



a **dhi** company

2018
ANNUAL REPORT

THE YEAR IN REVIEW

On behalf of the Hon'ble Chairman, Board Directors, the management and all the employees of the Company, 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 unwavering support and co-operation extended to the Company during the financial year 2018.

Ever since the year of commissioning in 2014, DCCL has come a long way in achieving the present level of performance. We would also like to take this opportunity to inform our stakeholders that numerous strategic decisions towards streamlining the management and production processes had been initiated after my joining and implemented during the year. The streamlining process shall continue and we are very optimistic of positive results.

I feel that the review of the current financial year would not be complete without drawing comparison with the years gone by. Hence, a quick assessment of the year 2018 in conjunction with the past years starting from 2014 is made and presented briefly so that a fair understanding of how far we have progressed could be deciphered. In terms of plant operations and production, the total cement production increased from 200,181 MT in FY- 2014 to 633,629 MT in FY- 2018 and the total clinker production increased from 379,763 MT in FY-2014 to 610,845 MT in FY-2018. Two captive mines of Kanagrizhe and Marungri combined produced a total of 854,077.87 MT of limestone during the period fulfilling our requirement. At the same time, the revenue generation increased from Nu 1.598 billion in FY- 2014 to Nu 3.783 billion in FY- 2018. For the very first time positive growth in EBITDA of Nu. 56 million was achieved in FY-2015, gradually reaching to Nu. 865 million in 2018. While we could not achieve positive PAT as targeted, the loss has been substantially reduced to Nu. 30 million in FY- 2018 from Nu.1,287 million in FY-2014.



During the period, we also conducted detailed assessment of the plant from crushing to loading by engaging experts from Siam Cement Group (SCG) and Energy Audit by experts from NCCBM, New Delhi, India, with the ultimate objective of identifying problem areas and bottlenecks and to bring about much needed improvement and efficiency in the overall plant performance. Most of the recommendations that did not involve investment and time were implemented during the recent shutdown.

In terms of occupational health & safety (OHS), the Company had initiated and carried out various tests such as the BMI, spirometer test, ear check, audiometry test and general medical checkups. Besides, numerous advocacy and awareness campaigns on work place safety and first-aid procedures were carried out by the resident health assistant (HA) of the Company. I am particularly pleased to inform our partners that during the year DCCL has been certified as **ISO 9001:2015** by Bureau Veritas (BV), a certifying agency based in India, on top of already existing BIS (Bureau of Indian Standards) and BSB (Bhutan Standard Bureau) certification. Consequently, all our processes and operations are streamlined as per the ISO Standard.

Amongst the numerous memorable events and activities, we were honored with the visit of His Majesty the Druk Gyalpo on May 15, 2018. The Royal visit was a great source of inspiration and motivation for all the employees. We pledge to work hard with unflinching loyalty and dedication towards achieving the noble vision and aspiration of His Majesty the King and the Fourth King, who had conceived this project. We also had



the honour of hosting the “*Moenlam Chenmo*” presided over by His Holiness, Kyabje Je Khenpo Rinpoche in Nganglam from December 26, 2018 to January 06, 2019. After the conclusion of the *Moenlam Chenmo*, a one-day *Sangchoe Gyep* was conducted for the welfare of the DCCL family in particular and all sentient beings in general. His Holiness also joined in the celebrations of *Chunip Losar* with the public of Nganglam, Pema Gatsel Dzongkhag.

Lastly, we would like to assure our valued shareholders that we will leave no stones unturned to achieve our targets for the FY- 2019 and establish ourselves as one of the major profit making entity under the Druk Holdings and Investment Limited. We remain very optimistic about the future performance of the company given its potential.

Wishing all our valued stakeholders a successful year 2019.

Tashi Delek



Sonam 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 company was commissioned in the year 2014 and the Commercial Operation Date (CoD) was declared as January 1, 2014.

The plant has an installed capacity of 3,000 MT of clinker productions per day and 4,130 MT of cement productions per day making it the biggest Cement Producer in the country. The company produces three types of cement viz. Ordinary Portland Cement (OPC), Portland Pozzolona Cement (PPC) and Portland Slag Cement (PSC). The products are marketed under the brand name "Dragon Cement". About 80% of the cement produced is marketed in India and 20% of the cement produced is marketed in domestic market. As of now the company is in its 5th Year of operation and given its potentials we aspire to become one of the major profit generating company under DHI.

The plant is located at Chengkari, Nganglam; under Pemagatshel Dzongkhag in the eastern





Bhutan at an approximate distance of about 150 KM in North-West of Guwahati, Assam, India. It has obtained permanent license from the Bhutan Standard Bureau (BSB) and Bureau of Indian Standards (BIS) to market its cement in Bhutan and India.

The Company had been ISO 9001:2015 certified by Bureau Veritas (BV), a certifying agent based in India, and consequently, all processes and operations are streamlined as per the ISO Standard.

MISSION

To provide value to the shareholders and meet customer satisfaction through the manufacture and sale of quality cement in a sustainable manner.

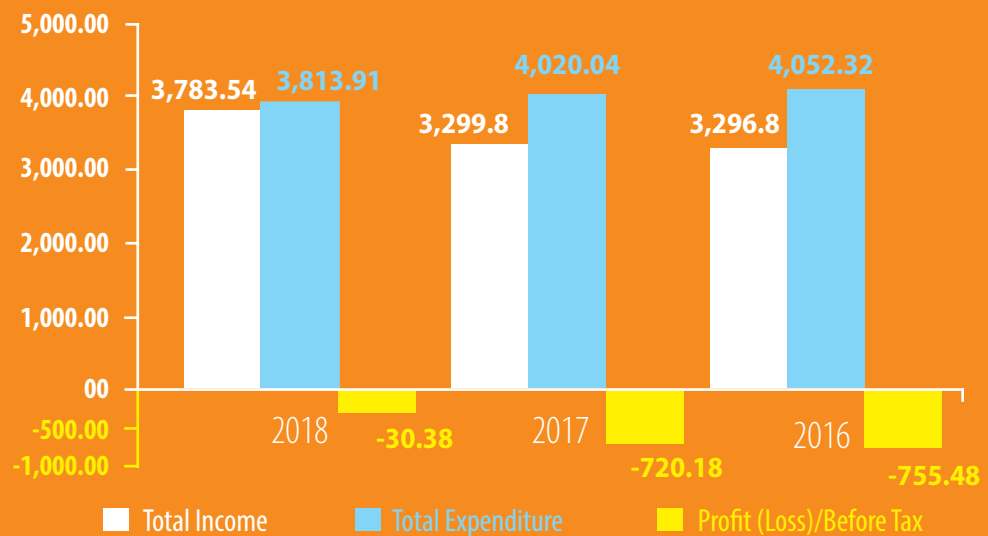
VISION

To be the leading manufacturer and supplier of quality cement in the region.

CORE VALUES

- E – EXCELLENCE AND QUALITY
- T – TEAM WORK
- H – HONESTY
- I – INTEGRITY
- C – COMMITMENT AND SAFETY
- S – SERVICE ORIENTED

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 (Dr.) 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.



Dzongda 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 Ministry of Finance 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) and also served as the Director, Department of Revenue and Customs, under the Ministry of Finance (MoF) before the current appointment as Director General. 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 (OGZ), HMS Kidu Fund 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.

MANAGEMENT TEAM

Head of Departments



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). He left the company after successfully completing his three and half years contract with the company.





DIRECTORS' REPORT

To the Shareholders:

On behalf of the Board of Directors and management of Dungsam Cement Corporation Limited (DCCL), it is my privilege and honor to present the directors' report for the year ending 31st December 2018.

OPERATIONAL HIGHLIGHTS

Ever since the commissioning in 2014, DCCL had come a long way in achieving the present level of operational capacity Utilization and production milestones. I am pleased to report to the shareholders that despite some challenges faced by the company, DCCL has seen the highest clinker and cement production since its inception during the year. We were able to produce a total of 610,845.01 MT of Clinker and 633,629.00 MT of cement. Two captive mines of Kanagrizhe and Marungri combined have produced a total of 854,077.87 MT of limestone. Although the Plant has seen an increase in its capacity utilization compared to FY 2017, the low demand of cement in Indian market had led to the plant being operated on low output.

FINANCIAL HIGHLIGHTS**1. Revenue**

The company's primary source of revenue is from sale of cement and clinker to the domestic and export market. For the year ended 31st December 2018, the gross revenue increased to Nu. 3,783.54 million as compared to Nu. 3,299.86 million in the year 2017 which is an increase of 15%.

2. Expenditure

The total expenditure during the year was Nu. 3,813.91 million as compared to Nu.4,020.04 million in previous year. The company achieved a substantial reduction in the expenses by Nu. 206.13 million due to various cost cutting and austerity measures put in place by company.

3. Profit/(Loss) Before Tax

The loss before tax in 2018 was Nu. 30.38 million only as compared to Nu.720.18 million in the previous year. There is a substantial reduction in loss of Nu.689.80 million, which is a 96% reduction from the previous year.

4. Earnings before Interest, Taxes and Depreciation and Amortization (EBITDA)

I am pleased to report that the company has achieved an EBITDA (Earnings before Interest, Taxes and Depreciation and Amortization) of Nu. 846.97 million as compared to Nu.295.99 million in the previous year.

5. Credit to Hydro Power Projects

The total Credit Sales to Hydro Power Projects as on 31st December 2018 was Nu. 422.71 million, out of which Nu. 233.01 million was



matured overdue and Nu. 189.69 were within the credit period of 45 days. Compared to the past years credit recovery rate had improved tremendously due to concerted follow up actions by the company.

6. Restructuring of debt

It may be informed that during the year, the Company initiated debt equity conversion vis-a-vis issue of right shares amounting to Nu. 1,100.00 million to refinance inter-corporate loan availed from DHI and ease cash flows management. As a result of re-structuring exercise, it had resulted in interest saving of Nu. 14.00 million (From Oct-Dec 2018). Besides, as a result of the re-structuring exercise, the share capital of Bhutan Power Corporation (BPC), which was valued at Nu 400.00 Million in the previous year, was transferred to Druk Holding & Investments (DHI), thereby increasing the share ownership of DHI to 79.60%.

The net worth of the company was valued at Nu. 3,898.27 from Nu. 3,635.06 million in

the previous year, which is an increase of Nu. 263.21 million due to issue of additional shares and losses incurred during the year.

7. Revision of depreciation rates

During the year, the useful life of the Property Plant and Equipment (PPE) was reviewed as per BAS 16 and in line with DHI Group Accounting policies. Proposal was submitted to the Board and duly endorsed, which was later certified by the statutory auditor, M/S S.K Mittal & Co.

SALES HIGHLIGHTS

Compared to the last year, the cement sale has increased from 571,340 MT to 633,385 MT in 2018, registering a growth of 10.8%. Accordingly, the revenue from sale of cement also increased from Nu. 3,149.05 million to Nu 3561.64 million in 2018, which is an improvement by about 13% from the previous year. Additional revenue of Nu.256.94 million was generated through sale of about 77,305 MT of clinker in the domestic and export market.

MARKETING HIGHLIGHTS

Various marketing activities were initiated in 2018 with an objective to enhance sales and boost its brand equity.

- a. Developed a comprehensive marketing strategy for five year period i.e 2018 to 2022 featuring the market scenario of DCCL, the competition, demand and opportunity forecast for the next 5 years.
- b. The customer satisfaction index survey was initiated to gauge the satisfaction level of its customers. Such survey is important to understand customer and their needs and to develop effective strategies. DCCL scored an impressive 4.09 points on a scale of 1-5 which implies that DCCL is doing very well in terms meeting the customers' needs.
- c. Annual Dealers meet was conducted in

Eastern, Central and Western Bhutan to discuss the future sales plan, strategies to enhance sales and concerns from the Dealers that might impede the performance. During the meeting, the minimum monthly sales target of the Dealers was raised from 20MT to 60MT to enhance sales.

- d. Since the Sales Promotorship that was designed to enhance sales in export market failed to yield the anticipated result, Export Marketing Agent (EMA) was appointed with a clear cut sales targets and functions to improve the sales in the export market.
- e. Business partnership with 16 new non-trade customers was established to boost sales.
- f. Organized 4th annual DCCL marathon to promote Dragon Brand and educate the employees the importance of health and fitness.





DIY HOI TOI
DINGSAM CEMENT CORPORATION



DRAGON
GEMENT

THE STRENGTH OF THUNDER DRAGON

LOGISTICS FUNCTIONS

Following are the highlights of activities carried out by Inbound and Outbound Logistics;

1. Inbound Logistics: Under this, the function mainly centered on bringing in the key raw materials and spare parts for the plants and machinery.

i) Total number of vehicle coordinated to lift below raw materials during the fiscal year, 2018;

SI No	Type of Raw Material lifted:	No. of Vehicle coordinated during the Fy-2018	Destination
1	Coal	6692 vehicles	From SD Coal mining to DCCL Nganglam
2	Gypsum	1893 vehicles	From Pema Gatshel to DCCL Nganglam
3	Iron Ore	1146 vehicles	From Kalikhola to DCCL Nganglam
4	Fly Ash	2072 vehicles	From Kalgaon/Salakata to DCCL Nganglam
5	Slag	1135 vehicles	From Durgapur to DCCL Nganglam

ii) Total number of OEM materials coordinated to lift from OEM Suppliers during the fiscal year, 2018 are as follows;

Year	No of OEM imported/lifted:	No of Vehicle engaged to lift:
Fy-2018	218	15 vehicles

All other visits for inspection by regulatory bodies such as Regional Revenue & Customs Office, Immigration Office, MoLHR, Royal Bhutan Police, forest, BAFRA are also facilitated by Inbound Logistics.

2. Outbound Logistics: The outbound Logistics deals with dispatch of cement to various market segments such as Domestic Non Trade (Other projects & Hydropower projects), Domestic Trade & Export.

In order to transport cement from the plant to various destinations and customer groups in the domestic market, DCCL has signed Transportation Contract with seven authorized Bhutanese transporters for two years. For the export market, owing to the complexity of managing transport in India, EMA arranges the transport and the goods are sold on ex-factory basis.

During the fiscal year 2018, Logistics Division had coordinated following number of vehicles to

dispatch cement and clinkers to various customers in the domestic market;

SI No	Particular	Total No. of vehicle coordinated:
1	Total No. of Cement Vehicle coordinated for Hydro projects, Other Non-Trade parties & Depots	28,366 Vehicles
2	Total No. of Cement Vehicle coordinated for Domestic Dealers	3,718 Vehicles
3	Total No. of Cement Vehicle coordinated for Export Markets	6,019 Vehicles
4	Total No. of vehicle coordinated for Clinker Export	2,334 Vehicles

HUMAN RESOURCES RELATED HIGHLIGHTS

Some of the highlights of activities initiated HR Division during the year 2018 are as follows:

- a. One Executive, 5 Managers, 8 Operational and 1 ESP employees resigned from the service of DCCL,
- b. Recruited 4 Managerial employees, 7 Supervisory/Operational employees and 30 ESP employees,
- c. General and time based promotions for 97 employees were granted as per the promotion calendar in line with the Service Rules of the Company,
- d. 11 Managerial employees attended the training at Siam Cement Group (SCG) at Thailand.
- e. 14 employees from Managerial grade attended in country training and workshop and 3 employees attend the training on Design and Construction of Rigid Pavement conducted by College
- f. Developed a detailed Team Appraisal System (TAS) and Employee Appraisal System (EAS), for performance planning and evaluation.
- g. The Company during the year engaged 41 students from College of Science & Technology, Gaeddu College of Business, Jigme Namgyel Engineering College and Technical Training Institute under the Internship & Attachment Program.
- h. Following test was conducted to detect early disease or help identify health risk such as ;
 - a) BMI,
 - b) Spirometry test,
 - c) Ear check,
 - d) Audiometry test and,
 - e) General medical checkup was carried out.
- i. Awareness on OHS vulnerability of young workers was conducted on Safety Day,

of Science & Technology (CST), Royal University of Bhutan.



AUDIT HIGHLIGHTS

1. Statutory Audits

The financial statements of Dungsam Cement Corporation Limited for the year ended 31st December 2018 was audited by the S.K MITTAL & CO., New Delhi. During the auditing period 16 memos were issued out of which 11 memos were dropped during the exit meeting and 5 memos were retained. I am pleased to report that there were no major issues.

2. Royal Audit Authority

I would like to report that the Audit for the period 2018 is ongoing and the findings will be reported to the next Board Audit Committee. However, it may be informed that the Royal Audit Authority (RAA) has issued 177 paras involving Nu.846 million since 2013. As of today, 113 paras involving Nu.813.14 million has been settled leaving a balance of 64 paras

involving Nu.36.15 million. Out of the 64 paras 51 paras pertains to the embezzlement case that is being pursued by OAG at the High Court. The remaining 13 paras are being followed up the management with RAA for settlement.

3. Internal Audit

The Internal Audit Section of the company conducts regular auditing to ensure check and balance and proper management of its resources.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

DCCL has a CSR policy and management level committee with four members to look after the matters of Corporate Social Responsibility (CSR).

DCCL had been receiving numerous CSR request in terms of cement donations from

related parties such as the local communities, schools and local sectors offices. Although, the management did not entertain all the cement donation requests, in 2018 a total 194 bags of cements were issues as donations to different local sectors. Moreover in 2018, DCCL under CSR contribution and donation had provided financial support to almost 10 deserving activities amounting to Nu. 0.24 million.

Since CSR is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits to all stakeholders, it maybe noted 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 while fulfilling the social mandate at the same time.

Being a manufacturing unit, the company views that CSR drives the potential benefits for better brand recognition of our products with positive business reputation and helps to increase sales volume and create customer loyalty.

CORPORATE GOVERNANCE

The Company is in adherence 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 their Rules of Procedures. The company is in compliance with the requirements stipulated by the Registrar of Companies and all the other regulatory authorities.

It may be informed that DCCL at management level has Human Resource Committee (HRC),

Company Level Procurement Committee (CLPC), Sales and Marketing Committee (SMC), Employee Welfare Scheme Committee (EWSC), Club Committee, Asset Write off Committee (AWC) and Asset Disposal Committee (ADC) for a smooth functioning of the company. The committees meet as and when required to deliberate issues at the management level.

The DCCL Board consists of seven board directors including the CEO. Six board meetings were held during the year. 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 ensures compliance with legislation, regulations and DHI CG Codes to guarantee sustainability of its business.

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 facets and dimensions of its day-to-day functions. However, certain key challenges still remain to be addressed so that the company achieves its full potential.

MAIN CHALLENGES

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

- (a) Introduction of Tax reforms in India by way of instituting Goods and Services Tax (GST) in India still continues to adversely affect the sale of cement in the export market



since July 2018. Moreover, the manual transaction of GST at Kumardwisa Customs Office, posed several logistical issues including inordinate delays and disruptions in the smooth flow of businesses. The EMA had gone to great lengths to try and request Customs Office to computerize the GST transactions, so that online payment systems and clearances can be facilitated. Movement of goods during weekends and holidays is still a serious problem associated with GST payment.

- (b) Cut throat competition in the export market segments is a major challenge for the company and it shall continue to remain as a formidable challenge in the near future too.
- (c) Uninterrupted raw material supply and availability from India is also a major challenge since there are numerous strikes, railway restrictions, flooding etc, which impedes the continuous production process of the company. These factors have

caused the raw materials prices to increase drastically for DCCL compared to other cement companies based in Meghalaya; thereby, increasing the cost of production.

- (d) Sourcing of raw materials such as coal, slag, flyash have been a continuous problem for the Company. With the passage of years, the procurement of good grade coal has become difficult both in terms of quality and quantity. Bringing in coal from off shore sources such as Indonesia, Australia would entail heavier costs to the Company. The flyash supply from thermal plant in Salakati has limitations in terms of quantity due to quota allocations and multiple commission agents involved in the transactions. Supply of slag from steel plants in Durgapur and Jamshedpur though systematized, yet, it still has problems in supplying continuously as and when required due to several reasons.
- (e) Machine problems such as vibrations and temperature issues with the bag house fan,

malfunctioning of Rotary Air Lock (RAL) have impeded the production process from time to time.

- (f) During the year it has been observed that there is a horizontal crack developed in the flyash silo. The Company has conducted preliminary assessment and plans to engage and consult the designers and builders such as the Holtec Consulting firm, Petron Engineering and Humboldt Wedag India (HWI) Limited, and take immediate measures to repair or retrofit the silo.

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) For achieving cost efficiency, there is a need for carrying out cost audit or cost accounting. This exercise would be helpful in guiding the pricing and costing of our goods and services as we move forward in the business.
- (b) The North East India export market has become very competitive and complicated with multiple players actively operating in the region. One of the ways of staying competitive is to form sales and marketing alliances with the reputed companies. The partnership arrangement could be in terms of mutually agreed sale strategies to push more sales volume into the market. The Company is already in the process of exploring such marketing alliances with some of the reputed companies in the region.

- (c) In line with the vision of safe, green and beautiful environment, DCCL management and employees plan to develop and beautify the campus with plantation of trees, flowers within the campus, to ensure and promote safe and healthy living in campus. DCCL also plans to install street lightings at various strategic locations and develop sporting facilities such as the archery range, soccer fields etc.
- (d) 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 in the cement industry shall be organized from time to time.
- (e) Some targeted skills training and development need to be implemented so that there would be an appreciable pool of skilled belt jointers, controllers, blasters etc, which would be very instrumental in the smooth running of the plant.
- (f) Planning and provisioning of adequate staff housing and socio cultural activities would have to be made a part and parcel of the living experience in the company campus. Hence the promotion of the idea of "work, live, learn and play" shall have to be advocated and emphasized.

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



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 2018, as shown below:

- (a) The board, the management and the employees of the company were honored with the Royal visit of His Majesty the Druk Gyalpo on May 15, 2018. The royal visit to the company was a great source of inspiration and motivation for the employees and the stakeholders of the company. Amongst others, His Majesty shared his concerns as to why DCCL is an important player in the social-economic development of Bhutan.
- (b) On the invitation of the Board and the management of Siam Cement Group (SCG), Thailand, a delegation led by Hon'ble Chairman consisting of four board directors of DCCL visited Saraburi Cement Plant that is owned by SCG. During the visit, a MoU was also signed between DCCL and SCG
- (c) As a result of the above visit, a 10 member senior-level managers' team from DCCL attended 7 day training on the "Autonomous Maintenance" and Preventive Maintenance" practices which is widely adopted by SCG across their Plants.
- (d) DCCL had the honour to host the "Moenlam Chenmo" presided over by His Holiness, Kyabje Je Khenpo Rinpoche in Nganglam from December 26, 2018 to January 06, 2018. After the conclusion of *Moenlam Chenmo*, a one-day *Sangchoe Gyep* (Elaborate Burnt Substances Offering) was conducted for the welfare of the DCCL family in particular. His Holiness also joined in the celebrations of *Chunip Losar* with the public of Nganglam.
- (e) A delegation of 3 experts from SCG, Thailand visited DCCL for preliminary study and recommended for Process optimization, machine condition

improvement and supported training for DCCL staff at SCG, Thailand.

- (f) During the same period, an Energy Audit of the plant was conducted by NCCBM, New Delhi, India, to find out the potential saving in terms of Energy, both thermal and electrical wherever applicable. Some of these suggestions have already been implemented to reduce the energy consumption.
- (g) ISO 9001:2015 certification obtained from Bureau Veritas and all processes and operations streamlined as per ISO Standard accordingly.

ACKNOWLEDGMENT

The company would like to thank the Royal Government of Bhutan and its regulatory agencies such as the Department of Revenue & Customs, Department of Geology and Mines, Department of Forests and Park Services, Department of Immigration, Department of Law and Order, Department of Labour, National Environment Commission, Dzongkhag, Dungkhag and Gewog Administration, Pema Gatshel, Royal Court of Justice, Pema Gatshel and Nganglam and the Royal Bhutan Police, Nganglam for their continued support and co-operation. We look forward to working in close consultation and co-ordination with these agencies in the future.

The Board and the management would also extend our gratitude to DHI and the shareholders for valuable guidance and assistance, 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 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 the contribution made by our business partners and other agencies such as Financial Institutions, Transporters, Contractors, 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 Chief Executive Officer (CEO) and his management team, and to all the employees of the company for their dedicated services and working tirelessly for 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

CORPORATE GOVERNANCE

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

DCCL has also complied with the Companies Act of the Kingdom of Bhutan 2016 and other statutory requirements of the Royal Government of Bhutan.

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 (DCCL).

SI	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 General, Department of Industry, MoEA	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, six (6) Board meetings were convened during the FY 2018. During the year one Extraordinary General Meeting (EGM) was convened to deliberate on Right issues of shares dated August 16, 2018. 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
56	January 23, 2018	1. Mr. Phuntsho 2. Mr. Tashi Penjore 3. Mr. Yonten Namgyel 4. Mr. Sherab Namgay 5. Mr. Sonam Jigme	1. Dasho Karma Yezer Raydi 2. Dasho (Dr.) Tobgyal Wangchhuk
57	March 21, 2018	1. Dasho Karma Yezer Raydi 2. Mr. Yonten Namgyel 3. Mr. Phuntsho 4. Mr. Tashi Penjore 5. Mr. Sherab Namgay 6. Mr. Sonam Jigme	1. Dasho (Dr.) Tobgyal Wangchhuk
58	June 13, 2018	1. Dasho Karma Yezer Raydi 2. Mr. Yonten Namgyel 3. Mr. Tashi Penjore 4. Mr. Sherab Namgay 5. Mr. Phuntsho 6. Mr. Karma Gayleg	1. Dasho (Dr.) Tobgyal Wangchhuk 2. Mr. Sonam Jigme
59	July 31, 2018	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 3. Mr. Phuntsho
60	November 6, 2018	1. Dasho Karma Yezer Raydi 2. Mr. Yonten Namgyel 3. Mr. Tashi Penjore 4. Mr. Sherab Namgay 5. Mr. Phuntsho 6. Mr. Sonam Jigme	1. Dasho (Dr.) Tobgyal Wangchhuk
61	December 1, 2018	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

BOARD SUB-COMMITTEE MEETINGS AND PROCEDURES:

Board Audit Committee Meetings (BAC)

Besides Six (6) board meetings, four (4) 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
19	January 19, 2018	1. Mr. Yonten Namgyel 2. Mr. Sherab Namgay 3. Mr. Tashi Penjore	Nil
20	March 9, 2018	1. Mr. Yonten Namgyel 2. Mr. Sherab Namgay	1. Mr. Tashi Penjore
21	June 12, 2018	1. Mr. Yonten Namgyel 2. Mr. Tashi Penjore 3. Mr. Sherab Namgay	Nil
22	November 5, 2018	1. Mr. Yonten Namgyel 2. Mr. Sherab Namgay	1. Mr. Tashi Penjore

Board Level Human Resource Committee (BLHRC)

During the year two (2) 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:

BLHRC Meeting No.	Dates	Members Present	Leave of Absence
7	January 15, 2018	1. Mr. Tashi Penjore 2. Mr. Sherab Namgay	1. Mr. Yonten Namgyel
8	November 2, 2018	1. Mr. Tashi Penjore 2. Mr. Sherab Namgay	1. Mr. Yonten Namgyel

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	56th Board Meeting Venue: DHI Board Room, Thimphu Date: January 23, 2018	Chairman Dasho Karma Yezer Raydi	NA	Leave of absence
		Dasho Tobgyal Wangchhuk	NA	Leave of absence
		Mr. Phuntsho	8,000	Present
		Mr. Yonten Namgyel	8,000	Present
		Mr. Tashi Penjore	8,000	Present
		Mr. Sherab Namgay	8,000	Present
		Mr. Sonam Jigme	8,000	Present
2	57th Board Meeting Venue: Conference Hall, Hotel Ro Chog Pel, Thimphu Date: March 21, 2018	Chairman Dasho Karma Yezer Raydi	8,000	Present
		Dasho Tobgyal Wangchhuk	NA	Leave of absence
		Mr. Phuntsho	8,000	Present
		Mr. Tashi Penjore	8,000	Present
		Mr. Yonten Namgyel	8,000	Present
		Mr. Sherab Namgay	8,000	Present
		Mr. Sonam Jigme	8,000	Present
3	58th Board Meeting Venue: DHI Board Room, Thimphu Date: June 13, 2018	Chairman Dasho Karma Yezer Raydi	8,000	Present
		Dasho Tobgyal Wangchhuk	NA	Leave of absence
		Mr. Phuntsho	8,000	Present
		Mr. Tashi Penjore	8,000	Present
		Mr. Yonten Namgyel	8,000	Present
		Mr. Sherab Namgay	8,000	Present
		Mr. Sonam Jigme	NA	Leave of absence
4	59th Board Meeting Venue: Conference Hall, Hotel Ro Chog Pel, Thimphu Date: July 31, 2018	Chairman Dasho Karma Yezer Raydi	8,000	Present
		Dasho Tobgyal Wangchhuk	NA	Leave of absence
		Mr. Yonten Namgyel	8,000	Present
		Mr. Tashi Penjore	8,000	Present
		Mr. Phuntsho	NA	Leave of absence
		Mr. Sherab Namgay	8,000	Present
		Mr. Sonam Jigme	8,000	Present

5	60th Board Meeting Venue: Conference Hall, Hotel Ro Chog Pel, Thimphu Date: November 6, 2018	Chairman Dasho Karma Yezer Raydi	8,000	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

6	61st Board Meeting Venue: DCCL Board Room, Nganglam Date: December 1, 2018	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

Annual General Meeting (AGM)

The 9th AGM for the financial year ended 2018 was convened on March 16, 2019 at Hotel Ro Chog Pel, Thimphu. The following agenda were deliberated during the 9th AGM:

- 09.01: Adoption of the 9th Annual General Meeting Agenda
- 09.02: Confirmation and adoption of the minutes of the 8th Annual General Meeting
- 09.03: Directors Report
- 09.04: Consideration of Audited Accounts for the financial year ended 31st December 2018, Audit Report
- 09.05: Payment of management remuneration and directors fees
- 09.06: Appointment and Remuneration of Auditors
- 09.07: Retirements and Appointment of Directors
- 09.08: Review of Annual Compact 2018
- 09.09: Dividend to the shareholders
- 09.10: Any other matters

During the 9th AGM, there has been change in the constitution of the board. Board Director Mr. Yonten Namgyel was replaced by Madam Dechen Yangden, Chief Engineer, Department of Engineering Services, MoWHS and similarly, Board Director Mr. Sherab Namgay, Associate Director, DoI, DHI was replaced by Mr. Dorji Nima, Associate Director, CPD, DHI.

Therefore, based on the approval from the 9th AGM, the DCCL Board has been re-constituted with following members:

- 1. Dasho Karma Yezer Raydi – Chairman**
- 2. Dasho (Dr.) Tobgyal Wangchhuk – Director**
- 3. Mr. Phuntsho – Director**
- 4. Mr. Tashi Penjore – Director**
- 5. Mr. Dorji Nima – Director**

6. Madam Dechen Yangden – Director

7. Mr. Sonam Jigme – Director/CEO

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 assigned to compile a risk report for management's information and action.

SL	IDENTIFIED RISK	MITIGATION	LOCATION
1	Materials held up due to delay in payment/issue of exemption certificate and other relevant documents	Timely release of payment & exemption certificate.	Procurement
2	Insufficient lead-time for procurement due to delay of raising PR by end user	Procurement planning should be initiated by the end users and submit the same to PMMD on the first month of every year. Further any plant maintenance, shut down, and periodic maintenance to be planned according in order for PMMD to initiate procurement at the right time.	Procurement
3	Unavailability of spares parts	Reform procurement procedures for fast track delivery and OEM Services to be improved.	Maintenance
4	Quality complaint leading to dissatisfaction of buyers and compensation thereof	Timely issue test report from quality Division and constant site visit by technical team.	Marketing
5	Network Failure (Internet & Communication)	Sign Annual Maintenance Contract with external vendor, maintain Spares in Stock, Training , Strong SLAs with Service Provider and increase Technical man power.	ITC
6	Inadequate physical safeguard of inventory stock	CCTV cameras. Proper boundary fencing. Security guard in the compound. Proper check at entry/exit point.	Store

7	Unavailability of spares parts	Reform procurement procedures for fast track delivery and OEM Services to be improved.	Maintenance
8	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
9	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
10	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	Amount	Narration
CSR Expenses	25,000.00	Desktop issued to Dungkhag Court
	18,500.00	Samsung Printer issued to Dungkhag Court
Donations	10,000.00	Donation to RAA for construction of Chorten
	100,180.00	Donation to Bhutan Week magazine
	10,000.00	Contribution towards Gangzur Lhakhang
	10,000.00	Contribution for Rass Mahautsar, Pathsla
	10,000.00	Donation towards HH Petsheling Thrulku
	10,000.00	Donation to RBA
	10,000.00	Contribution Hindu Dharama Samudaya
	3,230.00	Semso local communities
	20,000.00	Contributions for construction of Butter lamp Shed
	Total Donation	226,910.00
Number of cement bags donated (Drop Cement)	192 cement bags	Donated to local sector i.e. Royal Bhutan Police (RBP), Royal Bhutan Army, schools and Lhakhangs.

Policies and practices of CEO and board evaluation

The evaluation of CEO and the board is coordinated and carried out by DHI as per their DHI 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**

Report on the Audit of the Financial Statement

Qualified Opinion

We have audited the financial statements of DUNGSAM Cement Corporation Limited (the Company) which comprise the statement of financial position as at December 31, 2018, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Bhutanese Accounting Standards (BAS).

Basis for Qualified Opinion

In terms of BAS-16: *Property, Plant and Equipment (PPE)*, items such as spare parts, standby equipment and servicing equipment are recognized under PPE when they meet the definition. However, certain stores, spares and service equipment meeting the definition in terms of BAS-16 have not been recognized as PPE but have been shown under inventory, consequently not providing the depreciation due to wear and tear, technical or commercial obsolescence.

We conducted our audit in accordance with International Standards on Auditing (IASs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Bhutan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Emphasis of Matter

- a) Attention is drawn to Note 27 and paragraph 33 of Annexure 'A' on Minimum Audit Examination and Reporting Requirements. The Company has made operating profit before depreciation and taxation of Nu. 281,967,899 during the year 2018 (though there is a loss of Nu 836,860,610 after depreciation and taxation) as against operating loss before depreciation and taxation in earlier years and is hopeful that it would at least break even in the year 2019. Based on the measures put in place by the board and the management to turn around the Company we have no doubt on the Company's ability to continue as a going concern.
- b) In terms of Note 37 certain balances of advances to vendors and others, trade receivables, sundry creditors, intra group company balances, advances received from customers and others and other current liabilities are subject to confirmation/reconciliation.

Our opinion is not modified in respect of these matters.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with BAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Further description of our responsibilities for the audit of the statements is attached in Appendix 'A' of this Auditor's Report.

Report on Other Legal and Regulatory Requirements

As required by the section 266 of the Companies Act of Bhutan, 2016 (Minimum Audit Examination and Reporting Requirements) we enclose in the Annexure 'A' statement on the matters specified therein to the extent applicable.

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

- a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- b) In our opinion proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
- c) The statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows dealt with in this report are in agreement with the books of account.
- d) In our opinion, Company has complied with other legal and regulatory requirements.

Dated: 12 MARCH 2019

Place: NEW DELHI

**For S. K. MITTAL & CO.
Chartered Accountants
FRN: 001135N**


**K. S. Mittal
(Partner)**



Membership No. 010633

Annexure 'A'**MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS****General**

In our opinion and according to information and explanations given to us, we report that:

1. The Company has adhered to the applicable Corporate Governance Guidelines and Regulations during the year under report.
2. The Governing Board of the Company has pursued a prudent and sound financial management practice in managing the affairs of the Company.
3. The financial statements are prepared applying the Bhutanese Accounting Standards issued by the Accounting and Auditing Standards Board of Bhutan (AASBB).
4. Proper books of account have been maintained and financial statements are in agreement with the underlying accounting records.
5. Adequate records as specified under section 228 of the Companies Act of Bhutan 2016 have been maintained.
6. Applicable mandatory obligations social or otherwise are being fulfilled.
7. Deferred Tax Assets (DTA) is recognized assuming that the Company would be able to utilize the DTA in the succeeding years.

Other matters pertaining to manufacturing, mining or processing company to the extent applicable

1. The Company has maintained proper records showing full particulars including quantitative details and situation 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.
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 during Q1 and Q2, 2018 and *no physical verification was carried out during Q3 and Q4, 2018*. In our opinion and as per the information and explanations given to us the procedures of physical verification of stocks followed by the management during Q1 and Q2, 2018 were 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 and have been properly dealt with in the books of account.
4. The Company has a reasonable system of recording receipts, issues and consumption of materials and stores and allocation of materials consumed to the respective jobs. However, the same needs to be further improved to make it commensurate with its size and nature of its business.
5. 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.
6. The company has an Asset Write off and Disposal Committee in place to identify obsolete, damaged, slow moving and surplus goods/inventories 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.*
7. The Company has a reasonable system for disposal of obsolete and surplus inventories and accounting of proceeds from such disposal.
8. The Company has a system to obtain approval of the Board/appropriate authority for writing off amounts due to material loss/discrepancies in physical/book balances of inventories including finished goods, raw materials, stores and spares etc.
9. In our opinion valuation of stocks is fair and proper in accordance with the applicable Accounting Standards issued by the Accounting and Auditing Standard Board of Bhutan (AASBB). We are informed that the basis of valuation of stocks is the same as in the preceding year.



10. The rate of interest and other terms and conditions of loans availed by the company secured or unsecured are prima facie not prejudicial to the interest of the Company.
11. The company has not granted any loans to other parties during the year which are ultra-vires to its Articles of Incorporation and other relevant Acts and regulations.
12. According to information and explanations given to us, the advances granted to officers/staff are in keeping with the provisions of service rules and by and large, no excessive / frequent advances are granted and accumulation of large advances against particular individual is generally avoided.
13. 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.*
14. The Company has a reasonable system of authorization at proper levels, and an adequate system of internal control (which needs strengthening) commensurate with the size of the Company and nature of its business, on issue of stores and allocation of materials and labour to jobs.
15. The Company follows a system of competitive biddings commensurate with the size and nature of its business for the purchase of goods and services including stores, raw materials, plant and machinery, equipment and other assets, and for the sale of goods and services.
16. 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 and are not prejudicial to the interest of other shareholders and the Company.



17. As per the information and explanations given to us and as per the test checks performed by us, expenses charged to the Company accounts represent legitimate business expenses and no personal expenses are charged to the Company except those payable under contractual obligations/service rules.
18. In our opinion and as per information and explanations given to us, there is reasonable system of ascertaining and identifying point of occurrence of breakage/damages of raw materials, packaging materials and finished products i.e. while in transit, during processing, during loading/unloading, in storage and during handling etc. so that responsibility could be fixed and compensation sought from those responsible.
19. In our opinion and according to the information and explanations given to us, the Company is maintaining reasonable records for production of finished goods and adequate physical safeguards exist to prevent unauthorized or irregular movement of goods from the Company.
20. The Company is maintaining reasonable records for sales and disposal of realizable scraps. The Company has no by-product. We have performed our audit function on the basis of random sampling related to sales and as per information and explanations given to us.
21. 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 funds and other statutory dues with the appropriate authority. The Company is not required to make provision for corporate tax under the taxation policy as the Company is having losses during the year.
22. 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 31.12.2018 which have since been paid by the Company:
 - Bhutan Sales Tax: Nu. 2,926,262
23. As per the information and explanations given to us, the Company is following a reasonable system of price fixation taking into account the cost of production and market conditions.
24. 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.

25. The system of screening and performance evaluation of commission agents and agency commission structure is in keeping with the industry norms/market conditions.
26. 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 follow up action. *However, year-end balance confirmations have not been obtained in most of the cases.*
27. According to information and explanations given to us and on the basis of our verification, the management of liquid resources particularly cash/bank and short term deposits etc. are adequate and that excessive amount are not lying idle in non- interest bearing accounts, and withdrawals of loan amounts are made after assessing the requirements of funds from time to time and no excess amounts are withdrawn leading to avoidable interest burden on the Company.
28. 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.
29. Investment decisions are made subject to prior approval of the Board and after ascertaining the technical and economic feasibility of those ventures.
30. According to the information and explanations given to us, the company has established an effective budgetary control system.
31. 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 has not been carried out at periodic intervals.*
32. Valuation of finished goods and WIP is done on the basis of standard cost fixed during the year 2018.



33. The details of remuneration and other payments made to the Board of Directors including the Chief Executive Officer or any of their relatives (including spouse(s) and child/children) by the Company directly or indirectly are disclosed in the notes to accounts. As explained to us by the management, no payment has been made to any relative of any director of the Company during the year.
34. According to the information and explanations given to us, the directives of the Board have been generally complied with.
35. 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 relatives/ friends/ associates or close persons.

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. *In our opinion system audit should be carried out to ensure its smooth working.*
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.
6. There has been no data migration to any new system during the year as per information and explanation to us.

Facts for unfavorable/qualified statements

Such statements are in italics and self explanatory and require no further elaboration.



Going Concern Problems

The Company has made an operating profit before depreciation and taxation during the year 2018 of Nu 281,967,899 (though there is a loss of Nu 836,860,610 after depreciation and taxation) as against operating loss before depreciation and taxation of Nu 297,006,612 during previous year 2017. This is due to certain corrective measures put in by the management as a result whereof: paid up share capital stands increased by Nu 1,100 million which was utilized for repayment of loan liability resulting in saving on interest burden; increase in sales from 571,417 MT during the year 2017 to 632,916 MT for the year 2018; increase in capacity utilization for clinker and cement from 54%/44% in 2017 to 62%/49% respectively in 2018 etc. The management is hopeful that the Company would at least break even in the year 2019 though it has projected positive PAT of Nu. 530.66 million For the FY 2019. In view of above, we have no doubt on the Company's ability to continue as a going concern.

Ratio Analysis

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

RATIO	BASIS	2018	2017
Earnings per share	Profit after Tax/ No of Shares Issued	Nu. -11.20 Per Share	Nu. -8.07 Per Share
Net Profit Ratio (%)	Net Profit/ Turnover *100	-22.26%	-15.71%
Return on Assets (%)	Net Profit/ Total Assets*100	-8.20%	-4.58%
Return on Equity (%)	Net Profit/ Owners Equity*100	-11.20%	-8.07%
Current Ratio	Current Assets/ Current Liabilities	Nu. 1.06	Nu. 0.57

Compliance with the Companies Act of Bhutan 2016

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.



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 MARCH 2019

Place: NEW DELHI

**For S. K. MITTAL & CO.
Chartered Accountants
ERN: 001135N**



**K. S. Mittal
(Partner)**

Membership No. 010633

DUNGSAM CEMENT CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31,2018

(Amount in Nu)

PARTICULARS	Notes	31/12/2018	31/12/2017
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	2	8,349,722,581	8,632,631,766
Intangible Asset	3	50,641,119	53,961,629
Capital Work-in-Progress	4	-	13,218,573
Deffered tax asset	26	310,322,276	1,104,484,023
Other receivables	5	9,326,699	8,085,229
Other Non-Current Assets	6	22,478,522	20,311,423
		8,742,491,197	9,832,692,644
Current Assets:			
Inventories	7	873,987,983	818,475,552
Trade & Other Receivables	8	431,792,896	387,652,319
Cash and Cash Equivalents	9	67,528,219	41,391,603
Other Current Assets	10	85,699,447	150,838,016
		1,459,008,545	1,398,357,490
TOTAL		10,201,499,742	11,231,050,134
EQUITY AND LIABILITIES			
Shareholder's Equity			
Share Capital	11	7,473,947,900	6,373,947,900
Retained Earning / (Loss)		(3,575,674,449)	(2,738,887,688)
		3,898,273,451	3,635,060,212
Non-Current Liabilities			
Borrowings	12	4,904,964,356	5,121,516,609
Other Long-Term Liabilities	13	27,036,573	14,213,043
		4,932,000,929	5,135,729,652
Current Liabilities			
Short-Term Borrowings	14	719,572,240	1,679,516,417
Trade and Other Payables	15	625,571,208	741,114,383
Other Current Liabilities	16	26,081,915	39,629,470
		1,371,225,363	2,460,260,269
TOTAL		10,201,499,742	11,231,050,134

See accompanying notes to the financial statements 1-43

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

DATED: 12 MAR 2019
 PLACE: NEW DELHI

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS



(SONAM JIGME)
 CHIEF EXECUTIVE OFFICER



(DASHO KARMA YEZER RAYDI)
 CHAIRMAN

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED DECEMBER 31,2018

(Amount in Nu)

Particulars	Note	For the year ended	For the year ended
		31/12/2018	31/12/2017
Income			
Revenue from Manufacturing Sector	17	3,758,870,027	3,274,409,666
Other Revenue	18	24,665,097	25,450,678
Total Income		3,783,535,123	3,299,860,345
Expenditure			
Consumption of raw materials and changes in inventory	19	485,942,274	702,371,161
Power & Fuel	20	1,157,712,182	901,985,082
Employee benefit expenses	21	131,090,302	138,608,544
Depreciation and amortisation	22	312,344,061	423,173,205
Other Expenses	23	1,142,839,690	1,241,893,074
Finance Cost	24	583,982,777	612,009,094
Total Expenditure		3,813,911,285	4,020,040,161
Profit/(Loss) Before Income Tax		(30,376,162)	(720,179,817)
Income Tax Income/(Expenses)	26	(794,161,748)	206,670,562
Profit/ (Loss) After Income Tax		(824,537,910)	(513,509,255)
Other Comprehensive income/(Loss)			
Actuarial Gain/(Loss) on post employment benefit obligations		(12,322,700)	(1,020,150)
Net Other Comprehensive Income/(Loss)		(12,322,700)	(1,020,150)
Total Comprehensive Income/(Loss)		(836,860,610)	(514,529,405)
Basic and Diluted Earnings per share	25	(11)	(8)


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
DATED: 12 MAR 2019
PLACE: NEW DELHI

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS


 (SONAM JIGME)
 CHIEF EXECUTIVE OFFICER


 (DASHO KARMA YEZER RAYDI)
 CHAIRMAN

DUNGSAM CEMENT CORPORATION LIMITED
STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2018

(Amount in Nu.)

Particulars	For the year ended	For the year ended
	31/12/2018	31/12/2017
Cash Flow from Operating Activities		
Net Profit after Tax	(836,860,610)	(514,529,405)
Adjustment for		
Depreciation/ amortisation	312,344,061	423,173,205
Interest on Borrowing	565,372,310	592,830,944
Provision for Deferred tax	794,161,748	206,670,562
Changes in Working Capital :	835,017,509	294,804,183
Adjustment for		
(Increase)/Decrease in Trade Receivable	(44,066,730)	180,105,945
(Increase)/Decrease in Other Current Assets	65,138,568	(44,155,053)
(Increase)/Decrease in Inventories	(55,512,431)	126,149,310
(Increase)/Decrease in Other Non-Current Assets	(3,408,568)	(4,641,802)
Increase/(Decrease) in Trade Payables	(115,543,175)	21,934,458
Increase/(Decrease) in Other Current Liabilities	(13,547,555)	(22,405,172)
Increase/(Decrease) in Other Long-Term Liabilities	12,823,530	2,049,085
	680,901,147	553,840,954
Less : Tax Paid	-	-
Net Cash used in Operating activities (A)	680,901,147	553,840,954
Cash Flow from Investing Activities		
Purchase of Fixed Assets and Capital Work in Progress	(12,895,793)	(23,194,009)
Fixed Deposit with Bank	-	-
Sale/withdrawal of Fixed Assets	-	-
Insurance claim received during the year	-	-
Net Cash used in Investing Activities (B)	(12,895,793)	(23,194,009)
Cash Flow from Financing Activities		
Issue of Share Capital	224,400,000	-
Short term Borrowings repaid	(84,344,177)	254,116,259
Long term Borrowings repaid/availed during the year	(216,552,253)	(197,322,849)
Interest Paid during the year	(565,372,310)	(592,830,944)
Cash flow from Financing Activities (C)	(641,868,740)	(536,037,533)
Net Increase/ (Decrease) in Cash & Cash Equivalents (A+B+C)	26,136,616	(5,390,588)
Cash & Cash Equivalents at the beginning of the year	41,391,603	46,782,191
Cash & Cash equivalents at the end of the year	67,528,219	41,391,603

1. 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'.

2. Cash and Cash Equivalents include cash in hand and bank balances in current accounts [Refer Note No. 9 to the Accounts].

3. 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...)
 PARTNER
 MEMBERSHIP NO. 010633
 DATED 12 MAR 2019
 PLACE: NEW DELHI

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS


 (SONAM JIGME)
 CHIEF EXECUTIVE OFFICE


 (DASHO KARMA YEZER RAYDI)
 CHAIRMAN

DUNGSAM CEMENT CORPORATION LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2018

Attributable to the Owners of the Company

(Amount in Nu.)


Particulars	Ordinary Shares			Retained earnings/Loss	Total
	No. of Shares (issued and fully paid up)	Par value per share	Total value of share		
Balance as at 1 January 2018	63,739,479	100	6,373,947,900	(2,738,887,688)	3,635,060,212
Issue of share during the year	11,000,000	100	1,100,000,000	-	1,100,000,000
Profit/ (Loss) After Income Tax					
Other Comprehensive income/ (Loss)				-	-
Balance as at December 31 2018	74,739,479	100	7,473,947,900	-2,738,887,688	4,735,060,212
Balance as at December 31 2018	74,739,479	100	7,473,947,900	(2,738,887,688)	4,735,060,212
Prior Period Margin Money FV Adjustment				73,848	73,848
Issue of share during the year				-	-
Profit/ (Loss) After Income Tax				(824,537,910)	(824,537,910)
Other Comprehensive income/ (Loss)				(12,322,700)	(12,322,700)
Balance as at December 31 2018	74,739,479	100	7,473,947,900	(3,575,674,449)	3,898,273,451

Authorized Capital

Particulars	31/12/2018	31/12/2017
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

DATED: 12 MAR 2019
 PLACE: NEW DELHI

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS


 (SONAM JIGMI
 CHIEF EXECUTIVE OFFICER


 (DASHO KARMA YEZER RAYDI)
 CHAIRMAN

01: Significant accounting policies of Dungsam Cement Corporation Limited

Reporting Entity

Dungsam Cement Corporation Limited (DCCL) is a Royal Government of Bhutan (RGOB) undertaking company incorporated under the Companies Act of the Kingdom of Bhutan 2000 on 10th September 2009. The principal activities of Dungsam Cement Corporation Limited cover 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.

i) Basis of preparation

The Accounting and Auditing Standards Board of Bhutan (AASBB) decided to adopt IFRS in phased manner. These standards are referred to as Bhutanese Accounting Standards (BAS). The first phase has already been introduced during 2013 to 2015. The second & third phase has been introduced in 2016/2017 respectively. The financial statements of the Company have been prepared in accordance with applicable Bhutanese Accounting Standards. The statements have been prepared under the accrual, historical cost and going concern conventions.

The preparation of financial statements requires the use of accounting estimates. The areas involving higher degree of judgement or complexity significant to the financial statements are:

- Fixed assets: critical judgments are expected 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.

ii) The functional currency of preparation is the Bhutanese Ngultrum.

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 group 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. Useful lives as reviewed during the year 2018 are as follows:

Item	Useful Life after review	Useful Life before review
Building and Civil Structure	35 years	33 years
Plant and Machinery	30 years	20 years
Furniture and Fixtures	7 years	7 years
Office Equipment	7 years	5 years
Vehicle	10 years	7 years
Misc Fixed Assets	7 years	2-7 years

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.

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.

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) Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

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) Trade and other receivables

Trade and other receivables are initially recognised at the fair value of the amounts to be received. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Receivables are reviewed regularly for impairment.



xi) Cash and cash equivalents

In the Statement of Cash Flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

xii) Trade and other payables

Trade and other payables are initially recognised at the fair value of the amounts to be paid. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

xiii) 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.

xiv) 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.

xv) 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.

xvi) 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.

xvii) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and taxes. The company recognises revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the company.

xviii) 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.

xix) Events after Balance Sheet Date

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



DUNGSAM CEMENT CORPORATION LIMITED
NOTES FORMING PART OF STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

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 2018:								
Cost	143,302,787.89	4,714,991,061.58	5,381,138,930.98	19,563,183.02	32,136,003.25	75,653,227.42	15,791,951.00	10,382,577,145.14
Accumulated Depreciation	-	564,183,137.58	1,103,726,098.98	12,979,004.02	20,991,900.75	34,192,206.42	13,873,031.00	1,749,945,378.75
Book Value as at 1 January 2018	143,302,787.89	4,150,807,924.00	4,277,412,832.00	6,584,179.00	11,144,102.50	41,461,021.00	1,918,920.00	8,632,631,766.39
Changes in book value during the year:								
Addition	1,200,000.00	11,257,500.13	-	449,642.50	173,841.02	7,049,086.64	7,236,657.00	27,366,727.29
Deletion/ Adjustment	-	9,148.51	350,000.00	273,151.24	4,702,751.48	959,247.38	-	6,294,298.61
Depreciation on deletions and Adjustment	-	3,091.07	241,747.00	259,772.24	4,069,765.48	467,561.38	-	5,041,937.17
Depreciation for the year	-	129,160,088.69	163,940,088.00	1,540,586.50	2,091,733.02	10,568,004.64	1,723,050.00	309,023,550.85
Total Changes	1,200,000.00	140,429,828.40	164,531,835.00	2,523,152.48	11,038,091.00	19,043,900.04	8,959,707.00	347,726,513.92
Balances as at 31, December 2018:								
Cost	144,502,787.89	4,726,239,413.20	5,380,788,930.98	19,739,674.28	27,607,092.79	81,743,066.68	23,028,608.00	10,403,649,573.82
Accumulated Depreciation	-	693,340,135.20	1,267,424,439.98	14,259,818.28	19,013,868.29	44,292,649.68	15,596,081.00	2,053,926,992.43
Book value as at 31, December 2018	144,502,787.89	4,032,899,278.00	4,113,364,491.00	5,479,856.00	8,593,224.50	37,450,417.00	7,432,527.00	8,349,722,581.39



DUNGSAM CEMENT CORPORATION LIMITED
NOTES FORMING PART OF STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

(Amount in Nu)	
3. Intangible Assets	31/12/2018
Cost	66,410,081.99
Accumulated Amortization	12,448,452.99
Book value as at 1 January 2018	53,961,629.00
Changes in book value during the year:	
Addition	-
Deletion/ Adjustment	-
Depreciation on deletions and Adjustment	-
Depreciation for the year	3,320,510.00
Total Changes	3,320,510.00
Balances as at 31 December 2018:	
Cost	66,410,081.99
Accumulated Amortization	15,768,962.99
Book value as at 31 December 2018	50,641,119.00



DUNGAM CEMENT CORPORATION LIMITED
NOTES FORMING PART OF STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

	31/12/2018	(Amount in Nu) 31/12/2017
Note 4: Capital Work-in-Progress		
Building & Civil Structures	-	13,218,573
Total	-	13,218,573
Note 5: Non-current Other receivables		
(Unsecured, Considered Good)		
Security Deposits	9,326,699	8,085,229
Total	9,326,699	8,085,229
Note 6: Other Non-Current Assets		
(Unsecured, Considered Good)		
Unamortised mine expenditure	19,522,460	17,497,377
Fixed Deposit with Bank (earmarked for gratuity liability)	2,863,052	1,895,768
Accrued Interest on Fixed Deposit (earmarked for gratuity liability)	93,010	918,278
Total	22,478,522	20,311,423
Note 7: Inventories		
(As taken, valued and certified by the management)		
Raw Materials	24,730,806	23,872,488
Fuel	623,374	116,891,825
Work in Progress	414,544,181	207,794,425
Finished Products	75,885,898	76,728,597
Stores, Spares & loose tools	358,203,724	393,188,217
Total	873,987,983	818,475,552
Note 8: Trade & Other Receivables		
(Unsecured, Considered Good)		
Trade & Other Receivables	437,994,062	393,296,995
Less provision for impairment	(6,201,166)	(5,644,677)
Total	431,792,896	387,652,319
Note 9: Cash and Cash Equivalents		
Cash-in-hand	9,764	8,508
Balances with Banks in Current Accounts	67,518,455	41,383,095
Total	67,528,219	41,391,603
Note 10: Other Current Assets		
(Unsecured, Considered Good)		
Advance payments-Employees	1,362,649	615,339
Advance to vendors	33,918,491	64,676,810
Less provision for impairment	(6,273,903)	(5,234,680)
Net advances to vendors	27,644,589	59,442,131
Advance payments to third parties	-	629,720
Advance to Related Parties	1,308	1,308
Prepaid Taxes	39,268,932	69,887,910
Pre-paid Expenses	16,797,288	20,261,608
Assets held for Sale	624,683	-
Total	85,699,447	150,838,016
Note 11: Equity		
Issued, Subscribed and Paid-up		
74739479 (PY63739479) Equity shares @ Nu. 100 each fully paid up	7,473,947,900	6,373,947,900
Total	7,473,947,900	6,373,947,900

Note: 8756000 fully paid equity shares of Nu. 100 Each were issued during the year 2018 in kind upon conversion of debt into equity.

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	1,444,964,356	1,661,516,609
Ngultrum Bonds	3,460,000,000	3,460,000,000
Total	4,904,964,356	5,121,516,609

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 corporate guarantee is given by Druk Holding and Investments Ltd.

Note 13: Other Long-Term Liabilities

Gratuity Liability - Non Current Portion	23,028,094	8,923,926
Defined Leave liability-Non Current Portion	4,008,478	5,289,117
Total	27,036,573	14,213,043

Note 14: Short-Term Borrowings

Working Capital Loan (Secured)		
Working Capital Loan from BNB	-	4,200
Current Maturities of Long-Term Borrowings	719,572,240	1,679,512,217
Total	719,572,240	1,679,516,417

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	387,063,860	568,065,072
Amounts due to Related Parties	229,599,603	151,052,807
Other advances	6,508,882	16,642,993
Retention Money payable	2,398,863	5,353,510
Total	625,571,208	741,114,383

Note 16: Other Current Liabilities

Advances received from Customers	13,756,250	25,666,410
Provision for mines reclamation and restoration	7,346,862	7,025,112
BST payable	2,926,262	3,157,990
TDS payable	-	502
Other Miscellaneous Liabilities	231,951	1,773,016
Gratuity Liability -Current Portion	1,437,810	1,680,814
Defined Leave liability-Current Portion	382,780	325,626
Total	26,081,915	39,629,470



DUNGAM CEMENT CORPORATION LIMITED
NOTES FORMING PART OF STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31,2018

	(Amount in Nu)	
	For the year ended	For the year ended
	31/12/2018	31/12/2017
Note 17: Revenue from Manufacturing Sector		
Revenue from Sale of Cement	3,561,410,449	3,145,599,767
Revenue from Sale of Clinker	256,935,152	245,053,128
less : Discount/Rebate	(689,592)	(524,410)
Less: Commission	(58,785,983)	(115,718,819)
Total revenue from Mfg.	3,758,870,027	3,274,409,666

	For the year ended	For the year ended
	31/12/2018	31/12/2017
Note 18: Other Income		
Rental Income	4,410,223	4,450,571
Liquidated Damages	12,287,284	11,303,145
Income From Sale of Scraps	1,079,531	3,167,837
Audit Recoveries	3,658,800	1,301,064
Miscellaneous Income	813,464	3,899,082
Interest Income	566,647	819,789
Income from Sale of Quartzite	1,849,148	509,190
Total	24,665,097	25,450,678

	For the year ended	For the year ended
	31/12/2018	31/12/2017
Note 19: Consumption of raw materials and changes in inventory		
Consumption- Raw Materials	724,943,510	640,709,010
Consumption-Spare Parts	100,554,552	118,508,583
Consumption- Consumables	23,383,269	37,947,632
Consumption-Semi Finished Products	4,052,246,957	3,682,066,666
Cost of goods manufactured - Semi Finished Good	4,822,150,531	4,143,651,499
Cost of goods manufactured-Finished Goods	1,927,558,205	2,084,185,136
Cost of goods sold - Semi Finished Good	217,447,304	216,836,019
Cost of goods sold - Finished Good	2,141,853,793	2,113,213,783
Price Difference	24,778,375	120,926,104
Total	485,942,274	702,371,161

	For the year ended	For the year ended
	31/12/2018	31/12/2017
Note 20: Power & fuel expenses		
Electricity Charges - plant	213,114,238	203,817,178
Consumption- Fuel	944,597,944	698,167,904
Total	1,157,712,182	901,985,082

	For the year ended	For the year ended
	31/12/2018	31/12/2017
Note 21: Employee benefit expenses		
Allowances	31,049,460	29,869,641
Basic pay	67,082,834	65,184,668
Uniform & Liveries	280	35,365
Leave Travel Concession	5,174,447	4,512,163
Overtime Allowance	6,399,178	7,433,891
Repatriation Allowance	144,649	241,384
Shift Allowance	2,572,175	2,382,215
Transfer Grant	144,649	263,168
Medical Expenses	81,660	142,342
GPA Insurance	540,548	654,527
Subsidy to Dungsam Sport Club	360,000	360,000
Wages	4,689,086	11,555,496
Short-term training	119,772	1,156,744
Other Remuneration Expenses	-	339,604
Training-Foreign training	279,736	806,017
Defined benefit plan expense	2,719,140	2,757,823
Leave encashment	2,335,807	3,926,998
Provident Fund -Matching Contribution	7,236,093	6,794,295
Carriage Charge of personal effects	160,787	192,203
Total	131,090,302	138,608,544

	For the year ended	For the year ended
	31/12/2018	31/12/2017
Note 22: Depreciation & amortization		



Depreciation	309,023,551	419,852,695
Amortization	3,320,510	3,320,510
Total	312,344,061	423,173,205

	For the year ended 31/12/2018	For the year ended 31/12/2017
Note 23: Other expenses		
Operation & maintenance	101,839,995	154,878,716
Insurance	12,990,441	12,991,441
Material handling	20,835,862	23,303,001
Mining related expenses	175,906,217	162,109,208
Process loss	2,941,021	77,809,247
Selling & Marketing expenses	778,572,025	749,353,282
Administration expenses	49,754,129	60,521,695
River dredging expenses	-	926,485
Total	1,142,839,690	1,241,893,074

	For the year ended 31/12/2018	For the year ended 31/12/2017
Note 24: Finance cost		
Interest on borrowings	486,794,667	525,541,347
Interest on loans from BoBL	51,904,812	57,044,458
Bank charges - others	5,952	6,698
Bank charges and fees paid to BoBL	130,508	657,720
Other borrowing cost	18,474,006	18,474,912
Interest on Working Capital	26,672,831	10,245,139
Interest expenses on Margin Money	-	38,821
Total	583,982,777	612,009,094

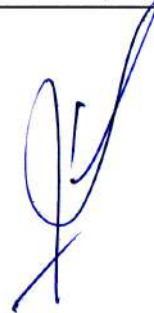
	For the year ended 31/12/2018	For the year ended 31/12/2017
Note 25: Earnings per share		
Profit/(Loss) after tax	(824,537,910)	(513,509,255)
Other comprehensive income for the year	(12,322,700)	(1,020,150)
Profit/(Loss) used to determine basic earnings per share	(836,860,610)	(514,529,405)
Numbers of shares at the beginning of the year	63,739,479	63,739,479
Number of shares allotted	11,000,000	-
Number of shares at the end of the year	74,739,479	63,739,479
Weighted average number of ordinary shares in issue	74,739,479	63,739,479
Basic and Diluted Earnings per share	- 11 -	8



DUNGSAM CEMENT CORPORATION LIMITED

NOTES FORMING PART OF STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

Particulars	31/12/2018	31/12/2017
Note 26: Reconciliation of Deferred Tax		
Opening	(1,104,484,023)	(897,813,462)
Recognised during the year	794,161,748	(206,670,562)
Closing	(310,322,276)	(1,104,484,023)
Deferred tax assets	(1,007,223,110)	(1,873,930,113)
Deferred tax liabilities	696,900,833	769,446,089
Total	(310,322,276)	(1,104,484,023)
Deferred tax (assets) /liabilities in respect of		
Property Plant and equipment	695,300,440.43	752,910,024
Impairment of debtors	1,600,392.95	16,536,065
Unabsorbed losses and credits	(996,850,640.44)	(1,873,757,174)
Others	(10,372,469.39)	(172,939)
Total	(310,322,276)	(1,104,484,023)




27. The Company has made operating profit before depreciation and taxation during the year 2018 of Nu 281,967,899 in place of operating loss before depreciation and taxation of Nu 297,006,612 sustained in the previous year 2017. This has been due to various corrective measures taken by the management during the year 2018 (of which full benefit would accrue in the year 2019 and onwards) as a result whereof: paid up share capital stand increased by Nu 1,100 million which was utilized for repayment of loan liability resulting in saving on interest burden; increase in sales from 571,417 MT during the year 2017 to 632,916 MT for the year 2018; increase in capacity utilization for clinker and cement from 54%/44% in 2017 to 62%/49% respectively in 2018 etc. The management is hopeful that the Company would at least break even in the year 2019 and is confident of its ability to continue as a going concern. In-fact management has projected positive PAT of Nu. 530.66 Million for the FY-2019.

28. Contingent Liabilities not provided for are as under:

Particulars	31.12.2018 Nu.	31.12.2017 Nu.
Counter guarantees given to banks in respect of bank guarantees issued by them on our behalf	1,804,500	5,304,500

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. 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/ Nu1,320,000/- stands recovered during the year 2017/2018 respectively. Presently, the matter is partially Sub-Judiced at High Court, Royal Court of Justice, Thimphu 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 44 paras stand resolved as on date.

31. 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.

32. As per accounting policy No. iv on Property, Plant and Equipment, useful lives of PPE were reviewed and revised during the year 2018 as under: as a result depreciation charge for the year 2018 is Nu 312,344,061 (PY Nu 423,173,205).

Item	Useful Life after review	Useful Life before review
Building and Civil Structure	35 years	33 years
Plant and Machinery	30 years	20 years
Furniture and Fixtures	7 years	7 years
Office Equipment	7 years	5 years
Vehicle	10 years	7 years
Misc Fixed Assets	7 years	2-7 years

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 Willis Towers Watson Limited as required by BAS -19 on "Employee Benefit".
- A. Summary of the key results of Gratuity for the year ended 31 December 2018 are presented below:

A Profit & Loss (P&L)	BTN Thousands
1 Current service cost	2,097.00
2 Past service cost - plan amendments	-
3 Curtailment cost / (credit)	-
4 Settlement cost / (credit)	-
5 Service cost	2,097.00
6 Net interest on net defined benefit liability / (asset)	461.00
Immediate recognition of (gains)/losses - other long term employee	
7 benefit plans	-



8 Cost recognized in P&L	2,558.00
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B Other Comprehensive Income (OCI)	BTN Thousands
1 Actuarial (gain)/loss due to liability experience	13,735.77
2 Actuarial (gain)/loss due to liability assumption changes	(1,522.93)
3 Actuarial (gain)/loss arising during period	12,212.84
4 Return on plan assets (greater)/less than discount rate	109.86
5 Actuarial (gains)/ losses recognized in OCI	12,322.70
6 Adjustment for limit on net asset	-
Cumulative Actuarial (Gain) or Loss Recognized via OCI at Prior Period	-
7 End	-
Cumulative Actuarial (Gain) or Loss Recognized via OCI at Current	-
8 Period End	12,322.70

C Defined Benefit Cost	BTN Thousands
1 Service cost	2,097.00
2 Net interest on net defined benefit liability / (asset)	461.00
3 Actuarial (gains)/ losses recognized in OCI	12,322.70
Immediate recognition of (gains)/losses - other long term employee	-
4 benefit plans	-
5 Defined Benefit Cost	14,880.70

D Assumptions used to determine Defined benefit Cost	
1 Discount Rate	7.50%
2 Rate of salary increase	7.00%



A	Development of Net Balance Sheet Position	BTN Thousands
1	Defined benefit obligation (DBO)	(24,465.90)
2	Fair value of plan assets (FVA)	4,773.69
3	Funded status [surplus/(deficit)]	(19,692.21)
4	Effect of Asset ceiling	-
5	Net defined benefit asset/ (liability)	(19,692.21)

B	Reconciliation of Net Balance Sheet Position	BTN Thousands
1	Net defined benefit asset/ (liability) at end of prior period	(6,992.19)
2	Service cost	(2,097.00)
3	Net interest on net defined benefit liability/ (asset)	(461.00)
4	Amount recognized in OCI	(12,322.70)
5	Employer contributions	1,000.00
6	Benefit paid directly by the Company	1,180.68
7	Acquisitions credit/ (cost)	-
8	Divestitures	-
9	Cost of termination benefits	-
10	Net defined benefit asset/ (liability) at end of current period	(19,692.21)

A	Change in Defined Benefit Obligation (DBO)	BTN Thousands
1	DBO at end of prior period	10,604.74
2	Current service cost	2,097.00
3	Interest cost on the DBO	732.00
4	Curtailment (credit)/ cost	-
5	Settlement (credit)/ cost	-
6	Past service cost - plan amendments	-
7	Acquisitions (credit)/ cost	-
8	Actuarial (gain)/loss - experience	13,735.77
9	Actuarial (gain)/loss - demographic assumptions	-
10	Actuarial (gain)/loss - financial assumptions	(1,522.93)
11	Benefits paid directly by the Company	(1,180.68)
12	Benefits paid from plan assets	-
13	DBO at end of current period	24,465.90

B	Change in Fair Value of Assets	BTN Thousands
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1	Fair value of assets at end of prior period	3,612.55
2	Acquisition adjustment	-
3	Interest income on plan assets	271.00
4	Employer contributions	1,000.00
5	Return on plan assets greater/(lesser) than discount rate	(109.86)
6	Benefits paid	-
7	Fair Value of assets at the end of current period	4,773.69

A	Expected benefit payments for the year ending	BTN Thousands
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1	December 31, 2019	1,437.81
2	December 31, 2020	1,662.85
3	December 31, 2021	1,983.36
4	December 31, 2022	2,504.35
5	December 31, 2023	3,309.20
6	December 31, 2024 to December 31, 2028	23,121.19

B	Expected employer contributions for the period ending 31 December 2019	20,000.00
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C	Weighted average duration of defined benefit obligation	12 Years
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D	Accrued Benefit Obligation at 31 December 2018	12,179.54
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E	Plan Asset Information	Percentage
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Asset Allocation	
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Government Securities	0.00%
High quality corporate bonds (including Public Sector Bonds)	0.00%
Equity shares of listed companies	0.00%
Fixed Deposits and Term Deposits	62.30%
Cash (including Special Deposits)	37.70%
Other (including assets under Schemes of Insurance)	0.00%
Total	1.00

F	Current and Non Current Liability Breakup as at 31 December 2018	Bhutan Nu
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1	Current Liability	(1,437.81)
2	Non-Current Asset / (Liability)	(18,254.40)
3	Net Asset / (Liability) as at 31 December 2018	(19,692.21)



A	Discount Rate	BTN Thousands
	Discount Rate as at 31 December 2018	8.00%
1	Effect on DBO due to 1% increase in Discount Rate	(2,649.61)
2	Effect on DBO due to 1% decrease in Discount Rate	3,199.63
B	Salary escalation rate	BTN Thousands
	Salary escalation rate as at 31 December 2018	7.00%
1	Effect on DBO due to 1% increase in Salary escalation rate	3,099.59
2	Effect on DBO due to 1% decrease in Salary escalation rate	(2,680.80)
A	Profit & Loss (P&L)	BTN Thousands
1	Current service cost	4,861.00
2	Past service cost - plan amendments	-
3	Curtailement (credit)/ cost	-
4	Settlement (credit)/ cost	-
5	Service Cost	4,861.00
6	Net interest on net defined benefit liability/(asset)	775.00
	Immediate recognition of (gains)/losses - other long term employee benefit plans	
7	**	-
8	Cost recognized in P&L*	5,636.00
B Assumptions used to determine Estimated Defined benefit Cost		



1	Discount Rate	8.00%
2	Rate of salary increase	7.00%

A Profit & Loss (P&L)		BTN Thousands
1	Current service cost	3,301.00
2	Past service cost - plan amendments	-
3	Curtailment cost / (credit)	-
4	Settlement cost / (credit)	-
5	Service cost	3,301.00
6	Net interest on net defined benefit liability / (asset)	409.00
7	Immediate recognition of (gains)/losses - other long term employee benefit plans	(4,829.51)
8	Cost recognised in P&L	(1,119.51)

B Other Comprehensive Income (OCI)		BTN Thousands
1	Actuarial (gain)/loss due to liability experience	(4,557.01)
2	Actuarial (gain)/loss due to liability assumption changes	(272.50)
3	Actuarial (gain)/loss arising during period	(4,829.51)
4	Return on plan assets (greater)/less than discount rate	-
5	Actuarial (gains)/ losses recognized in OCI	-
6	Adjustment for limit on net asset	-
7	Cumulative Actuarial (Gain) or Loss Recognized via OCI at Prior Period End	-
8	Cumulative Actuarial (Gain) or Loss Recognized via OCI at Current Period End	-



C Defined Benefit Cost	BTN Thousands
1 Service cost	3,301.00
2 Net interest on net defined benefit liability / (asset)	409.00
3 Actuarial (gains)/ losses recognized in OCI	-
4 Immediate recognition of (gains)/losses - other long term employee benefit plans	(4,829.51)
5 Defined Benefit Cost	(1,119.51)

D Assumptions used to determine Defined benefit Cost	
1 Discount Rate	8.00%
2 Rate of salary increase	7.00%

A Development of Net Balance Sheet Position	BTN Thousands
1 Defined benefit obligation (DBO)	(4,391.25)
2 Fair value of plan assets (FVA)	-
3 Funded status [surplus/(deficit)]	(4,391.25)
4 Effect of Asset ceiling	-
5 Net defined benefit asset/ (liability)	(4,391.25)

B Reconciliation of Net Balance Sheet Position	BTN Thousands
1 Net defined benefit asset/ (liability) at end of prior period	(5,614.74)
2 Service cost	(3,301.00)
3 Net interest on net defined benefit liability/ (asset)	(409.00)
4 Actuarial (losses)/ gains	4,829.51
5 Employer contributions	-
6 Benefit paid directly by the Company	103.98
7 Acquisitions credit/ (cost)	-
8 Divestitures	-
9 Cost of termination benefits	-
10 Net defined benefit asset/ (liability) at end of current period	(4,391.25)



A Change in Defined Benefit Obligation (DBO)		BTN Thousands
1	DBO at end of prior period	5,614.74
2	Current service cost	3,301.00
3	Interest cost on the DBO	409.00
4	Curtailement (credit)/ cost	-
5	Settlement (credit)/ cost	-
6	Past service cost - plan amendments	-
7	Acquisitions (credit)/ cost	-
8	Actuarial (gain)/loss - experience	(4,557.01)
9	Actuarial (gain)/loss - demographic assumptions	-
10	Actuarial (gain)/loss - financial assumptions	(272.50)
11	Benefits paid directly by the Company	(103.98)
12	Benefits paid from plan assets	-
13	DBO at end of current period	4,391.25

B Change in Fair Value of Assets		BTN Thousands
1	Fair value of assets at end of prior period	-
2	Acquisition adjustment	-
3	Interest income on plan assets	-
4	Employer contributions	-
5	Return on plan assets greater/ (lesser) than discount rate	-
6	Benefits paid	-
7	Fair Value of assets at the end of current period	-

A Expected benefit payments for the year ending		BTN Thousands
1	December 31, 2019	413.40
2	December 31, 2020	533.99
3	December 31, 2021	606.45
4	December 31, 2022	624.80
5	December 31, 2023	692.72
6	December 31, 2024 to December 31, 2028	3,685.26



B	Expected employer contributions for the period ending 31 December 2019	N/A
C	Weighted average duration of defined benefit obligation	12 Years
D	Accrued Benefit Obligation at 31 December 2018	2,206.07
E	Plan Asset Information	Percentage
	Asset Allocation	
	Government Securities	Not Applicable
	High quality corporate bonds (including Public Sector Bonds)	Not Applicable
	Equity shares of listed companies	Not Applicable
	Fixed Deposits and Term Deposits	Not Applicable
	Cash (including Special Deposits)	Not Applicable
	Other (including assets under Schemes of Insurance)	Not Applicable
	Total	Not Applicable
F	Current and Non Current Liability Breakup as at 31 December 2018	Bhutan Nu
1	Current Liability	(382.78)
2	Non-Current Asset / (Liability)	(4,008.47)
3	Net Asset / (Liability) as at 31 December 2018	(4,391.25)
A	Discount Rate	
	Discount Rate as at 31 December 2018	8.00%
1	Effect on DBO due to 1% increase in Discount Rate	(473.06)
2	Effect on DBO due to 1% decrease in Discount Rate	572.99
B	Salary escalation rate	
	Salary escalation rate as at 31 December 2018	7.00%
1	Effect on DBO due to 1% increase in Salary escalation rate	573.63



2	Effect on DBO due to 1% decrease in Salary escalation rate	(481.62)
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A Profit & Loss (P&L)	BTN Thousands
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1	Current service cost	2,593.00
2	Past service cost - plan amendments	-
3	Curtailment (credit)/ cost	-
4	Settlement (credit)/ cost	-
5	Service Cost	2,593.00
6	Net interest on net defined benefit liability/(asset) Immediate recognition of (gains)/losses - other long term employee benefit plans	335.00
7	**	-
8	Cost recognized in P&L*	2,928.00

B Assumptions used to determine Estimated Defined benefit Cost

1	Discount Rate	8.00%
2	Rate of salary increase	7.00%

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 personnels:



- a. Dasho Karma YezerRaydi, Chairman
 - b. Dasho Dr. TobgyalWangchhuk, Board Director
 - c. Mr. YontenNamgyal, Board Director
 - d. Mr. Phuntsho, Board Director
 - e. Mr. Tashi Penjore, Board Director
 - f. Mr. SherabNamgay, Board Director
 - g. Mr. SonamJigme, CEO & 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:
- a. Bhutan Telecom Limited
 - b. Bank of Bhutan Limited
 - c. Bhutan Power Corporation Limited
 - d. Dungsam Polymers Limited
 - e. Druk Green Power Corporation Limited
 - f. Druk Air Corporation Limited
 - g. State Trading Corporation of Bhutan Limited
 - h. Penden Cement Authority Limited
 - i. Wood Craft Centre Limited
 - j. State Mining Corporation Limited
 - k. Bhutan Hydropower Services Corporation Limited
 - l. Druk Holding & Investments Limited
 - m. Construction Development Corporation Limited
 - n. Thimphu Tech Park Limited

Nature of transaction	31.12.2018	31.12.2017
Bank of Bhutan Limited		
Interest & bank charges	52.04	122.02
Margin money deposits	0.18	0.55
Bond	1,414.92	1,414.92
Bhutan Power Corporation		
Electricity Charges	214.94	205.46
Interest	-	-
Lease rent	0.52	0.52
Consulting Fee	-	0.90
Sale of Stores, Spares and Loose Tools	0.63	-
Bhutan Telecom Limited		
Telephone and internet charges	2.37	2.92



Purchase of asset	-	-
Misc. Expenses	-	-
<u>Druk Holdings & Investments Limited</u>		
Guarantee fee	17.54	17.54
Interest	44.26	64.97
<u>Dungsam Polymers Limited</u>		
Rental Income	0.72	0.72
Purchase of PP Bag	140.94	112.57
<u>State Trading Corporation of Bhutan Limited</u>		
Spares & consumables	6.98	0.91
Purchase of office equipment	-	2.89
Purchase of vehicle	6.02	
<u>Drukair Corporation Limited</u>		
Air ticket	0.97	1.15
<u>Druk Green Power Corporation Limited</u>		
Interest	7.61	12.37
Spares & service charge	-	0.04
<u>Penden Cement Authority Limited</u>		
Sales of Clinker	88.29	17.46
Cement purchase	-	3.69
<u>Wood Craft Centre Limited</u>		
Purchase of Furniture	0.21	0.04
<u>State Mining Corporation Limited</u>		
Purchase of Coal	361.80	226.80
Testing Charges	0.02	-
<u>Construction Development Corporation Limited</u>		
Sales of Cement	24.73	17.46
<u>Thimphu Tech Park Limited</u>		
Miscellaneous Expenses	0.06	-



Related Party	Nature of Transactions	Outstanding balance as on 31.12.2018	Outstanding balance as on 31.12.2017
Druk Holdings and Investments Limited	Payable	6.24	1,135.39
Bank of Bhutan Limited	Payable	482.27	541.64
Bhutan Telecom Limited	Payable	0.17	0.23
Bhutan Power Corporation Limited	Payable	18.59	21.41
State Trading Corporation Limited	Payable	0.01	0.88
State Trading Corporation Limited	advance	0.00	1.00
Dungsam Polymers Limited	Payable	10.88	6.18
Druk Air Corporation Limited	Payable	0.00	0.00
Druk Green Power Corporation Limited	Payable	403.67	249.02
Wood Craft Centre Limited	Payable	0.00	0.00
State Mining Corporation Limited	Payable	190.48	81.86
Construction Development Corporation Limited	Receivable	6.80	2.90
Dungsam Polymers Ltd.	Receivable	0.48	0.29
Penden Cement Authority Ltd.	Receivable	1.80	0.08

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
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. 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.
 37. 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.
 38. 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.



39. Managerial Remuneration:

(Nu in millions)

Particulars	31.12.2018	31.12.2017
Chief Executive Officer's remuneration	1.95	1.87
Director's Sitting Fee	0.34	0.36
Travelling Expenses(CEO)	0.23	0.29

The above remuneration is based on the actual payment.

40. Auditors remuneration:

(Nu in millions)

Particulars	31.12.2018	31.12.2017
Audit Fees	0.12	0.11
Other audit expenses	0.10	0.18

41. Capital Management.

Risk Management

The Company is a wholly owned subsidiary of Druk Holding & Investments Limited (DHI). The amount mentioned under total equity in balance sheet is considered as Capital. The company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for the shareholders and benefits for other stakeholders, and maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Company is based on management's judgment of the appropriate balance of key elements in order to meet strategic and day-to-day needs. The Company manages its structure and makes adjustments in light of changes in economic conditions. The funding requirements are met through the equity given by the shareholders.

42. Financial Risk Management:

The Company's activities expose it to credit risk, liquidity risk. This note explains the source of risk, which the entity is exposed to, and how the entity manages the risk and the impact of it in financial statements.

Risk	Exposure arising from	Measurement	Management
Market risk-foreign exchange	Future commercial transactions and recognized financial liabilities not denominated in Bhutanese Ngultrum (Nu)	Cash flow forecasting	Diversification of asset and liability
Market risk- interest	Long-term	Sensitivity analysis	The Company does



rate risk	borrowings at variable rates		not have borrowings at floating interest base
Credit risk	Cash and cash equivalents, trade receivables, financial assets measured at amortized cost	Ageing analysis Credit worthiness	Diversification of customer base
Liquidity risk	Trade and other payables	Cash flow forecast	Availability of committed facilities

A. Market risk:

i. Foreign currency risk

The foreign currency (Indian Rupee) does not have exchange fluctuation risk since Bhutanese Ngultrum (BTN) is pegged with Indian Rupee (INR)

ii. Interest rate risk

The Company as of 31st December 2018 is not exposed to the risk of changes in market interest rates because it does not have any floating rate borrowings nor does it have any floating interest bearing financial assets.

B. Credit risk:

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities primarily from trade and other receivables.

i. Trade Receivables

Trade receivables are non- interest bearing and are generally on 45 days credit term. Outstanding receivables are regularly monitored. The ageing of trade receivables as on balance sheet date is given below.

Particulars	Less than one year	More than one year up to 3 years	More than 3 years	Total
Trade receivables as on 31 st December 2018	432,119,454	-	5,874,608	437,994,062
Less: provision for impairment	(556,489)	-	(5,644,677)	(6,201,166)
Trade receivables as on 31 st December 2018	431,562,965	-	229,931	431,792,896



Particulars	Less than one year	More than one year up to 3 years	More than 3 years	Total
Trade receivables as on 31 st December 2017	387,469,779	2,035,316	3,791,901	393,296,995
Less: provision for impairment	(597,295)	(2,208,067)	(2,839,315)	(5,644,677)
Trade receivables as on 31 st December 2017	386,872,484	(172,751)	952,585	387,652,319

The requirement for impairment is analyzed at each reporting date.

ii. Cash and cash equivalents other financial assets

Credit risk from balances with banks and financial institutions is managed by the Company's Finance & Accounts Department. Financial assets are considered to be of good quality and there is no significant credit risk.

C. Liquidity Risk:

Liquidity risk is the risk that entity will encounter difficulty in meeting obligations associated with liabilities that are settled by delivering cash or another financial asset. Management monitors rolling forecasts of the Company's liquidity position and cash and cash equivalents on basis of expected cash flows. This is generally performed in accordance with practice and limits set by the Company.

iii. Maturities of financial liabilities.

The table below analyzes the Company's financial liabilities into maturity grouping based on the contractual maturities for all financial liabilities. The amount disclosed in the table is the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Contractual financial liabilities as of 31 st December 2018	Less than 1 year	More than 1 year	Total
Trade and other payables	565,529,550	14,119,182	579,648,733
Less: Provision for Impairment	(1,039,223)	(5,234,680)	(6,273,903)



Total financial liabilities	564,490,327	8,884,503	573,374,830
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Contractual financial liabilities as of 31 st December 2017	Less than 1 year	More than 1 year	Total
Trade and other payables	630,828,460	10,239,950	620,588,511
Less: Provision for impairment	-	(5,234,680)	(5,234,680)
Total financial liabilities	630,828,460	5,005,270	615,353,831

43. Loss before tax for the year ended 31/12/2018 is Nu. 30,376,162 million only as compared to Nu. 720,179,817 million in previous year. Deferred Tax Asset computation is not a cash outflow but only a book entry largely in respect of taxable losses for financial year 2016, 2017 and 2018 carried forward to be set off against future taxable income.

FOR SK MITTAL & COMPANY
CHARTERED ACCOUNTANTS

FRN: 001135N


K.S. MITTAL
PARTNER
MEMBERSHIP NO. 010633



DATED: 12 MAR 2019
PLACE: NEW DELHI

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS


(SONAM JIGME)
CHIEF EXECUTIVE OFFICER