Defined Benefit Obligation	In Nu. Net Effect on DBO
1. Discount Rate		
Base Discount Rate of 7.5%	10,604,739	-
Discount rate of 8% (+0.5%)	9,977,002	(627,737)
Discount rate of 7% (-0.5%)	11,291,852	687,113
2. Salary Escalation Rate		
Base Salary Escalation Rate of 7%	10,604,739	-
Salary Escalation Rate of 8% (+1%)	11,182,950	578,211
Salary Escalation Rate of 6% (-1%)	9,989,170	(615,569)
3. Attrition Rate		
Base Attrition Rate of 5%	10,604,739	-
Attrition Rate of 6% (+1%)	10,519,896	(84,843)

A10. Scheme Asset Allocation	Amount	Percentage
Term Deposits	2,814,046	92%
Cash at Bank	798,508	8%
Total	3,612,554	100%



<i>Attrition Rate of 4% (-1%)</i>	10,647,110	42,371
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A. ACCOUNTING EXHIBITS*In Ngultrums*

A1. Change in defined benefit obligation (DBO)	31-Dec-2017	30-Dec-2016
DBO at the beginning of the current period	4,947,288	3,085,842
Current service cost	667,455	1,861,446
Past service cost	-	-
Interest cost	359,985	219,658
Benefits paid by the plan	-	-
Benefits paid by the employer	(294,986)	(314,132)
Actuarial (gains)/losses due to plan experience	(64,999)	(984,267)
Actuarial (gains)/losses due to change in demographic assumptions	-	76,429.00
Actuarial (gains)/losses due to change in financial assumptions	-	1,002,312
DBO at the end of the current period	5,614,743	4,947,288
A2. Income statement	31-Dec-2017	30-Dec-2016
Current service cost	667,455	1,861,446
Past service cost	-	-
Net interest cost on net DB liability/(asset)	359,985	219,658
Remeasurement (gains)/losses	(64,999)	94,474
Net cost for the year recognised in income statement	962,441	2,175,578
A3. Development of net financial position	31-Dec-2017	30-Dec-2016
Defined benefit obligation	(5,614,743)	(4,947,288)
Fair value of plan assets	-	-
Funded status - (deficit)/surplus	(5,614,743)	(4,947,288)
Net defined benefit asset/(liability)	(5,614,743)	(4,947,288)



A4. Reconciliation of net financial position	31-Dec-2017	30-Dec-2016
Net defined benefit liability/(asset) at the beginning of current period	4,947,288	3,085,842
Amount recognized in the income statement	962,441	2,175,578
Contributions paid into the plan	-	-
Benefits paid by employer	(294,986)	(314,132)
Net defined benefit liability/(asset) at the end of current period	5,614,743	4,947,288
A5. Expected benefit payments for the year ending	<i>in Nu.</i>	
December 31, 2018	325,626	
December 31, 2019	328,506	
December 31, 2020	334,069	
December 31, 2021	339,761	
December 31, 2022	385,153	
December 31, 2023 to December 31, 2027	1,963,239	
A6. Estimated term of liability (Years)	13.53 (2017)	

A7. Sensitivity Analyses	In Nu.	
	Defined Benefit Obligation	Net Effect on DBO
1. Discount Rate		
Base Discount Rate of 7.5%	5,614,743	-
Discount rate of 8% (+0.5%)	5,297,165	(317,578)
Discount rate of 7% (-0.5%)	5,964,204	349,461
2. Salary Escalation Rate		
Base Salary Escalation Rate of 7%	5,614,743	-
Salary Escalation Rate of 8% (+1%)	6,376,903	762,160
Salary Escalation Rate of 6% (-1%)	4,975,235	(639,508)
3. Attrition Rate		
Base Attrition Rate of 5%	5,614,743	-
Attrition Rate of 6% (+1%)	5,656,718	41,975



Attrition Rate of 4% (-1%)	568,972	(45,771)
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34. Related Party Disclosures

- (i) Name of the related party where control exists irrespective of whether transactions have occurred or not:

Druk Holdings and Investment Ltd. (DHI)

- (ii) Related parties with whom transactions have taken place during the year:

Key managerial personnel's:

- Dasho Karma Yezer Raydi, Chairman
- Dasho (Dr.) Tobgyal Wangchhuk, Board Director
- Mr. Yonten Namgyal, Board Director
- Mr. Phuntsho, Board Director
- Mr. Tashi Penjore, Board Director
- Mr. Sherab Namgay, Board Director
- Mr. Sonam Jigme, CEO & Director
- Mr. Sonam Topgay, Ex. Board Director
- Mr. Minjur Dorji, Ex. Board Director
- Mr. Dorji Norbu, Ex. CEO & Board Director

- (iii) No transactions were done with relatives of Key Managerial Personnel during the year.

- (iv) Fellow subsidiaries with whom transactions have been made during the year:

- Bhutan Telecom Limited
- Bank of Bhutan Limited
- Bhutan Power Corporation Limited
- Dungsam Polymers Limited
- Druk Green Power Corporation Limited
- Druk Air Corporation Limited
- State Trading Corporation of Bhutan Limited
- Penden Cement Authority Limited
- Wood Craft Centre Limited
- State Mining Corporation Limited
- Bhutan Hydropower Services Corporation Limited
- Druk Holding & Investments Limited
- Construction Development Corporation Limited



Nature of transaction	31.12.2017	31.12.2016
Bank of Bhutan Limited		
Interest & bank charges	122.02	63.22
Margin money deposits	0.55	0.55
Bond	1,414.92	1414.92
Bhutan Power Corporation		
Electricity Charges	205.46	205.61
Interest	0.00	0
Lease rent	0.52	0.5
Consulting Fee	0.90	0
Bhutan Telecom Limited		
Telephone and internet charges	2.92	2.8
Purchase of asset	0.00	0.12
Misc. Expenses	0.00	0.05
Druk Holdings & Investments Limited		
Guarantee fee	17.54	20.45
Interest	64.97	38.99
Dungsam Polymers Limited		
Rental Income	0.72	0.72
Purchase of PP Bag	112.57	114.75
State Trading Corporation of Bhutan Limited		
Spares & consumables	0.91	11.64
Purchase of office equipment	2.89	1.7
Drukair Corporation Limited		
Air ticket	1.15	1.38
Druk Green Power Corporation Limited		
Interest	12.37	13.81
Spares & service charge	0.04	0.12
Penden Cement Authority Limited		
Sales of Clinker	17.46	21.44
Cement purchase	3.69	
Wood Craft Centre Limited		
Purchase of Furniture	0.04	0.48
State Mining Corporation Limited		
Purchase of Coal	226.80	62.57
Testing Charges	0.00	0.01
Bhutan Hvdropower Services Corporation Limited		
Spares	0.00	0.06
Construction Development Corporation Limited		
Sales of Cement	17.46	7.63



Related Party	Nature of Transactions	Outstanding balance as on 31.12.2017	Outstanding balance as on 31.12.2016
Druk Holdings and Investments Limited	Payable	1,135.39	885.38
Bank of Bhutan Limited	Payable	541.64	600.97
Bhutan Telecom Limited	Payable	0.23	0.21
Bhutan Power Corporation Limited	Payable	21.41	19.96
State Trading Corporation Limited	Payable	0.88	0.09
State Trading Corporation Limited	Advance	1.00	0
Dungsam Polymers Limited	Payable	5.60	15.48
Druk Air Corporation Limited	Payable	0.00	0.02
Druk Green Power Corporation Limited	Payable	260.98	402.54
Wood Craft Centre Limited	Payable	0.00	0.02
State Mining Corporation Limited	Payable	81.86	47.4
Construction Development Corporation Limited	Receivable	2.90	3.56
Dungsam Polymers Ltd.	Receivable	0.29	0.73
Penden Cement Authority Ltd.	Receivable	0.08	0.43

Corporate Guarantee is given by the Holding Company - Druk Holding and Investments Ltd. for the followings:

- a) Bond I : Nu. 1,260,000,000
 - b) Bond II : Nu. 700,000,000
 - c) Bond III : Nu. 1,500,000,000
 - d) Working capital loan: Nu. 4,200
35. During the year the Company has assessed the carrying amount of the assets vis-a-vis their recoverable values and no impairment is envisaged at the Statement of Financial Position date.
 36. Outstanding prepaid taxes are for Nu.69, 887,717as on the reporting date whereas the same are for Nu.74, 620,220 as per RRCO records: the difference is under reconciliation as on date.
 37. The Company owns freehold land measuring 199.752 acres as per the new land title certificate issued by National Land Commission on 6th January 2015.

Land registered in favour of DCCL is valued at notional cost of Nu. 195,776,935.20 (for 199.752 acres @ Nu. 980,100 per acre based on the land compensation rates 2009 of the Government for Town C Category) as per the decision of the 11th Board Meeting of the company held in March 2011.



38. Certain Balance of advances to Vendors and others, Trade Receivables, Sundry Creditors, Intra Group Company Balances, Advances received from Customers & others and other Current Liabilities are subject to confirmation / reconciliation and consequential adjustment if any, required.
39. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.
40. Managerial Remuneration:

(Nu in millions)

Particulars	31.12.2017	31.12.2016
Chief Executive Officer's remuneration	1.87	1.44
Director's Sitting Fee	0.36	0.39
Travelling Expenses (CEO)	0.29	1.07

The above remuneration is based on the actual payment.

41. Auditors remuneration: (Nu in millions)

Particulars	31.12.2017	31.12.2016
Audit Fees	0.11	0.11
Other audit expenses	0.18	0.25

FOR S.K. MITTAL & COMPANY
CHARTERED ACCOUNTANTS
 FRN:001135N


 (...K.S. MITTAL...)
PARTNER
 MEMBERSHIP NO. 010633



FOR AND ON BEHALF OF THE BOARD OF DIRECTOR


(SONAM JIGME)
CHIEF EXECUTIVE OFFICER

PLACE : NEW DELHI

DATED : 12 MAR 2018