



Royal Charter for **Druk Holding and Investments**



Thimphu : Bhutan
1 November 2008
REVISED VERSION



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FOREWORD

Thimphu
24 November 2008

Dear Readers,

On 11 November, 2007 His Majesty the King issued a Royal Charter to establish Druk Holding and Investments (DHI) to hold and manage the existing and future investments of the Royal Government for the long term benefit of the people of Bhutan. Subsequently, based on the submissions of the newly elected government His Majesty the King has graciously revised certain areas in the Annexes of the Royal Charter. The revisions to the Annexes were made on the most auspicious day of the Coronation Machhen ceremony held in Punakha on 1 November 2008.

In view of this important development, DHI is honored to issue this booklet containing the full revised version of the Royal Charter replacing the one issued on 11 November 2007.

The primary goals of DHI to hold and manage the existing and future commercial investments of the Royal Government for the long-term benefit of the people of Bhutan remain the same as contained in the earlier version of the Royal Charter. Hence, DHI, as an autonomous organization, will continue to strive to safeguard the national wealth, and manage and enhance such wealth through prudent investments and other means as mandated in the Royal Charter. DHI will work to contribute in establishing a dynamic and strong economy to support a vibrant democracy.

On behalf of the Board of Directors and management team of DHI, I request the full cooperation of the Government Ministries, the DHI owned and linked companies, the private sector and other stakeholders both within and outside the Kingdom to work towards fulfilling the vision of His Majesty the King.

Thank you and Tashi Delek!

**Lyonpo Om Pradhan
Chairman**



Tashi Chhodzong

Thimphu: Bhutan

ROYAL CHARTER FOR DRUK HOLDING AND INVESTMENTS

Recognizing the need to accelerate socio-economic development to achieve the goals of Gross National Happiness for our people;

Realizing that the national wealth belongs to the people, and should be safeguarded for all generations of Bhutanese and therefore must be managed and enhanced through prudent investments;

Conscious of the need to build a strong dynamic economy as the foundation for a vibrant democracy;

Considering the close and friendly relationship with India, which is a global economic power, and the need to further enhance the economic partnerships between the two peoples; and

Taking into account the need to conscientiously lead and stimulate private sector development through a culture of innovation, creativity and enterprise, while preventing the spread of corruption and other undesirable activities,

The Kingdom of Bhutan desires to promote the competitiveness of Bhutan's economy by transforming companies with government share holding into highly efficient and productive companies that strive for excellence.

NOW, THEREFORE, I, Jigme Khesar Namgyel Wangchuck, King of Bhutan, on the Eleventh of November Two Thousand and Seven, hereby issue this Royal Charter and the Annexes to establish Druk Holding and Investments to hold and manage the existing and future investments of the Royal Government of Bhutan for the long term benefit of its shareholders, the people of Bhutan.

HM The King of Bhutan



Tashi Chhodzong

Thimphu: Bhutan

Having considered the submissions made by the Government and the detailed deliberations between the Government and Druk Holding and Investments,

The Annexes to the Royal Charter issued on 11 November 2007 to establish Druk Holding and Investments are hereby revised and issued to form the basis on which Druk Holding and Investments shall hitherto function.

His Majesty the King of Bhutan

Issued on the 1st day of November 2008

Revised Annexes attached

ANNEX I: PURPOSE AND FUNCTION OF DRUK HOLDING AND INVESTMENTS LIMITED

1. The primary purpose of Druk Holding and Investments Limited (DHI) shall be to ensure that its companies are able to meet the challenges and requirements of the corporate sector in a highly competitive global economy, such that DHI creates and maximizes returns to its shareholders, the people of Bhutan. To do so, among others, it will:
 - a) Act as the holding company for the Government Linked Companies (the GLCs) transferred under the terms and conditions of a Share Transfer Agreement to be entered into between the Ministry of Finance and DHI.
 - b) Strengthen corporate governance by ensuring clear separation of the ownership and management of DHI.
 - c) Enhance the performance of the GLCs by making them responsible and accountable for their performance.
 - d) Raise funds for investment.
 - e) Maximize return on investments by optimal utilization of resources.
 - f) Lead, complement and spearhead the growth of a dynamic private sector.
2. In fulfillment of the above purposes, the following shall be the primary functions of DHI:
 - a) Improve corporate governance of the GLCs by appointing their Board of Directors and CEOs who are professionally qualified, well experienced, highly motivated and of high integrity.
 - b) Improve performance of the GLCs by tracking their performance to ensure sound business management and financial control through setting of performance targets and benchmarks for the GLCs, and holding the GLCs responsible for meeting those targets and benchmarks.
 - c) Achieve optimal capital efficiency by consolidating resources of the GLCs.
 - d) Provide guarantees, where required, for the GLCs, if deemed appropriate by DHI.

- e) Invest in the existing GLCs to revitalize, restructure and expand their business, and also invest in new companies and businesses.
 - f) Make investments outside Bhutan.
 - g) Promote and encourage entrepreneurship and business development through venture capital and other required institutional support.
 - h) Act as an incubator and initiate businesses in new areas.
 - i) Divest shares in the GLCs with no strategic interest to the government or where government participation may not be necessary.
 - j) Raise funds through borrowing from domestic and international financial institutions and through the issuance of debt, equity or other securities in the domestic and international capital markets.
 - k) Subscribe or purchase equity, debt or other securities.
 - l) Provide managerial and other support services on a fee basis to both public and private sectors.
 - m) Undertake investments in reserved sectors and activities.
3. DHI in the course of its work shall also strive to promote the private sector through the following activities:
- a) Liaise with government agencies to facilitate an enabling environment through credible long-term government policies for the development of a dynamic private sector.
 - b) Facilitate research and development to identify changing potentials and challenges for broader investment avenues inside and outside the country.
 - c) Promote Bhutan's brand image.

ANNEX II: RELATIONSHIP BETWEEN DHI AND THE GOVERNMENT

1. DHI is to be established as an autonomous holding company incorporated under the Companies Act of the Kingdom of Bhutan 2000 (Act).
2. All shares owned by the Ministry of Finance in the GLCs shall be transferred to DHI as equity pursuant to the terms and conditions of the Share Transfer Agreement.
3. The DHI shall implement all future commercially oriented projects that are developed by the government and the shares of these companies shall be transferred to DHI upon their formal incorporation, including but not limited to such on-going projects as Tala Hydropower Project, Punatshangchhu Hydropower Project, and Dungsam Cement Project.
4. The Ministry of Finance and DHI will set mutually agreed upon performance benchmarks for DHI. DHI shall submit periodic reports on its performance to the Ministry of Finance.
5. The Ministry of Finance shall report to the National Assembly on the performance of DHI. Where further clarifications are required by the National Assembly, the Ministry of Finance may require the Chairperson of DHI to make such clarifications.
6. The Ministry of Finance will: a) provide subsidies for the GLCs that are required to carry out social functions; b) review and consider policy feedback provided by DHI for creating an environment conducive to investment and private sector development; c) provide sovereign guarantees if necessary for DHI; d) provide additional funds for new projects with social mandates in order to make them commercially viable; e) facilitate on-lending of government credit facilities from other bilateral and multilateral agencies; f) make available additional financing resources through trust funds if deemed necessary and appropriate; g) permit the use of foreign exchange for DHI's investment outside Bhutan and permit DHI to maintain foreign currency accounts both inside and outside the country; and h) facilitate negotiations at the bilateral and multilateral level.

ANNEX III: DHI GOVERNANCE STRUCTURE

1. The Board of Directors of DHI shall have the necessary authority, competencies and objectivity to carry out its function of strategic guidance and monitoring of management. It shall act with integrity and be held accountable for its actions. The Board of Directors of DHI will have all of the rights and privileges of Directors as set forth in this Royal Charter, the Act and the Articles of Incorporation of DHI.
2. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all Members of the Board of Directors or committee, as the case may be, consent to the action in writing or by electronic transmission, and the written consents and electronic transmissions are filed with the minutes of proceedings of the Board of Directors or committee. However, important decisions shall only be made through a sitting of the Board of Directors.
3. The Board of Directors of DHI has the full authority for making decisions regarding investments, divestments, and issuance of securities and shall consult the Ministry of Finance about these issues.
4. The Board of Directors shall consist of seven or nine Members. The number of Directors on the Board shall be determined by the DHI Board of Directors in consultation with the Blue Ribbon Panel (BRP). There shall be a minimum of two Directors from the Civil Service on the DHI Board of Directors including the representative from the Ministry of Finance. The term for the DHI Board Members shall be three years and they may be reappointed.
5. At its inception, the Members of the DHI Board of Directors and the Chief Executive Officer (CEO) shall be appointed by the Prime Minister.
6. Subsequent appointments of the Board Directors shall be made by a Blue Ribbon Panel composed of the following:
 - a) Chairperson, DHI
 - b) Chairperson, RCSC
 - c) Secretary, Ministry of Finance
 - d) Secretary, Trade and Industry
 - e) Governor, Central Bank

BRP Chairperson

ANNEX IV: APPOINTMENT AND REMOVAL PROCESS OF DIRECTORS AND CHAIRPERSON OF THE DHI BOARD OF DIRECTORS

1. His Majesty the King shall appoint the Chairperson of DHI.
2. The Minister of Finance shall directly appoint a representative from the Ministry of Finance to serve as a Director on DHI's Board of Directors.
3. The other Board Directors of DHI shall be appointed by the Blue Ribbon Panel.
4. The Blue Ribbon Panel shall select the Board Directors based on the criteria developed by DHI.
5. The CEO of DHI shall be appointed by the Board of Directors. Upon appointment he shall automatically become a Member of the Board of Directors of DHI.
6. The following shall be the removal procedures for the Members of the DHI Board of Directors before the expiry of period of directorship.
 - a. A Member of the DHI Board of Directors may only be removed by an affirmative vote of at least two thirds of the Members of the Board of Directors of DHI, excluding the Member being considered for removal.
 - b. The cause and process for removal shall be specified in the DHI Articles of Incorporation.

ANNEX V: REMUNERATION GUIDELINES

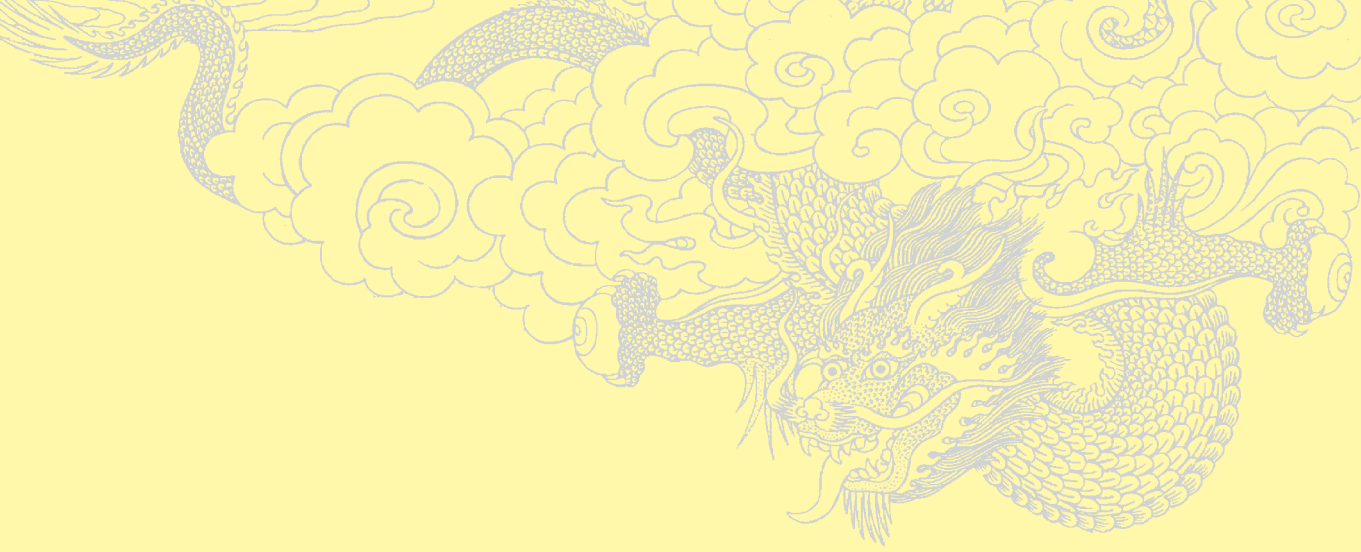
1. Levels of remuneration shall be sufficient to attract and retain the Board Members, CEO and employees needed to run the company successfully. The remuneration of the Board of Directors of DHI shall be determined by the Blue Ribbon Panel. The remuneration of the CEO and employees of DHI shall be determined by the Board of Directors of DHI.

ANNEX VI: DIVIDENDS AND TRANSFER OF GENERAL RESERVES OF DHI

1. Although generally dividends are declared for the completed year at the Annual General Meeting, for DHI, at each Annual General Meeting, the Ministry of Finance and DHI shall mutually agree upon the total amount of dividend to be provided and transferred to the Ministry of Finance for the following year. To aid the cashflow requirements of the Government, the dividend may be paid out on a periodic basis as agreed upon between the Ministry of Finance and DHI. However, the total dividend to be paid to the Ministry of Finance in a year shall not exceed the amount of dividend agreed upon at the aforementioned Annual General Meeting.
2. In agreeing upon the amount of dividend to be provided and transferred to the Ministry of Finance, the Ministry of Finance shall consult DHI and assess the liquidity position of DHI, its investment plans, its working capital requirements, and its present and future cash flows.
3. To ensure that the resources of the government are safeguarded for future generations of Bhutanese through the prudent management of the general reserves of DHI, the following procedures shall be adhered to for transfers of DHI reserves :
 - a) The Ministry of Finance shall submit a request to His Majesty to transfer the required amount of reserves.
 - b) The reserves shall be transferred only upon the approval of His Majesty.
4. The proceeds of any divestment of any GLC held by DHI shall also be transferred to the general reserve.

ANNEX VII: SCOPE OF THE CHARTER

1. This Royal Charter and the Annexes shall extend to the whole of the Kingdom of Bhutan and shall come into force with effect from the date of signature.



Druk Holding and Investments