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CORPORATE GOVERNANCE CODE

DRUK HOLDING AND INVESTMENTS LTD.



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CORPORATE GOVERNANCE CODE

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FOREWORD BY THE CHAIRMAN



Sound corporate governance is essential for companies in improving their operational performance and enhancing shareholder value.

As mandated by the Royal Charter, Druk Holding and Investments (DHI) has made concerted effort in improving corporate governance in its portfolio companies since its establishment and I am happy to note that significant progress has been made towards this end. Notably, DHI introduced the DHI Ownership Policy in 2010, which provided a clear framework for the governance of its owned companies. To promote good board practices, DHI also introduced regular board orientation programs and organized directorship skills development programs for the directors of the boards of its portfolio companies.

As part of our continuing focus on strengthening corporate governance in our portfolio companies, DHI is pleased to introduce the **Corporate Governance Code**. The Code provides a set of guidelines on good corporate governance based on internationally accepted standards. The document contains corporate governance principles; and associated model charters and code viz., Board Charter, Board Audit Committee Charter, and Code of Conduct for Board Directors and Senior Managers.

DHI expects all its companies to strive for excellence in corporate governance and meet the standards prescribed in the Code. However, we do recognize that as our companies vary by their levels of maturity and size, not all companies would be able to strictly comply with some of the provisions of the Code. For this, the Code provides the flexibility under the 'comply or explain' principle whereby the companies could provide valid reasoning for lack of adherence to the Code. Nonetheless, all companies should aim to progressively work towards achieving the international standards.

I would also like to encourage other public and private corporations within Bhutan to use this Code as a model document to strengthen their corporate governance standards.

A handwritten signature in blue ink, appearing to read 'Lyonpo Om Pradhan', written over a horizontal line.

Lyonpo Om Pradhan
26 November 2013

INTRODUCTION

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1.1 PURPOSE OF THE CODE

The purpose of the Corporate Governance Code (the Code) is to provide to the DHI portfolio companies (DPCs) a set of guidelines on corporate governance practices that is based on globally accepted standards.

Pursuant to the transfer of commercially oriented state-owned companies to Druk Holding and Investments (DHI) under the Royal Charter for DHI in 2007, DHI has developed set of policies and guidelines in improving the governance of these companies. This Code is an important part of DHI's initiatives in setting high corporate governance standards.

The focus of this Code is to create an environment to facilitate DHI portfolio companies to operate in such a way that maximises economic value and financial performance within the overall guidance of the Royal Charter and DHI Ownership Policy.

The Code consists of corporate governance principles, the Board Charter, Audit Committee Charter and Code of Conduct for the Directors and Senior Managers.

1.2 RELATIONSHIP OF THIS DOCUMENT TO DHI OWNERSHIP POLICY

This Code should be read in conjunction with the DHI Ownership Policy. The DHI Ownership Policy includes set of policies and frameworks for management of DHI portfolio companies.

1.3 APPLICABILITY OF CODE

The application of the Code by DHI portfolio companies is one of the basic elements of DHI's asset management program to enhance these companies' performance and their capacity to compete.

- a. All DHI Owned Companies and Controlled Companies shall comply with the provisions of this Code. Where DHI is not the majority shareholder, DHI will work

together with other shareholders to require best practices with the aim of better protecting shareholder interests and ensuring the company strives for excellence and achieves high levels of corporate governance.

- b. Corporate holding structures, including subsidiary companies of DHI and DHI Owned Companies shall apply the provisions of this Code.
- c. All private sector companies and public sector companies are encouraged to apply this Code as a measure of their intention to strive for good corporate governance.
- d. Companies in specific industries such as financial services may be required to apply this Code in addition to corporate governance requirements laid down by the industry regulator.

1.4 EFFECTIVE DATE

The provisions of the Code shall be implemented with effect from 26 November 2013.

1.5 CODE TERMINOLOGY

The words “shall” and “will” indicate areas that must be applied under the “comply or explain” approach and in circumstances where other bodies have required the application of the Code. In other sections of the Code the words “may” or “might” are used for recommendations and suggested approaches in the Code.

The Code uses the terms “disclose”, “report” and “make available” to describe the dissemination of information to shareholders. Unless otherwise provided, a company shall present the information on the company website in all such cases and wherever stipulated in law or regulation.

References in this Code to a gender includes all genders. In a similar way, “chairman” may also mean, “chairwoman”, “chairman” or “chair”. The singular includes plural and conversely.

1.6 PRINCIPLES OF CORPORATE GOVERNANCE

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. In the interests of transparency and accountability, it is important that corporate governance of all enterprises should operate to the highest standards applicable in the business world generally.

Corporate governance is essentially about leadership:

- a. leadership for **efficiency** in order for companies to compete effectively in the global economy, and thereby create jobs;

- b. leadership for **probity** because investors require confidence and assurance that the management of a company will behave honestly and with integrity in regard to their shareholders and others;
- c. leadership with **responsibility** as companies are increasingly called upon to address legitimate social concerns relating to their activities; and
- d. leadership that is both **transparent** and **accountable** because otherwise business leaders cannot be trusted and this will lead to the decline of companies and the ultimate demise of a country's economy ¹.

Corporate governance is essentially about the board of a company and what it does; it is more than compliance with laws and regulations. Therefore, the Code sets forth recommendations with respect to corporate governance good practices on issues, which are not required in legislation or are not regulated at all.

The Code is aligned with the OECD's Principles of Corporate Governance, which is considered the international benchmark for corporate governance. Following are the six key principles of good corporate governance:

- (i) ensuring an effective legal and regulatory framework;
- (ii) rights of shareholders;
- (iii) equitable treatment of shareholders;
- (iv) relations with stakeholders;
- (v) transparency and disclosure; and
- (vi) the responsibilities of the board.

The OECD Principles are built on four core values:

- a. **Fairness:** The corporate governance framework should protect shareholder rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violations of their rights.
- b. **Responsibility:** The corporate governance framework should recognize the rights of stakeholders as established by law, and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of the corporations.

¹King, M., *King Report on Corporate Governance for South Africa (King II Report)*, Institute of Directors in Southern Africa, Parktown, 2002.

- c. **Transparency:** The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the company, including its financial situation, performance, ownership, and governance structure.
- d. **Accountability:** The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and shareholders.

All companies applying this Code shall consider the importance and application of these four underlying values.

1.7 Compliance and Reporting

- a. All companies applying this Code shall disclose compliance with the Code. The directors of the companies should implement effective governance frameworks to support their roles and responsibilities. The compliance of the Code shall be reported in a separate 'Corporate Governance Report' section within the Annual Report.
- b. The compliance to the Code shall be based on the principle of "comply or explain". 'Comply or explain' means that a company will comply explicitly with the provisions of the Code. In case of non-compliance, the company should give a robust explanation for not complying with the Code and also explain how the intention of the particular Code provision is achieved by other stated means.
- c. The flexibility provided for under the 'comply or explain' principle may allow smaller companies not to strictly apply some provisions of the Code in the explicit manner stated in the Code. For example, the Code requires an Audit Committee and a Nomination and Governance Committee of the board be established. Smaller companies may not establish such committees due to their small size and lack of complex business practices. In such a case, the board should provide reasons for the lack of adherence to the Code in the Corporate Governance Report and explain how the board will undertake all the activities attributed to both these committees themselves as an alternative.

CORPORATE GOVERNANCE GUIDELINES

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The guidelines on the six key principles of corporate governance are described in the following sections.

2.1 PRINCIPLE I: ENSURING AN EFFECTIVE LEGAL AND REGULATORY FRAMEWORK

- i. The corporate governance framework of each company shall be consistent with the rule of law and recognise and apply complementary corporate governance good practices, which promote ethical, transparent and responsible business.
- ii. The general conduct of directors and company officers must be subject to the Companies Act of the Kingdom of Bhutan 2000 or re-enactment of it, amendments thereto, regulations or statutory instruments issued under it, and all other relevant laws and regulations applicable in Bhutan.
- iii. The board directors shall act honestly and in good faith in the best interest of the company and all shareholders. They shall at all times act with degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
- iv. The Code shall complement current legal requirements to set high standards for corporate governance in Bhutan.
- v. Boards should recognise that adhering to good governance principles is not merely compliance with a set of rules and regulations, but entails aiming for the highest standards of corporate governance.
- vi. In case of any inconsistencies between this Code and other acts, laws, rules and regulations of the country, the latter shall prevail.

2.2 PRINCIPLE II: RIGHTS OF SHAREHOLDERS

- i. The shareholders are the owners of the company and have basic rights, which shall be respected and protected by the board. The company and its directors should facilitate the exercise of shareholders' rights and should encourage and support shareholders in actively exercising their rights.
- ii. Shareholders have the right to buy, register and sell their shares, and to share in the profits of the company. They have a right to relevant and material information about the company, to be provided in a timely and accurate manner.
- iii. They have the right to elect and remove members of the board and to participate and vote, proportionate to their shareholding, at the annual general meeting of shareholders.
- iv. Where the State is a shareholder, the State should act as an informed and active shareholder, ensuring that the governance of State-owned enterprises is carried out in a transparent and accountable manner, without intervening in the day-to-day management of the company. The DHI Ownership Policy defines the roles and interface with the DHI portfolio companies.
- v. It is the duty of the board to keep shareholders informed on all material matters affecting the company.
- vi. The board shall ensure all shareholders have equal access to information and that information is to be sufficient for investment decision-making.

2.2.1 Participation in the Annual General Meeting (AGM) and Extraordinary General Meetings (EGM)

- i. The AGM is the main governing body of the company and shall be convened at least once a year within the specified time period. It is the main form of exercising shareholder powers. The AGM shall be organised in a manner that permits shareholders to exercise their ownership rights effectively and the board shall encourage shareholders to participate fully at the AGM.
- ii. In accordance with the Companies Act, the board shall ensure that AGM notices in written form are sent out to each shareholder at least 21 days prior to the date of the AGM.
- iii. The chairman of the board and board members shall attend the AGM.
- iv. Companies shall provide shareholders the right to ask questions at the AGM, either by submitting written questions to the company within 10 days prior to the AGM or orally at the AGM itself.

- v. Minutes of the AGM shall be drawn up and signed within 5 working days from the day of the meeting and sent to all shareholders within 15 working days from the close of the meeting. The company shall keep the meeting minutes and make them available to each shareholder and former shareholder for the period he was a shareholder in the company.
- vi. In special cases, an EGM may be required. It shall be conducted with similar formalities as an AGM.

2.2.2 Information for the AGM

- i. The notices and information for the AGM provided individually to shareholders shall include time and venue of the meeting, proposed agenda for the AGM and detailed information on issues to be discussed at the AGM.
- ii. The shareholders shall be provided sufficient information on the business of the AGM, including a copy of the financial statements along with the independent external auditor's report, the directors' report on operations of the company, the corporate governance report and the draft text of any resolutions to be voted on at the AGM, including information on director nominees and the appointment process.

2.2.3 Voting

- i. Shareholders shall be given the opportunity to vote on the proposals at the AGM in person or in absentia. Proxy voting forms shall be accessible to shareholders wishing to vote in absentia. Voting at the AGM shall be either by show of hands or voting ballots consistent with the requirements under Companies Act, and one proposal at a time.
- ii. Each shareholder may appoint or authorise a proxy to vote their shares and act on his behalf at the AGM in accordance with the provisions of the company's Articles of Incorporation and the Companies Act.
- iii. Major transactions affecting the company, such as the sale of assets of the company, mergers or re-organisations valued at more than 30% of the total value of assets of the company, shall require shareholder approval of at least 75% of the total votes of participating shareholders.

2.2.4 Election of board members

- i. Each eligible shareholder has the right to participate in the election of the board members and may be elected to the board.

- ii. Minority shareholders, as a group, shall be eligible for cumulative voting in the election of board members.
- iii. The board appointment process shall be through a formal and transparent process. Information on eligible nominations to the board shall be provided to shareholders and shall include accurate information about each candidate for the board, including their background, experience, other board appointments and information on any affiliation with the company, with members of the board or with senior management.

2.3 PRINCIPLE III: EQUITABLE TREATMENT OF SHAREHOLDERS

- a. The company shall ensure all shareholders holding the same class of shares shall be treated equally, including minority or foreign shareholders.
- b. A company shall maintain at its headquarters a current register book of substantial shareholders. All shareholders shall have the right to check and refer to the register of substantial shareholders during business hours.
- c. The company and board of directors shall ensure adequate consideration and protection of minority shareholders.

2.4 PRINCIPLE IV: THE RESPONSIBILITIES OF THE BOARD

2.4.1 Roles and Duties of the Board

- i. Every company shall be led by an effective board which exercises leadership, enterprise, integrity and judgment in directing the enterprise, and one, which acts in a transparent, accountable and responsible manner.
- ii. All directors owe fiduciary duties to the company and shall act in the best interests of the company and all shareholders at all times. They shall protect the company investments and increase profitability, as well as have a duty of care and loyalty to the company and its shareholders.
- iii. The board shall provide entrepreneurial leadership, review and guide company strategy.
- iv. The board shall set the company's values and standards (including ethical standards), and ensure that obligations to shareholders and other stakeholders are understood and met.
- v. The board shall establish a framework of prudent and effective oversight and controls to safeguard shareholders' interests.

- vi. Each director shall commit themselves effectively to their responsibilities, including ensuring sufficient time to attend and contribute to board meetings.
- vii. Each director shall hold not more than a total of three directorships in DHI owned companies. Special circumstances may be considered on a case-by-case basis.
- viii. The board and each director shall confirm and undertake the specific responsibilities detailed in the Board Charter given in Appendix 1 of this Code.

2.4.2 Board Composition

- i. Subject to other regulatory requirements, the board shall be established in a form and structure that enables the effective governance and control of the company's affairs.
- ii. The board shall be comprised of sufficient number of directors to control and effectively govern the company. This number will normally be between five and nine directors, including the chairman and shall be in accordance with that stipulated by the annual general meeting of shareholders. The board shall have at all times a majority of non-executive directors.
- iii. The board of directors shall have a balance of skills, competences, knowledge and experience to aid fully informed, independent, objective decision making. The board as a group shall include core competencies and be diverse in composition, including gender diversity, and shall be relevant to the company's operations.
- iv. There shall be a strong independent element to the board to promote independent and objective decision-making. The board of directors of each company shall have at least one independent director with the goal of one-third of the board being independent. For the purpose of this clause, the expression 'independent director' means a director who is not connected or does not have any other relationship whether pecuniary or otherwise, with the company, its associated companies, subsidiaries, or directors. The test of independence is whether such person is able to exercise independent business judgement without being influenced by any form of interests.
- v. There should be a clear distinction in responsibilities between the board and the executives responsible for managing the company's business. Each company shall function according to a board charter that distinguishes the role of the board from that of management.

- vi. The Chairman and the Chief Executive Officer shall not be one and the same person to ensure an appropriate balance of power and better accountability.

2.4.3 Board Committees

- i. Board committees may be set up in accordance with the company's requirements and circumstances, in order to enhance the efficiency of corporate governance. Board committees should support board decision-making by making recommendations to the board.
- ii. A board committee has no legal standing or distinction from the board itself. However, they can enable a focus on specific areas or tasks, utilising particular expertise and it may be established in a manner, which may enhance objectivity and independence of judgment.
- iii. All companies shall have, as a minimum, an Audit Committee and a Nomination and Governance Committee.
- iv. The board may establish other board committees in accordance with the requirements and circumstances of the company. Every committee shall function according to a specific committee charter, approved by the board.

2.4.4 Role of the Chairman

The chairman is responsible for leading the board, promoting high standards of governance and ensuring board effectiveness and smooth functioning in all aspects of its role. The chairman should lead in a firm and objective manner and in a way that ensures the active participation of individual directors. The responsibilities of the chairman are described in detail in the Board Charter in Appendix 1.

2.4.5 Role of the CEO

The CEO has the executive responsibility for the running of the company's business, implementing the company's long-term strategy, and directing and overseeing management. The CEO is subordinate to the board of directors. The responsibilities of the CEO are described in detail in the Board Charter.

2.4.6 Role of the Company Secretary

The board shall be supported in its role by the company secretary. The company secretary shall be appointed by and accountable to the board for board activities. To the

extent that the company secretary may also provide legal services to the company, the company secretary may have a secondary reporting line to the CEO for those activities only. The company secretary shall be suitably qualified with knowledge and experience in law and good corporate governance practices.

The main responsibilities of the company secretary include:

- i. serving as a vital link between the company and its board of directors, shareholders, government and regulatory authorities.
- ii. attending board meetings, shall have an arm's length relationship with the board and shall provide counsel to the board on corporate governance matters. He should keep board members informed of their legal responsibilities. It is also his responsibility to register and communicate with shareholders, to ensure that dividends are paid and to maintain company records, such as lists of directors and shareholders, of directors' interests and annual accounts.
- iii. ensuring board procedures are both followed and regularly reviewed and provides guidance to chairman and the directors on their responsibilities under various laws and under this Code.

The responsibilities of the company secretary are described in detail in the Board Charter.

2.4.7 Code of Conduct

- i. Conduct of board directors shall be guided by the Code of Conduct for Directors and senior managers presented in Appendix 3 of this document.
- ii. Any conflict of interest, actual or potential, between personal interests of directors and those of the company, shall be avoided.
- iii. The board will monitor and manage potential conflicts of interest of management, the board and of shareholders.
- iv. Directors shall immediately report any conflict of interest or potential conflict of interest to the chairman of the board and shall abstain from influencing any decision related to the conflict.

2.4.8 Remuneration of Directors

- i. Each board director shall receive a board sitting fee and some reasonable recompense for any additional board activities or board committee activities.

- ii. All directors should be reimbursed for reasonable costs related to their participation in board meetings and also in board committee meetings.
- iii. With the approval of the chairman, invitees other than employees may receive fees for participating in board meetings. The amount shall be decided by the board on a case-by-case basis based on the criticality of the information and expertise sought.
- iv. The company secretary shall be paid an amount not exceeding fifty percent of the board sitting fee for attending the board meetings.
- v. Other employees shall not receive compensation for any board related work.
- vi. Remuneration of directors shall be regularly reviewed.

2.4.9 Risk Oversight and Internal Control Systems

- i. The board shall be responsible for the governance of risk and shall establish a sound risk management framework and controls system for the protection of shareholders' interests and company assets.
- ii. At least annually, the board shall conduct review of the company's risk management and internal control systems and report to shareholders. The review should encompass all material financial, operational and compliance controls.
- iii. The Corporate Governance Report section of the Annual Report shall include the statement acknowledging the directors' responsibility for internal control and risk oversight; and shall describe the ways by which this responsibility is discharged.

2.4.10 Internal Audit

- i. The board shall establish an effective, independent, internal audit function that reports directly to the board or to the Board Audit Committee of the board. (refer Audit Committee Charter in Appendix 2).
- ii. The internal audit shall have all the authorities and access it requires for its reviews. Internal auditors should conduct regular reviews of the effectiveness of governance, risk management and internal control systems and processes in the company.

2.4.11 External Audit

- i. The independence and objectivity of the external audit lends credibility to the financial statements. An annual external audit shall be conducted by an independent, competent and qualified external auditor to assure the board and shareholders that the financial statements fairly represent the financial position and performance of the company.
- ii. The quality and suitability of the external auditor shall be closely examined by the Audit Committee as per the Royal Audit Authority's rules on appointment of external of auditors.
- iii. The Audit Committee shall meet with the external auditor and discuss the external audit at the planning stage, during the audit and on completion of the audit.
- iv. The Audit Committee shall consider the findings of the external auditor carefully and report to the board and to the shareholders at the AGM on the external auditor's findings and on company actions arising from discussions with the external auditor.
- v. The Audit Committee shall monitor any other non-audit services provided to the company by the external auditor to ensure that these additional non-audit services do not compromise the quality or independence of the external audit.

2.5 PRINCIPLE V: TRANSPARENCY AND DISCLOSURE

- i. Disclosure and transparency are basic tenets of corporate governance. The board and the company, and any subsidiary companies in a holding company structure, shall ensure there are appropriate procedures in place to deliver comprehensive, accurate and timely disclosures on all material matters affecting the company, including its financial position, operations, ownership and governance.
- ii. The company shall make timely and balanced disclosures routinely as required and on other extraordinary matters as they arise to ensure a continued fair representation of company affairs. Annual reports shall meet all legal requirements and should include other information, consistent with best practices and with this Code.

2.5.1 Annual Report

- i. The Annual Report shall present a comprehensive and objective view of the company and its activities such that all stakeholders can have a full and fair picture of its performance and prospects.

- ii. The Annual Report shall include the following, but not be limited to:
 - a) The financial statements and operating results of the company;
 - b) Share performance and dividend payments;
 - c) Material transactions with related parties;
 - d) A discussion of the factors affecting and those that are likely to affect the company's activities and financial situation;
 - e) Report on Corporate Social Responsibility (CSR) activities carried out or supported by the company; and
 - f) A separate section on Corporate Governance Report outlined under 2.5.2.

2.5.2 Corporate Governance Report

- i. The Corporate Governance Report shall be included in the Annual Report of the company.
- ii. The Corporate Governance Report shall contain at least the following information:
 - a) A statement of compliance with this Code, including a full explanation of any deviation from this Code;
 - b) Information on the company, subsidiaries and the names of directors at each level;
 - c) Director's profiles (including other directorships), with independent, non-executive and executive directors clearly identified;
 - d) The number of times in the year the board and each committee met and attendance details for each director and the remuneration;
 - e) A statement on the company's risk management and internal control systems;
 - f) Disclosure of material related party transactions between the company, its subsidiaries or associates or affiliates and a director or key management person; and
 - g) The policies and practices of board evaluation.

2.5.3 Website

The board should encourage the company to maximise the use of the company's website to assist effective dissemination of information to stakeholders.

2.6 PRINCIPLE VI: RELATIONS WITH STAKEHOLDERS

- i. The board shall respect the rights of stakeholders as established in law or through other mutual agreements in its decision making in the best interests of the company.
- ii. The board should consider the impact of its decisions on relevant stakeholders as it is in the long-term interests of the company to carry out its role as a responsible corporate citizen.
- iii. The board shall disclose relevant and non-confidential information concerning the company's approach to ethics, the environment, health and safety and to social issues. These issues may include anti-corruption policies, labour policies, policies relating to supplier, client and customer relations, the company's approaches to privacy, and to other relevant policies as appropriate to the company's business.

KEY DEFINITIONS USED IN THE CODE

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Board	This refers collectively to the board of directors, the governing body of a company.
Executive director	An individual who is on the board of directors and who is also involved in the day-to-day management of the company and / or its subsidiaries.
Independent director	Means a director who is not connected or does not have any other relationship whether pecuniary or other wise, with the company, its associated companies, subsidiaries, or directors.
Material matters	All information that may affect an investors decision to buy, sell or hold the shares in the company.
Minority shareholders	Those shareholders who represent a class of shareholders that does not control the company and hence they are unable to influence the company.
Non-executive director	Non-executive director means an individual who is on the board of directors who is not involved in the day-to-day management of the company, or one of its subsidiaries. A non-executive director may or may not be independent.
Stakeholder	Any person who has an interest in the company, such as the general public, employees, creditors, clients, customers, suppliers, the local and national communities, and the working and natural environments of the company.
Substantial shareholder	Is a shareholder who holds by himself or his nominee, directly or indirectly, more than 5% of voting shares.
Transactions of material significance	Transactions that have the capacity to influence or control a party in making a decision to act contrary to the company's interests.

APPENDIX 1
BOARD CHARTER

1. PURPOSE

- i. This board charter sets out the principles for the operation of the board of directors (the board) and describes the functions and powers of the board.
- ii. The provisions in this board charter are complementary to the requirements regarding the board and board members in Bhutanese legislation and regulations, the Companies Act of Bhutan, the company articles of incorporation, and DHI's Ownership Policy.

2. THE COMPANY BOARD

The Board of Directors, elected by the shareholders, is the ultimate decision making body of the Company except with respect to those matters reserved to the shareholders. It shall be responsible to govern the company as honest and competent stewards.

2.1 General Roles and Responsibilities of the Board

General roles and responsibilities of the board are to:

- a. provide entrepreneurial leadership by encouraging new ideas and initiatives, to guide company's strategic direction;
- b. set company's values, standards (including governance and ethical standards) and policies, and ensure that obligations to shareholders and other stakeholders are understood and met;
- c. oversee accountability and the process of disclosures to shareholders and stakeholders in ensuring the integrity of the company's accounting, financial reporting and internal control systems and independent audit;
- d. monitor and evaluate the implementation of strategies, policies and business plans;
- e. ensure a transparent and effective selection process for the CEO and senior managers of the company; and
- f. monitor the effectiveness of governance practices under which the company operates, including managing conflicts of interests.

2.2 Board Size and Composition

- i. The board shall be comprised of sufficient number of directors to control and effectively govern the company. This number will normally be between five and nine directors, including the chairman.
- ii. The board shall have at all times a majority of non-executive directors, and at least one of which is an independent director.
- iii. The board shall have a balance of diverse skills, competences, knowledge and experience to aid fully informed, independent, objective decision making.
- iv. The composition of the board as a group shall be relevant to the company's operations.
- v. The chairman and the CEO shall not be one and the same person.
- vi. The CEO shall be automatically a board member on appointment.

2.3 Independence and Diversity

- i. The expression 'independent director' means a director who is not connected or does not have any other relationship, whether pecuniary or otherwise, with the company, its associated companies, subsidiaries, holding company or directors. The test of independence is whether such person is able to exercise independent business judgment without being influenced by any form of conflict of interest and can also be perceived as independent. A list of indicators for lack of independence as a director is given in Annexure 1 in the Board Charter.
- ii. All directors, whether independent or not, are required to act in the best interests of the company and to exercise unfettered and independent judgement.
- iii. The board of each company shall have at least one independent director with the goal of one-third of the board being independent.
- iv. A director who is identified as being independent shall notify the chairman immediately of any matter that changes his independent status.
- v. The board as a group shall include core competencies and be diverse in composition, including gender and age. Diversity shall also include different communication styles, interpersonal skills and problem solving skills.

2.4 Reserved Powers of the Board

The board will determine and state clearly all powers it reserves for itself only and/or which are the responsibility of a board committee. Such a policy also will set out clearly those matters delegated to management.

Powers the board shall reserve unto itself only may include:

- i. delegation of power to the CEO;
- ii. approval of company strategy;
- iii. approval of the annual budget;
- iv. approval of major policies;
- v. approval of major transactions over specified limits or that will impact the company's reputation; and
- vi. approval of appointments of senior managers reporting directly to the CEO, the appointment of the internal auditor and the company secretary.
- vii. authority to temporarily manage day to day affairs of the company under exceptional circumstances such as when there is unexpected vacuum in the CEO's position.

2.5 Board and Management Interaction

- i. The board may delegate authority to management to act on behalf of the board with respect to certain matters as determined by the board. Formal delegations of authority to management shall be established. These delegations are subject to the powers the board specifically reserves unto itself.
- ii. The board shall adopt appropriate structures and procedures to ensure it retains its independence and functions independently from management. Measures shall include the separation of the chairman and CEO roles, periodic board meetings in the absence of management and instituting relevant board committee structures.
- iii. The CEO is accountable to the board for the exercise of delegated authority and with the support of senior management shall demonstrate progress to fulfilling its responsibilities through the provision of reports, briefings, and presentations on a regular basis throughout the year.

- iv. The board shall expect management reporting that is timely and provides an accurate and comprehensive picture of the performance of the company.
- v. Key members of senior management may regularly attend board meetings by invitation but may be asked to leave at any time.
- vi. In addition to formal reporting structures, members of the board are encouraged to have reasonable direct communications with management and other employees of the company.
- vii. In particular, the board shall have direct access at any time, through the chairman, to the CEO and the company secretary. In addition to regular briefings to the board as a whole, directors may seek briefings from senior management on specific matters.
- viii. In supervising management, the board shall be responsible for maintaining a strong working relationship with the CEO for the benefit of the company. This shall be accomplished through:
 - a. encouraging a strong working relationship between the chairman of the board and the CEO;
 - b. ensuring clear terms of appointment, position description and delegations are in place for the CEO at all times;
 - c. conducting annual performance reviews of the company;
 - d. regular on-going reporting of the CEO to the board;
 - e. working with the CEO to ensure a quality succession plan is in place for the CEO role and key executives;
 - f. engaging board in the selection of key company executives;
 - g. monitoring, influencing the culture, reputation and ethical standards of the company; and
 - h. regularly evaluating performance of the CEO and formally appraising him in a fair and proper manner, at least once a year, during which no member of the executive management shall be present.

2.6 Roles and Responsibilities of the Chairman of the Board

The primary role of the chairman is to provide leadership to the board and to guide the work of the board. The chairman of the board shall not chair any board committees.

The chairman's role shall include, but not be limited to the following:

- i. lead the board to promote high standards of governance and to ensure board effectiveness and smooth functioning on all aspects of its role in a firm and objective manner;
- ii. ensure effective accountability and governance of the company, consistent with relevant legislation;
- iii. set the agenda and preside over board meetings to ensure that adequate time is available for discussion of all agenda items, in particular, on the strategic issues;
- iv. conduct effective board meetings and encourage a culture of openness, active participation and constructive debate;
- v. ensure accurate records of board meetings are taken and verifying that board decisions are implemented;
- vi. ensure that the directors receive complete, adequate and timely information to enable quality and informed decision-making;
- vii. encourage constructive relations within the board and between the board and management to ensure the company is managed effectively;
- viii. participate in the selection and appointment of new board directors and the CEO in close collaboration with the shareholder(s);
- ix. approve leave, ex-country travel and training of the CEO;
- x. meet shareholder expectations by leading and ensuring effective annual board and CEO evaluation processes; and
- xi. develop and maintain sound relations and communications with shareholders and stakeholders. This may include representing the company interests in meetings with ministries, foreign company representatives and with other organisations within the country.

2.7 Roles and Responsibilities of the CEO

The CEO is subordinate to the board of directors and shall be responsible to the board for the overall day-to-day operation, management and performance of the company. The CEO's responsibilities and authorities shall be clearly laid down in the CEO's employment contract developed by the board.

Following are the key responsibilities of the CEO:

- i. managing the company in accordance with the strategy and performance targets, policies and directives approved by the board;
- ii. recommending long-term vision and strategy for the company to the board;
- iii. leading the management team in managing the day-to-day operations of the organization, its people and resources,
- iv. implementing all board approved plans, policies and performance targets;
- v. ensuring the authorities delegated from the board are exercised in a competent manner and within the intent of such delegation and referring all matters outside his delegation to the board for approval;
- vi. acting as the company's interface with its operating environment and the business community;
- vii. protecting and enhancing the image and reputation of the company;
- viii. ensuring compliance with legal and regulatory obligations;
- ix. promoting leadership development and proper succession planning for key positions in the company;
- x. ensuring ethical standards as established by board are complied with;
- xi. keeping the board apprised of all matters of significance;
- xii. keeping the board chairman apprised of all matters of significance that occur between the board meetings;
- xiii. providing the board with accurate, relevant, timely and complete information; and
- xiv. other responsibilities as designated by the board from time to time.

2.8 Roles and Responsibilities of the Company Secretary

The company secretary shall support the board in carrying out its role. He shall be appointed by and accountable to the board for board activities. He shall ensure that board procedures are both followed and regularly reviewed and provides guidance to chairman and the directors on their responsibilities under various laws and the Code.

The main responsibilities of the company secretary shall include the following:

- i. preparing board meeting agenda and board paper packs;
- ii. preparing meeting minutes and monitoring completion of actions arising from board meetings;

- iii. ensuring that resolutions of the board of directors are consistent with the law and the company's corporate governance policies;
- iv. providing governance, administrative, technical and other information support to the chairman, the directors and the board committees;
- v. supporting effective board administration and providing counsel on the company's compliance with corporate governance requirements and procedures of the meetings;
- vi. ensuring that the conduct of general meetings of shareholders are consistent with the law and regulations and with the company's articles and policies;
- vii. ensuring that the board and board committee charters are regularly reviewed and current;
- viii. coordinating communications with shareholders and assisting shareholder relations to ensure that the company discloses information in a timely and transparent manner; and
- ix. keeping the non-public information confidential as required by the law and the company's code of conduct.

3. APPOINTMENTS AND REMOVAL OF BOARD DIRECTORS

- i. The AGM of the company shall elect members of the board. Information on director candidate nominations to the AGM for the board shall include the reasons for the nomination and information regarding the candidate's age, profession, any shareholding or business interest in the company, recent and current board memberships, including committee roles, and any other relevant information.
- ii. With the exception of the CEO, each director shall generally be appointed for a period of three years, which may be renewed, subject to adequate performance as a director.
- iii. For the purpose of good corporate governance, the tenure of an independent director should not exceed three consecutive terms.
- iv. All non-executive directors shall have a written letter of appointment which shall include specific details concerning the term of office, expected roles the director may play in the board, the time commitment expectation of a board member, a statement of the fees he will be paid and the approaches the director is expected to take regarding adherence to board confidentiality requirements and the code of conduct.

- v. The nomination and governance committee of each company shall track any current or impending board vacancy and shall have in place a quality succession plan.
- vi. A director may be removed or asked to resign if he:
 - a. is convicted in a court of law for a criminal offence;
 - b. fails to attend three consecutive board meetings or fails to attend two-thirds of the board meetings held in any one year;
 - c. if his conduct is found to be detrimental to the company;
 - d. if his conduct or situation infringes the company's code of conduct.;
 - e. after any relevant process, at the request of or on behalf of shareholder/s controlling 50% or more of voting shares; or
 - f. for any other reasons as stipulated in the Companies Act or other applicable regulations.

4. DIRECTOR REMUNERATION

- i. Each board member shall receive a board sitting fee and some reasonable recompense for any additional board activities or board committee activities.
- ii. All directors should be reimbursed for reasonable costs related to their participation in board meetings and also in board committee meetings.
- iii. With the approval of the chairman, invitees other than employees may receive fees for participating in board meetings. The amount shall be decided by the board on a case-by-case basis based on the criticality of the information and expertise sought.
- iv. The company secretary shall be paid an amount not exceeding fifty percent of the board sitting fee for attending the board meetings.
- v. Other employees shall not receive compensation for any board related work.
- vi. Remuneration of directors shall be regularly reviewed.

5. DIRECTOR INDUCTION AND DEVELOPMENT

- i. All new directors appointed to the board shall undertake an induction program to assist them in fulfilling their duties. While the company may arrange the program over a period of time, it shall commence as soon as the director assumes his role and shall be completed within at least three months of the appointment.
- ii. All board directors are expected to undertake necessary professional development to enable them to discharge their duties effectively.
- iii. Board evaluation processes may be used to determine the training and development needs of directors.

6. BOARD COMMITTEES

6.1 Establishment

- i. Board committees may be set up in accordance with the company's requirements and circumstances in order to enhance the effectiveness of board functions.
- ii. Board committees are subordinate to the board of directors and the board of directors remains the ultimate decision making authority.
- iii. Delegating authority to a board committee does in no way discharge the board from its responsibilities.
- iv. Board committees should support board decision-making by providing recommendations to the boards. If separate board committees are not established as mandated, the board is the responsible body for the related committee activities.
- v. The company shall have, as a minimum, an Audit Committee and a Nomination and Governance Committee.

6.2 Membership

- i. A board committee shall be comprised only of non-executive members of the board. Others may be invited to attend committee meetings.
- ii. The board will appoint a chairman for each board committee. The chairman of each board committee should be an independent director, where possible.
- iii. The chairman of board shall not be the chairman of the committees of the board.

6.3 Committee Charters

- i. The board shall approve the charter for each board committee.
- ii. Each committee's activities shall be according to and within terms laid down by the board in a committee charter.
- iii. All board committees and their activities shall be disclosed to the shareholders and published in the annual report.
- iv. Decisions that, by law, must be taken by the board may not be delegated to a committee.

6.4 Reporting

Each committee shall report to the board promptly on its activities, with complete transparency and full disclosure, describing the committee's actions and findings. Each board member shall have access to all committee-meeting records.

6.5 Monitoring Committee Activities and Performance

The board shall monitor the activities entrusted to board committees and ensure they are effectively performed. Each board committee shall conduct an annual review and evaluation of its performance and report on this to the board.

6.6 Website

The charter and the composition of each board committee shall be posted on the company website for public access.

6.7 Committee Meeting Procedures

- i. A secretary shall be appointed for each committee to coordinate, attend, and take the minutes of each committee meeting but shall not be a member of the Committee. The secretary shall preferably be the relevant functional head in the company.
- ii. Meeting procedures for committees shall be governed by the respective board approved committee charters.
- iii. Minutes of each board committee meeting shall be signed by the committee members and shall be reported to the board of directors after each committee meeting.

- iv. The company secretary may be required to attend the board committee meetings, but shall not be a member of the committee.

6.8 Audit Committee

- i. The company shall establish an audit committee comprised of non-executive directors; it is desirable that the chairman and the majority of audit committee members are independent directors. Membership of an audit committee shall include directors who are financially literate.
- ii. The audit committee shall undertake its activities in accordance with a board approved audit committee charter.
- iii. The audit committee shall monitor and should give the board assurance on the operation of the internal control system and internal audit activities, financial reporting, external audit, accounting and legal compliance of the company. It may also monitor the effectiveness of the company risk management system.

6.9 Nomination and Governance Committee

- i. Companies shall establish a nomination and governance committee comprised of non-executive directors. The nomination and governance committee shall undertake its activities in accordance with a board approved nomination and governance committee charter.
- ii. To the extent possible, the chairman and the majority of committee members shall be independent directors.
- iii. Normally, the nomination and governance committee should ensure that shareholder concerns regarding corporate governance are addressed; that the board has an appropriate balance of skills, qualities and characteristics and that each board member is equipped with the proper tools and motivation to carry out his responsibilities.
- iv. Specific duties of a nomination and governance committee normally should include succession planning and identification of board directors and CEO whether for replacements or new appointments, and ensuring regular board and CEO evaluations.

6.10 Other Board Committees

- i. The board may establish other board committees depending on requirements. All board committees shall function according to a specific committee charter, approved by the board of directors.
- ii. These committees should be comprised only of board members, especially non-executive directors and, where possible, should be led by an independent director.

7. BOARD MEETINGS

The board must follow all legal requirements in law and in the company's Articles of Incorporation pertaining to the calling of meetings and making valid decisions. Therefore, the practices outlined below should complement these relevant legal requirements.

7.1 Chairman and Vice Chairman

All board meetings shall be normally convened and presided over by the chairman of the board. In his absence, the Vice / Deputy Chairman of the board shall chair the meeting. If neither is present, the directors present may elect one director to chair the meeting.

7.2 Company Secretary

The company secretary shall attend and facilitate all board meetings and associated activities unless the board instructs the company secretary to withdraw from the meeting. He shall draft and circulate minutes of the board meetings keep all records pertaining to the meeting.

7.3 Attendance

All board members are expected to fully prepare for and make every reasonable effort to attend board meetings. Other company executives and advisors may be requested to attend board meetings or parts thereof. Frequent absences of directors from board meetings should be explained to the chairman. Attendance by videoconference or telephone link or by other electronic means is acceptable. However any papers / information circulated at the board meeting should also be provided to board members on a remote link to the meeting.

7.4 Quorum

A quorum for a board meeting shall be in accordance with requirement under law or at least two-third of the total board members. No business may be transacted at a board meeting unless a quorum is present at the time the business is dealt with.

7.5 Frequency

The board shall meet no less than four times per year and as frequently as may be deemed necessary to deal with the business of the company. It is advisable to develop an annual calendar of meetings, with forward notice of meeting dates so directors may manage their diaries and to ensure attendance.

7.6 Notice

Notice of meeting, including agenda, time and location of the meeting, and all necessary information and materials shall be sent to directors at least seven days prior to the board meeting. There may be occasional materials sent to directors in a shorter timeframe than seven days, but this should be exceptional and with the consent of the chairman. Directors should properly prepare themselves to participate effectively in the meetings.

7.7 Agenda

The company secretary shall draft the meeting agenda in consultation with the chairman of the board. Each board member and the CEO has the right to request an item be placed on the meeting agenda. Such requests should be provided to the chairman at least 10 days prior to the meeting.

7.8 Decision making

- a. The board directors shall try to unanimously adopt the resolutions. When unanimous decisions cannot be reached, the dissenting opinion of the board members should be encouraged and must be recorded in the minutes.
- b. Where unanimity cannot be reached, all resolutions shall be adopted by a majority of votes by the directors except those who are on approved leave of absence. Each board director shall have the right to cast one vote.
- c. In the event of a tie, the chairman of the board shall have the deciding vote.

7.9 Minutes

- i. Minutes are a written legal record of the board meeting and shall be an accurate reflection of the meeting activities and decisions. At a minimum, minutes shall include meeting location and date, names of attendees and absentees, principal points arising in the discussions and board decisions.
- ii. Draft board meeting minutes shall be prepared within 5 days of the meeting and circulated to all board members within 21 days following each board meeting.

7.10 Confidentiality

All directors and other attendees at board meetings or board committee meetings are required to keep information presented to and at the meeting, whether written or oral, confidential and may only use and disclose this information in the proper discharge of their duties to the company.

8. CONFLICTS OF INTEREST

- i. Directors are required to take all reasonable steps to avoid actual, potential or perceived conflicts of interests.
- ii. Directors are required to disclose any actual, potential or perceived conflicts as they may arise.
- iii. The board shall develop procedures for directors to follow if an actual, potential or perceived conflict of interest should arise which will include:
 - a. disclosure to the board of any conflict of interest;
 - b. the taking of steps to resolve any conflict of interest; and
 - c. withdrawal from any discussion or vote on the matter of the conflict of interest.

9. ACCESS TO INDEPENDENT PROFESSIONAL ADVICE

- i. The board has the authority to conduct or direct any investigation required to fulfil its responsibilities. It has the capacity to retain at the company's expense, such legal, financial or other advisors, consultants or experts, as it considers necessary from time to time.

- ii. In some circumstances, each director has the right to seek independent professional advice at the company's expense within specified limits or with the prior approval of the chairman.
- iii. All board committees shall have access to independent professional advice, at the company's expense within specified limits or with the prior approval of the chairman.

10. ANNUAL PERFORMANCE EVALUATION

- i. The board is encouraged to undertake an annual evaluation of its performance.
- ii. Individual board committee shall also undertake an annual evaluation of their performance and report to the board of its effectiveness.
- iii. Individual directors are also encouraged to undertake an annual self-assessment.
- iv. The board shall assess the CEO's performance annually.

11. REVIEW

The board shall review and assess the adequacy of the board charter annually and make any revisions as required.

Annexure 1: Indicators of Lack of Independence as a Director

A director will not be considered to be independent if he:

- a. is employed by the company, or was employed by the company or its related parties in the past three years.
- b. is affiliated with a significant customer or supplier of the company or its related parties.
- c. has personal service contracts with the company, its related parties, or its senior management.
- d. is affiliated with a non-profit organization that receives significant funding from the company or its related parties.
- e. is employed as an executive of another company where any of the company's executives serve on that company's board of directors.
- f. has close family ties with any of the company's advisors, directors or senior management.
- g. is, and in the past three years has been, affiliated with or employed by a present or former auditor of the company or of a related party.
- h. is a significant shareowner of the company (or member of a group of individuals and/or entities that collectively exercise effective control over the company).
- i. has served on the board for more than three consecutive terms as independent director.

APPENDIX 2

AUDIT COMMITTEE CHARTER

1. PURPOSE

- 1.1 This Audit Committee Charter is provided as guidance for the establishment and working of an Audit Committee of the board.
- 1.2 The board of each company should define precisely its own particular audit committee needs, according to the size, complexity and risk profile of the company. For example, some companies may have a separate Risk Committee of the board and so oversight of all risk activities will be undertaken by the Risk Committee and not the Audit Committee.
- 1.3 Smaller companies may choose not to establish a separate Audit Committee. In such case, the board shall assume the responsibility for audit committee activities described in this charter.
- 1.4 In case of any inconsistencies between this Charter and the rules and regulations of the Royal Audit Authority, the latter shall prevail.

2. AUTHORITY

- 2.1 The board authorises the Audit Committee, within the scope of its duties and responsibilities to exercise its powers in a manner it deems appropriate, including to:
 - i. Investigate any activity;
 - ii. Request and obtain any information from management, employees, or from external parties as the committee deems advisable;
 - iii. Establish procedures for receiving and dealing with concerns of interested parties;
 - iv. Make recommendations to the board on issues related to policies, procedures and oversight systems;
 - v. Obtain external legal and professional expert advice as necessary; and
 - vi. Ensure the attendance and co-operation of company employees / officers at meetings as appropriate.

- 2.2 The Audit Committee functions in an oversight and review role and will make recommendations for board decision / approval when required. Any disagreement between the Audit Committee and the rest of the board shall be resolved at board level.

3. MEMBERSHIP

- 3.1 An Audit Committee shall be comprised of two or three members depending on the nature of the organizations. Large and more complex organisations may require three members while smaller companies may require two members.
- 3.2 The chairman of the board shall not be a member of the Audit Committee.
- 3.3 The committee shall consist of not less than two financially literate non-executive director of the board.
- 3.4 The chairman of the Audit Committee shall be an independent non-executive director and should be financially literate.
- 3.5 Audit Committee members shall not simultaneously serve on the Audit Committee of more than two other public companies.
- 3.6 To be 'financially literate', members of the Audit Committee are not required to be financial, accounting or auditing professionals but they should have knowledge of accounting and auditing standards and practices. The goal is that all members of the Audit Committee shall be financially literate and always act in an impartial, objective and independent manner.

4. RESPONSIBILITIES

The Audit Committee shall carry out the following responsibilities:

4.1 Company Reporting (including financial statements and compliance)

- 4.1.1 Review financial reports, including quarterly, half-yearly and annual financial statements before the financial statements are submitted to the board;
- 4.1.2 Consider and advise the board on whether the annual report is fair, balanced, and understandable and provides users with the information necessary for their assessment of the company's performance, business model and strategy;
- 4.1.3 Consider whether all interim, ad hoc reporting and half-year and annual financial statements are complete, consistent with information known

to committee members and with information in other sections of the annual or half-yearly reports or other company reports generally, reflect applicable accounting standards and comply with laws and regulations;

- 4.1.4 Ensure all reported financial information include a review of:
- i. Critical accounting policies and practices, any changes in them and compliance with accounting standards;
 - ii. Management decisions requiring significant elements of estimates and judgment;
 - iii. The extent to which financial statements are affected by unusual transactions during the period and how they are disclosed;
 - iv. The going concern assumption;
 - v. Clarity and fullness of disclosures, including in the notes to financial statements;
 - vi. Significant adjustments resulting from the external audit and any unresolved issues arising from the external audit; and
 - vii. All legal and regulatory requirements to ensure compliance.

4.2 Internal Controls and Risk Management Systems

- 4.2.1 Consider the effectiveness of the company's internal control system and of contingency plans for systems breakdown and recovery and for protection of assets against fraud and misuse;
- 4.2.2 Understand the scope of the internal and external auditor's review of internal controls, significant findings and recommendations together with management's responses;
- 4.2.3 Evaluate the risk oversight framework and system, and assess if the board and senior management are setting the appropriate risk and control culture in the company, relevant for the company's business operations, that key risks are being identified and appropriately managed and, where necessary, reported to the board; and
- 4.2.4 Review arrangements for the receipt, retention and treatment of complaints by the company, provided in confidence and in writing, in relation to concerns about possible improprieties in financial reporting or other matters.

4.3 Internal Audit (For details, refer Annexure 1: Terms of Reference for Internal Audit)

- 4.3.1 Be the direct reporting line for the internal auditor and the internal audit function;
- 4.3.2 Monitor and review the effectiveness of the internal audit function;
- 4.3.3 Recommend the appointment and, if appropriate, the termination of the internal auditor;
- 4.3.4 Review, assess and recommend board approval of the internal audit work plans;
- 4.3.5 Receive reports on the internal auditor's work on a periodic basis, review significant internal audit findings and recommendations, together with management's responses and action taken; and
- 4.3.6 Review the performance, career advancement, training and compensation, of the internal audit unit.

4.4 External Audit

- 4.4.1 Oversee the company's relations with the external auditor;
- 4.4.2 Within the requirements of the Company's Act and Royal Audit Authority, interact with relevant persons and shareholders on the appointment, reappointment, and removal of the external auditors;
- 4.4.3 Assess and report to the board on the external auditor's qualification, expertise, resources, independence and performance;
- 4.4.4 Meet with the external auditor to review the scope and planning for the audit and the audit quality control procedures and on any issues arising in the course of the audit;
- 4.4.5 Discuss with the external auditor any related party transactions the auditor may bring to the audit committee's attention;
- 4.4.6 Meet with the external auditor to receive audit findings and recommendations for management regarding any deficiencies;
- 4.4.7 Monitor management to see that significant audit findings are acted on in a timely manner; and

- 4.4.8 Monitor any other non-audit services provided to the company by the external auditors to ensure that these additional non-audit services do in no way compromise the quality or independence of the external audit.

4.5 Meetings

- 4.5.1 The audit committee chairman shall decide the frequency and timing of its meetings. There should be as many meetings as the roles and responsibilities of the committee demands;
- 4.5.2 There should not be less than four meetings in any one-year. Meetings should be organized in alignment with the annual cycle of financial reporting and auditing activities;
- 4.5.3 All audit committee members duly appointed by the board should attend each meeting. Other non-committee persons may be requested to attend parts of audit committee meetings for specific agenda items;
- 4.5.4 The external auditor and the internal auditor shall be invited to attend audit committee meetings. The external auditor shall attend at least one time per year to communicate the external audit findings to the committee before the annual general meeting;
- 4.5.5 The secretary shall take minutes of all meetings and keep committee records, minutes, and papers. Copies of the minutes shall be made available to all board members after the audit committee members have approved the minutes; and
- 4.5.6 The chairman of the audit committee shall report on audit committee activities to the board at the next board meeting after the audit committee meeting, or earlier to the chairman of the board, if necessary.

4.6 Review

The Audit Committee shall also review its charter and provide to the board any recommendations for changes in the charter or in any other company policies and procedures.

Annexure 1 – Terms of Reference for Internal Audit

1. PURPOSE OF THE TERMS OF REFERENCE

- 1.1 This model of Terms of Reference (TOR) for an Internal Audit Unit is provided as a framework for the establishment and working of an internal audit function of a company.
- 1.2 This document shall be read in conjunction with the Audit Committee Charter.
- 1.3 The TOR defines the scope of work, the responsibilities and authority of internal audit operations.
- 1.4 Each company shall establish an internal audit unit and shall establish and implement systems for ensuring the internal audit unit operates efficiently, effectively and economically.
- 1.5 The purpose and responsibilities of the internal audit unit shall be formally defined by the audit committee and approved by the board, in consideration of these TOR.

2. ROLES AND RESPONSIBILITIES OF INTERNAL AUDIT UNIT

- 2.1 The internal audit unit plays a key role in providing independent, objective assurance and consulting services designed to add value to and improve the company's operations. Each company must identify its own audit needs and use them to specifically define the role of its internal audit function.
- 2.2 The internal audit unit should bring a systematic and disciplined approach to evaluating and improving a company's risk management, internal control and governance practices. It also has an important role in protecting and enhancing value within the company by proactively and reactively advising on a number of strategic, business and compliance risks.
- 2.3 The capacity for intervention of internal audit extends to the whole company and to all administrative, accounting, financial, functional or operational processes. Internal audit shall provide services to the Audit Committee and through the Audit Committee, to the management of the company.
- 2.4 Internal audit activities shall be based on company business principles, objectives and strategies and shall include assessing if:
 - i. internal control systems are adequate and effective and risks are appropriately identified and managed;

- ii. significant financial, managerial and operating information is accurate, reliable, exhaustive and timely and information systems are reliable, secure and accurate;
- iii. all company personnel's actions are in compliance with policies, standards, procedures, applicable laws and regulations, with the decisions of the board and with contractual agreements;
- iv. resources are acquired economically, used efficiently and adequately protected;
- v. resources in work units being audited are adequate and programs and objectives are achieved;
- vi. special investigations may be undertaken on behalf of the board and management;
- vii. internal audit participates in projects at an early stage to ensure adequate controls are incorporated and tested; and
- viii. audit recommendations in earlier audit reports are implemented and a register of issues / findings raised during audit reviews is maintained and monitored for implementation of agreed management actions.

3. ROLE OF CHIEF INTERNAL AUDITOR

- 3.1 The Chief Internal Auditor (CIA) shall lead the internal audit unit and its personnel and shall ensure the efficient and effective operations of internal audit within the company.
- 3.2 The CIA's responsibilities include:
 - 3.2.1 Developing a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and submitting that plan to the Audit Committee for review and for approval by the board;
 - 3.2.2 Implementing the annual audit plan and undertaking any special tasks or projects requested by the Audit Committee, which may include special reviews requested by management;
 - 3.2.3 Regularly communicating to the Audit Committee and to the CEO on the progress and results of the annual audit plan, on the adequacy of internal audit resources and on emerging trends and practices in internal auditing;

- 3.2.4 Leading and maintaining a professional internal audit unit with sufficient knowledge and skills, experience and professional capacities to meet the requirements of this TOR;
- 3.2.5 Allocating resources, setting frequencies, selecting subjects, determining scopes of work and applying the techniques required to accomplish internal audit objectives;
- 3.2.6 Establishing a quality assurance program by which the CIA assures the operation of internal auditing activities;
- 3.2.7 Performing consulting services to assist management in meeting its objectives;
- 3.2.8 Reporting on the internal audit function directly to the audit committee and the CIA shall also have direct access to the chairman of the audit committee on matters considered of significant importance to the functioning of the company;
- 3.2.9 The issuance of periodic reports to the audit committee on their activities, including a summary report on each audit for the audit committee review and approval. Each audit report, with results and recommendations, will be available to management; and
- 3.2.10 The consideration of the scope of work of the external audit activities and of regulators for the purpose of providing optimal audit coverage to the company at a reasonable cost.

4. INDEPENDENCE AND REPORTING

- 4.1 Internal audit must not only be independent but be seen to be independent of the activities and procedures it appraises to ensure it is able to perform its duties objectively and to provide impartial advice.
- 4.2 Independent audit staff shall have no line responsibility or authority over any other company activities or operations. The internal audit unit shall report directly to the Audit Committee of the board.
- 4.3 The internal audit unit and its head shall report directly to the chairman of audit committee and the audit committee. If no audit committee is established, it shall report directly to the board itself. It shall have full and free access to the audit committee or the board.

- 4.4 The audit committee of the board or the board shall establish, monitor and oversee the activities of the internal audit unit.

5. POWERS OF INTERNAL AUDIT

- 5.1 The internal audit unit does not have decision-making authority but can determine an opinion on each area of audit and make recommendations for improvement.
- 5.2 Internal audit shall have unrestricted access to all functions, records, property and personnel. Such access shall be provided to internal audit in a timely manner by management and personnel as may be required to fulfil their responsibilities. It shall also obtain the necessary assistance of personnel in units being audited and from other specialised units within or outside the company to facilitate their work.
- 5.3 Executive management and all company personnel shall co-operate with and support internal audit activities as required and shall proactively inform internal audit in a timely manner of any serious incidents, notable damage, or well-founded suspicion of misconduct in their areas, of any material changes in the internal control system and breaches of internal controls.
- 5.4 Internal audit will be normally invited to participate in new, significant projects in order to ensure the early introduction of policies and processes to minimise risks.
- 5.5 Internal audit shall be invited to observe the contractual process for major transactions that will significantly affect operations or that will present a high level of risk to the company. Internal audit may review and substantiate the provision of resources and materials for quality in line with contractual terms.

6. EXTERNAL RELATIONSHIPS

The internal audit function shall liaise with the Royal Audit Authority, the statutory external auditor and their representatives to co-ordinate audit work for the efficiency and effectiveness of audit resources, audit approach and coverage, management inputs and to minimize audit costs.

7. PROFESSIONALISM OF INTERNAL AUDIT PERSONNEL

Internal audit personnel or service providers are expected to:

- 7.1 Have a broad knowledge of company operations and should remain informed about significant issues affecting or likely to affect those operations;
- 7.2 Maintain their technical competence and build on their professional qualifications and skills through continuing education, participation in relevant conferences or external courses and in-house training programs;
- 7.3 Exercise honesty, objectivity and discipline in the performance of their duties and responsibilities and at all times maintain their independence. They shall not participate in audits where objectivity may be compromised (e.g. where relatives are involved);
- 7.4 Maintain a healthy level of ‘professional scepticism’;
- 7.5 Be prudent in the use of information acquired in the course of their duties and where necessary, preserve the confidentiality of such information; and
- 7.6 Maintain a constructive relationship with other personnel encountered in the course of their duties.

8. REVIEW

The Audit Committee shall review the Internal Audit TOR at least annually to ensure its appropriateness for the company and to ensure that it remains consistent with the company strategy and objectives, relevant legislative requirements and guidelines.

APPENDIX 3

CODE OF CONDUCT FOR THE
BOARD DIRECTORS AND SENIOR MANAGERS

1. INTRODUCTION

- 1.1 Company leadership should set the ‘tone at the top’ and create a corporate culture that promotes ethical conduct on the part of those companies and their employees. Directors and senior managers of the company shall establish leadership in this area.
- 1.2 This responsibility is particularly important in companies where there is State ownership. Companies with the State as the owner must be properly managed in the interests of the ultimate owners – the people of Bhutan.
- 1.3 The public has an expectation that the conduct or the perceived conduct of board members and senior managers of the company adhere to the highest ethical and moral standards.

2. PURPOSE

- 2.1 The purpose of the Code of Conduct (Code) is intended to govern the conduct of directors and senior managers of the company and ensure that they always apply a consistent and high standard of ethical conduct, especially with respect to possible conflicts of interest.
- 2.2 The Code is designed to promote and maintain confidence and trust in the board and the company’s senior managers.
- 2.3 The provisions of the Code shall complement and enhance the requirements that arise in law and in the by-laws of the company.

3. SCOPE

- 3.1 The Code sets an agreed standard of conduct by which all members of the board and senior managers of the company shall comply when dealing with each other and with the company, its employees and stakeholders.
- 3.2 It also applies to all directors and senior managers of subsidiary and associated companies within the company.

- 3.3 The general principles underlying the Code, explained below, apply to all board members and senior managers of the company, collectively and individually.

4. TERMINOLOGY

- 4.1 “Bribery” involves the offering, giving, granting or acceptance of any payment, gift, promise, benefit, favour or anything of value, whether directly or through a third party, which is to or from any person or entity for the purpose of improperly securing a private or business benefit or for the improper performance of a function or activity. See also the definition of “bribery” applied by the Anti Corruption Commission of Bhutan.
- 4.2 “Corruption” involves the abuse of a position of employment, authority or trust to gain an advantage in breach of duty. See also the definition of “corruption” applied by the Anti Corruption Commission of Bhutan.
- 4.3 “Directors” shall mean all members of the board of directors of the company and its subsidiaries, including the Chief Executive Officer (‘CEO’) of the company.
- 4.4 “Senior managers” shall mean all company personnel reporting directly to the CEO or directly to the board or a committee of the board.

5. CONFLICTS OF INTEREST

- 5.1 A conflict of interest occurs when personal interests compete with the interests of the company. Directors and senior managers shall avoid conflicts of interest whenever possible, this is inclusive of but not limited to abstaining from engaging in any other professional activity that has conflicting interest with the purpose and values of the company.
- 5.2 If a conflict of interest situation arises, the director or senior manager shall disclose it to the board or the nomination and governance committee.
- 5.3 When a perceived or actual conflict of interest arises, a director or senior manager shall withdraw from the board or other deliberations on the matter and ensure that the minutes of the meeting records actions taken on declared conflicts.

6. GIFTS

- 6.1 A director or senior manager of the company must not accept or offer any improper payment or benefit in connection with his role at the company. They must not obtain or seek to obtain personal advantage from any person or entity dealing with the company.

- 6.2 Gifts and entertainment given and received with the intention of unduly influencing business decisions are a form of bribery and are prohibited. In particular a director or senior manager must not solicit or accept any gifts or inducements where the value of such could make it appear the person giving the gift is attempting to influence the director or senior manager to gain advantage or to create a sense of obligation.
- 6.3 Directors and senior managers of the company shall not seek to improperly influence others or official decisions by providing gifts or favours. The company does not support the direct giving of political donations in cash or in kind to any political party or group.
- 6.4 The board shall issue policies in relation to accepting, declaring and/or recording the receipt of gifts or benefits.

7. CONFIDENTIALITY

- 7.1 Pursuant to fiduciary duties of care and loyalty to the company and all its shareholders, all directors and senior managers are required to keep confidential all non-public information obtained in the course of their activities as a director or senior manager of the company.
- 7.2 'Confidential information' is all non-public information entrusted to or obtained by the director or senior manager by reason of his position in the company and includes, but is not limited to, information or company documents that may be of use to competitors or may be harmful to the company if disclosed.

8. MISUSE OF INFORMATION

- 8.1 Directors and senior managers should not make promises or commitments they know the company would not intend or would be unable to honour. They should not use the name of the company to further any personal or business transaction.
- 8.2 Directors and senior managers of the company shall ensure information accessed in the course of their duties is used only for proper purposes and in an approved manner.

9. LOYALTY

- 9.1 The directors and senior managers of the company acknowledge the responsibility to be loyal to the shareholders, the company and to the board and to be fully committed to all of the company's business activities.
- 9.2 The directors and senior managers of the company acknowledge the duty of all to conform to the highest standards of business ethics.

- 9.3 They shall respect their fellow directors and senior managers and treat them with courtesy. In dealings with stakeholders, directors and senior managers have the responsibility to maintain the reputation of the company and treat all stakeholders in a helpful and courteous manner.

10. USES AND PROTECTION OF ASSETS

- 10.1 All company resources and assets, including equipment, inventory, supplies, intellectual property etc., shall be used efficiently and shall be used only for legitimate company business or for properly authorized purposes.
- 10.2 Unauthorized removal, copying or destruction of company assets, including software, tapes, books, etc. is considered misuse of company assets.
- 10.3 Use of company paid employees or contractors for personal use is misuse of company assets. Careless use of assets and waste must be curtailed.
- 10.4 Any act by a director or senior manager, for him/herself or for another, that involves theft, fraud, embezzlement or misappropriation of any property is prohibited, if known, must be reported and shall be investigated.

11. FAIRNESS

- 11.1 Directors and senior managers of the company shall be fair, equitable and objective in the treatment of all stakeholders (employees, customers, suppliers, competitors), including members of the community.
- 11.2 They shall respect, protect and preserve the privacy of customer information, where applicable.

12. RESPONSIBILITY

- 12.1 The board of directors shall adopt and approve the Code for all directors and senior managers of the company.
- 12.2 Each director and senior manager of the company has a duty to abide by and report any instance or suspected breach of the Code, including any suspected theft or misuse of company assets.

13. BREACHES OF THE CODE, REPORTING AND DISCIPLINARY ACTION

- 13.1 The application of the Code relies on the commitment of directors and senior managers of the company to uphold the principles and guidance within the Code.
- 13.2 Breaches of the words set forth and the spirit of the Code will be treated seriously.

- 13.3 Directors and senior managers of the company must report any suspicious activities or practices.
- 13.4 All reported issues will be treated confidentially to the extent possible, consistent with the director's and senior manager's responsibility to address the issue concerned.
- 13.5 No director, manager or employee of the company shall be subject to retaliation or intimidation for reporting suspicious activity in good faith.
- 13.6 Breaches of the Code will be dealt with disciplinary action appropriate to the issue.
- 13.7 Discipline may require resignation from the board or from a position of a senior manager of the company. Breaches of the Code may also result in civil or criminal action.
- 13.8 Any waiver of the provisions of the Code may be made and/or approved only by the board of directors. The waiver and the reasons it was granted shall be promptly disclosed to the shareholders and relevant regulators if required by law.

14. REVIEW

The code of conduct shall be reviewed from time to time and may be revised to reflect changing legal, regulatory and ethical standards.

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