NRDCL

dhi Company

Natural Resources Development Corporation Limited

Annual Report 2017

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THE YEAR IN REVIEW

The past year has been a productive and progressive year, as the Natural Resources Development Corporation Limited (NRDCL), continued to strive unwaveringly to live up to the golden dreams of His Majesty the King to make the construction materials available at affordable prices.

One major highlight of the year was being able to make sand, particularly in the western and central regions, available consistently throughout the year through supply from Wangdue in the face of limited resource availability. Placing the highest priority on our customers and service delivery, the company's effort has also been to reduce the landing cost of sand to end customers as much as possible. Despite being faced with resistance from certain quarters, improvements were brought about in the sand distribution system. This was also made possible with the unstinted support of the NRDCL Board and Druk Holding and Investments (DHI). Similarly, on the timber front, revision and implementation of the timber distribution modality was a key milestone during the year. Through this revision, the company expects to enhance service delivery and fulfill its very important mandates.

Financially, the company's position improved with increase in revenue generation by 6.27% as compared to the year 2016 and increase in cash flow as compared to the previous year. This increase was mainly due to the increase in revenue generation from sand and stone activities. Although the books of accounts reflect loss, there was, in actual, no operating loss. On the other hand, this loss was on account of compensation payable to quarry contractors for cases which date back to the year 2015.

While fulfilling our primary mandates of supplying resources for construction purposes, NRDCL at the same time also believes in giving back to and nurturing the environment for our future generations. Furthermore, through the great accomplishment in environmental sector through the visionary policies framed by His Majesty Jigme Singye Wangchuck, the Great Fourth and nurtured through the reigning Druk Gyalpo Jigme Khesar Namgyal Wangchuck, Bhutan is placed in the forefront of international community with its noble pledge to remain carbon neutral in today's context. To boost this at the corporate level, NRDCL initiated the Green Compensatory Plantation Program (GCPP) from early 2017. A total of 97.72 ha. of plantations were carried out in 2017 of which 22 ha. was under the GCPP. I take this opportunity to thank Druk Green Power Corporation Ltd., Bhutan Power Corporation Ltd., Bank of Bhutan Ltd and Bhutan Telecom Ltd for their support in the GCPP and am confident that such support will continue in the near future.

NRDCL was not without challenges. However, the spirit of NRDCL is to take up the challenges positively and as the avenue to enable us to improve our services. And thus, we remain committed to pursue our very important mandate of making resources 'available, accessible and affordable' steadfastly.

I also take this opportunity to thank, on behalf of the management and staff, all our stakeholders and partners for their continued co-operation and support, and the Board of Directors for their guidance and support. We look forward to a fulfilling year 2018 and hope to be able to serve better.

Tashi Delek

(Sonam Wangchuk)
CHIEF EXECUTIVE OFFICER

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COMPANY PROFILE

Vision

"The nation's premier supplier of natural resources as construction materials at the most affordable rates and in sustainable manner."

Mission

"Be the pioneer in professional management of natural resources such as timber, sand and stone, and make these resources available, affordable and accessible."

Core Values

Transparency and Accountability:
Be disciplined, transparent and accountable for our decisions, behaviors, attitude and results.

Integrity and Honesty:
Be fair, honest and ethical in what we seek to do and how we deliver as an organization.

Productivity and Efficiency:
Strive for high-levels of productivity and efficiency

Innovation and Creativity:
Be creative and innovative in improving the services and technologies to realize our strategic goals (vision, mission and objectives).

Commitment and Teamwork:
Be personally committed and take pride in working as a team with common values and goals.

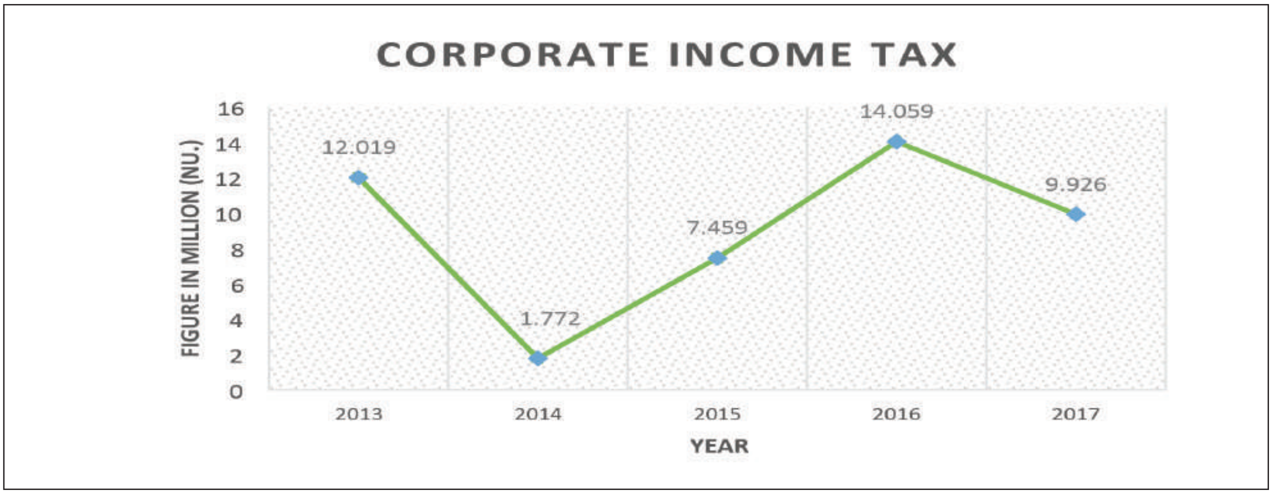
Respect and Fairness:
Hold others in high esteem. All jobs and all people are important. Do not take advantage of people. View people as an end in themselves, not a means to an end. Behave in accord with our high standards of respect and fairness.

Health and Safety:
Be conscientious in promoting the health and safety of our people, community and environment.

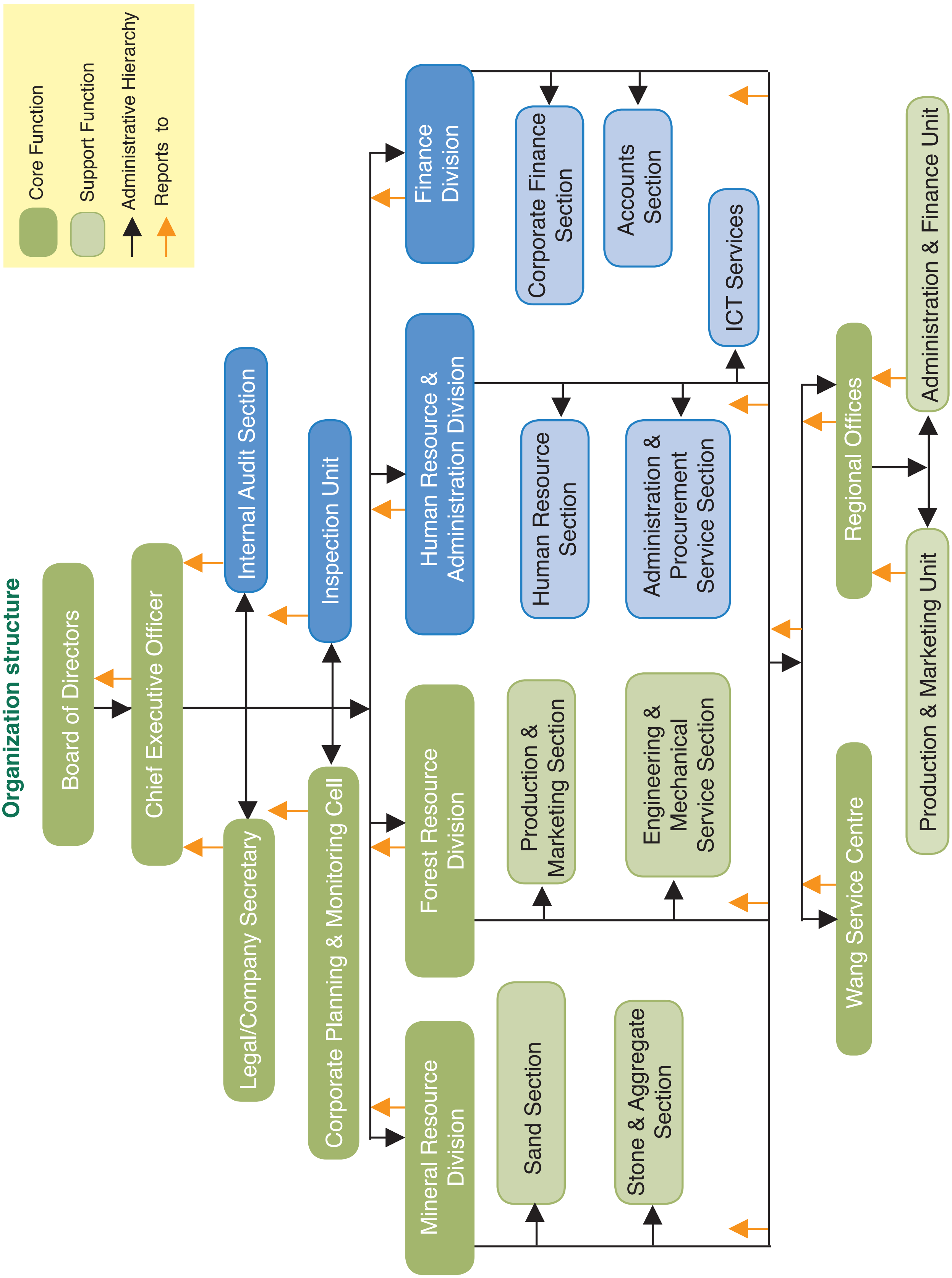
Natural Resources Development Corporation Ltd. was established in November 2007 based on an executive order of the Royal Government of Bhutan, which was issued in response to the Royal Command conveyed to the 87th session of the National Assembly. However, its history dates back to 1979 when it was created as the Logging Division of the Department of Forest, Ministry of Agriculture. In 1984 the Logging Division transitioned into a State-Owned Enterprise known as the Bhutan Logging Corporation. BLC evolved into the Forestry Development Corporation Limited (FDCL) in 1996 with the assignment of additional commercial mandates, before settling into its present state as the NRDCL in 2007.

NRDCL is a fully-owned Druk Holding and Investments (DHI) company. The company is governed by the Articles of Incorporation under the Companies Act of the Kingdom of Bhutan 2016.

A glance at the company's performance in the last five years



Organization structure



BOARD OF DIRECTORS

Dasho Karma W. Penjor is the Secretary of Ministry of Information and Communications. He received his Master in Development Management from Asian Institute of Management, Manila, Philippines and Bachelor in Political Economy from University of California, Berkeley, United States of America. He is the Chairman of NRDCL Board.

Mr. Karma Dorji is Advisor at Karseng Consultancy Services, a firm based in Thimphu offering consultancy services in Agricultural Bio-security and Food safety. He is the former Director General of Bhutan Agriculture & Food Regulatory Authority, Ministry of Agriculture and Forests. He received his Post Graduate Diploma in Crop Agronomy from Queensland Agricultural College, Gatton, University of Queensland, Australia and Post Graduate Diploma in Rural Project Management from University of Edinburg, Scotland. He joined the Board from March 2017 and serves as Independent Non-Executive Director on NRDCL Board.

Mr. Tashi is currently working as Zimpon Wogm (Deputy Chamberlain) under His Majesty's Secretariat and looks after the Queen's Project Office. He received his Advanced Diploma in Chartered Management Accountants from the Chartered Institute of Management Accountants in London and Bachelor of Commerce from Sherubtse College, Kanglung, Trashigang. He is also a certified IDI/INTOSAI Training Specialist. He serves as Independent Non-Executive Director on NRDCL Board.

Ms. Kinlay Tshering is the Director of Department of Agriculture, Ministry of Agriculture and Forests. She received her Master in Horticulture from Melbourne University, Australia, Post Graduate Diploma in Agricultural Science from Melbourne University, Australia and Bachelor Degree in Horticulture from Wye College, University of London, United Kingdom. She serves as Independent Non-Executive Director on NRDCL Board.

Mr. Phento Tshering is the Director of Department of Forests and Park Services under the Ministry of Agriculture and Forests. He received his Master in Mountain Forest Ecology from the University of Natural Resources and Applied Life Sciences, Vienna, Austria, Master in Forestry from IGNFA, Dehradun, India and Bachelor of Forestry (Life Science) from Sherubtse College, Kanglung. He serves as Independent Non-Executive Director on NRDCL Board.

Mr. Karma Jattu is the Managing Director of Phuensum Builders Private Limited, a construction business in Bhutan. He brings with him more than 18 years of experience in the construction industry. He serves as Independent Non-Executive Director on NRDCL Board.

Mr. Sonam Wangchuk is the Chief Executive Officer of Natural Resources Development Corporation Ltd. He received his Master in Environmental Science from Yale School of Forestry and Environmental Studies, Yale University, Connecticut, USA and Post Graduate Diploma in Environmental Conservation and Park Management from University of Greenwich, UK. He joined NRDCL from 1st September 2017 and serves as Non-Independent Executive Director on NRDCL Board.

Ms. Choni Ome is Senior Analyst at Druk Holding & Investments. She received her Master in Business Administration from ESSEC Business School, Paris, France, Bachelor of Arts in Economics and Pre-Medical Studies from Wellesley College, Wellesley, Massachusetts, United States of America. She served as Non-Independent Non-Executive Director on NRDCL Board.

MANAGEMENT TEAM

Mr. Sonam Wangchuk
Chief Executive Officer

Mr. Sonam Wangchuk is the Chief Executive Officer. He received his Master in Environmental Science from Yale School of Forestry and Environmental Studies, Yale University, Connecticut, USA.

Mr. Sonam Chophel
General Manager
Finance Division

Mr. Sonam Chohel is the head of the Finance Division. He received his Master in Business Administration from the University of Canberra, Australia.

Mr. Deo Kumar Biswa
General Manager
Mineral Resource Division

Mr. Deo Kumar Biswa is the head of the Mineral Resource Division. He received his Master in Business Administration from Utkal University, Bhubaneswar, India

Mr. Ashit Chhetri
Dy. General Manager
Forest Resource Division

Mr. Ashit Chhetri is the head of the Forest Resource Division. He received his Master in Natural Resource Management from Mahidol University, Thailand

Ms. Dorji Wangmo
Dy. General Manager
Human Resource and Adm. Division

Ms. Dorji Wangmo is the head of Human Resource and Administration Division. She received her Master in Management from the University of Canberra, Australia.

DIRECTORS' REPORT

To the Shareholders,

As the Chairman of the Board of Directors of your Company (Natural Resources Development Corporation Limited), I, on behalf of the Board of Directors and the management would like to present the Directors' Report for the year ending 31st December 2017.

1. Operational Report

The product-wise production and disposal report for 2017 vis-à-vis 2016 and 2015 are presented in the table below.

#	Particulars	2017			2016	2015
		Annual Target	Achievement (Quantity)	%		
	Core products					
1	Timber production (cft.)	1,720,000	1,662,036.08	96.63	1,687,091.74	1,756,580.49
2	Timber disposal (cft.)					
a.	Logs	1,328,500	1,281,797.39	96.48	1,770,200.20	1,954,917.00
b.	Sawn/Blocks	250,000	176,734.09	70.69	-	-
3	Sand production (m^3)	456,579.74	526,490.28	115.31	410,107.85	318,443.11
4	Sand disposal (m^3)	456,579.74	501,011.13	109.73	433,799.95	330,132.36
5	Stone production (cft)	3,160,400	5,575,566.87	176.42	5,429,201.38	4,079,355.71
6	Stone disposal (cft)	3,456,400	5,378,332.87	155.61	5,447,635.11	3,008,570.04
7	Stone chips prod. (cft)	795,000	743,273.87	93.49	988,923.69	1,248,774.79
8	Stone chips disposal (cft)	1,124,870	1,004,746.13	89.32	1,423,920.95	1,901,010.39

1.1. Timber

a. Timber production in 2017 was 1.662 million cft. against the target of 1.720 million cft. With the establishment of retail outlets, the company started sale of sawn timber in addition to supply of timber in the log form. During the year, 1.282 million cft. log timber was disposed against the target of 1.329 million cft. and 0.177 million cft. sawn timber was disposed against the target of 0.250 million cft.

b. Total revenue of Nu. 277.766 million was earned from the sale of timber in 2017 against the target of Nu.296.663 million as compared to revenue earning of Nu.282.633 million in 2016.

c. The closing stock of log timber stood at 276,553.78 million cft. and sawn timber at 58,054.16 cft. at the end of 2017. The sawn timber is converted back to log timber and the overall closing stock is shown as 362,797.56 cft. in the Accounts.

d. Pursuing NRDCL's commitment towards carrying out environment friendly forest operations using machineries which cause minimum damage to the environment and increasing the efficiency of forest operations by updating/improving timber harvesting technology, three sets of cable cranes and one log loader were purchased during the year. These machines would also enhance production and bridge the shortage of such machines in the field to a large extent.

e. Two wood joinery units – one at Ramtokto, Thimphu and the other at Lingmethang Mongar - were established during the year for production of construction components such as door and window frames, flooring and panels. The main objective was to value-add and convert non-preferred species of broad-leaved timber into finished and semi-finished products, and make such construction components readily available in the market, thus improving service delivery. Along with the joinery units, seasoning kilns and sawmills were also set up.

1.2. Sand

a. Sand extraction in 2017 was 526,490.28 m3 against the target of 456,579.74 m^3 in 2017 and disposal 501,011.13 m^3 against the target of 456,579.74 m^3. Both production and extraction have increased during the year.

b. Total revenue of Nu.97.141 million was earned from sale of sand in 2017 against the target of Nu. 92.285 million as compared to revenue earning of Nu. 69.313 million in 2016.

c. Sha Region continues to be the main supply source of sand for western and central parts of the country, with supply from there comprising of more than 62% of the total supply made by the company during the year. Although sources are depleting with less natural sand deposits occurring annually, an uninterrupted supply of sand was maintained throughout the year through the supply of dredged sand. The number of sand dredging machines at Wangdue increased to four with the company procuring and installing one more machine during the year.

d. The work timing for loading of sand at the supply sites in Wangdue was also changed with the first loading of sand taking place from 7 am in order to facilitate more daily dispatches from site and reduce waiting periods.

e. Identification and preliminary works on diversification and new sources of sand supply, such as Drujegang, near Druk Seed Office in Bajo and site opposite Samthang VTI were completed.

f. Sand dredging was also introduced in the East with the installation of a new machine at Gyelposhing under Zhonggar Region.

1.3. Stone

a. Stone/boulder extraction in 2017 was 5.576 million cft. against the target of 3.160 million cft in 2017 and disposal was 5.378 million cft. against the target of 3.456 million cft.

b. Total revenue of Nu. 22.302 million was earned from sale of stone in 2017 against the target of Nu. 12.830 million as compared to revenue earning of Nu. 15.228 million in 2016.

1.4. Stone chips

a. Stone chips production in 2017 was 0.743 million cft. against the target of 0.795 million cft in 2017 and disposal was 1.005 million cft. against the target of 1.125 million cft.

b. Total revenue of Nu. 20.829 million was earned from the sale of stone aggregates in 2017 against the target of Nu.24.973 million as compared to revenue earning of Nu. 30.262 million in 2016.

The Board would also like to present the report on NRDCL's other important activities which arise from its social mandates and are of long term significance as follows:

#	Particulars	2017			2016	2015
		Annual Target	Achievement (Quantity)	%		
1	Glue laminated timber production (nos.)	487.00	493.00	101.23	152	-
2	Plantation Creation (Ha.)	78.95	97.72	123.77	89.28	64.89
3	Seedling production (nos)	500,000	465,985	93.20	444,328	137,650
4	Seedling disposal (nos)	250,000	241,221	96.49	230,414	-
5	Woodchips production & Supply (MT)	1,633.63	2,517.78	154.12	2,250.68	3,032.16
6	Firewood production & supply (m^3)	20,391.46	34,451.54	168.95	38,184.81	40,491.32
7	Briquette production (kg)	350,000	263,160	75.19	233,880.00	249,000.00
8	Briquette disposal (kg)	350,000	185,340	52.95	266,580.00	270,910.00
9	Road construction (km)	6.21	6.21	100	10.770	18.77

1.5. Glue laminated timber production

493 beams of various sizes of glu-laminated timber (equivalent to 7,657.79 cft. of timber) was produced at the Glu-lam Unit at Pangbisa, Paro against the target of 487 beams. These beams were produced mainly for supply to the Royal Academy Project, Pangbisa.

1.6. Plantation and Nursery

a. A total of 97.72 Ha. plantation was carried out in 2017, that is, 75.72 ha under normal plantation program and 22 ha. under Green Compensatory Plantation Program (GCPP).

b. To promote the company as the green sector among the DHI group of companies, take a lead role in greening the environment, promote plantation programs and hence continue playing its role in supporting the government's policy of conserving natural resource and Bhutan remaining carbon neutral, the company started the GCPP during the year.

   Under the GCPP, a total of 22 ha. plantation in different areas was carried out in partnership with four companies namely Druk Green Power Corporation Ltd., Bhutan Power Corporation Ltd., Bank of Bhutan Ltd and Bhutan Telecom Ltd. These companies provided a fund support of a total of Nu.4.069 million.

c. A total amount of Nu. 12.500 million (Nu. 10.858 million for normal plantation and Nu.1.642 million under GCPP) was spent in the creation and maintenance of plantation in 2017.

d. 465,985 nos. of seedlings were raised against the target of 500,000 seedlings and 241,221 nos. were disposed against the target of 250,000 seedlings. These include seedlings which were used for NRDCL's plantations and plantation maintenance works as well as those supplied to outside customers.

1.7. Woodchips

a. A volume of 2,517.78 MT of woodchips was produced and sold against the target of 1,602 MT in 2017.

b. Revenue of Nu.9.566 million was earned from sale of woodchips in 2017 against the target of Nu.5.908 million as compared to revenue earning of Nu. 8.508 million in 2016.

1.8. Firewood

Supply of firewood was 34,451.54 m^3 against the target of 20,391.46 m^3 in 2017. Firewood supply was done based on demand and subject to availability of lops and tops or forest residue after extraction of prime timber.

1.9. Briquette

263,160.00 kg sawdust briquettes were produced and 185,340.00 kg disposed against the target of 350,000 kg in 2017.

1.10. Road construction

6.21 km of road construction was completed against the target of 6.21 km at a cost of Nu.16.506 million. Approximately Nu. 6.905 million was spent on maintenance. Roads are constructed to facilitate timber harvesting and gain access to the operation areas.

2. Financial Report

The highlight of the financial performance of the company in 2017 is presented below:

Sl. No.	Particulars	2017	2016	2015
1	Share Capital	45.000	45.000	45.000
2	Reserves & Surplus	477.050	546.888	535.211
3	**Net worth (1+2)**	**522.050**	**591.888**	**580.211**
4	Borrowings (Net)	67.413	28.409	35.331
5	Capital Employed (3+4)	589.463	620.297	615.542
6	**Gross Block of Assets**	**858.684**	**802.797**	**711.125**
7	Net Block of Assets	432.888	423.302	372.421
8	Working Capital	131.005	174.591	199.109
9	**Income from Sales**	**432.408**	**408.015**	**395.699**
10	Other Income	26.605	23.918	34.214
11	**Total Income (9 +10)**	**459.013**	**431.933**	**429.915**
12	Expenses	510.914	410.135	406.853
13	**Profit before Tax**	**(51.901)**	**21.797**	**23.062**
14	Corporate Income Tax	9.926	14.059	7.459
15	**Profit After Tax**	**(61.827)**	**7.737**	**15.604**

Net worth

The net worth of the company as on 31.12.2017 has decreased by 11.79% i.e. from Nu.591.888 million in 2016 to Nu. 522.050 million in 2017 mainly because of the reduction in retained earnings as a result of Nu.61.827 million loss suffered by the company after providing for compensation payment of Nu. 75.854 million.

Assets

The gross block of assets of the company has increased by 6.96% in 2017 i.e. to Nu. 858.684 million from Nu. 802.797 million in the previous year, which is an increase of Nu.55.887 million. This increase is attributed mainly to capitalization of new machineries purchased during the year such as joinery machines, dredging machines, seasoning kilns and sawmills.

Revenue

The company registered 6.27% increase in its total revenue i.e., by Nu. 27.081 million in 2017 (from Nu. 431.933 million in 2016 to Nu. 459.013 million in 2017). This increase was mainly due to increase in the sale of sand and stone as compared to the previous year.

Profit

During the year, the company has suffered loss of Nu. 61.827 million. The incorporation of the provision for payment of compensation to quarry contractors amounting to Nu. 75.854 million is noted as the main reason for loss.

Without the provision for payment of compensation, the company has earned net profit (PAT) of Nu. 14.026 million.

Cash Flow

There is overall cash inflow of Nu. 71.383 million in 2017 as compared to overall outflow of Nu.12.227 million in the previous year. This increase is attributed to: a) increase in cash inflow from the operating activities; b) decrease in cash outflow from the investing activities; and c) in flow from financing activities.

The cash and cash equivalent as of December 31, 2017 stood at Nu.120.467 million as compared to Nu.49.084 million in the previous year.

Expenditure

The total operating expense for the year 2017 was Nu.435.060 million as compared to Nu. 410.135 million in the previous year, an increase by Nu. 24.925 million or 6.08%. This is attributed mainly to the increase in the production cost by Nu.14.247 million due to increase in the production of sand and stone.

With the inclusion of provision for payment of compensation of Nu. 75.854 million to quarry contractors, the total expenditure for 2017 is Nu. 510.914 million.

Transfer to Reserves

As the books of accounts show loss of Nu.61.827 million for the financial year 2017, there are no undistributed profits to be transferred to reserves.

The Board would like to highlight that despite the books of accounts showing loss, there was no operating loss in actual and the performance of the company on the whole in 2017 was commendable.

Apart from the above operational activities, the company initiated several steps geared towards improving service delivery and fulfilling its very important mandate of making resources ‘available, accessible and affordable’. Some of these were downward revision of timber price, setting up of timber retail outlets, setting up of joinery units, seasoning kilns and sawmills among others. One very important achievement was the revision of the timber distribution modality whereby NRDCL is now allowed to distribute or sell directly 50% of the timber extracted, unlike in the past when almost all the timber supply had to be routed through the wood-based industries. On the sand supply front, the sand distribution system from Sha Region was revised. The revised system, implemented from the beginning of 2018, requires all transportation to be routed through NRDCL. This was initiated with the objective of controlling the overall landing cost of sand to the end customers and curtailing illegal activities/hoarding of sand. For the same purpose, a Sand Inspection Unit was also formed at the Head Office to conduct regular monitoring in the field.

The year 2017 nevertheless had many challenges for the company. Both the revision of the timber distribution modality and sand supply system were faced with a lot of resistance from different stakeholders with different interests. Nonetheless, the company managed to push through and get both these very important systems approved after many years of trying. This was possible with the support of the DHI and Board of Directors and concerted efforts of the management and employees.

NRDCL, as in the past, would continue to work very hard towards fulfilment of its very important mandate and objective of making our country's scarce natural resources 'accessible, available and affordable' in the domestic market and contribute to the nation building process inspite of many challenges and constraints.

3. Audit Report

The company was audited by R. Subramanian and Co., Chartered Accountants, Chennai, India. We are pleased to report that the company had complied with most of the observations of the Auditors on the Corporation's accounts of the previous year. As such, for the year 2017, the Auditors had not made any adverse observations on NRDCL Accounts, except for some suggestions and recommendations for further improvement.

The Notes to Accounts referred to in the Auditor's Report are self explanatory and, therefore, does not call for any further comment on the observations under Section 249 (d) of The Companies Act of Bhutan 2016.

4. Dividend

No dividend was declared for the financial year 2017.

5. Corporate Governance Report

It was the Board's and company's continuing endeavour to engage in good corporate governance practices. Accordingly, the company complied with the requirements of the *Companies Act of the Kingdom of Bhutan 2016, Corporate Governance Code* of DHI and other statutory requirements.

Board size and composition

The Board of Directors was entrusted with the crucial responsibility of management of general affairs, strategic direction and performance of NRDCL. To that effect, it was vested with the requisite powers, authorities and duties. The management of NRDCL was headed by the Chief Executive Officer and had functional heads as its members who look after the management of the day-to-day affairs of the company.

The NRDCL Board was comprised of eight Board Directors, including the Chairman and the CEO. The size, composition and number of independent Directors were determined in keeping with the Board Charter – Section 2.2 and 2.3 of the CG Code. None of the Directors held more than a total of three directorships in other DHI owned companies. The CEO attended all board meetings, except when the CEO's terms and conditions were being evaluated. The CEO reported to the Board on the operation, management and performance of the company. Other members of the management team may also attended as and when required in order to provide the board with required information. The Board was assisted by a Company Secretary who was not a member of the Board.

Composition of the Board and attendance in 2017

Name of Director	Category	Profile	Date of appointment	No. of Board meetings attended
Dasho Karma W. Penjor	Chairman	Secretary, Ministry of Information & Communications	March 2016	9
Mr. Tashi	Independent Non-Executive	Zimponwom, Office of the Gyalpoi Zimpon	March 2011	8
Mr. Karma Jattu	Independent Non-Executive	Managing Director, Phuensum Builders Pvt. Ltd.	April 2015	8
Mr. Phento Tshering	Independent Non-Executive	Director, Department of Forest & Park Services, MoAF	March 2016	7
Ms. Kinlay Tshering	Independent Non-Executive	Director, Department of Agriculture, MoAF	March 2016	6
Mr. Karma Dorji	Independent Non-Executive	Former Director General, BAFRA	March 2017	7
Ms. Choni Ome	Non-Independent, Non-Executive	Sr. Analyst, DHI	March 2017	7
Mr. Sonam Wangchuk	Non-Independent Executive	CEO, NRDCL	September 2017	3

Nine Board meetings were conducted in 2017, maintaining the quorum requirements and the gaps between the meetings not exceeding three months in accordance with the Companies Act 2016 and DHI CG Code.

Notices including agenda with the necessary information and reference materials were sent to Board Directors before the meetings in keeping with the requirements of the CG Code. Additional meetings were held on shorter notice in the case of exigencies.

Board Committees and meetings

Three Board Committees were formed to assist the Board in executing its responsibilities. The power and responsibilities of each Committee was established in the applicable Committee Charter, which was approved by the Board. The Committee Charter outlined the terms and responsibilities of the committee. Board committees did not have a legal standing or a distinction from the Board itself, and worked only to make recommendations to support board decision-making.

The Board committees are:

1. Board Audit Committee: Its primary function was to provide oversight of the financial reporting process, the audit process, the system of internal controls and compliance with laws and regulations.

   The Board Audit Committee was comprised of three independent non-executive Directors as members and five meetings were held in 2017.

2. Board Executive Committee: Its primary responsibility was to review and make recommendations to the Board on issues related to policies, procedures, systems and the company's budget and business plans. It also functioned as the HR and procurement committee of the Board.

The Board Executive Committee was comprised of four Directors, including the CEO as members and four meetings were held in 2017.

3. Nomination and Governance Committee (NGC): The NGC for the selection of CEO was carried out by the full Board with board member representatives from the DHI board. The NGC is set up as and when required and follows procedures as streamlined within the DHI Guideline for Selection and Appointment of CEOs in DHI Owned Companies.

   Four NGC meetings were conducted in 2017 for the selection of the CEO.

General Meetings

The Annual General Meeting was held on 21 March 2017. No Extraordinary General Meeting was convened during the year.

Board Remuneration

Each board member received fees and reimbursement for reasonable costs related to their participation in board meetings and board committee meetings. Details of financial remunerations paid to Directors are set out in Note - 1 (para 38 A, B & C) of *Company Overview and Significant Accounting Policies*.

6. Corporate Social Responsibility

a. Green Compensation Plantation Program

The Green Compensatory Plantation Program (GCPP) was initiated during the year with the support of DHI and the company signed MOU with four companies namely Druk Green Power Corporation Ltd., Bhutan Power Corporation Ltd., Bank of Bhutan Ltd and Bhutan Telecom Ltd. to carry out plantations under this program. A total fund support of Nu.4.069 million was received from these companies to carry out plantations and maintenance as given below:

Company name	Fund support (Nu. in million)	Location	Area (ha)
Bank of Bhutan Ltd.	0.745	Sangaygang, Thimphu	4
Bhutan Power Corporation Ltd.	0.748	Chendebji, Trongsa	4
Druk Green Power Corporation Ltd.	1.623	Gelephu, Sarpang	8
Bhutan Telecom Ltd.	0.953	Langjophaka, Thimphu	6
Total	**4.069**		**22**

The GCPP included afforestation in blank areas, reforestation in degraded/deforested areas, rehabitation of fire burnt and pest/disease affected areas, protection of watershed areas.

b. Firewood supply

The company continued to supply firewood to the cremation ground in Thimphu free of cost through the People's Project as a contribution to social welfare. During the year, firewood worth Nu.289,956.80 was supplied.

c. Briquette production and marketing

One very important activity that the company continued to carry out as part of its corporate social responsibility was the production and supply of sawdust briquettes from its plant at Ramtokto, Thimphu. Purely a non-profit venture, sawdust briquettes were produced as a substitute for fuel wood in order to a) reduce the increasing pressure on our forest resources exerted by local demand for fuel wood (for heating & cooking) and b) to utilize sawdust (waste wood) from sawmills.

d. Donations

In 2017, the company made donations amounting to a total of Nu. 130,000 for various social, religious and welfare purposes.

e. Construction and maintenance of forest roads

Many of the forest roads constructed by NRDCL for timber extraction in different regions are also planned to benefit the local communities, with positive socio-economic impacts to the communities concerned. Such roads are maintained by NRDCL even after completion of the operations.

7. Environment Protection and Promotion Activities

NRDCL complied with all the requirements of the environmental rules and regulations of the RGoB in carrying out its operations. Further, every effort was made to protect the environment and minimize impact of NRDCL operations on the natural environment and health of the ecosystem. Some of the activities that NRDCL carried out towards this were:

a. Use of environment-friendly technology and processes in its operations such as mechanized logging operations, environment friendly road constructions, etc.

b. In keeping with the constitutional requirement to maintain 60% of the areas under forest cover for all times to come and managing the natural resources on a sustainable basis, NRDCL has been investing in afforestation and reforestation activities. In 2017, Nu. 12.500 million was spent in such activities (Nu. 10.858 million for normal plantation and Nu.1.642 million under GCPP).

c. To maintain the general health and hygiene of the forests, NRDCL carried out sanitation/salvage operations as and when required. In 2017, timber salvage operations were carried out in bark beetle affected areas in Haa.

d. River protection and mitigation works are carried out wherever required. During the year, the company carried out flood mitigation works along the Paitheykhola, Gelephu and constructed 185 metres long gabion wall at a cost of Nu.903,440.

8. Customer Service

The Customer Satisfaction Index (CSI) for 2017 was 3.65 as per the Customer Satisfaction Survey Report.

Towards improving customer service, a Sales and Customer Service Centre and a Customer Information Centre were opened within the Head Office premises. The new centre was established to ensure customer convenience and enhancing service delivery and efficiency. This was in line with NRDCL's continuous efforts to improve customer service and in making our services readily available and accessible to our valuable customers.

9. Organizational and Human Resource Management and Development

NRDCL had a total of 363 employees (332 regular, 3 contract and 28 ESP) managing operations at the Head Office and the six Regional Offices covering the whole country. The number of employees increased in 2017 with the setting up of two joinery units, purchase of three sawmills, three cable cranes, two sand dredging machines and one loader.

The organization structure was reviewed and restructured for implementation from January 2018, particularly for the two core Divisions at the Head Office – Production Division and Business Development and Marketing Division. These two divisions were done away with and in their place, Forest Resource Division and Mineral Resource Division were created. This was done to have clear segregation of responsibilities, avoid duplication in the functions and to have specialized Divisions looking after the specific core products, thereby increasing efficiency of service delivery. Similarly, Wang Region was merged with Rinpung Region and a Wang Service Centre (WSC) created at Ramtokto. The WSC shall be the main centre for meeting customer requirements in the capital for joinery products, sawn timber, sand in small quantities, briquette and firewood (for cremation).

The Performance Management System of the company was revised in line with the guidelines issued by DHI and implemented from 2017 onwards. For effective monitoring of performance at various levels, a Corporate Planning and Monitoring Cell was created at the HO. This Cell is also responsible for conducting studies and supporting the management in carrying out the functions of planning and business development.

Working towards building the human resource capacity of the company, an amount of Nu.4.755 million was spent towards HR development and training during the year.

10. Acknowledgement

The Board of Directors would like to express the deep appreciation and sincere gratitude to the Royal Government, Druk Holding & Investments (DHI), Department of Forests & Park Services (DoFPS), Department of Geology & Mines (DGM), National Environment Commission, National Land Commission Secretariat, Royal Academy Project, Dzongkhag administrations, Thromdes and local governments, rural communities and other concerned government and private agencies for their guidance, continued cooperation and support, feedback and encouragement which have been valuable for directing the course of the Company affairs and achievement of its various goals and objectives.

The Board would also like to extend appreciation for the leadership and guidance provided by the Chairman, DHI to the company towards fulfilling its very important mandates of making natural resources affordable, available and accessible.

Furthermore, the Board would also like to acknowledge the hard work and efforts of the management team and employees of NRDCL and thank them for their unfailing dedication and commitment towards achievement of the Company's vision, goals and objectives.

TASHI DELEK

For and on behalf of the Board.

(Karma W. Penjor)
Chairman
NRDCL

CORPORATE GOVERNANCE REPORT

Natural Resources Development Corporation complied with the requirements of the *Companies Act of the Kingdom of Bhutan 2016, Corporate Governance Code* of DHI and other statutory requirements. The Board was constituted of eight members, including the Chief Executive Officer. Board meetings were conducted in keeping with the requirements of the Companies Act 2016 and DHI CG Code.

Board Directors

Name of Director	Category	Profile	Date of appointment	Term on the Board
Dasho Karma W. Penjor	Chairman	Secretary, Ministry of Information & Communications	March 2016	First
Mr. Tashi	Independent Non-Executive	Zimponwom, Office of the Gyalpoi Zimpon	March 2011	Third
Mr. Karma Jattu	Independent Non-Executive	Managing Director, Phuensum Builders Pvt. Ltd.	April 2015	Second
Mr. Phento Tshering	Independent Non-Executive	Director, Department of Forest & Park Services, MoAF	March 2016	First
Ms. Kinlay Tshering	Independent Non-Executive	Director, Department of Agriculture, MoAF	March 2016	First
Mr. Karma Dorji	Independent Non-Executive	Former Director General, BAFRA	March 2017	First
Ms. Choni Ome	Non-Independent, Non-Executive	Sr. Analyst, DHI	March 2017	First
Mr. Sonam Wangchuk	Non-Independent Executive	CEO, NRDCL	September 2017	First

Board meetings

Nine Board meetings were conducted in 2017. The details of the Board attendance in 2017 are as follows:

Meeting No.	Date	Members Present	Leave of absence
60th	14th February 2017	1. Dasho Karma W. Penjor 2. Mr. Tashi 3. Mr. Karma Jattu 4. Ms. Kinlay Tshering 5. Mr. Karma Dukpa	Mr. Phento Tshering
61st	5th March 2017	1. Dasho Karma W. Penjor 2. Mr. Tashi 3. Mr. Phento Tshering 4. Mr. Karma Jattu 5. Mr. Karma Dukpa	Ms. Kinlay Tshering

Meeting No.	Date	Members Present	Leave of absence
62nd	17th April 2017	1. Dasho Karma W. Penjor 2. Mr. Tashi 3. Mr. Phento Tshering 4. Ms. Kinlay Tshering 5. Mr. Karma Dorji 6. Mr. Karma Jattu 7. Ms. Choni Ome 8. Mr. Sonam Chophel	None
63rd	18th May 2017	1. Dasho Karma W. Penjor 2. Mr. Tashi 3. Ms. Kinlay Tshering 4. Mr. Karma Dorji 5. Mr. Karma Jattu 6. Ms. Choni Ome 7. Mr. Sonam Chophel	Mr. Phento Tshering
64th	24th July 2017	1. Dasho Karma W. Penjor 2. Mr. Tashi 3. Mr. Phento Tshering 4. Ms. Kinlay Tshering 5. Mr. Karma Dorji 6. Mr. Karma Jattu 7. Ms. Choni Ome 8. Mr. Sonam Chophel	None
65th	4th August 2017	1. Dasho Karma W. Penjor 2. Mr. Tashi 3. Mr. Phento Tshering 4. Mr. Karma Dorji 5. Ms. Kinlay Tshering 6. Mr. Karma Jattu 7. Ms. Choni Ome 8. Mr. Sonam Chophel	None
66th	22nd September 2017	1. Dasho Karma W. Penjor 2. Mr. Tashi 3. Mr. Phento Tshering 4. Mr. Karma Dorji 5. Ms. Kinlay Tshering 6. Mr. Karma Jattu 7. Ms. Choni Ome 8. Mr. Sonam Wangchuk	None
67th	24th November 2017	1. Dasho Karma W. Penjor 2. Mr. Tashi 3. Mr. Phento Tshering 4. Mr. Karma Dorji 5. Mr. Karma Jattu 6. Ms. Choni Ome 7. Mr. Sonam Wangchuk	Ms. Kinlay Tshering

Meeting No.	Date	Members Present	Leave of absence
68th	14th December 2017	1. Dasho Karma W. Penjor 2. Mr. Phento Tshering 3. Mr. Karma Dorji 4. Ms. Choni Ome 5. Mr. Sonam Wangchuk	1. Mr. Tashi 2. Mr. Karma Jattu 3. Ms. Kinlay Tshering

Board Committees

The Company had three Board Committees in 2017 as follows:

1. Board Audit Committee with the primary function to provide oversight of the financial reporting process, the audit process, the system of internal controls and compliance with laws and regulations.

2. Board Executive Committee with the primary responsibility to review and make recommendations to the Board on issues related to policies, procedures, systems and the company's budget and business plans. It also functioned as the HR and procurement committee of the Board.

3. Nomination and Governance Committee (NGC) to conduct selection and appointment of CEO in line with the DHI Guideline for Selection and Appointment of CEOs in DHI Owned Companies.

Board Audit Committee

The Board Audit Committee was comprised of three independent non-executive Directors as members and five meetings were held in 2017 as follows:

Meeting No.	Date	Members Present	Leave of absence
16th	20th February 2017	1. Mr. Tashi 2. Mr. Phento Tshering 3. Ms. Kinlay Tshering	None
17th	11th April 2017	1. Mr. Tashi 2. Mr. PhentoTshering	Ms. Kinlay Tshering
18th	18th May 2017	1. Mr.Tashi 2. Ms. Kinlay Tshering 3. Mr.Phento Tshering	None
19th	18th July 2017	1. Mr.Tashi 2. Ms.Kinlay Tshering	Mr.Phento Tshering
20th	13th November 2017	1. Mr.Tashi 2. Mr.Phento Tshering 3. Ms. Kinlay Tshering	None

Board Executive Committee

The Board Executive Committee was comprised of four Directors, including the Chief Executive Officer as members and four meetings were held in 2017.

Meeting No.	Date	Member Present	Leave of absence
36th	19th January 2017	1. Mr. Karma Jattu 2. Mr. Tashi (Invitee Director) 3. Mr. Karma Dukpa	None
37th	18th July 2017	1. Mr. Karma Dorji 2. Mr. Karma Jattu 3. Ms. Choni Ome 4. Mr. Sonam Chophel (Offtg. CEO)	None
38th	14th November 2017	1. Mr. Karma Dorji 2. Mr. Karma Jattu 3. Ms. Choni Ome 4. Mr. Sonam Wangchuk	None
39th	5th December 2017	1. Mr. Karma Jattu 2. Ms. Choni Ome 3. Mr. Sonam Wangchuk	Mr. Karma Dorji

Nomination and Governance Committee (NGC)

The NGC for the selection of CEO was carried out by the full Board with board member representatives from the DHI board. Four NGC meetings were conducted in 2017 for the selection of the CEO as detailed below:

No. of meetings	Meeting dates	Members Present	Leave of absence
4	1. 14th June 2017 2. 20th July 2017 3. 26th July 2017 4. 3rd August 2017	1. Dasho Sangay Khandu, Chairman, DHI (Chairman of the Committee) 2. Dasho Karma Y. Raydi, CEO, DHI 3. Mr. Karma Tsetop Rinchhen, Director, DHI Board 4. Dasho Karma W. Penjor, Chairman, NRDCL 5. Mr. Tashi, Zimponwom, Director, NRDCL 6. Mr. Phento Tshering, Director, NRDCL 7. Ms. Kinlay Tshering, Director, NRDCL 8. Mr. Karma Dorji, Director, NRDCL, 9. Ms. Choni Ome, Director, NRDCL	Mr. Karma Jattu, Director, NRDCL

Board remuneration

Each board member received fees and reimbursement for reasonable costs related to their participation in board meetings and board committee meetings. The remuneration and fees paid to the Directors and CEO during the year are presented below:

Sl. No.	Name & Position	Salary and remuneration (Nu.)	Sitting fees (Nu.)
1	Dasho Karma W. Penjor, Chairman	-	96,000.00
2	Mr. Phento Tshering, Director	-	88,000.00
3	Ms. Kinlay Tshering, Director	-	88,000.00
4	Mr. Tashi, Director, Director	-	104,000.00
5	Mr. Karma Dorji, Director	-	72,000.00
6	Mr. Karma Jattu, Director	-	96,000.00
7	Ms. Choni Ome, Director	-	84,000.00
8	Mr. Sonam Wangchuk, CEO	575,200.00	32,000.00
9	Late Karma Dukpa, former CEO	819,918.00	20,000.00
	Total	**1,395,118.00**	**680,000.00**

Annual General Meeting

The Annual General Meeting (AGM) was held on 21 March 2017 at the NRDCL Head Office. The following businesses were transacted during the AGM:

i. Consideration of the Audited Accounts for the financial year ended 31 December 2016, Auditors' Report and Directors' Report
ii. Declaration of Dividend, if any
iii. Consideration of appointment/retirement of Board Directors
iv. Appointment of, and fixing the remuneration of Statutory Auditors
v. Consideration of the Annual Compact Evaluation Report and declaration of PBVA based on the outcome of the Annual Compact 2016

The following directors resigned or were appointed/reappointed during the AGM:

Name of Director	Action
Mr. Karma Galleg, DHI Nominee Director	Resignation
Mr. Karma Dukpa, CEO	Resignation
Mr. Karma Dukpa, CEO	Reappointment
Mr. Karma Jattu, MD, Phuensum Builders	Reappointment
Mr. Karma Dorji, Former DG of BAFRA	Appointment
Ms. Choni Ome, DHI	Appointment as DHI Nominee Director

Risk Management System

The company had in place a Risk Management System. Potential risks to the company were identified and categorized as operational, reputational, strategic, legal and financial. Accordingly, mitigation measures to combat the identified risks were put in place.

Corporate Social Responsibility

The company carried out various activities as part of its corporate social responsibility, the details of which are reported under the Directors' Report in the previous section.

Policies and Practices of CEO and Board Evaluation

The company complied with the policies and practices of CEO and Board evaluation as outlined in the guidelines issued by DHI. The performance evaluation of the CEO constituted of two components: a) leadership competency assessment which constituted 20% weightage and was carried out by the Board of Directors facilitated by DHI; and b) Annual Compact achievement constituting 80% weightage. The Board of Directors were evaluated on their performance through an online system facilitated by DHI.

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Email : rs@rscompany.co.in Website : www.rscompany.co.in

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

TO THE MEMBERS OF
M/S. NATURAL RESOURCES DEVELOPMENT CORPORATION LTD.,
THIMPHU, BHUTAN

Report on the Audit of the Standalone Financial Statements

Qualified Opinion

We have audited the accompanying Standalone financial statements of M/S. Natural Resources Development Corporation Ltd Thimphu, ("the company") which comprise the Statement of Financial Position as at 31st December 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the Standalone financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying standalone financial statements present fairly, in all material respects the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Bhutanese Accounting Standards.

Basis for Qualified Opinion

Balance confirmations for certain receivables, creditors, advances and payables were not obtained, the probable effect of which on the profit for the year, retained earnings and Assets/liabilities is not ascertainable.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we

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have determined the matters described below to be the key audit matters to be communicated in our report.

During the year the company has identified and charged off the unusable inventory of stone raw material to an extent of Nu.4,995,717.

During the year the management has made a provision for slow moving stock and spares amounting to Nu.878,529. The total provision as on 31-Dec-17 is Nu 5,846,916 and the break up is as below.

- Provision for slow moving stone raw material created in 2017	Nu.	878,529
- Provision for slow moving stone raw material created in 2016	Nu.	2,309,180
- Provision for Dead stock created up to 2016	Nu.	2,659,207

During the year the company as per their policy have identified bad debts and have provided for the same amounting to Nu. 5,973,638.

Based on the decisions by the Supreme Court and the High court of Bhutan, the company has provided for the liabilities for a net compensation of Nu. 75, 853,592 which are payable to the contractors for pre-closure of the contract.

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

The Company's Management is responsible for the preparation and fair presentation of the financial statements in accordance with the 'Bhutanese Accounting Standards', 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 Standalone Financial Statements

Our objectives are to obtain reasonable assurance about whether the Standalone 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 standalone financial statements.

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As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. Further as per the requirement paragraph 40(b) of ISA700, we describe our responsibilities in the **Annexure** to this report. We also:

Identify and assess the risks of material misstatement of the standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be

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communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by Section 266 of the Companies Act of Bhutan 2016 (Erstwhile Section 75 of the Companies Act of Kingdom of Bhutan 2000) read with Section II of Schedule XIV (Of the 2000 Act) thereto (the Minimum Audit Examination and Reporting Requirements), we enclose in the **Annexure "A"** a statement on the matters specified therein to the extent applicable to the company.

Further to our comments in the Annexure "A" referred to above, as required under Section 265 of the Companies Act of Bhutan 2016, we report that:-

We have obtained all the information and explanation, which to the best of our knowledge and belief were necessary for the purpose of our audit.

In our opinion proper books of accounts as required by law have been kept by the company so far as appears from our examination of those books, and proper information adequate for the purpose of our audit have been received from the branches not visited by us.

The Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flow and the Statement of Changes in Equity dealt with by this report are in agreement with the books of account.

In our opinion, the Company has complied with other legal and regulatory requirements.

The engagement partner on the audit resulting in this independent auditors report is M. S. Ramesh

For R. SUBRAMANIAN AND COMPANY LLP
Chartered Accountants
Firm Reg No: **004137S/S200041**

R. SUBRAMANIAN AND COMPANY LLP * CHARTERED ACCOUNTANTS * CHENNAI

M S Ramesh

M S Ramesh
Partner
Membership No. : **028144**

Date:10th April, 2018
Place: Chennai

REPORT ON MINUMUM AUDIT EXAMINATION & REPORTING REQUIREMENTS

(ANNEXURE "A" - Referred to in paragraph 3 of Independent Auditors' Report of even date on the accounts of M/S. NATURAL RESOURCES DEVELOPMENT CORPORATION LTD for the period ended December 31, 2017)

1. The Company has a system for maintaining proper records showing full particulars including quantitative details and situation of fixed assets. Physical verification of the fixed assets has been conducted at the Regional level and no material discrepancies were noticed on perusal of such verification reports made available to us.

2. None of the fixed assets were revalued during the current period.

3. The stocks of Timber, Sand and Stone has been physically verified by the management during the year as also the stock of stores and spare parts except the stores and spares at Regional offices.

4. Based on information and explanations provided to us, the procedures of Physical verification of stock of timber, sand and stone followed by the management are reasonable and adequate in relation to the size of the Corporation and the nature of its business.

5. The physical stock of timber, sand and stone is considered for stock valuation and has been reflected in the accounts. The discrepancies noted between physical and book stock of those items is material and sums aggregating to Nu. 4,995,717 is charged off as expense during the year.

6. The valuation of stock is fair and proper in accordance with the normally accepted accounting principles and is on a basis consistent with the previous year. However there are certain Raw materials for Stone crushing which are slow moving aggregate to 23.09 Million. Taking into consideration the slow moving of the materials the company has provided Nu,0.88 Million towards any possible diminution in the value of such inventories.

7. Based on the information provided to us, the company has received advances from companies under the same management.

8. Based on the information provided to us, the company has not granted any loans, secured or unsecured, from companies firms or other parties and /or from companies under the same management.

9. Based on the information provides to us, the company did not have any loans or advances, the terms of which are prejudicial to the interests of the company.

10. On the basis of examination of the records and information made available to us, the advances given to suppliers are followed up periodically and the amounts are generally adjusted as and when the transactions are completed.

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11. According to the information and explanation given to us, the loans/advances granted to officers/staff are in keeping with the provisions of service rules and no excessive/frequent advances are granted, **except for the few cases reported in the management report** and accumulation of large advances against a particular individual is avoided.

12. In our opinion and according to the information and explanation provided to us, the Company has established the system of internal control 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 and regulation systems and procedures. However, **the internal control system need to be further strengthened in the area of payments of royalty to Government, advances to be given to the contractors in proportion of work done, adjustment of the advances paid to the suppliers & contractors at the time of finalization of their bill, in order to commensurate with the size of the Company and the nature of business.**

13. The Company follows a system of competitive bidding commensurate with the size of the company and the nature of its business for the purchase of goods and services.

14. Based on the information and explanation made available to us, the Company had not entered into any irregular transaction for purchase of goods and service with the directors or any other parties related to the directors or with companies or firm in which the directors are interested. Further, the records verified by us in this regard did not reveal any transaction in which Directors are interested.

15. As per the information and explanation made available to us there was no unserviceable or damaged stores, raw materials or finished goods which requires provisions for loss. However by way of abundant caution the company has provided Nu.5.4 Million towards slow moving and slow moving raw materials and spares.

16. There is a reasonable system of ascertaining and identifying point of occurrence of breakage/damages 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.

17. In our opinion and according to the information and explanations given to us, reasonable records have been maintained by the company for the production of finished goods and adequate physical safeguards exist to prevent un-authorized or irregular movement of such goods from the company.

18. Based on our verification, the company is maintaining reasonable records for sales and disposal of realizable by-products and scraps where applicable.

19. The Company is generally regular in depositing rates and taxes, duties, royalties, provident fund and other statutory dues with appropriate authorities except in the Jakar region where delays were observed in deposit of TDS dues with an amount of Nu.4,64,137 of TDS was outstanding to be deposited as at 31st December 2017.

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There were instances where the royalty were not deposited to the government on a timely basis.

The provision for corporate tax for the year is adequate and necessary adjustments have been made to compute the amount of tax required under the Income Tax Act of the Kingdom of Bhutan 2001.

20. On the basis of our checks, we are of the opinion that undisputed amounts payable in respect of rates taxes, duties, royalties, provident fund and other statutory deductions were not generally outstanding on the last day of financial period which were outstanding beyond their due date except for Nu 1.8 million outstanding in Rinpung Region with regard to Royalty liabilities for the year.

21. As per information and explanation given to us and as per the test check conducted by us, personal expenses except under contractual obligation were not charged to the company's accounts.

22. The company has a reasonable system for recording receipts, issues and consumption of materials and stores and allocating materials consumed to the respective jobs, commensurate with its size and nature of its business.

23. Based on the information provided to us, quantitative reconciliation is carried out at the end of accounting year in respect of all major items of inventories i.e. finished goods and raw materials.

24. During the year the company has not written off any stock lost due to natural calamity.

25. There is a reasonable system of authorization at proper levels, and an adequate system of internal control commensurate with the size of the company and nature of its business, on issue of stores and allocation of materials and labour to jobs.

26. There is a reasonable system of price fixation taking into account the cost of production and market condition.
27. The company has a documented credit sales policy.

28. The Company has no commission agents in connection with sales made by them.

29. The system for continuous follow-up with debtors and other parties need to be adequately strengthened for recovery of outstanding amounts.

30. The management of liquid resources particularly in respect cash, bank and short term deposits are generally adequate. However certain suggestions are given in our previous Management report which the company may consider for optimum utilisation of funds.

31. As explained to us the activities carried out by the company are lawful and as per the Articles of Incorporation of the Company.

32. Activities / Investment decisions are made subject to prior approval of the Board.

33. The Company has established an effective budgetary control system.

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34. The details of remuneration to the Managing Director and Board Director have been disclosed in Para 35(ii) of the Explanatory Notes to Financial Statements.

35. We have not come across any case where the directives of the board have not been complied with.

36. On the basis of information and explanation given to us, we are of the opinion that the officials of the company have not transmitted any price sensitive information which are not made publicly available, unauthorized to their relatives / friends / associates or closed persons which would directly or indirectly benefit themselves.

Computerized Accounting Environment

1. The organisational and system development controls and other intern controls are adequate relative to size and nature of computer installations.

2. According to the information and explanation given to us, the Company has adequate safeguard measures of its data and back up facilities.

3. As regards back up facilities and disaster recovery measures, as per the information and explanation provided to us, the back-up files are taken and stored in different locations for the respective Regions as well as a backup is stored in main server at the company's Registered Office.

4. The operational controls may be improved to ensure correctness and validity of input data and output information.

5. As explained to us, measures taken by the Company to prevent unauthorized access over the computer installation and files are generally adequate.

Compliance of Companies Act

The company being a "Public Company" has complied with the requirements of Companies Act of the Kingdom of Bhutan 2000/Companies Act of Bhutan 2016 subject to followings significant violation:-

- Authorized Capital of the Company as mentioned in the Articles of Incorporation is Nu 50,000,000 consisting of 500,000 equity shares of Nu 100 each. The Company has issued shares certificate for 450,000 shares of Nu. 100 each in favour of Druk Holding & Investments, who are the only shareholders, in the form prescribed in Schedule VI of the Companies Act of the Kingdom of Bhutan 2000.However as per Section 24 of the said Act, a public company shall not issue any share certificate except a Global Share certificate representing all outstanding shares and to deposit such certificate with a depository in accordance with the Rules of the Securities Exchange.

We enclose in the **Annexure 'B'** replies to the questionnaire issued by the Royal Audit Authority.

R.SUBRAMANIAN AND COMPANY LLP * Chartered Accountants *
CHENNAI
600 004

General

1. *Going concern Problem:*
   The company has been earning profit consistently over the years. As per the Management representation, the activities of the company have expanded over the last few years with nationalization of extraction and supply of sand under the purview of the company. In addition to the above, the company has further expanded its activities by establishing stone crushing units across the country. In view of the above, we do not have any reasons to believe that this company is likely to become sick in near future. Accordingly the financial statements have been prepared under the going concern basis

2. *Ratio Analysis*
   Financial and Operational Ratio Analysis in respect of the Company are given in **"Annexure C"**.

3. ADHERENCE TO LAWS, RULES AND REGULATIONS:

The audit of the Company is governed by the Companies Act of Kingdom of Bhutan, 2000/Companies Act of Bhutan 2016 and the scope of audit is limited to examination and review of the financial statements, as produced to us by the management. In the course of audit we have considered the compliance of provisions of the said Companies Act and its Articles of Association relevant to the financial statements and we are unable to state whether the company has been complying with applicable laws (other than the Companies Act),rules and regulation, systems, procedures and practices.

For R. Subramanian and Company LLP
Chartered Accountants
FRN: 004137S / S200041

Place : Chennai

Dated : 15-FEB-2018

M S [signature]

R. SUBRAMANIAN AND COMPANY LLP * Chartered Accountants * CHENNAI 600 004

MS Ramesh
Partner
Mem. No.:028144

Ratio Analysis

(Annexure 'C' as referred in Paragraph 2 under General section of the "Report on Minimum Audit Examination & Reporting Requirements")

A. Ratio Assessing Profitability

S. No	Ratio	Profitability	31.12.17	31.12.16
1	Return on Investment	(EBIT/Net Assets or Net worth) * 100	(8.43)	5.07
2	Operating Profit	(Operating Profit excluding financial charges)/Net Sales *100	(10.23)	5.98
3	Net Profit Ratio	Net Profit before Tax/Net Sales*100	(11.31)	5.07

B. Ratio for Assessing Financial Health

			Ratio	
S. No	Ratio	Financial Health	2017	31.12.16
1	Capital Turnover Ratio	Net Sales/(Average Capital employed (Less Capital Reserve))	0.82	0.92
2	Fixed Assets Turnover Ratio	Net Sales/Net Fixed Assets	1.06	1.02
3	Stock Turnover Ratio	Cost of Goods sold including selling expenses/Average Inventory	3.91	3.05
4	Current Ratio	Current Asset/Current Liabilities	1.84	3.41
5	Liquid Ratio	(Current Assets Less Inventory less Pre-paid Expenses)/(Current Liabilities Less Bank Overdraft)	1.26	2.05

R.SUBRAMANIAN AND COMPANY LLP ★ Chartered Accountants ★
CHENNAI
600 004

NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED
Statement of Financial Position as at 31 December 2017

PARTICULARS	Note	Year Ended 31-12-2017	31-12-2016	1-1-2016
		(Nu.)	(Nu.)	(Nu.)
Assets				
Non current assets				
Property, plant and equipment	2	432,888,455	423,302,154	372,420,561
Intangible assets	3	28,003	128,605	213,242
Capital work-in-progress	4	19,273,344	13,999,947	37,442,121
Other non current assets	5	1,192,786	1,297,072	1,982,092
Net retirement benefit assets - gratuity	5	108,005	8,327,193	1,972,505
Other receivables	6	2,965,474	2,989,548	2,293,268
Total non current asset		**456,456,068**	**450,044,519**	**416,323,789**
Current assets				
Other current assets	7	42,244,325	22,732,609	31,673,490
Cash and cash equivalent	8	126,103,997	54,393,918	66,311,505
Trade and other receivables	9	27,113,373	70,732,121	46,480,448
Inventories	10	90,582,965	96,342,275	129,728,508
Total current assets		**286,044,660**	**244,200,922**	**274,193,950**
Total assets		**742,500,728**	**694,245,440**	**690,517,740**
Equity and liabilities				
Equity				
Share capital	SOCE	45,000,000	45,000,000	45,000,000
Retained earnings	SOCE	214,075,760	283,913,572	273,802,570
Statutory and other restricted reserves	SOCE	39,737,836	39,737,836	39,737,836
Other reserves	SOCE	223,236,492	223,236,492	221,670,403
Total equity		**522,050,088**	**591,887,900**	**580,210,809**
Liabilities				
Noncurrent liabilities				
Non current borrowings	11	52,830,177	20,760,223	28,558,492
Government grant	12	5,360,816	5,152,460	-
Provision for employee benefits	13	7,220,470	6,834,490	6,663,480
Total noncurrent liabitities		**65,411,463**	**32,747,172**	**35,221,972**
Current liabilities				
Current borrowings	11	14,582,944	7,648,605	6,772,684
Government grant	12	1,275,000	1,050,000	-
Provision for employee benefits	13	321,520	297,970	679,160
Trade and other payables	14	41,406,137	33,489,897	37,213,615
Other current liabilities	15	89,763,206	18,465,501	26,275,023
Provision for corporate income tax	16	7,690,370	8,658,396	4,144,477
Total Current liabilities		**155,039,176**	**69,610,368**	**75,084,959**
Total liabilities		**220,450,640**	**102,357,540**	**110,306,931**
Total liabilities and equity		**742,500,728**	**694,245,440**	**690,517,740**
Company Overview and Significant Accounting Policies	1			

Schedules referred to above form an integral part of the Accounts

In terms of our attached report of even dated
For R. Subramanian and Company LLP
Chartered Accountants
FRN: 004137S / S200041

On behalf of the Board

(M.S Ramesh)
Partner
Membership No. 028144
Chennai
Dated : The day of 2018

CHAIRMAN DIRECTOR CHIEF EXECUTIVE OFFICER
Thimphu
12.3.2018

R. SUBRAMANIAN AND COMPANY LLP * Chartered Accountants * Chennai 600 004

NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED
Statement of comprehensive income for the period ended 31 December 2017

Particulars	Note	Year Ended 31-12-2017 (Nu.)	Year Ended 31-12-2016 (Nu.)
Continuing operations			
Revenue	17	459,012,743	431,932,314
Total revenue		**459,012,743**	**431,932,314**
Cost of Sales	18	360,317,280	338,440,466
Gross Profit		**98,695,463**	**93,491,847**
Operating Expenses:			
Selling & Marketing Expenses	19	5,027,233	6,128,038
Administrative Expenses	20	68,837,137	60,335,259
Impairment of Non-current Assets		-	2,922,733
Provision for Slow moving stock		878,529	2,309,180
Provision for Compensation		75,853,592	-
Total Operating expenses		**150,596,491**	**71,695,209**
Operating profit (loss)		**(51,901,028)**	**21,796,639**
Profit (loss) before income tax		**(51,901,028)**	**21,796,639**
Income tax expense	21	9,926,456	14,059,377
Profit (loss) for the year		**(61,827,485)**	**7,737,261**
Earnings per share attributable to owners of the parent:			
Basic earnings per share			
From continuing operations		(137.39)	17.19
From profit for the year		(137.39)	17.19
Diluted earnings per share			
From continuing operations		(137.39)	17.19
From profit for the year		**(137.39)**	**17.19**
Statement of Other comprehensive income			
Profit (loss) for the year from continuing operations		(61,827,485)	7,737,261
Acturial gain(losses) on defined benefit plans		(7,917,620)	3,939,830
Total comprehensive income for the year		**(69,745,105)**	**11,677,091**
Total comprehensive income attributable to:			
Owners of the parent		(69,745,105)	11,677,091
		(69,745,105)	**11,677,091**
Total comprehensive income attributable to owners of the parent arises from:			
Continuing operations		(69,745,105)	11,677,091
		(69,745,105)	**11,677,091**
Company Overview and Significant Accounting Policies	1		

Schedules referred to above form an
integral part of the Accounts

In terms of our attached report of even dated
For R. Subramanian and Company LLP
Chartered Accountants
FRN: 004137S / S200041

On behalf of the Board

M S [signature]

(M.S Ramesh)
Partner
Membership No. 028144
Chennai
Dated : The day of 2018

CHAIRMAN

DIRECTOR

CHIEF EXECUTIVE OFFICER
Thimphu
12.3.2018

R.SUBRAMANIAN AND COMPANY LLP * Chartered Accountants * Chennai 600 004

NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED

Statement of changes in equity for the period ended 31 December 2017

A. Equity Share Capital

Amount in Nu.

Particulars	No. of Shares	Par Value	Total issued and paid up capital
As at 1st January 2016	450,000	100	45,000,000
Shares issued to DHI during the year	-	-	-
As at 31st December 2016	**450,000**	**100**	**45,000,000**
Changes in Equity during 2017	-	-	-
As at 31st December 2017	**450,000**	**100**	**45,000,000**

B. Other Equity

		Attributable to the owners of the Parent					Non-Controlling Interest	Total Equity
	Particulars	Reserves and Surplus		Other Reserves		Total		
		General Reserves	Retained Earnings	Revaluation Reserves	Capital Reserves			
A	**Balance as at 1 January 2016**	106,500,388	273,802,570	115,170,015	39,737,836	535,210,809	-	535,210,809
	Profit for the year-BAS		7,830,446			7,830,446		7,830,446
	IFRS adjustment		(93,185)					-
	Profit for the year		7,737,261			7,737,261		7,737,261
	Retirement benefit obligations-Retained Earning		3,939,830			3,939,830		3,939,830
	Transfer to General Reserves	1,566,089	(1,566,089)	-	-	-	-	-
	Tax Paid relating to earlier years	-	-	-	-	-	-	-
B	**Total Comprehensive Income**	108,066,477	283,913,572	115,170,015	39,737,836	546,887,900	-	546,887,900
	Dividends paid	-	-	-	-	-	-	-
	Proceeds from Shares issued	-	-	-	-	-	-	-
C	**Total Contributions by and Distributions to Owners**	-	-	-	-	-	-	-
D	**Total transactions with Non-Controlling Interests directly recognised in Equity**	-	-	-	-	-	-	-
E	**Balance as at 31st December 2016 (A+B+C+D)**	108,066,477	283,913,572	115,170,015	39,737,836	546,887,900	-	546,887,900
A	**Balance as at 1 January 2017**	108,066,477	283,913,572	115,170,015	39,737,836	546,887,900	-	546,887,900
	Profit for the year		(61,827,485)			(61,827,485)		(61,827,485)
	Retirement benefit obligations-Retained Earning		(7,917,620)			(7,917,620)		(7,917,620)
	Tax Paid relating to earlier years		(92,707)			(92,707)		(92,707)
	Transfers to reserves	-	-			-		-
B	**Total comprehensive income for the year**	108,066,477	214,075,760	115,170,015	39,737,836	477,050,088	-	477,050,088
	Dividends paid	-	-	-	-	-	-	-
	Proceeds from Shares issued	-	-	-	-	-	-	-
C	**Total Contributions by and Distributions to Owners**	-	-	-	-	-	-	-
D	**Total transactions with Non-Controlling Interests directly recognised in Equity**	-	-	-	-	-	-	-
E	**Balance as at 31st December 2017 (A+B+C+D)**	108,066,477	214,075,760	115,170,015	39,737,836	477,050,088	-	477,050,088

Number of shares authorised for each class of shares:

Authorised share capital	As at 31 December	
	2017	2016
Number of ordinary shares of face value Nu.100 each	500,000	500,000

Schedules referred to above form an integral part of the Accounts

In terms of our attached report of even dated
For R. Subramanian and Company LLP
Chartered Accountants
FRN: 004137S / S200041

On behalf of the Board

(M.S Ramesh)
Partner
Membership No. 028144
Chennai
Dated : The day of 2018

CHAIRMAN

DIRECTOR

CHIEF EXECUTIVE OFFICER
Thimphu
12.3.2018

R. SUBRAMANIAN AND COMPANY LLP
Chennai
600 004
Chartered Accountants

NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED
Period covered: 31 December 2017
Statement of Cash Flows

Particulars	Note	Year ended 31-12-2017	Year ended 31-12-2016
		(Nu.)	(Nu.)
Cash flows from operating activities			
Profit before income tax		(51,901,028)	21,889,823
Adjustments for:			
– Depreciation and amortisation	2&3	57,696,689	55,494,832
– Non cash			
– Provision for Impairment of non current assets	2		2,922,733
– (Profit) loss on disposal of property, plant and equipment	17	(3,054,505)	1,678,937
– Acturial gain(losses) on defined benefit plans	SOCE	(7,917,620)	3,939,830
– Release of Grant received to SCI	12	(1,066,644)	(797,540)
– Liabilities no more required written back	17	(1,651,323)	(3,030,155)
– Fixed assets written off	14		3,946,224
– Changes in inventories	10	5,759,309	33,386,233
– Changes in trade and other receivables	9	43,618,748	(26,786,895)
– Changes in trade and other payables	11,13	16,911,432	780,929
– Changes in other liabilities	15	71,297,705	(8,618,274)
– Changes in current and non-current assets	4,6,7	(19,383,356)	11,371,659
Cash generated from operations		**110,309,406**	**96,178,337**
Interest paid	20	4,964,026	3,912,690
Interest received	17	(6,033,320)	(5,352,108)
Income tax paid		(10,987,190)	(9,545,458)
Net cash flows from operating activities		**98,252,922**	**85,193,461**
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(67,891,242)	(118,387,731)
Purchase of intangible assets	3	-	(84,000)
Purchase of capital WIP	4	(5,273,398)	23,442,174
Receipt of Grant for Glulam Project	12	1,500,000	7,000,000
Proceeds from sale of property, plant and equipment		3,763,359	3,632,049
Net Retirement Benefit Assets	5	8,219,188	(6,354,688)
Increase in Fixed Deposit	5	(327,868)	(309,595)
Interest Received	17	6,033,320	5,352,108
Net cash used in investing activities		**(53,976,639)**	**(85,709,684)**
Cash flows from financing activities			
Interest Paid	20	(4,964,026)	(3,912,690)
Long Term Borrowings repaid	11	32,069,955	(7,798,269)
Issue of Share Capital	SOCE	-	-
Dividends paid to owners of the parent		-	-
Net cash used in financing activities		**27,105,929**	**(11,710,959)**
Net increase or (decrease) in cash and cash equivalents		71,382,211	(12,227,182)
Cash and cash equivalents at beginning of year		49,084,323	61,311,505
Cash and cash equivalents at end of the year	5	**120,466,534**	**49,084,323**

RECONCILIATION OF CASH AND CASH EQUIVALENT

As per Cash Flow Statement	**49,084,323**	**61,311,505**
As per Statement of Financial Position		
Cash in hand	249,103	2,492,547
Bank Balances	120,217,432	46,591,776
Short Term Bank Deposit	5,637,463	5,309,595
TOTAL AS PER STATEMENT OF FINANCIAL POSITION	**126,103,997**	**54,393,918**

Schedules referred to above form an integral part of the Accounts

In terms of our attached report of even dated
For R. Subramanian and Company LLP
Chartered Accountants
FRN: 004137S / S200041

On behalf of the Board

(M.S Ramesh)
Partner
Membership No. 028144
Chennai
Dated : The day of 2018

CHAIRMAN

DIRECTOR

CHIEF EXECUTIVE OFFICER
Thimphu
12.3.2018

R.SUBRAMANIAN AND COMPANY LLP Chennai 600 004 Chartered Accountants

NOTE-1

Company Overview and Significant Accounting Policies

1. Reporting Entity (Company overview)

Natural Resources Development Corporation Limited (NRDCL) is a wholly owned subsidiary of Druk Holdings and Investments (DHI). The Company was incorporated under the Companies Act of the Kingdom of Bhutan in 1984 through a Royal Charter. The ultimate parent is the Royal Government of Bhutan.

The principal activities of NRDCL is supplying and making the basic construction materials such as timber, sand and stone affordable, accessible and available to the public at large. Profit is not the main objective of the company.

All significant operations take place within Bhutan. The Company is a limited liability company incorporated and domiciled in Bhutan. The address of its principal place of business is in Thimphu, Bhutan.

These financial statements relate to the year ended 31 December 2017.

2. Directors' statement of Compliance

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company as at 31 December of each financial year and their financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Company have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgments and estimates and that all relevant financial reporting and accounting standards have been followed.

3. Basis of preparation of financial statements

(i) Compliance with International Financial Reporting Standards (IFRS)

The financial statements have been prepared in accordance with all applicable IFRS and other applicable laws such as Companies Act of the Kingdom of Bhutan, 2016.

These financial statements are the first financial statements of the Company in compliance with complete International Financial Reporting Standards (IFRSs). The transition was carried out in accordance with IFRS 1, "*First time adoption of International Financial Reporting Standards*".

The preparation of financial statements is in conformity with IFRS that requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree

R.SUBRAMANIAN AND CO... CHENNAI 600 004 ★ Chartered Accountants of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are:

Income: Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

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

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

Tax: The application of tax law to specific circumstances and transactions require the exercise of judgment by the management.

The functional currency of preparation is the Bhutanese Ngultrum.

(ii) ***Historical cost convention***

The financial statements have been prepared on a historical cost basis, except for the following:

- assets held for sale – measured at fair value less cost to sell; and
- defined benefit plans – plan assets measured at fair value

4. Current versus non-current classification

The Company presents assets and liabilities in the Balance Sheet based on current/non-current classification.

An asset is classified as current when it is:

a) Expected to be realised or intended to be sold or consumed in normal operating cycle;

b) Held primarily for the purpose of trading;

c) Expected to be realised within twelve months after the reporting period, or

d) Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

a) It is expected to be settled in normal operating cycle;

b) It is held primarily for the purpose of trading;

c) It is due to be settled within twelve months after the reporting period, or

d) There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

R.S. SUBRAMANIAN AND COMPANY LLP
CHENNAI 600 004
Chartered Accountants

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

5. Accounting estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions. These estimates, judgments and assumptions affect the application of accounting policies and the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Application of accounting policies that require critical accounting estimates involving complex and subjective judgments and the use of assumptions in these financial statements have been disclosed in wherever necessary.

Accounting estimates could change from period to period. Actual results could differ from those estimates. Appropriate changes in estimates are made as management becomes aware of changes in circumstances surrounding the estimates. Changes in estimates are reflected in the financial statements in the period in which changes are made and, if material, their effects are disclosed in the notes to the consolidated interim financial statements.

6. Application of International Financial Reporting Standards

The financial statements have been prepared in line with International Financial Reporting Standards.

7. Foreign Currency translation

Foreign currency transactions that are completed within the accounting period are translated into the functional currency using the exchange rates prevailing at the date of settlement.

Exchange rate for monetary assets and liabilities in foreign currencies at balance date is not applicable to NRDCL.

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, if any are recognized in the statement of income.

All other foreign exchange gains and losses, if any are presented in the statement of Comprehensive Income.

8. Property, Plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairments, if any. Cost includes purchase price, taxes and duties, labour cost, direct overheads for self constructed assets, other direct costs incurred up to the date the assets is

R.SUBRAMANIAN AND COMPANY ★ Chartered Accountants ★ CHENNAI 600 004 ready for its intended use including initial estimate of dismantling and site restoration cost, if any.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is possible that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is recognized.

Advances paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of assets not put to use before such date are disclosed under "Capital Work-in-progress". Capitalization of Capital W.I.P has been done on the basis of completion certificate issued by the concerned authority. Subsequent expenditure relating to property, plants and equipment is capitalized only when it is probable that future economic benefits associated with these will flow and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Spare parts and servicing equipment that are specific to major items of plants and equipment are included in fixed assets and are depreciated over the same useful life as the corresponding plant item.

Initially, land is measured at cost. Land whose fair value is measured reliably is carried at the revalued amount equal to the fair value and difference in book value has been credited to Equity as Revaluation Surplus.

The company has several plots of land on an operating lease rental basis without any clause of transition of ownership. These lands are obtained from the Government of Bhutan, mostly for use as timber depot and quarry lease. These are cancellable leases and have only rental payment per annum and minimum amount of security deposit at the time of signing of agreement. These leases being operative leases are not to be capitalized and rents paid are equally charged to revenue from year to year till the conclusion of the lease period.

The rates of Depreciation chosen for the first income year are used for the entire period in which the assets are depreciated.

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 life, as follows:

Land	Not applicable
Buildings and civil structures	
a) Permanent	30-45 years
b) Semi-Permanent	5 years
c) Temporary	1 year

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Chartered Accountants

*Road	10 years
Plant and machinery and other equipment	6 -7 years
Furniture and fixtures	6-7 years
Computers and office equipment	6 -7 years
Furniture and fixture	6-7 years
Vehicles	6-7 years
Software application	3 years

*Forest roads treated as semi-permanent are amortized over a useful life of 10 years

Depreciation methods, useful lives and residual values are reviewed, and adjusted appropriately at each reporting date. Change in the estimated useful life, residual value and/or depreciation method, if any, is depreciated prospectively over the asset's remaining revised useful life.

The cost and related accumulated depreciation are eliminated from the financial statements upon sale or retirement of the asset and the resultant gains or losses are recognized in net profit in the statement of comprehensive income. Assets to be disposed off are reported at the lower of the carrying value or the fair value less cost to sell.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount

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

On transition to IFRS, the company has elected to measure its property, plant and equipment at cost in accordance with IFRS as the deemed cost of the property, plant and equipment as at 1 January, 2016.

9. Intangible assets

Intangible assets include Computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of the asset.

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

On transition to IFRS, the company has elected to measure its intangible assets on cost in accordance with IFRS as the deemed cost of the intangible assets as at 1 January, 2016.

10. Impairment

The company assesses at each balance sheet date whether there is objective evidence that an asset or a group of assets is impaired. An asset is considered impaired if objective

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evidence indicates that one or more events have had a negative effect on the value of an asset. Property, Plant and Equipment (PPE) are evaluated for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flow that are largely independent of those from other assets. In such cases, the recoverable amount is determined for the Cash Generating Unit (CGU) to which the asset belongs.

If asset(s) is/are considered to be impaired, the impairment to be recognized in net profit in the statement of comprehensive income is measured by the amount by which the carrying amount of the assets exceeds the estimated recoverable amount of the assets.

11. Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, 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 or sale.

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

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

12. Grants

Grants from RGOB and other organizations relating to cost/expense items are recognized in the income statement over the period necessary match them with the costs that they are intended to compensate. The unallocated portion of the grant is presented as part of Deferred Grants in the Statement of Financial Position.

Grant received as compensation for expense/loses already incurred or with no future related costs is recognized as income in the year it is received or becomes receivable.

Grants relating to property, plant and equipment are included in noncurrent liabilities as Deferred Government Grants.

Depreciation on the assets (Property, Plant and Equipment) acquired through grants is charged against the grant and not to the Operating Statement.

13. Research and Development costs

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Research costs are recognized as an expense in the year in which they are incurred. Development costs are only capitalized if a potentially profitable product has been found and management has given approval to further develop the product.

If the company decides to proceed and market the product, development costs will be amortized over the expected profitable period of marketing the product, not exceeding 5 years. Other development costs are expensed immediately if the decision is made not to proceed to market the product.

14. Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

The assets held for sale are presented separately in the statement of financial position

15. Financial assets

(i) Initial measurement

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

(ii) Classification and subsequent measurement

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

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

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

Financial assets measured at amortized cost:

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

a. The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows; and

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b. Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

Financial instruments measured at fair value through other comprehensive income

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

a. the objective of the business model is achieved by both collecting contractual cash flows and selling financial assets; and

b. the asset's contractual cash flow represent SPPI.

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

Financial instruments measured at fair value through profit and loss

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

(iii) Impairment of financial assets

The Company assesses on a forward looking basis the expected credit losses associated with its assets carried at amortized cost and FVOCI debt instruments. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 24 (C) details how the Company determines whether there has been a significant increase in credit risk.

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

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(iv) Derecognition of financial assets

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

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

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

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

(v) Income recognition

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

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

16. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

a. In the case of items held for sale in the ordinary course of business, net realizable value is the estimated selling price less applicable variable selling expenses

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b. In the case of items held for use in production or as spares, the net realizable is the estimated value of the item in its ordinary use in the company

17. Financial liability

(i) Initial recognition and measurement

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

(ii) Subsequent measurement

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

Financial Liabilities at fair value through profit or loss

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

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

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

Borrowings

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

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

Trade and other payables

Trade and other payables are initially recognized at the fair value of the amounts to be paid. If payment is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current liabilities. If not, they are presented as non-current liabilities. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. 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.

iii) Derecognition

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

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

Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less cumulative amortization, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument

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and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

18. 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

19. Offsetting financial instruments

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

20. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date in the countries where the company operates and generates taxable income.

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 recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated 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 realized or the deferred income tax liability is settled.

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

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Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

At each Statement of Financial Position date, the tax positions are reviewed, and to the extent that new information becomes viable which causes the company to change its judgment regarding the adequacy of existing income tax liabilities, such changes to income tax liabilities are duly recognized in income tax expense in the year in which such determination is made.

Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax charge for the year in which the assessment is completed.

21. Employee benefits

a) Retirement Benefits

Retirement benefit liabilities are recognized when the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The gratuity and leave wages is accrued and provided for on the basis of actuarial valuation as at the Statement of Financial Position date. Actuarial gains or losses arising adjustments and changes in actuarial assumptions are charged in other comprehensive income in the period in which they arise. Changes in service and interest are also charged to other comprehensive income.

The contribution towards the gratuity liability is funded by allocating a separate fund or assets and investment retu'rn eared thereon. Leave encashment is not supported by a separate fund

b) Other benefits

Other benefits such as leave encashment, bonus and performance Based Variable Allowance (PBVA) are accrued at year end without actuarial valuation.

Leave encashment, Bonus and the expected cost of Performance Based Variable Allowance (PBVA) is recognized as an expanse when there is legal or constructive obligation to make such payment as a result of past performance and reliable estimate of the obligation can be made and accrued as at the Statement of Financial Position date without actuarial valuation

22. Provisions and Contingent Liabilities

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Provisions are recognized 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.

Contingent Assets are neither recognized, or disclosed

Provisions, contingent liabilities and contingent assets are reviewed at each Balance Sheet date

23. 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 recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the group's activities, as described below

a) Income from sale of Construction materials:

The Company derives revenues primarily from sale of construction materials such as timber, sand, stone and stone aggregates. Arrangements with customers for construction materials related services are on a fixed-price, fixed-timeframe or on a time-and-material basis.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Sales are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and no significant uncertainty exists regarding the amount of consideration that is derived from the sale of construction materials (timber and other products).

b) Interest income

Interest income is recognized on a time proportion basis taking into account the amount outstanding and the effective interest rate applicable

c) Other items of revenue

Other items of revenue which arise from the provision of services incidental to the core activities of the business are recognized when services are provided and it is probable that economic benefits associated with the transaction will flow to the company and amount can be measured reliably.

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Liquidated damages and penalties occur when the contractor fails to meet the key performance indicators set out in their contract with the company. Income resulting from claims of liquidated damages and penalties is recognized as other income when amount can be reliably measured and the economic benefits will flow to the company. When there is uncertainty as to measurement or ultimate collectability revenue recognition is postponed until such uncertainty is resolved.

Advances received for services and products are reported as client deposits until all conditions for revenue recognition are met.

24. Segment Reporting

The Company is in the business of supplying nature based construction materials. Its operating facilities are all situated within the country (Royal Kingdom of Bhutan) only. Under the broad segment of construction materials supply service the company has subsidiary segments of timber and by-products production and supply, sand extraction and supply, stone and stone chips production and supply.

However, as the company's share are not to be listed with any stock exchange the provision of BFRS 8- Operating Segments is not applicable to the company.

25. Earnings per Share

Basic Earnings Per Share is calculated by dividing the net profit/(loss) after tax for the period attributable to equity shareholders of the company by the total number of shares which are fully paid up.

26. Exploration for and Evaluation of mineral resources

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

27. Events After Balance Date

On 12.03.2018 the Board of Directors approved one month's basic pay as on 31.12.2017 as Bonus and on 15.03.2016 the Annual General Meeting approved 4% of the annual basic pay as Performance Based Variable Allowance (PBVA).

No dividend was declared for the year 2017.

28. Comparative information

Where necessary certain comparative information has been reclassified in order to provide a more appropriate basis for comparison. As disclosed in Note 3 Application of Bhutanese Accounting Standards, Comparatives have also been amended when a Accounting Standard has been applied retrospectively.

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Explanatory Notes on Financial Statements

29. Natural Resources Development Corporation Limited (NRDCL) is a wholly owned subsidy company of Druk Holding and Investments (DHI), a holding company owned by the Royal Government of Bhutan.

30. The Company has adopted Bhutanese Accounting Standards (BAS) from the year 2013 correspondingly the financial figures of the earlier year have been restated wherever necessary as per BAS.

31. Functional currency used is Ngultrum (Nu.) and figures are rounded off to the nearest Ngultrum.

32. The Operating Cycle for the Company has been considered as one year and the corresponding bifurcation of assets an

33. Financial Statements

    33.1 Share Capital

    All ordinary shares are ranked equally. The authorized share capital of the company is Nu. 50 million (500,000 equity share @ Nu.100 per share).

    As of the report date, the total subscribed and paid up share capital is Nu. 45 million (450,000 @ Nu.100 per share).

    33.2 Capital Management

    The company manages its capital so as to ensure funds are available to meet future commitments, as well as commitments to outside parties. The company has a requirement to meet dividend and tax expectations as contained to the Annual Compact, the parent company and the RGOB.

    Capital expenditure is mostly met from operating cash flows. Fixed term borrowings are made mainly for major capital projects. Such borrowings are repaid based on applicable Terms and Conditions.

34. Inventory

    a. Products

    The Company has adopted cost (using the weighted average method) for valuation of closing inventory. Refer Annexure-1

    b. Spare Parts Inventory

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i) The carrying amount of inventory on spare parts as on 31st December'17 is Nu. 15,323,613.73 (previous year Nu. 15,051,306.26) including dead stock of Nu. 2,659,207.20 (previous year Nu. 2,732,469.18) Provision has been made fully in respect of the Dead stock.

ii) No part of the inventory was sold during the year 2017.

35. Deferred Revenue Expenditure

The company treats the long term training expenditure of the employees as deferred revenue expenditure and the same is written off over a period of 3 years. In view of the same an amount of Nu. 168,667.00 (2016 - Nu. 912,933.00) as shown as assets in the financial statements.

36. The confirmations for the closing balances of Receivables, Payables, Creditors, and Advances have not been obtained and as such, the amounts are stated as per their respective book balances.

37. Retirement Benefit Obligations

a) Defined Benefit Scheme

Qualifying employee are members of the defined benefit plan sponsored by the company. Employees are entitled to a lump sum payment computed based on the last basic pay drawn times the number of completed years of service with maximum limit of Nu. 1,500,000 (One million five hundred thousand).

i) Statement of Financial Position

	2017	2016
Defined benefit obligation (DBO)	(72,788,955)	(59,813,020)
Fair value of Plan Assets (FVA)	72,896,960	68,140,210
Funded Status (Surplus/(Deficit)	108,005	8,327,190
Effect of Asset ceiling	-	-
Net defined benefit asset (DBA)	**108,005**	**8,327,190**

ii. Statement of Comprehensive Income

	2017	2016
Current Service Cost	3,662,680	4,083,930
Past Service cost- plan amendments	-	(2,760,250)
Curtailment cost/(credit)	-	-
Settlement cost/(credit)	-	-
Service cost	3,662,680	1,323,680
Net interest on net defined liability/(assets)	(863,480)	(845,270)
Immediate recognition of (gains)/losses-other		

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long term employee benefit plans		
Cost Recognized in Statement of comprehensive Income	**2,799,200**	**478,410**

iii. Other Comprehensive Income

	2017	2016
Actuarial (gain)/loss due to liability experience	7,917,620	(3,939,830)
Actuarial (gain)/loss due to liability assumption changes		-
Actuarial (gain)/loss arising during period	7,917,620	(3,939,830)
Return on plan assets (greater)/less than discount rate	1,096,700	7,505,820
Actuarial (gains)/losses recognized in OCI	9,014,320	3,565,990
Adjustment for limit on net asset		

- Scheme is funded by allocating a separate fund.
- Retirement age:

  Grade 3 and above: 60 years
  Grade 4 and below: 58 years

- Benefit payable on Retirement/Resignation/Disability/Death
- Form of benefit: Lump sum with maximum ceiling of Nu. 1,500,000.00

b) Leave Encashment Benefits

- An employee can encash leave equal to one month basic pay (excluding all allowances) once a year provided there is a minimum of 30 days leave to his credit.
- Encashing leave in fraction of a month is not permitted
- Maximum leave accumulation permitted is 60 days.

38. Details of transactions with Related Parties:

Name of Related Party	Relationship	Nature of transaction with the related party	Amount in Nu.
Druk Holding and Investments	Holding company	a. Equity Shares held by DHI	45,000,000.00
		b. Inter group Brand management Fees (expense)	812,973.45
		c. Hire charges (Income)	40,000.00
		d. Corporate Guarantee Fee	173,880.38
		e. Trade payables	173,880.38
Bhutan Power Corporation	Fellow Subsidiary	a. Electricity Charges	860,805.63
		b. Sale of Natural Resources (Income)	904,292.94

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Limited		c. Intra-group Deposit d. Building and structure e. Trade payables	171,453.00 27,754.29 27,662.00
Bank of Bhutan Limited	Fellow Subsidiary	a. Bank Charges b. Bank balance c. Hire charges (Income)	12,250.35 72,178,331.39 10,000.00
Bhutan Telecom Limited	Fellow Subsidiary	a. Communication; internet and telephone charges b. Hire charges (Income) c. Trade payable	1,622,196.33 13,000.00 417,061.40
Wood Craft Center Ltd	Fellow Subsidiary	a. Furniture purchase b. Log sales c. Trade receivables d. Trade payables	196,235.00 951,006.00 95,277.00 39,000.00
Druk Air Corporation Limited	Fellow Subsidiary	a. Flight tickets expenditure b. Commission (Income) c. Trade receivables	375,726.00 26,213.85 26,213.85
State Trading Corporation Limited	Fellow Subsidiary	a. Running & Maintenance Of Vehicle b. Purchase of ICT products c. Purchase of vehicles d. Intra-group advances e. Hire Charges (Income) f. Trade payables	979,773.74 1,691,976.00 310,979.67 1,470,000.00 30,000.00 404,533.00
Construction Development Corporation Limited	Fellow Subsidiary	a. Sale of natural resources b. Running & Maintenance others c. Hire Charges (Income) d. Trade payable e. Trade receivables	968,665.49 91,084.00 50,000.00 16,799.00 170,373.00
Druk Green Power Corporation Limited	Fellow Subsidiary	a. Sale of natural resources	94,534.03
State Mining Corporation Limited	Fellow Subsidiary	a. Sale of natural resources	27,857.52

Key Management Personnel

A) Managing Director's Remuneration and other benefits

Particulars	2017 (Nu)	2016 (Nu)
Salary	1,235,882	1,327,800
Other benefits	88,836	304,436
Provident Fund	70,400	92,972
Sitting fee	52,000	81,000
Total	**1,447,118**	**1,806,208**

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B) Board Directors

Position	Name	2017 (Nu)	2016 (Nu)	Remarks
Chairperson	Mr. Chencho Norbu		24,000	Resigned
Chairperson	Dasho Karma W Penjor	96,000	48,000	
Director	Mr. Phento Tshering	88,000	56,000	
Director	Mrs. Kinley Tshering	88,000	68,000	
Director	Mr. Tashi	104,000	104,000	
Director	Mr. Karma Dorji	72,000		New
Director	Mr. Sonam Tobgay Dorji		20,000	Resigned
Director	Mr. Tenzin Namgay		12,000	Resigned
Director	Mr. Karma Galleg		88,000	Resigned
Director	Mr. Karma Jattu	96,000	80,000	
Director	Mr. Choney Om	84,000		New

C) Special Invitees

Position	Name	2017 (Nu)	2016 (Nu)
Company Secretary	Mr. Dorji Wangmo	24,000	60,000
Chairperson, DHI	Dasho Sangay Khandu	16,000	16,000
CEO, DHI	Dasho Karma Y Raydi	16,000	16,000
CEO, Middle Path to Bhutan	Mr. Karma Tsetop Rinchen	16,000	16,000
General Manager	Mr. Sonam Chophel	44,000	6,000
Company Secretary	Mr. Kinley Wangdi	36,000	
Internal Auditor	Mr. Lobzang Thinley	2,000	
DHI	Mr. Ugyen Wangdi	6,000	
DHI	Mrs. Phub Lham	6,000	

39. Foreign Exchange Translation

Certain foreign exchange transactions were undertaken by the Company during the year. However these transactions did not result into any profit or loss from foreign exchange transaction because all payment on account of foreign purchases are done upfront using the spot exchange rate between the functional currency (Ngultrum) and foreign currency at the date of transaction. Since 100% payment is released upfront there is no effect due to fluctuation in the exchange rate and therefore, creation of any foreign exchange asset or liability does not arise and no gain or loss.

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40. Green Compensatory Plantation

Name of the sponsor	Total Plantation area (Hec)	Fund Received (Nu)	Interest Earned (Nu)	Total Fund (Nu)	Fund Utilized (Nu)	Balance Fund (Nu)
Bhutan Telecom Ltd	6 hectares	926,837.00	26,264.95	953,101.95	437,382.00	515,719.95
Bank of Bhutan	4 hectares	736,954.48	18,404.64	745,359.12	370,381.00	374,978.12
Bhutan Power Corporation	4 hectares	726,955.00	20,600.64	747,555.64	259,751.00	487,804.64
Druk Green Power Corporation	8 hectares	1,578,100.00	44,720.62	1,622,820.62	574,439.00	1,048,381.62
Total	22 hectares	3,968,846.48	109,990.85	4,068,837.33	1,641,953.00	2,426,884.33

41. Provision towards Non moving Raw materials held at Stone Crushing Plants

Taking into consideration the slow movement of certain Raw materials held at Stone Crushing plant, the company during the year under review provided diminution towards such inventories aggregating to Nu. 878,529.00

42. The inventory is valued based on the physical stock report. The effect on inventory valuation as a result of difference in book and physical inventory is given below:

Products	Book Balance (cft)	Physical balance (cft)	Difference (cft)	Value (Nu)
Stone	516,136.47	213,360.00	302,776.47	878,051.76
Stone raw material	2,012,366.85	1,667,017.88	345,348.97	4,117,665.13
Total	**2,528,503.32**	**1,880,377.88**	**648,125.44**	**4,995,716.89**

43. Advances recoverable from negligent employees :

Advances recoverable from others include an amount of Nu. 342,968.15 which is recoverable from a negligent employee who was held accountable for the additional cost incurred by the company in the construction of a road project. Legal proceedings have been initiated against the employee and the management is confident of recovering the amount.

44. During the year the company as per their policy have identified bad debts and have provided for the same amounting to Nu. 5,973,638/-

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45. Based on the decisions by the Supreme Court and the High Court of Bhutan, the company has provided for the liabilities for a net compensation of Nu. 75,853,592 which are payable to the contractors for pre-closure of the contract.

46. Contingent Liability

The Ngangshing stone quarry leased from Department of Geology & Mines, Ministry of economic affairs has not been in operation for more than two years. As per the policy it is subjected to automatic termination of the contract. The company has the obligation to restore the harvested areas. As per the policy requirement, the company has opened joint account with the Department of Geology and Mines and deposited Nu. 450,380 as security deposit for restoring the harvested areas. The actual liability for quarry restoration work is not ascertained.

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Annexure-I

NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED

QUANTITATIVE ANALYSIS(cft) OF STOCK as on 31.12.2017

Timber 19-Mar-18

Sl.No.	Divisions	Opening Stock as on 1.1.17 (Cft.)	Production (Cft.)	Disposal (Cft.)	Book Balance as on 31.12.17 (Cft.)	Physical Balance as on 31.12.17 (Cft.)	Total Value as on 31.12.17
1	Wang-2017	34,498.08	156,424.92	159,787.04	31,135.96	27,854.78	4,390,191.65
	-2016	*26,000.58*	*289,644.23*	*281,146.73*	34,498.08	*34,498.08*	*4,494,893.97*
2	Rinpung-2017	32,962.34	502,673.96	495,188.55	40,447.75	40,447.80	4,109,979.52
	-2016	*49,020.40*	*475,583.63*	*491,633.48*	32,970.55	*32,962.34*	*2,784,809.64*
3	Zhonggar-2017	143,519.67	161,704.34	172,823.28	132,400.74	132,400.72	16,564,970.82
	-2016	*158,901.23*	*297,700.75*	*313,082.31*	143,519.67	*143,519.67*	*18,497,659.17*
4	Sha -2017	43,659.42	298,158.34	281,969.01	59,848.74	59,848.75	6,746,073.87
	-2016	*45,548.35*	*175,341.04*	*177,229.97*	43,659.42	*43,659.42*	*6,260,550.31*
5	P/Ling -2017	10,105.27	35,841.85	35,645.00	10,302.12	10,302.12	1,535,633.37
	-2016	*11,772.25*	*43,247.41*	*44,914.39*	10,105.27	*10,105.27*	*1,479,411.53*
6	Jakar -2017	99,407.46	414,405.42	421,869.49	91,943.39	91,943.39	12,592,300.37
	-2016	*156,335.15*	*405,574.68*	*462,193.32*	99,716.50	*99,407.46*	*10,859,154.72*
	Total : 2017	**364,152.25**	**1,569,208.83**	**1,567,282.39**	**366,078.69**	**362,797.56**	**45,939,149.59**
	Total : 2016	***447,577.96***	***1,687,091.74***	***1,770,200.20***	***364,469.50***	***364,152.25***	***44,376,479.34***

Briquette 19-Mar-18

Sl.No.	Divisions	Opening Stock as on 1.1.17 (KG)	Production (KG)	Disposal (KG)	Book Balance as on 31.12.17 (KG)	Physical Balance as on 31.12.17 (KG)	Total Value as on 31.12.17
1	Wang-Briq. -2017	3,180.00	263,160.00	185,340.00	81,000.00	81,000.00	486,000.00
	-2016	36,330.00	233,880.00	266,580.00	3,630.00	3,180.00	19,080.00
	Total : 2017	**3,180.00**	**263,160.00**	**185,340.00**	**81,000.00**	**81,000.00**	**486,000.00**
	Total : 2016	**36,330.00**	**233,880.00**	**266,580.00**	**3,630.00**	**3,180.00**	**19,080.00**

Firewood

1	Wang -Firewood -2017	179.00	720.00	473.00	426.00	426.00	376,562.70
	-2016	405.00	320.00	546.00	179.00	179.00	158,227.05
	Total : 2017	**179.00**	**720.00**	**473.00**	**426.00**	**426.00**	**376,562.70**
	Total : 2016	**405.00**	**320.00**	**546.00**	**179.00**	**179.00**	**158,227.05**

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NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED

QUANTITATIVE ANALYSIS OF STOCK as on 31.12.2017

Sand | 19-Mar-18

Sl.No.	Divisions	Opening Stock as on 1.1.17 (m^3)	Production (m^3)	Disposal (m^3)	Book Balance as on 31.12.17 (m^3)	Physical Balance as on 31.12.17 (m^3)	Total Value as on 31.12.17 (m^3)
1	Wang -2017	4.99	296.00	240.60	60.39	60.39	13,279.76
	-2016	*25.39*	*248.00*	*268.40*	*4.99*	*4.99*	*1,097.30*
2	Ripung-2017	-	21.00	21.00	-	-	-
	-2016	-	80.00	80.00	-	-	-
3	Zhonggar -2017	1,496.00	53,212.79	54,708.79	-	-	-
	-2016	25,080.00	38,141.38	50,398.58	12,822.80	1,496.00	162,381.25
4	Sha -2017	23,680.00	319,130.00	313,112.00	29,698.00	19,669.00	2,272,842.03
	-2016	23,345.55	273,059.51	269,042.51	27,362.55	23,680.00	2,368,304.02
5	P/Ling -2017	4,523.00	48,553.00	53,076.00	-	-	-
	-2016	9,118.00	52,824.00	55,730.00	6,212.00	4,523.00	109,125.69
6	Jakar -2017	-	105,277.49	79,852.74	25,424.75	25,424.75	2,281,017.68
	-2016	40,353.15	45,754.96	58,280.46	27,827.65	-	-
	Total : **2017**	**29,703.99**	**526,490.28**	**501,011.13**	**55,183.14**	**45,154.14**	**4,567,139.48**
	Total : 2016	**97,922.09**	**410,107.85**	**433,799.95**	**74,229.99**	**29,703.99**	**2,640,908.26**

Stone | 19-Mar-18

Sl.No.	Divisions	Opening Stock as on 1.1.17 (Cft)	Production (Cft)	Disposal (Cft)	Book Balance as on 31.12.17 (Cft)	Physical Balance as on 31.12.17 (Cft)	Total Value as on 31.12.17 (Cft)
1	Wang -2017	0.00	0.00	0.00	0.00	0.00	0.00
	-2016	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
2	Rinpung -2017	0.00	11,844.00	11,844.00	0.00	0.00	0.00
	-2016	*0.00*	*9,840.00*	*9,840.00*	*0.00*	*0.00*	*0.00*
3	Zhonggar -2017	0.00	567,651.91	567,651.91	0.00	0.00	0.00
	-2016	1,186,680.00	705,696.40	705,696.40	1,186,680.00	0.00	0.00
4	Sha -2017	0.00	30,174.00	30,174.00	0.00	0.00	0.00
	-2016	0.00	0.00	0.00	0.00	0.00	0.00
6	P/Ling -2017	0.00	3,625,600.00	3,412,240.00	213,360.00	213,360.00	192,691.47
	-2016	0.00	3,963,086.00	3,963,086.00	0.00	0.00	0.00
7	Jakar -2017	318,902.47	1,340,296.96	1,356,422.96	302,776.47	0.00	0.00
	-2016	337,336.20	750,578.98	769,012.71	318,902.47	318,902.47	836,403.20
	Total : **2017**	**318,902.47**	**5,575,566.87**	**5,378,332.87**	**516,136.47**	**213,360.00**	**192,691.47**
	Total : 2016	**1,524,016.20**	**5,429,201.38**	**5,447,635.11**	**1,505,582.47**	**318,902.47**	**836,403.20**

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NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED

QUANTITATIVE ANALYSIS OF STOCK as on 31.12.2017

Stones Chips

Sl.No.	Divisions	Opening Stock as on 1.1.17 (CFT)	Production (CFT)	Disposal (CFT)	Book Balance as on 31.12.17 (CFT)	Physical Balance as on 31.12.17 (CFT)	Total Value as on 31.12.17 (CFT)
1	**Rinpung**						
	Phubana SCP -2017	-	-	-	-	-	-
	-2016	20,400.34	138,184.10	158,584.44	-	-	-
2	**Zhonggar**						
	Tingzam SCP -2017	392,091.41	105,473.74	156,178.00	341,387.15	341,387.15	5,800,652.46
	-2016	806,408.92	79,974.49	494,292.00	392,091.41	392,091.41	7,488,763.32
	Kencholing SCP-2017	50,051.00	304,318.10	276,425.00	77,944.10	77,944.10	495,814.29
	-2016	8,974.50	304,436.50	263,360.00	50,051.00	50,051.00	307,741.95
	Golanti SCP -2017	73,205.68	-	46,821.32	26,384.36	26,384.36	164,987.68
	-2016	84,064.81	-	10,859.13	73,205.68	73,205.68	1,102,732.77
	Ngangshing SCP -2017	80,285.52	-	6,098.00	74,187.52	74,187.52	1,374,449.24
	-2016	99,499.82	131,081.20	150,295.50	80,285.52	80,285.52	1,489,998.24
3	**Jakar**						
	Bhur SCP -2017	340,218.35	438,955.77	519,223.81	259,950.31	259,950.50	2,126,473.46
	-2016	281,786.24	553,405.99	494,973.66	340,218.57	340,218.35	3,053,926.66
	Homdar SCP -2017	-	-	-	-	-	-
	-2016	5,077.95	5,062.71	10,140.66	-	-	-
	Grand Total: 2017	***935,851.96***	***848,747.61***	***1,004,746.13***	***779,853.44***	***779,853.63***	***9,962,377.12***
	Grand Total: 2016	**1,306,212.58**	**1,212,144.99**	**1,582,505.39**	**935,852.18**	**935,851.96**	**13,443,162.94**
			743,273.87				

Rawmaterials for Stone Crusher

2	Divisions	Opening Stock as on 1.1.17 (CFT)	Production (CFT)	Disposal (CFT)	Book Balance as on 31.12.17 (CFT)	Physical Balance as on 31.12.17 (CFT)	Total Value as on 31.12.17 (CFT)
1	**Zhonggar**						
	Tingzam SCP -2017	428,029.78	-	60,934.00	367,095.78	367,095.78	4,768,574.18
	-2016	*528,022.33*		*99,992.55*	*428,029.78*	*428,029.78*	*5,560,106.84*
	Kencholing SCP -2017	21,089.00	324,648.00	315,493.90	30,243.10	30,243.10	402,784.36
	-2016	*17,039.00*	*312,480.00*	*308,430.00*	*21,089.00*	*21,089.00*	*221,854.74*
	Golanti SCP -2017	50,097.44	-	-	50,097.44	-	-
	-2016	50,097.44	-	-	50,097.44	50,097.44	382,243.47
	Ngangshing SCP-2017	617,561.05	-	4,744.00	612,817.05	317,526.80	4,016,714.02
	-2016	757,846.35	-	140,285.30	617,561.05	617,561.05	7,812,147.28
3	**Jakar**						
	Bhur SCP -2017	201,419.77	591,304.48	456,444.00	336,280.25	336,318.97	2,086,956.73
	-2016	485,101.49	293,538.28	577,220.00	201,419.77	201,419.77	1,333,952.93
	Homdar SCP -2017	704,701.72	-	88,868.49	615,833.23	615,833.23	8,159,790.23
	-2016	*753,449.54*		*48,747.83*	*704,701.72*	*704,701.72*	*9,337,297.72*
	Total : 2017	**2,022,898.76**	**915,952.48**	**926,484.39**	**2,012,366.85**	**1,667,017.88**	**19,434,819.52**
	Total : 2016	**2,591,556.15**	**606,018.28**	**1,174,675.68**	**2,022,898.76**	**2,022,898.76**	**24,647,602.99**
Rawmaterials for Briquette Unit(TL)							
1	Wang-Briq. Unit-2017	30.00	95.00	104.00	21.00	21.00	147,527.31
	-2016	3.00	165.00	138.00	30.00	30.00	210,753.30
	Total : 2017	**30.00**	**95.00**	**104.00**	**21.00**	**21.00**	**147,527.31**
	Total: 2016	**3.00**	**165.00**	**138.00**	**30.00**	**30.00**	**210,753.30**
	Grand Total: 2017						**81,106,267.19**
	Grand Total: 2016						**86,332,617.07**

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NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED
Statement of Fixed Assets as at 31-12-2017

NOTE- 2

Particulars	GROSS BLOCK				DEPRECIATION				PROVISION FOR IMPAIRMENT	NET BLOCK	
	Balance as on 1.1.17	Addition during '17	On Sales & Other Adjt	Balance as on 31-12-17	Up to 1.1.17	For the Period	On sale & Other Adjt.	Up to 31.12.2017	Up to 31.12.2017	As at 31.12.2017	As at 31.12.2016
Land	120,298,403			120,298,403	-			-		120,298,403	120,298,403
Building	107,145,723	12,491,007	(290,214)	119,346,516	43,047,148	7,518,822	(223,825)	50,342,146		69,004,370	64,098,574
Road*	300,369,204	16,505,902		316,875,107	135,509,849	28,361,795		163,871,644		153,003,462	164,859,355
Cable Crane	51,045,877	1,200,386		52,246,264	36,918,685	2,453,607		39,372,292		12,873,972	14,127,192
Plant and Machineries	160,509,716	32,770,359	(7,578,639)	185,701,437	106,530,935	15,336,535	(4,261,282)	117,606,188	-	68,095,249	51,056,049
Tractor	1,971,225	1,002,575	(412,150)	2,561,650	1,971,221	89,408	(412,149)	1,648,480		913,170	4
Truck	10,246,709		(185,510)	10,061,199	9,658,042	588,658	(185,509)	10,061,191		8	588,667
Vehicle	20,052,995	328,340	(60,190)	20,321,145	18,307,144	1,049,059	(59,464)	19,296,738		1,024,407	1,745,851
Furniture	8,999,128	453,682	(293,406)	9,159,403	7,672,236	485,483	(266,302)	7,891,417		1,267,986	1,326,892
Office Equipment	22,157,736	3,138,990	(3,183,664)	22,113,062	16,956,569	1,712,720	(2,963,655)	15,705,635		6,407,427	5,201,167
Total:	802,796,717	67,891,242	(12,003,773)	858,684,186	376,571,830	57,596,087	(8,372,186)	425,795,731	-	432,888,455	423,302,154
Previous Year	711,124,561	118,387,731	(26,715,575)	802,796,717	338,703,999	55,326,195	(17,458,365)	376,571,830	2,922,733	423,302,154	372,420,561

Note: 1. Road is Constructed on Government land

NOTE- 3

Intangible assets

Current Year	2,367,948	-		2,367,948	2,239,343	100,602		2,339,945		28,003	128,605
Previous Year	2,283,948	84,000		2,367,948	2,070,706	168,637		2,239,343		128,605	213,242

NOTE- 4

Statement of Capital Work in Progress as at 31-12-2017

Particulars	Opening 1.1.2017	Addition	Adjustment	Closing 31.12.17
Road-W.I.P	5,897,496	7,330,500	9,757,045	3,470,950
Machine-W.I.P	7,290,879	17,663,892	9,552,377	15,402,394
Building-W.I.P	811,572	5,179,137	5,590,709	400,000
Total: CWIP	13,999,947	30,173,529	24,900,131	19,273,344
Previous Year	37,442,121	33,332,953	56,775,127	13,999,947

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NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED

Particulars	Year Ended		
	31-12-2017	31-12-2016	1-1-2016
	(Nu.)	(Nu.)	(Nu.)
NOTE- 5			
Other non current assets			
Fair Value of Plan Assets(FVA)	72,896,960	68,140,213	68,995,810
Defined Benefit Obligation(DBO)	72,788,955	59,813,020	61,093,400
Net retirement benefit assets - gratuity	**108,005**	**8,327,193**	**7,902,410**
Unamortised Mine Cost	1,192,786	1,297,072	1,982,092
Total Non Current	**1,300,791**	**9,624,265**	**9,884,502**
NOTE- 6			
Other receivables			
Security deposit to others	2,965,474	2,989,548	2,293,268
Total	**2,965,474**	**2,989,548**	**2,293,268**
NOTE- 7			
Other current assets			
Advance to Contractors	9,988,364	12,503,732	11,414,887
Advance to Suppliers	26,371,490	1,315,547	9,205,107
Advance to Others	1,266,723	3,698,392	456,055
Deferred Revenue Expenditure	168,667	912,933	9,213,867
FA to Unit Manager	462,993	404,201	204,230
Prepaid expenses	713,120	915,260	833,883
Advance for Corporate tax	-	-	-
GFPMO Cost	206,493	79,200	-
TDS withheld by customer	-	-	-
Unamortised Mine Cost	345,544	344,518	345,462
Int./Income accured on FD	45,409	98,337	105,068
Advance to staff recoverable	2,675,522	2,460,490	2,436,885
Total Current	**42,244,325**	**22,732,609**	**34,215,444**
NOTE- 8			
Cash and cash equivalent			
Cash in hand	249,103	2,492,547	701,922
Bank Balances			
Local Banks-Others	48,039,100	8,987,852	18,302,600
Balances with BOBL	72,178,331	37,603,924	42,306,983
Cash & Cash Equivalents	**120,466,534**	**49,084,323**	**61,311,505**
Short Term Bank Deposit			
Term Deposit with BDBL	5,637,463	5,309,595	5,000,000
	126,103,997	**54,393,918**	**66,311,505**
NOTE- 9			
Trade and other receivables			
Sundry debtors	33,087,011	70,732,121	43,938,494
Provision for doubtful Debts	(5,973,638)	-	-
	27,113,373	**70,732,121**	**43,938,494**
NOTE- 10			
Inventories			
Stock of Timber	45,939,150	44,376,479	52,682,648
Stock of Briquette	486,000	19,080	217,980
Stock of Sand	4,567,139	2,640,908	9,235,497
Stock of Stone	192,691	836,403	4,689,090
Stock of Stone Chip	9,962,377	13,443,163	21,771,649
Stock of Firewood	376,563	158,227	358,000
Stock of Rawmaterial for Stone chips	19,434,820	24,647,603	30,339,831
Stock of Rawmaterial for Briquette Unit	147,527	210,753	21,075
Stock of store/spare parts	15,323,614	15,051,306	13,174,600
Provision for Slow moving stock	(5,846,916)	(5,041,649)	(2,761,862)
	90,582,965	**96,342,275**	**129,728,508**

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NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED

Particulars	Year Ended		
	31-12-2017	31-12-2016	1-1-2016
	(Nu.)	(Nu.)	(Nu.)
NOTE- 11			
Non current borrowings			
-Noncurrent Maturities of Long term Borrowings	52,830,177	20,760,223	28,558,492
	52,830,177	**20,760,223**	**28,558,492**
Current borrowings			
Current maturities of long term borrowings	14,582,944	7,648,605	6,772,684
	14,582,944	7,648,605	6,772,684
NOTE- 12			
Government grant			
Balance as at 1st january 2017	6,202,460	-	-
Received during the year	1,500,000	7,000,000	-
Released to the statement of comprehensive income	1,066,644	797,540	-
Balance as at 31st December 2017	**6,635,816**	6,202,460	-
	59,465,994	**26,962,683**	**28,558,492**
Current Portion of Grant	**1,275,000**	**1,050,000**	-
Noncurrent Portion of Grant	**5,360,816**	**5,152,460**	-
NOTE- 13			
Provision for employee benefits			
Provision for Leave Encashment	7,541,990	7,132,460	7,342,640
	7,541,990	**7,132,460**	**7,342,640**
Current	**321,520**	**297,970**	**679,160**
Noncurrent	**7,220,470**	**6,834,490**	**6,663,480**
NOTE- 14			
Trade and other payables			
Trade payables	23,489,674	21,839,747	30,737,493
Other payables	8,765,805	6,022,858	598,003
Security deposit	4,177,110	3,526,661	2,854,689
Earnest money deposit	616,974	620,984	790,374
Retention money	1,755,726	1,278,070	2,021,882
Other receipts & payments	2,598,573	199,303	208,900
Bank loan (employees)	-	-	-
Staff welfare fund	2,275	2,275	2,275
Corporate Tax Payable			
	41,406,137	**33,489,897**	**37,213,615**
NOTE- 15			
Other current liabilities			
Advance from customers	5,118,568	10,063,853	19,156,064
TDS on contractors payable	464,137	74,823	228,546
Health contribution	-	254	866
GPF employee's share	2,227	1,788	168
TDS from salary	5,183	3,362	1,804
Royalty payable	8,319,498	8,321,420	6,887,575
Provision for Compensation	75,853,592	-	-
	89,763,206	**18,465,501**	**26,275,023**
NOTE- 16			
Provision for corporate income tax			
Provision for corporate tax	7,690,370	8,658,396	4,144,477
	7,690,370	**8,658,396**	**4,144,477**

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NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED

Particulars	Year Ended		
	31-12-2017	31-12-2016	1-1-2016
	(Nu.)	(Nu.)	(Nu.)
NOTE- 17			
Revenue			
Sale of Timber and By-products	292,135,683.25	293,212,007	296,449,147
Sales Sand	97,141,195.88	69,312,734	55,001,579
Sales Stone	22,301,561.63	15,227,720	9,854,042
Sales Stone Chips	20,829,345.02	30,262,312	34,393,787
	432,407,786	**408,014,772**	**395,698,554**
Other income			
Hire charge	9,475,765.39	7,450,728	8,943,096
Other Misc. Income	5,074,009.49	7,149,305	3,865,112
Toll Fee	566,150.00	450,400	656,260
Profit from sale of Fixed Assets	3,054,505.05	-	4,314,540
Liabilities no more required written back	1,651,322.71	3,030,155	12,893,160
Audit recovery	48,176.00	134,231	86,833
Interest on Fixed deposit	5,048,942.60	4,788,341	2,469,109
Interest on others	1,029,786.41	662,104	789,142
Prior period Adjustment	373,525.79	-	-
Unwinding of enviornment restoration fund	282,774	252,278	196,634
	26,604,957	**23,917,542**	**34,213,885**
	459,012,743	**431,932,314**	**429,912,440**

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NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED

Particulars	Year Ended		
	31-12-2017	31-12-2016	1-1-2016
	(Nu.)	(Nu.)	(Nu.)
NOTE- 18			
Cost of Sales			
Reforestation Expenses			
Nursery Expenses	677,809	389,407	371,113
Creation of Plantation	3,647,933	4,037,147	3,548,619
Plantation maintenance	4,325,298	2,931,764	2,502,705
Nursery creation	2,206,617	2,856,285	689,502
Personnel cost			
Salary & wages	62,613,114	58,442,670	54,599,245
Leave Encashment	3,615,158	3,104,292	3,862,427
Bonus	5,468,973	3,845,869	5,805,982
PBVA	2,625,107	3,807,410	6,126,473
GPF Employers Contribution	4,855,739	4,450,512	4,379,033
Uniform/Leveries	265,000	247,000	217,000
LTC	3,095,935	2,811,395	2,879,260
TTA/TG	1,331,240	682,937	1,204,105
TA/DA	11,524,660	10,186,895	8,990,746
Production Expenses			
Marking cost	72,932	62,478	44,285
Felling & cross-cutting	5,254,218	4,295,229	3,842,197
Debarking	586,062	483,083	825,244
Extration from Stump site to Depot	73,748,996	59,402,304	55,814,468
Extration of Sand	34,245,300	22,096,752	18,912,872
Extration of Stone	2,787,394	327,216	4,479,181
Extraction from Quarry to crusher Site	7,967,879	5,717,860	18,748,127
Electricity	481,726	375,523	488,432
Extraction of Wood Chip	8,194,268	6,964,336	10,491,376
Mine cost	269,108	345,462	302,470
Fixed assets written off	-	3,946,224	-
FMU expenses/Inventory	1,415,218	894,273	1,698,187
Maint. of trucks incl. POL	2,600,518	2,318,905	1,971,749
Maint. of machines Incl. POL	23,214,246	16,726,244	21,076,352
Maint. of road	6,904,734	6,228,162	5,582,026
Timber handling & Stacking	3,222,227	1,896,103	2,395,904
Maint. of depot	938,005	480,614	260,707
Loss from sale of Fixed Assets	-	1,678,937	-
Prior period Adjustment	-	849,443	1,336,365
Royalty			
Royalty-Timber	17,993,051	17,062,353	17,568,066
Royalty-Woodchips	339,585	314,872	379,331
Royalty-Sand	2,332,800	2,015,480	1,585,600
Royalty-Stone	1,142,714	1,039,320	581,120
Royalty-Stone Chips	46,880	42,320	77,923
Stock			
Loss of Stock due to natural calamities		3,690,575	-
(Increase)/Decrease in stocks	5,226,350	29,292,578	23,325,505
Depreciation and amortisation			
Depreciation-Building	6,124,630	5,439,167	3,942,820
Depreciation-Road	28,361,795	25,416,905	22,787,099
Depreciation-Cable Crane	2,453,607	1,674,398	1,071,614
Depreciation-Equipment	15,336,535	16,361,074	14,736,585
Depreciation-Tractor	89,408	3,113	107,074
Depreciation-Truck	588,658	1,105,638	1,105,638
Depreciation-Vehicle	861,974	922,819	1,248,687
Depreciation-Furniture	287,913	317,556	362,667
Depreciation-Office Equipment	875,365	690,934	701,723
Depreciation-Tally ERP.9 -Software	100,602	168,637	158,470
	360,317,280	**338,440,466**	**333,186,075**

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NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED

Particulars	Year Ended		
	31-12-2017	31-12-2016	1-1-2016
	(Nu.)	(Nu.)	(Nu.)
NOTE- 19			
Selling & Marketing Expenses			
Customer Survey	198,188	188,750	150,000
Advertisement	1,035,916	895,339	1,182,875
Auction expenditures	471,729	522,627	678,708
Flower Exhibition	-	1,537,923	-
Personnel cost			
Salary & wages	2,548,942	2,157,543	2,105,383
Leave Encashment	164,450	111,990	133,530
Bonus	-	147,520	147,082
PBVA	-	178,839	176,498
GPF Employers Contribution	229,086	200,532	194,732
LTC	86,325	86,075	70,055
TA/DA	292,598	100,900	143,302
	5,027,233	**6,128,038**	**4,982,165**

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NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED

Particulars	Year Ended		
	31-12-2017	31-12-2016	1-1-2016
	(Nu.)	(Nu.)	(Nu.)
NOTE- 20			
Administrative Expenses			
Printing & Stationary	1,080,901	762,928	857,048
Telephone/Fax/Postage	2,275,702	2,223,677	2,300,429
Audit Fees	107,800	107,800	148,000
Audit Expenses	329,599	234,892	314,825
Rent	1,451,870	1,562,867	1,676,997
Rates and Taxes	223,591	160,457	100,561
Entertainment	990,201	849,088	925,455
Electricity/Lighting(office)	552,082	521,041	573,310
Books & periodicals	47,589	43,559	49,107
Workshop/Seminar	385,549	831,791	387,693
Board expenses	1,013,703	1,215,189	913,864
Trade Licence	31,400	4,000	5,000
Insurance	1,130,857	1,205,672	1,213,399
Subscription & donations	130,000	250,000	1,174,000
Consultancy fees	578,375	110,329	565,509
Legal Expenses	65,900	500	750
Write Off	6,580,679	18,500	-
Research & Development			
Welfare Expenses	865,018	695,232	393,515
Training Expenditure	4,755,365	3,772,122	2,801,542
Consumable stores	494,893	463,431	536,526
Maint. of Building	745,399	698,095	648,080
Maint. of Vehicle incl. POL	4,079,578	3,729,540	4,190,321
Maint. of Office equipment	740,884	825,531	935,518
Bank Charges	17,072	16,950	21,264
Interest on Loan	4,964,026	3,912,690	4,777,710
Brand & Management Fee	812,973	198,186	100,896
Deferred Revenue expenditure	-	8,400,000	2,100,000
Personnel cost-HQ			
Salary & wages	15,253,421	13,545,268	19,913,425
Leave Encashment	1,040,412	1,002,372	1,636,333
TA/DA	1,912,362	2,123,401	2,219,160
TTA/TG	1,086,127	829,499	1,690,193
LTC	559,110	590,370	553,410
Bonus	-	874,945	1,564,205
PBVA	-	833,401	1,654,272
GPF Employers Contribution	1,169,330	1,073,217	1,238,497
Medical Expenses	537,940	-	86,839
Uniform/Leveries	1,558,575	2,870,713	697,035
Gratuity	8,652,650	383,415	5,929,900
Depreciation and amortisation			
Depreciation-Building	1,394,192	2,035,420	2,054,689
Depreciation-Vehicle	187,085	228,893	401,006
Depreciation-Furniture	197,570	189,375	264,839
Depreciation-Office Equipment	837,356	940,903	1,069,756
	68,837,137	**60,335,259**	**68,684,878**

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NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED

Particulars	Year Ended		
	31-12-2017	31-12-2016	1-1-2016
	(Nu.)	(Nu.)	(Nu.)
NOTE- 21			
Income tax expense			
PROFIT BEFORE TAX	**(51,901,028)**	**21,889,823**	**23,168,158**
ADD: Medical Expenses		-	36,839
ADD: Written off	6,580,679	18,500	-
ADD : Board Director's Training Expenditure	-	-	194,422
ADD: Gift & Donation	130,000	250,000	1,174,000
ADD: Prior Period Adjustment	-	849,443	1,336,365
ADD: Impairment of Non-current Assets	(2,922,733)	2,922,733	-
ADD: Provision for Slowmoving stock	878,529	2,309,180	-
ADD: Bonus & PBVA	4,469,149	7,499,001	-
ADD: Provision for Compensation	75,853,592		
Less: Interest on Gratuity Deposit		-	(1,038,553)
Less : Stock of dead stock issued		-	(8,641)
NET TAXABLE AMOUNT	**33,088,188**	**35,738,680**	**24,862,591**
30% CIT	9,926,456	10,721,604	7,458,777
Assessed tax for previous years	-	3,337,773	-
Total Tax Expense	**9,926,456**	**14,059,377**	**7,458,777**

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Note 22 : Fair value measurements

(All amounts in Nu , unless otherwise stated)

Financial instruments by category

Particulars	31-Dec-17			31-Dec-16			1-Jan-16		
	FVPL	FVOCI	Amortised cost	FVPL	FVOCI	Amortised cost	FVPL	FVOCI	Amortised cost
Financial assets									
Security deposit to others	-	-	2,965,474	-	-	2,989,548	-	-	2,293,268
Cash and cash equivalent	-	-	126,103,997	-	-	54,393,918	-	-	66,311,505
Sundry debtors	-	-	33,087,011	-	-	70,732,121	-	-	43,938,494
Int./Income accured on FD	-	-	45,409	-	-	98,337	-	-	105,068
Advance to staff recoverable	-	-	2,675,522	-	-	2,460,490	-	-	2,436,885
Total financial assets	-	-	**164,877,413**	-	-	**130,674,413**	-	-	**115,085,220**
Financial liabilities									
Borrowing	-	-	67,413,121	-	-	28,408,828	-	-	35,331,176
Trade payables	-	-	23,489,674	-	-	21,839,747	-	-	30,737,493
Other payables	-	-	8,765,805	-	-	6,025,133	-	-	600,278
Security deposit	-	-	4,177,110	-	-	3,526,661	-	-	2,854,689
Earnest money deposit	-	-	616,974	-	-	620,984	-	-	790,374
Retention money	-	-	1,755,726	-	-	1,278,070	-	-	2,021,882
Other receipts & payments	-	-	2,598,573	-	-	199,303	-	-	208,900
Staff welfare fund			2,275			-			-
Total financial liabilities	-	-	**108,819,259**	-	-	**61,898,725**	-	-	**72,544,791**

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(All amounts in Nu., unless otherwise stated)

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are (a) recognised and measured at fair value and (b) measured at amortised cost and for which fair values are disclosed in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its financial instruments into the three levels prescribed under the accounting standard.

Level 1: Level 1 hierarchy includes financial instruments measured using quoted prices.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

(ii) Valuation technique used to determine fair value

Specific valuation techniques used to value financial instruments include:
• the fair value of the financial instruments is determined using discounted cash flow analysis.

(iii) Fair value of financial assets and liabilities measured at amortised cost

Particulars	31-Dec-17		31-Dec-16		1-Jan-16	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Environment restoration bond	2,677,239	2,677,239	2,292,404	2,292,404	2,040,126	2,040,126
Security deposit	288,235	288,235	697,144	697,144	253,142	253,142
Total financial assets	**2,965,474**	**2,965,474**	**2,989,548**	**2,989,548**	**2,293,268**	**2,293,268**
Financial liabilities						
Borrowing	67,413,121	67,413,121	28,408,828	28,408,828	35,331,176	35,331,176
Total financial liabilities	**67,413,121**	**67,413,121**	**28,408,828**	**28,408,828**	**35,331,176**	**35,331,176**

The carrying amounts of sundry debtor, cash and cash equivalents, int./income accrued on FD, advance to staff, trade payables, other payables, security deposit, earnest money deposit, retention money, other receipts & payments are considered to be the same as their fair values, due to their short-term nature.

The fair values of non-current borrowings are based on discounted cash flows using a current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy due to the use of unobservable inputs, including own credit risk.

The fair values for financial instruments were calculated based on cash flows discounted using current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

Significant estimates

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see (ii) above.

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(All amounts in Nu , unless otherwise stated)

Note 23: Capital management

(a) Risk management

The Company is formed as an wholly owned subsidiary of Druk Holding & Investments Limited (DHI)

The Company manages its capital so as to ensure funds are available to meet future commitments. As well as commitments to outside parties, the Company has requirement to meet dividend and tax expectations as contained to the annual compact, the parent company and RGOB.

Capital expenditure is mostly met from operating cash flows. Fixed term borrowings are made mainly for specific capital projects. Such borrowings are repaid based on applicable terms and conditions. The amount mentioned under total equity in balance sheet is considered as Capital.

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(All amounts in Nu , unless otherwise stated)

Note 24: Financial Risk Management

The Company's activities expose it to credit risk, liquidity risk and market risk (i.e. foreign currency risk, interest rate risk and price risk).

This note explains the sources of risk which the entity is exposed to and how the entity manages the risk and the impact of it in the financial statements.

Risk	Exposure arising from	Measurement	Management
Credit risk	Cash and cash equivalents, trade receivables, financial assets measured at amortised cost	Aging analysis Credit ratings	Diversification of customer base
Liquidity risk	Borrowings and other liabilities	Cash flow forecasts	Availability of committed facilities
Market risk – foreign exchange	Future commercial transactions and recognised financial liabilities not denominated in Bhutanese Ngultrum (Nu.)	Cash flow forecasting Sensitivity analysis	Currently the Company has no such transactions
Market risk – interest rate	Long-term borrowings at fixed rates	Sensitivity analysis	Portfolio of loan contains fixed interest loans from financial institutions

(A) Market risk

(i) Foreign currency risk
Foreign Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company operates in only one currency Nu and accordingly is not exposed to Foreign Currency Risk.

(ii) Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

The Company has only fixed rate borrowings and investment which are carried at amortised cost. Interest expenses and interest income, are therefore not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

(iii) Price Risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

The Company does not have any financial asset investments which are exposed to price risk.

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(All amounts in Nu , unless otherwise stated)

(B) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial 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 the basis of expected cash flows. This is generally performed in accordance with practice and limits set by the Company.

(i) Maturities of financial liabilities

The tables below analyse the group's financial liabilities into relevant maturity groupings based on their contractual maturities:

• all financial liabilities

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities 31 December 2017	Less than 1 year	More than 1 years	Total
Trade and other payables	41,406,137	-	41,406,137
Borrowings	14,582,944	52,830,177	67,413,121
Interest on borrowing	5,347,397	9,964,411	15,311,808
Total financial liabilities	**61,336,478**	**62,794,588**	**124,131,066**

Contractual maturities of financial liabilities 31 December 2016	Less than 1 year	More than 1 years	Total
Trade and other payables	33,489,897	-	33,489,897
Borrowings	7,648,605	20,760,223	28,408,828
Interest on borrowing	3,186,433	3,363,204	6,549,636
Total financial liabilities	**44,324,935**	**24,123,426**	**68,448,361**

Contractual maturities of financial liabilities 1 January 2016	Less than 1 year	More than 1 years	Total
Trade and other payables	37,213,615	-	37,213,615
Borrowings	6,772,684	28,558,492	35,331,176
Interest on borrowing	4,062,354	6,549,636	10,611,990
Total financial liabilities	**48,048,653**	**35,108,128**	**83,156,781**

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(All amounts in Nu , unless otherwise stated)

(C) 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 trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

i) Trade receivables

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. The Company makes sales on cash basis except when the sale are made for long project. Trade receivables are non-interest bearing and are generally on 30-45 days credit term. Further the Company recovers its debtors within a span of one year. The Company regularly monitors its outstanding customer receivables. The ageing of trade receivables as of balance sheet date is given below. The age analysis have been considered from the due date:

Particulars	Less than six months	More than six months less than 3 years	More than 3 years	Total
Trade receivable as on 31 December 2017	22,090,696	10,712,628	283,688	33,087,011
Trade receivable as on 31 December 2017	**22,090,696**	**10,712,628**	**283,688**	**33,087,011**

Particulars	Less than six months	More than six months less than 3 years	More than 3 years	Total
Trade receivable as on 31 December 2016	54,980,452	15,545,023	206,645	70,732,121
Trade receivable as on 31 December 2016	**54,980,452**	**15,545,023**	**206,645**	**70,732,121**

Trade receivable as on 1 January 2016	33,048,446	10,492,739	397,309	43,938,494
Trade receivable as on 31 December 2015	**33,048,446**	**10,492,739**	**397,309**	**43,938,494**

The requirement for impairment is analysed at each reporting date. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 22. The Company does not hold collateral as security.

ii) Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's finance department. Investments of surplus funds are made only with approved counterparties in accordance with the Company's policy. The counterparties are accordingly governed by the regulatory authorities to mitigate financial loss during failure to make payment.

Financial Assets are considered to be of good quality and there is no significant credit risk.

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Note 25: First-time adoption of IFRS

Transition to IFRS

These are the Company's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December, 2017, the comparative information presented in these financial statements for the year ended 31 December, 2016 and in the preparation of an opening IFRS statement of financial position as at 1 January, 2016 (The company's date of transition). In preparing its opening IFRS statement of financial position, the company has adjusted the amounts reported previously in financial statements prepared in accordance with previous GAAP, i.e., Bhutanese Accounting Standards (BAS).

A. Exemptions and exceptions availed

Set out below are the applicable IFRS 1 optional exemptions and mandatory exceptions applied in the transition from previous GAAP to IFRS.

A.1 IFRS mandatory exemptions

A.1.1 Estimates

An entity's estimates in accordance with IFRS at the date of transition to IFRS shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

IFRS estimates as at 1 January 2016 are consistent with the estimates as at the same date made in conformity with previous GAAP.

A.1.2 Classification and measurement of financial assets

IFRS 1 requires an entity to assess classification and measurement of financial assets on the basis of the fact and circumstances that exits at the date of transition to IFRS.

A.2 IFRS optional exemptions

A.2.1 Decommissioning liabilities

Under IAS 16 Property, Plant and Equipment, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period.

A decommissioning liability is measured in accordance with IAS 37 at the date of transition to IFRS, and an estimate of the amount to be included in the cost of the asset when the liability first arose is made at the date of transition to IFRS.

A.2.2 Property, plant and equipment

A first-time adopter that subsequently measures property, plant and equipment at cost, may measure such property, plant and equipment at cost (determined in accordance with IAS 16) or fair value in its opening IFRS balance sheet.

Accordingly, the Company has elected to measure all of its property, plant and equipment as per IAS 16.

B. Reconciliations between previous GAAP and IFRS

There is no adjustment at the date of transition which has an impact on the total equity of the Company as on 1 January 2015.

Reconciliation of total equity as on 31 December 2015		
Particulars	**Notes**	**Amount**
Balance of Equity under previous GAAP		**580,316,646**
Amortisation of deferred mining cost	1	(302,470)
Interest income from financial instruments at amortised cost	1	196,634
Balance of equity as per IFRS before tax impact on adjustments		**580,210,809**
Deferred tax (asset)/liability		-
Balance of Equity as on 31 December 2015 under IFRS		**580,210,809**

Reconciliation of total equity as on 31 December 2016		
Particulars	**Notes**	**Amount**
Balance of Equity under previous GAAP		**592,086,921**
Amortisation of deferred mining cost	1	(647,933)
Interest income from financial instruments at amortised cost	1	448,911
Balance of equity as per IFRS before tax impact on adjustments		**591,887,900**
Deferred tax (asset)/liability		-
Balance of Equity as on 31 December 2016 under IFRS		**591,887,900**

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Reconciliation of total comprehensive income for the year ended 31 December 2015		
Particulars	**Notes**	**Amount**
Total comprehensive income as per previous GAAP		**20,188,011**
Amortisation of deferred mining cost	1	(302,470)
Interest income from financial instruments at amortised cost	1	196,634
Balance of total comprehensive income 2015 under IFRS		**20,082,174**

Reconciliation of total comprehensive income for the year ended 31 December 2016		
Particulars	**Notes**	**Amount**
Total comprehensive income as per previous GAAP		**11,770,276**
Amortisation of deferred mining cost	1	(345,462)
Interest income from financial instruments at amortised cost	1	252,278
Balance of total comprehensive income 2016 under IFRS		**11,677,091**

C. Notes to first-time adoption

Note 1: Environment restoration bond

Under the previous GAAP, environment restoration fund are recorded at their transaction value. Under IFRS, all financial assets are required to be recognised at fair value. Accordingly, the Company has fair valued these bond under IFRS at the date of initial recognition. Difference between the fair value and transaction value of the investments has been recognised as unamortised mine cost and amortised over the period of the fund.

Note 2: Statement of cash flows

The transition from Local GAAP to IFRS has not had a material impact on the statement of cash flows.

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