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DRUK HOLDING & INVESTMENTS ANNUAL REPORT 2009



ANNUAL REPORT 2009

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DRUK HOLDING & INVESTMENTS

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Statement by Lyonpo Om Pradhan, Chairman, Druk Holding and Investments at the second Annual General Meeting

(Thimphu, 16 April 2010)

I begin by warmly welcoming representatives of the Ministry of Finance, the shareholder of DHI on behalf of the Royal Government of Bhutan, to this Annual General Meeting. I also welcome other participants at this meeting including the DHI Board Directors.

The agenda and other relevant documentation for this meeting have already been circulated and I seek the approval of the AGM on the agenda.

Before we move ahead with the items on the agenda I wish to bring a few issues to the notice of the AGM in view of their relevance to our work here. The DHI's main responsibility as per the Royal Charter that was endorsed after its revision by the Government, is to safeguard, manage and grow the government's investments considered as the "people's wealth." In this context I wish to mention that DHI corporations, both fully owned and where we have major or minor shareholdings, have performed well during the financial year in question, that is, 2008 for the corporations and 2009 for DHI. In the same vein the implementation of the DCP and Dagachhu projects have picked up since delays caused by Cyclone Aila and other reasons. DHI has also taken a number of new initiatives and CEO Karma Yonten will provide more details when he presents the Directors Report following my intervention.

From the next financial year onwards the DHI management has also been requested to include the immediately preceding year by ensuring that the audits are completed before the AGM. The management has assured that this will take place from the next AGM onwards.

During the year the National Assembly discussed three issues relating to DHI, that is, sitting fees, DHI remunerations and contributions made to the Kidu Fund. We believe that these discussions arose more out of misunderstandings of how DHI functions. In view of this DHI sought to explain and clarify these matters to the Hon'ble Finance Minister and the Hon'ble Speaker of the National Assembly. Basically we explained that the remunerations of DHI management had been decided before the institution of the management through specific written orders from the then Prime Minister in November 2007. No changes have been made since then, and DHI manage-

“
The DHI had
been designated the
commercial arm of the
government by the
Hon'ble Prime Minister,
and DHI worked
very closely with the
government to fulfill
the plans, policies,
visions and aspirations
of the government...”

ment or Board is also not authorized to do this. It was clarified that only the Blue Ribbon Panel could make revisions. The BRP consisted of the RCSC Chairperson, Governor of the RMA, two secretaries to the government including the Finance Secretary, and the DHI Chairperson.

It had also been observed that the media was reporting on these and other issues, and DHI needed to keep them better informed in the future so that they get the facts and figures right. In order to address this problem more effectively DHI has now strengthened its media wing and this should help enhance public understanding of DHI.

It had been noted by DHI that the Hon'ble Minister of Finance had been asked by the National Assembly to report on DHI at its next session. DHI would take necessary action to provide all possible information to the Hon'ble Minister in this context.

The DHI had been designated the commercial arm of the government by the Hon'ble Prime Minister, and DHI worked very closely with the government to fulfill the plans, policies, visions and aspirations of the government while maintaining the autonomous status to function independently based on the Royal Charter (RC), as revised and endorsed by the present government. In this respect periodic meetings were being sought with Hon'ble Prime Minister, Ministry of Finance, Ministry of Economic Affairs and other government agencies. At the same time there were three government Secretaries on the DHI Board.

Besides the ongoing projects, that is Dungsum Cement (DCCL) and Dagachhu Hydropower (DHPC), DHI is associated with the IT Park, Convention Center, Education City, Magnesium, ERP-SAP, etc. Initiatives pursuant to government directives such as electricity for all by 2013, national broadband coverage, engagement in RGOB's 10,000 MW hydropower by 2020 project, and commercial operation of these plants are also a key component in DHI companies' ongoing activities.

DHI thanks the MOEA for taking DHI into confidence by appointing DHI CEO as a member of the Empowered Joint Group (EJG) and making it possible for MD, DGPC and MD, BPC to participate in the technical team of the EJG as advisors.

In conclusion I would like to commend the excellent work of the CEO and the DHI team for the manner in which they are doing their work to fulfill the objectives of the Royal Charter. I call upon CEO Karma Yonten to present the Directors' Report.

Tashi Delek!

1. INTRODUCTION

His Majesty the King of Bhutan, through a Royal Charter, established DHI as a wholly government owned holding and investment company on 11 November, 2007.

DHI is incorporated under the Companies Act of the Kingdom of Bhutan 2000 and the Ministry of Finance, Royal Government of Bhutan is the sole shareholder.

DHI's primary function is to hold and manage companies with government shareholding and to make new investments.

2. Rationale for creation of DHI

The rationale for creating DHI is as follows:

a. Improving corporate governance

By creating DHI as an interposing holding company between the government and its linked companies, there is a clear separation of the role of the government as the owner and shareholder from its overarching responsibility as policy maker and market regulator and helps in improving the governance of the corporations.

b. Supporting democracy and providing right checks and balances

As the success of a democracy hinges to a large extent on the economic development and prosperity of the country, one of DHI's objectives is to strengthen the Bhutanese economy so that it provides a strong foundation for a vibrant democracy. DHI has in-built checks and balances to ensure that the national wealth is managed, enhanced and safeguarded for all generations of Bhutanese to come.

c. Improving performance of linked companies

DHI has signed compacts with several of its subsidiary companies outlining the targets and performance benchmarks. The compact covers areas like expansion of infrastructure, financial, operational, and customer service targets.

d. Making investments for the government

With globalization and the rapid opening up of the markets in India there is a lot of opportunity for making strategic investments. DHI is the vehicle to make strategic investments as the government on its own can't make these investments outside Bhutan. However, the first priority of DHI will be to make investments within Bhutan as these investments will create business and employment opportunities which will help in the overall economic development of Bhutan.

e. Developing a new corporate culture in Bhutan

Since the corporate sector has evolved from the bureaucracy, the work culture in the corporate sector also resembles the bureaucracy. DHI is expected to play a major role in evolving this to a corporate culture by introducing a work culture based on performance, meritocracy, dynamism, innovation, creativity, enterprise and integrity.

f. Nurturing and retaining business talent for the corporate sector of Bhutan

The corporate and private sectors do not have systematic human resource development (HRD) and training programs in place to develop and nurture talented business professionals. With the improved work culture and performance based remuneration, DHI expects that it will be able to attract talented Bhutanese professionals who might otherwise seek employment opportunities outside of Bhutan.

g. Raising funds for investments

DHI as a corporate entity is more suited to mobilizing commercial funds and as a holding company it can leverage the balance sheets of its companies. The creation of DHI allows raising funds from international financial markets and institutions for financing projects.

h. Efficient utilization of capital

The consolidation of the government's shares in the various companies/corporations under DHI will enable the pooling of financial resources which can then be utilized more efficiently based on the long term investment plans of DHI and its linked companies.

i. Creating employment opportunities for Bhutanese youth

Growing unemployment is one of the biggest concerns of the government. Through investments that are commercially viable, DHI would create more employment opportunities for the Bhutanese youth.

j. Leading and complementing private sector growth

DHI will develop a framework within which it will work together with the private sector companies. DHI will strive to involve the private sector in the development and implementation of its new projects and where possible will allow the private sector to take equity stake in the new projects.

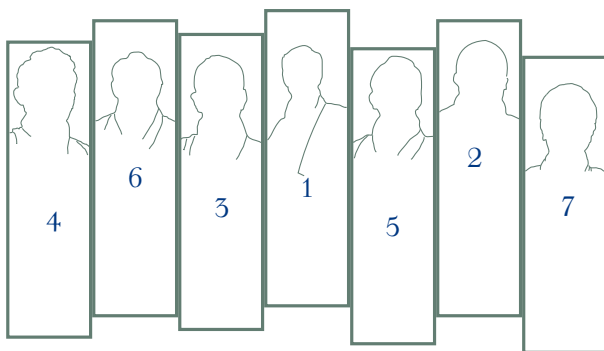
k. Providing predictable and increasing revenue inflows to the government

By mutually agreeing on the amount of revenues to be provided to Ministry of Finance annually, DHI will provide predictable revenues to the government.



DHI BOARD OF DIRECTORS





The Chairman

- 1. Lyonpo Om Pradhan** has 34 years of service with the Royal Government of Bhutan since 1969 as Minister for Trade and Industries (1989-1998) and Deputy Minister (1985-1989). He served two terms as Ambassador and Permanent Representative at the United Nations in New York (1980-84 and 1998-2003), Ambassador to India, Nepal and the Maldives (1984-85). In addition, he served at the United Nations secretariat in New York coordinating, monitoring and reporting on the implementation of the Programmes of Action for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States from 2003 till October 2007 when His Majesty the King appointed him Chairman of Druk Holding and Investments.

He received the Red Scarf in 1977, the rank of Deputy Minister in 1979 and that of a full Cabinet Minister in 1989. He is the recipient of the Coronation Gold Medal (1974), and the Distinguished Alumni Award from North Point, Darjeeling (2007). He was a member of the Lhengye Zhungtshog and the National Assembly from 1975 to 1979 and 1986 to 1998. Lyonpo Om Pradhan is a graduate of St. Stephen's College, New Delhi, and holds Masters Degree in economics and a PhD in international relations from the United States. Born on 6 October 1946 in Neoly, Bhutan, he is married and has a daughter and two sons.

The Directors

- 2. Dasho Sonam Tshering** received his bachelor of Technology in Electrical Engineering from the Indian Institute of Technology, New Delhi and Master of Science in Air Transport Management from Cranfield University, United Kingdom. He started his career as an Assistant Engineer in Druk Air Corporation and moved up the career ladder quickly to become the Managing Director of Druk Air Corporation in 1991. He served as the Managing Director of Druk Air till December 1999 after which he was appointed as Director of the Department of Power under the Ministry of Trade and Industry. He also served as the Managing Director of Bhutan Power Corporation and as Director General of Department of Energy till 2007. In August 2007, he was appointed the Secretary of the Ministry of Economic Affairs. He has presented numerous papers in international forums and conferences on energy, water resources and hydro power. He received the Guinness Peats Aviation award for the best thesis while undertaking his MSc in UK. Dasho Sonam Tshering has also served as Board of Director and Chairperson of many Corporations. He was conferred the red scarf by the 4th Druk Gyalpo on December 7, 2006 for his contribution to the power sector in Bhutan.
- 3. Mr. Lam Dorji** joined as the new Finance Secretary on 19th March 2008. Prior to this appointment, he was the Secretary of the Planning Commission (now GNH commission) since 2003. Mr. Dorji started his career in the Ministry of Finance, and headed the budget, accounts and aid coordination divisions for several years. In 1998, he was appointed as the Director, Department of Budget and Accounts. During his long association with the Ministry of Finance, he served as Director in the boards of various government corporations. In December 2007, DHI appointed him as the Chairman of the Bhutan Telecom Board of Directors. While in the Department of Budget and Accounts, he was part of the team that came up with the revised Financial, Budget and Procurement manuals in 2000. Several budget reforms were initiated during his tenure in this department. Over the years, Mr. Dorji participated in numerous international meetings, and particularly in development plan talks with the GOI, and other SAARC forums. Mr. Lam Dorji qualified as a chartered management accountant from UK, and holds MBA from the University of Wales.
- 4. Mr. Karma Tshiteem** received his Bachelor of Commerce degree from Sherubtse College, Bhutan and his MBA Degree from University of Canberra, Australia. He started his career as an Assistant Finance Officer, Public Enterprise Division, NBACD from 1989 till 1992. He was promoted as Senior Programme Officer, Multilateral and Loans Section in 1995 and later as a Head of Aid Coordination Section in 1999. In 2000, he served as a Deputy Secretary, Planning

and Policy Division till 2006, when he was transferred as the Director, Department of Public Accounts. He worked as a researcher in the People's Project Research 1 from 2006 till 2007, and later appointed as the Secretary, GNH Commission/ Planning Commission in 2007.

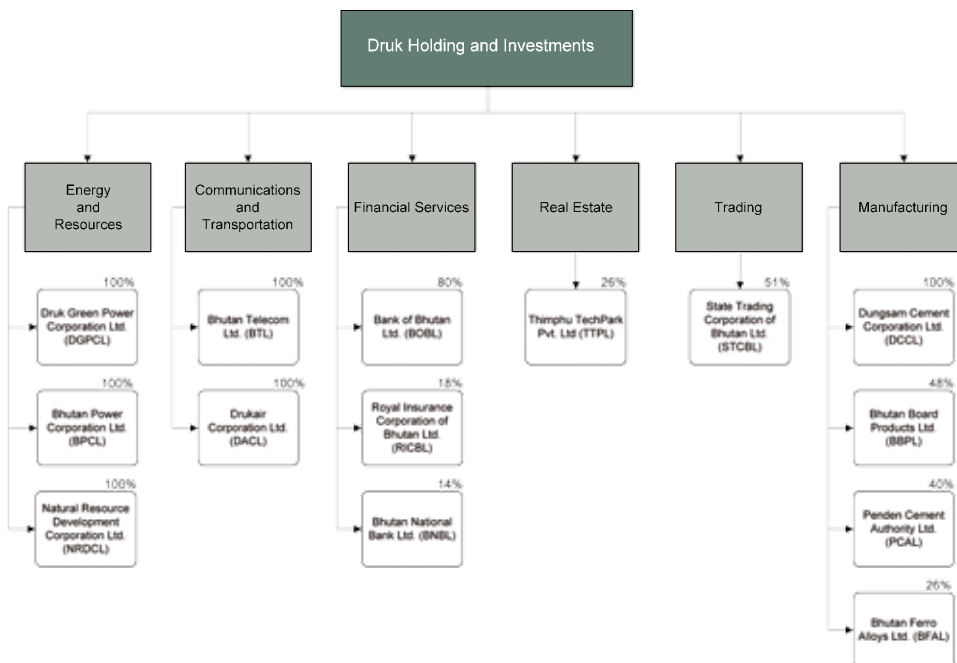
5. **Mr. Karma Lotey** was born in central Bhutan – Trongsa. He went to school in western Bhutan, then to college in eastern Bhutan, and eventually earned an MBA degree from the University of Texas in the USA. This assorted upbringing has given him a good appreciation of how things work throughout Bhutan and abroad. Using his outdoor skills in combination with his management professionalism, Karma Lotey helps to create adventure programs in Bhutan that provide for the most satisfying use of the precious time of those visiting Bhutan with him. He has nearly 16 years experience in his association with Yangphel Adventure Travel in Bhutan, where he now serves as the Managing Director.
6. **Mr. Kuenzang Dechen** He has a Master Degree in International Relations from the University of Hawaii and a post graduate diploma in US Economic Policy and Domestic US Legislation from Georgetown University, Washington DC. During his post graduate studies in the US, he also worked as a research intern in the International Relations Division

at the East-West Center, Honolulu for two and a half years. He served in the Foreign service for ten years between 1985 and 1994 and last served as a diplomat at the Royal Bhutanese Embassy in New Delhi as the Head of the Economic Division. Thereafter for the last thirteen years, he has worked extensively as a consultant for the Royal Government of Bhutan and various international development agencies, primarily the EU, ACB and UNDP. He has also worked part-time as the Senior Policy Advisor to the UNDP and served as a Board Director of the Bhutan National Bank.

The CEO

7. **Mr. Karma Yonten** received his Electrical Engineering Degree as a Fulbright scholar from the University of Kansas, USA, and his MBA Degree from Hitotsubashi University, Japan. He started his career as a Civil Servant in the Department of Power/ Energy in the Ministry of Trade and Industry and has worked on the Basochu Hydropower project. He was the Chief Executive Officer of the Bhutan Electricity Authority when he resigned from the Civil Service. Prior to taking up his position as the CEO of DHI, he was a Consultant with Ongdi Consulting Services and he was a member of the Bhutan Electricity Authority, Bhutan National Bank and Bhutan Telecom Board of Directors.

DHI PORTFOLIO COMPANIES (DPC)



	DHI Share Holding (In %)	DPC Categories	2009 Revenue (mil)		Net Worth/Market Capitalization (mil)*	
			BTN	USD**	BTN	USD**
Energy & Resources						
Druk Green Power Corporation Ltd.)	100	DOC	10,889.85	248.06	36,803.02	838.34
Bhutan Power Corporation Ltd.	100	DOC	2,899.49	66.05	9,602.44	218.73
Communications & Transportation						
Bhutan Telecom Ltd.	100	DOC	1,314.31	29.94	2,276.77	51.86
Druk Air Corporation Ltd.	100	DOC	1,531.75	34.89	1,947.16	44.35
Financial Services						
Bank of Bhutan Ltd.	80	DCC	1,400.59	31.90	2,043.42	46.55
Bhutan National Bank Ltd.	14	DLC	1,291.12	29.41	1,665.86	37.95
Royal Insurance Corporation of Bhutan Ltd.	18	DLC	290.13	6.61	854.96	19.48
Real Estate						
Thimphu Tech Park Pvt. Ltd.***	26	DLC				
Trading						
State Trading Corporation of Bhutan Ltd.	51	DCC	1,017.60	23.18	21.64	0.49
Manufacturing						
Dungsam Cement Corporation Ltd****	100	DOC			3,070.00	69.93
Penden Cement Authority Ltd	40	DLC	1,740.05	39.64	2,656.25	60.51
Bhutan Ferro Alloys Ltd.	26	DLC	1,702.68	38.79	858.43	19.55
Bhutan Board Products Ltd.	48	DLC	372.50	8.49	203.91	4.64

Accompanying Notes:

- * Net worth is based one book value and is reflected for DHI Owned Companies and for BOBL. Market Capitalization is reflected for DHI Linked Companies and 2009 refers to positions as at March 2009
- ** 1USD = 43.90 BTN
- *** Company under construction. the total cost of the project is(in million) BTN 225 and USD 5.12
- **** Company shall be in commercial operation from the year 2012.

Glossary

- DPC – DHI Portfolio Companies means all companies in which DHI has shares.
- DOC – DHI Owned Companies. These are companies that are fully owned by DHI.
- DCC – DHI Controlled Companies. These are companies in which DHI owns more than fifty percent of the paid up equity share capital.
- DLC – DHI Linked Companies. These are companies in which DHI owns fifty or less percent of the paid up equity share capital.

DIRECTORS REPORT - 2009

On behalf of the Board of Directors, I take this opportunity to present to you the Annual Report for 2009 of Druk Holding & Investments (DHI), containing the audited financial statements for the year ended 31st December 2009, the summary reports of the management giving an insight into the various activities of the company, a summary of the performance of the DHI owned companies including the Bank of Bhutan, and the proposed activities for 2010.

DHI and Gross National Happiness

While DHI's primary mandate is to promote economic, commercial and business excellence it is also strongly guided by the philosophy of Gross National Happiness which seeks a more holistic approach to development. DHI is guided by the GNH framework in the overall governance of its companies and it continuously seeks to promote various elements of GNH in its companies.

While DHI companies pursue commercial objectives, there is also a strong element of socio-economic development incorporated in their mandates to ensure that they provide critical public services at affordable prices. BPC has the challenging target of providing electricity for all by 2013 and it provides electricity at highly subsidized rates especially to the most economically disadvantaged. To lower the cost of electricity supply, DGPC sells electricity to BPC at highly concessional rates compared to the export tariffs. BT has provided free-of-cost internet connection to a school in Gasa and has plans to provide many more. BT is also working to achieve the goal of providing telecom connectivity to all the 205 Gewogs in Bhutan. The Bank of Bhutan operates many branches in remote areas that are not profitable. The NRDC provides construction material at affordable rates and provides timber for rural households at highly subsidized rates. Drukair has a two tiered fare structure where air tickets for Bhutanese passengers are highly subsidized compared to foreign passengers. These activities and initiatives will ensure inclusive growth of the more rural and remote parts of the country even as the Bhutanese rapidly modernizes. In addition to this, DHI companies are becoming more attentive to customer needs and undertake periodic customer satisfaction surveys to ensure they constantly improve their services.






DHI is also conscious of the potential adverse effects of development on the environment and is proactively taking steps to reduce such impacts due to its business activities. The IT Park which is being developed in partnership with the Assetz Property Group is expected to be state-of-the art in terms of using green sustainable technology. Dagachu hydropower project which is being developed by DGPC is expected to be the first trans-boundary CDM project in the World. The experience from Dagachu is expected to trigger off many other CDM projects in Bhutan. To help Bhutan remain a carbon neutral country, DHI will encourage its companies to start taking initiatives to reduce carbon emissions.

A major element of GNH is Good Governance and DHI has taken a series of initiatives to improve transparency, accountability and accountability in its companies. The Ownership Policy that is currently being finalized includes many of the best corporate governance practices being promoted by the OECD. The OECD is considered to be the leader in the field of corporate governance especially with regard to State Owned Enterprises. Over the last two years, DHI has highlighted and helped resolve many potential conflict of interest issues in the board of some of its linked companies. The Boards of DHI companies consist of many private sector individuals and the Boards have

been empowered to select CEOs. DHI has initiated Annual Compacts outlining targets for its companies that are reviewed periodically. All DHI companies are expected to have a Performance Management System in place and bonus payments are to be linked to the achievement of performance targets. These initiatives are expected to enhance performance at the companies, improve motivation levels, and to help in improving in the overall governance DHI companies.

Operational Performance

Based on the Royal Charter, the following are the mandates for DHI, clustered under five thrust areas leading to the achievement of the vision of the Royal Charter. Key performance indicators for DHI have been developed for each thrust area.

T1. Performance Improvement		<ul style="list-style-type: none"> a Develop Ownership Manual for DLCs b Develop compact & monitor performance of DOCs c Establish Performance Management Systems in all DoCs d Start ERP implementation in DHI, DGPC and BPC e Improve customer service in Drukair, BTL and NRDC
T2. Resource Optimization		<ul style="list-style-type: none"> f Develop 5 year investment and financing plans for DOCs and DHI g Determine optimal target capital structure for DOCs h Register DHI as a FII in India i Develop reserve policy
T3. New Investments		<ul style="list-style-type: none"> j Develop investment policy k Start two feasibility studies l Develop strategy for making Bhutan into a Service Hub in the region
T4. Private Sector Development		<ul style="list-style-type: none"> m Initiate one project with private sector
T5. Revenue to the Government		<ul style="list-style-type: none"> n Meet remittance obligation of Nu. 2138 mill for 2009 and 90% of PAT of THPA in agreed upon monthly tranches

Thrust Area 1: Performance Improvement

a) Develop Ownership Policy

The Ownership Policy will include Board Director guidelines; roles and responsibilities of DLC Boards, CEOs, etc.; interfacing guidelines; elaboration of DHIs relationship with its companies, and other relevant policies. The Draft has been completed and it is awaiting finalization by the Board. The Ownership Policy is expected to bring about greater clarity in the relationship between DHI and its companies and a high standard of Corporate Governance in the DHI companies

b) Develop compacts and monitor performance of DOCs

All DHI companies sign an Annual Compact with DHI that highlight DHI's key expectations from them for the year, and which is also used as a basis for setting targets and monitoring performance. The payout of the 10% Performance Based Variable Pay will depend on the achievement of the Compact targets.

c) Establish performance management system in all DOCs

DHI will be requiring all DOCs to implement PMS to develop a performance oriented culture in each company. BPC, DGPC, BT and BoB already have their Performance Management Systems in place. NRDC and Drukair are expected to start implementation of their PMS in 2010.

d) Start ERP implementation in DHI, DGPC and BPC

Enterprise Resource Planning (ERP) solution has become essential for some of the larger DHI companies as the use of IT has become critical in enhancing business processes in these companies. To leverage on the use of IT DGPC, BPC and DHI have initiated ERP implementation. In the second phase ERP may be considered for the remaining DHI companies.

e) Improve customer service in Drukair, BTL and NRDC

Improvement of customer services in Drukair, BTL and NRDC was identified as a target as there was a general perception that these companies could do much better.

- Drukair
 - Completed migration to SITA reservation system
 - BAGTRAC facility availed through Bangkok Airways
 - Preparation for launching online reservation and payment system in 2010 done. With the move to the online ticketing and reservation system, many of the complaints regarding Drukair are expected to be resolved.
- Bhutan Telecom
 - Customer satisfaction target has been achieved
 - Many new value added services has been launched by Bmobile
 - Prices have been reduced substantially
- NRDC
 - Customer satisfaction of wood based industries has increased from 47% in 2008 to 73% in 2009.
 - Customer satisfaction of general customers has increased from 80% in 2008 to 83% in 2009.

Thrust Area 2: Resource Optimization

f) Develop 5 year investment and financing plan for DOCS and DHI

A key strength of DHI comes from the overview that DHI has with regard to the overall investment and financing plans of its companies. In order to leverage on the advantages of being a holding company, DHI in collaboration with its DOCs has developed 5 year investment, cashflow, and financing plans along with business projections.

This 5 year plan will a great help in determining the target capital structure for each DHI company and in formulating a dividend and reserve policy. The aggregated plan at the holding company will help in making strategic investment decisions and enable DHI to carry out optimal fund utilization at the group level.

g) Determine the optimal target capital structure for DOCs

A detailed study on the capital structure of DOCs including the target optimum capital structure has been completed. Henceforth, financing for new projects can be done with the target capital structure in mind.

h) Register DHI as a Foreign Institutional Investor (FII) in India

India is a huge market for both investment opportunities and funds. As a first step to raising funds and making investments outside Bhutan, DHI is to be registered as a FII in India. DHI has completed the study and it will enter the Indian market either as a Foreign Institutional Investor or as an incorporated company in India. The registration will provide DHI, and through DHI, its subsidiary companies access to short term investment avenues to obtain best returns on idle funds in the future. It will also provide the channel to make acquisitions of shares in strategic companies and help address forex issues.

i) Develop General Reserve policy for DHI

DHI General Reserve is important in order to determine the amounts of funds available for making new investments and also to build up a buffer in case emergencies in the future. A study on balancing the remittance to the government and building a substantial general reserve has been conducted and a general Reserve Policy has been presented to the Board. This Policy will help to determine funds available for investments, assess sustainable level of growth in remittances to MoF, and set a target reserve for DHI

Thrust Area 3: New Investments

j) Develop an investment policy

An investment framework and policy at DHI is essential in order to help in the selection and approval of projects that it undertakes. The investment framework and policy has been prepared and presented to the Board.

k) Start two feasibility studies for new businesses

DHI is currently actively studying two new business ideas: a) Production of magnesium metal using domestic resources like dolomite, ferrosilicon and electricity, and b) the export of Bhutan bottled water to mainly the western markets. These are being explored with JV partners and pre-feasibility studies are being conducted.

l) Develop strategy to make Bhutan into a service hub in the region

Bhutan is located strategically in a region that is seeing tremendous economic growth and service industries have been identified as one of the key growth driver for Bhutan as it fits in very well with the GNH philosophy. Towards this end, a strategy paper to make Bhutan into a service hub in the region has been completed and presented to GNH Commission.

Thrust Area 4: Private Sector Development

m) Initiate a project with the private sector

Private sector development is an important aspect of DHI's mandate as the private sector is to be the engine of growth for Bhutan. Besides policy feedback and institutional support, DHI has developed a DHI Private Sector Partnership Framework and discussed possible projects with the private sector in the following areas: convention center, fabrication plant for tower parts, gypsum board, construction services, domestic airline services. DHI is also a member of the BCCI Executive Committee and on the Advisory Board of the BCCI.

DHI has also provided support for the following:

- Offered consultancy services, sponsored AMDISA – RIM conference, presented technical paper
- SAARC trade fair in Thimphu – DHI hosted one day
- Partial sponsor of the India-Bhutan car rally

Thrust Area 5: Revenue to the Government

n) Meet remittance obligation of Nu. 2138 million for 2009 and 90% of PAT of THPA in agreed upon monthly tranches

One of DHI's most important mandates is to provide predictable increasing remittance to the Ministry of Finance. DHI is on track to meet the remittance obligation of Nu. 2.138 billion for 2009 and 90% of PAT of THPA from April – December 2009.

2009 Financial Performance at DHI

Before presenting the financial performance of DHI, it is important to understand the revenue recognition policy of DHI and its relation to the performance of DHI companies. Dividend income is recognized in the year of dividend declaration by the companies. Therefore, DHI income for the 2009 financial year is the dividend declared by companies for the 2008 financial year, i.e. DHI's current financial year performance is based on companies' performance in the preceding financial year.

Income: Table 1 below shows the financial performance of DHI in 2009 and 2008. The total income for DHI in 2009 was Nu. 2,287.682 million compared to Nu. 2,223.38 million in 2008. The total income increased by 2.89%.

Expenditure: The total expenditure for 2009 was Nu. 44.453 million compared to Nu. 67.894 million in 2008. The total expenditure for 2009 has decreased by 34.53% (Nu 23.441 million) mainly on account of the fact that the total expenditure for 2008 includes expenses for a period of 14 months and pre opening expenses of Nu 0.485 million, since DHI was conceived on 11 November 2007.

Profits: The profit before tax for 2009 was Nu. 2,243.229 million compared to 2,155.487 million in 2008 and the profit after tax was Nu. 1,570.25 million compared to Nu. 1,508.84 million in 2008. A sum of Nu.

1,451.59 million has been proposed as dividend and Nu. 118.66 million as transfer to the general reserve for 2009. The PBT and PAT figures have increased by 4.07% in 2009 mainly on account of increase in income and decrease in expenditure.

The total of tax and dividend for 2009 amounts to Nu. 2,124.57 million compared to 2110.49 million in 2008. This is the amount of remittance agreed upon between the Ministry of Finance and DHI for the 2008 financial year of DHI companies. This amount has already been remitted to MoF in advance in 2009.

Table 1: Financial Performance of DHI in 2009 & 2008 (In Million Nu.)

Particulars		2009	2008	% Variance
1	Total Income	2,287.682	2,223.380	2.89%
2	Total Expenditure	44.453	67.894	-34.53%
3	Profit Before Tax	2,243.229	2,155.487	4.07%
4	Tax	672.979	646.646	4.07%
4	Profit After Tax	1,570.250	1,508.841	4.07%
5	Dividend	1,451.590	1,463.847	-0.84%
6	Transfer to General Reserve	118.660	44.994	163.72%

Dividends: Table 2 shows the dividends received by DHI in 2009 and 2008 from the DHI Portfolio companies. However, it may be noted that these were declared as dividends by the companies for their 2008 and 2007 financial year. These dividends comprise the primary income for DHI. The total dividend income for DHI in 2009 has increased by 4.26%.

Table 2: Dividends received from DHI Portfolio companies in 2009 and 2008

Sl. No.	Company Name	DHI Shareholding	Dividends received in 2009	Dividends received in 2008	Increase / Decrease %	% of total dividends (2009)
1	DGPC	100%	1,930.40	1,819.41	6%	84.48%
2	NRDCL	100%	7.50	30.00	-75%	0.33%
3	BTL	100%	47.73	100.00	-52%	2.09%
4	BPCL	100%	151.22	100.00	51%	6.62%
5	DACL	100%	-	-	0%	0.00%
6	BOBL	80%	-	40.00	-100%	0.00%
7	STCBL	51%	2.04	-	100%	0.09%
8	PCAL	40.33%	95.98	82.26	17%	4.20%
9	BNB	13.67%	13.85	6.48	114%	0.61%
10	BFAL	25.73%	27.02	5.79	367%	1.18%
11	RICB	18.41%	5.30	4.42	20%	0.23%
12	BBPL	47.74%	4.01	3.34	20%	0.18%
Total			2,285.04	2,191.70	4.26%	100.00%

Table 2 above shows DHI's dividend income for 2009 by company. It may be noted that dividends from DGPC and BPC constitute 91% of the total dividend income of DHI. This indicates that DHI's exposure to the performance of these companies, which are in turn dependent mainly on hydrology, is very high.

Financial Projections for DHI's 2010 financial year

Table 3 below shows the projected income statement of DHI for 2010. It may be noted that these are just projections based on dividends declared by the DHI Portfolio companies in 2009. However, there may be changes at the time of finalization of the accounts in 2011.

Income: The projected income of DHI for 2010 is the dividend declared by DHI Portfolio companies for the year 2009 and is estimated at Nu. 5,094.149 million. The increase in income by Nu. 2,806.467 is mainly on account of the takeover of Tala Hydropower Plant.

Expenditure: The total expenditure for 2010 is projected at Nu. 73.029 million as compared to Nu. 44.453 million in 2009. The increase in expenditure is due to the implementation of Enterprise Resource Planning (ERP) and recruitment of additional staff.

Profits: The profit before tax for 2010 is projected to increase by Nu. 2,777.891 million compared to 2009. Similarly, the profit after tax is expected to increase by Nu. 1,944.53 million. These are all mainly on account of the takeover of Tala Hydropower Plant.

Table 3: Financial projection for DHI's 2010 financial year (In Million Nu.)

Particulars		2010	2009	% Variance
1	Total Income	5,094.149	2,287.682	123%
2	Total Expenditure	73.029	44.453	64%
3	Profit Before Tax	5,021.120	2,243.229	124%
4	Tax	1,506.340	672.979	124%
4	Profit After Tax	3,514.780	1,570.250	124%

Performance Summary of DHI Companies in 2009

Although the dividends declared by the companies in 2009 will only be reflected in DHI's accounts in 2010, a graphical summary of DHI Portfolio companies' performance in 2009 and a brief write up on the performance of the DHI owned companies in 2009 is provided below to enable a same year-end review of the performance of the companies.

Table 5: Financial performance of DHI owned companies including BoB

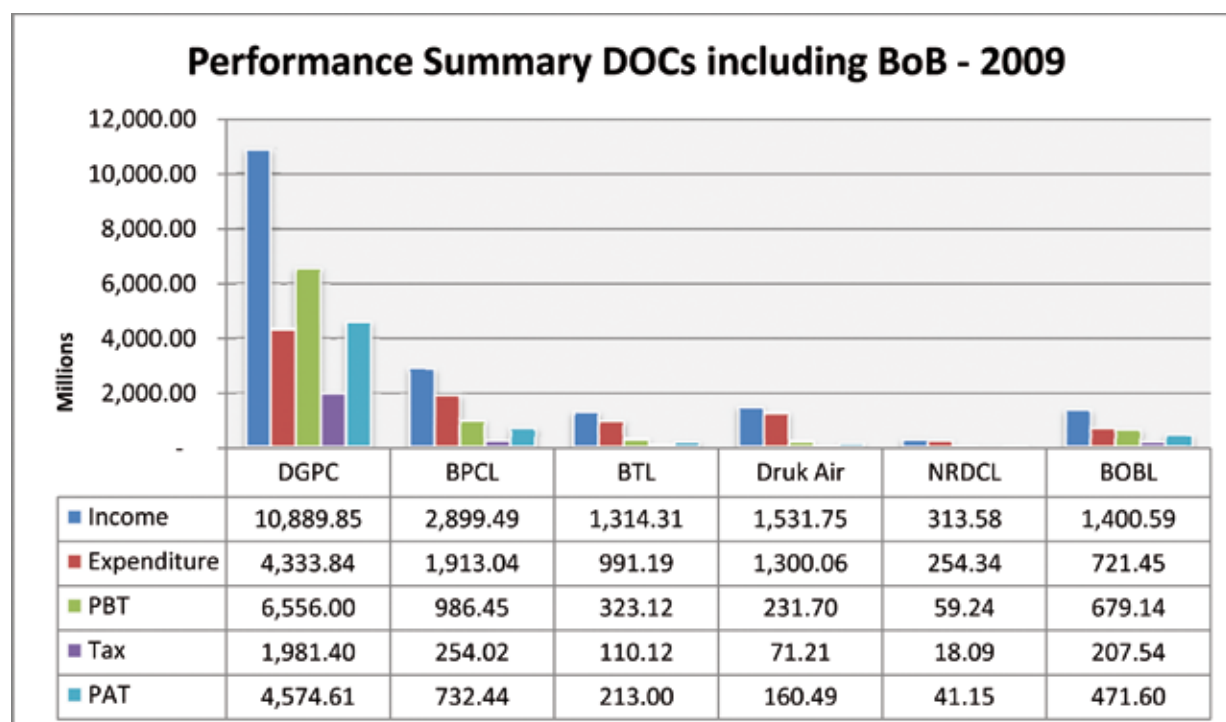
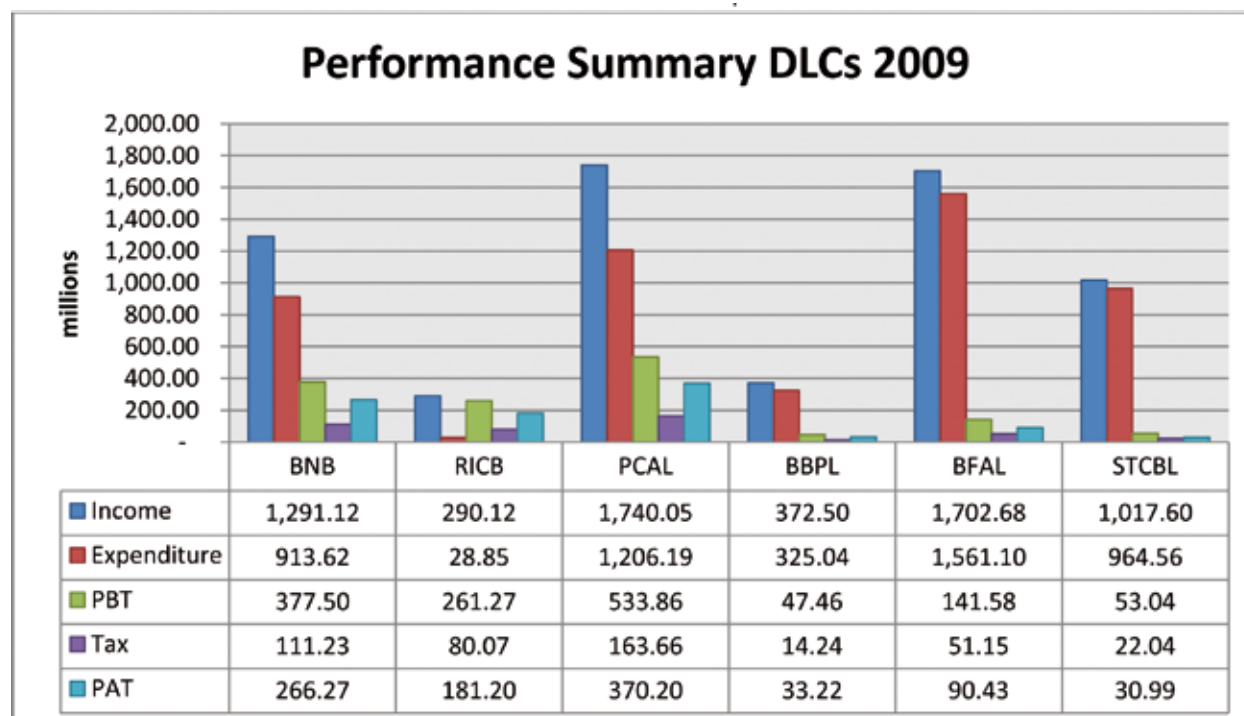


Table 6: Financial Performance of DHI linked companies in 2009



Druk Green Power Corporation Limited (DGPC)

Operational Performance

- The four hydropower plants of DGPC generated 6,897.66 GWh of electricity in 2009, out of which 5,433.02 GWh was exported to India and 1,414.43 GWh was consumed domestically.
 - Basochu generated 323 GWh,
 - Chukha generated 1,808.30 GWh
 - Kurichu generated 370.12 GWh
 - Tala generated 4396.22 GWh
- The total energy losses on account of technical losses is 7.674 MU mainly on account of Cyclone Aila;
- As a new plant, the THP team continued to face the numerous teething problems. It was also observed that the Wangchhu discharge especially during the peak monsoon period from June to October was comparatively lesser than previous years.

Financial Performance

DGPC earned a pre-tax profit of Nu. 6,556 million in 2009 (including Tala) from total revenues of Nu. 10,889 million. Of the total revenues, Nu. 9,933 million was from the export of electricity to India. While over 97% of income is derived from its primary business of electricity generation, the interest income from investments mainly with banks and because of centrally managed fund, saw a big jump from Nu. 110.823 million in 2008 to Nu. 213.99 million in 2009.

Investments

Druk Green has a majority equity stake of 59% in the ongoing 114 MW Dagachhu Project; with Tata Power of India holding 26% and the National Pension and Provident Fund holding the balance 15%. Nu. 649.94 million has already been invested in this project as equity investment upto 31 December 2009.

Corporate Governance

- Performance Linked Incentive System (PLIS) was implemented.
- The overall achievement of the 2009 PLIS was 71%.
- Employee Appraisal System (EAS), and improvised Annual Confidential Report formulated and implemented.
- DGPC HR Manual has already been approved by the Board
- Procurement Manual, Corporate Strategy Plan, Inventory and Financial Manual, and Operation & Maintenance Manual being developed.
- SAP selected as ERP

Bhutan Power Corporation Limited

Operational Performance

- Customer base of BPC increased to 91,770 from 84,241 customers in 2008.
- Total energy sold increased to 1,334.15GWh from 1,072.439 GWh in 2008.
- Energy purchased increased to 1,414.436GWh from 1,125.032 GWh in 2008.

- Total energy wheeled decreased to 5,404.816 GWh from 5,922.376 GWh in 2008.
- Transmission and distribution losses reduced to 6.81% from 7.12% in 2008.
- Spot billing has been rolled out in all 20 dzongkhags.
- 1,867 households have been electrified under the RE fill-in scheme funded by BPC.
- SAIFI (interruptions per customer per year) increased to 8.079 compared to 7 in 2008.
- SAIDI (hours of interruptions per customer per year) increased to 17.062 compared to 14.71 in 2008.

Financial Performance

The total income increased to Nu. 2,899.487 million from 2,388.702 million in 2008, an increase of 21%.
The profit after tax increased to Nu. 732.437 million from Nu. 669.612 million in 2008, an increase of 9%.

Investments

In 2009, BPC awarded the following tenders:

- Tender for the construction of 220 kV Dagana-Tsirang-Jigmiling-Lodrai Double circuit transmission line
- Tender for replacement of ground wire with OPGW in the Eastern and Western Transmission grid.
- Tender for National Load Dispatch Centre
- Tender for the 400kV Punatsangchu transmission line
- Awarded contracts for electrification of 13,170 households under the RE program

Corporate Governance

The customer satisfaction survey showed the customer satisfaction rate had increased to 93.53% in 2009 compared to 88.54% in 2008.

SAP ERP has been finalized with the assistance of DHI. The RFP for an implementation partner has been floated and bid evaluation is underway.

Druk Air Corporation Limited

Operational Performance

- Successfully maintained safety of the highest standards.
- Operated 2,135 scheduled flights in 2009 compared to 2,152 scheduled flights in 2008, a decrease of 17 flights.
- 118,084 revenue passengers in 2009 compared to 119,105 revenue passengers in 2008, a decrease of 1,021 passengers.
- Earned passenger revenues of Nu. 1,200.7 million in 2009 compared to 1,208.9 million in 2008, a decrease of Nu. 8.2 million.
- Earned cargo revenues of Nu. 40.1 million in 2009 compared to Nu. 42.5 million in 2008, a decrease of Nu. 2.4 million.
- Decrease in passenger revenue due to sharp decline of revenue on the fifth freedom sectors which led to closure of some of these sectors in October 2009.

- Launched flight operations to and from Bagdogra.
- Completed the study for payment gateway and completed all ground work for online payment to launch it in the first quarter of 2010.
- Migration to SITA reservation system has been completed.
- Drukair did not join BAGTRAC since the facility has been availed through Bangkok Airways.
- Duty-free sales had been enhanced by addition of choice of confectioneries.

Financial Performance

The total revenue in 2009 dropped to Nu. 1,531.7 million compared to 1,554.6 million in 2008. However, the profit after tax increased to 160.5 million in 2009 from Nu. 155.1 million in 2008. This was possible due to saving in fuel cost resulting in decreased expenditure.

Investments

On the investment front, final report culminating into a Domestic Air Services Proposal had been submitted to Department of Civil Aviation. A study was conducted on purchase versus lease for type of aircraft and concluded that outright purchase was better.

Corporate governance

On the management front, preliminary study for online accounting was done and Service rules were reviewed and made effective from 1 November 2009.

Natural Resource Development Corporation Limited

Operational Performance

- Produced and disposed 1.973 million cft of timber compared to 1.885 million cft in 2008, an increase of 88,000 cft.
- Sold 59,364 truckloads of sand compared to 33,706 truckloads in 2008, an increase of 25,658 truckloads.
- Sold 21,593 m³ of woodchips compared to 15,572 m³ in 2008, an increase of 6,021 m³.
- Sold 514,815 kgs of briquettes compared to 493,515 kgs in 2008, an increase of 21,300 kgs.
- Constructed 19.79 km of forest roads compared to 16.14 km in 2008, an increase of 3.65 km.
- Carried out plantation covering 66 hectares and produced 208,175 seedlings compared to 104 hectares and 290,000 seedlings in 2008, a decrease of 38 hectares and 81,825 seedlings.

Financial Performance

The total income for 2009 rose to Nu. 313.584 million from Nu. 286.474 million in 2008. The profit after tax rose to Nu. 41.154 million from 32.434 million in 2008, an increase of 26.89%. The increased profitability is attributed mainly to increase in the average auction price of timber, followed by increase in the disposal of sand and increase in the supply of woodchips.

Investments

In 2009, NRDCL completed architectural design and started construction of the Sha office building. Feasibility studies for establishing stone crushing plant in two dzongkhags and on sand dredging techniques were

completed. Study on possible environment friendly design and study on value addition of less preferred timber species was also completed. Feasibility study for production of Fibre Cement Board has been partially completed.

Corporate Governance

Computerized accounting system was set up and an Organizational Development exercise was carried in 2009. The updated service rules have also been finalized. Customer satisfaction for general customers increased to 83% from 80% in 2008 and for wood based industries, the customer satisfaction rate increased from 47% to 73% in 2009.

Bhutan Telecom Limited

Operational Performance

- Mobile subscriber base increased by 23% to 219,193 from 177,699 in 2008.
- Thirteen new roaming partners for b-mobile subscribers put in place.
- Installed bulk SMS solution, IVR tele-voting platform, CRBT solution, premium refill and enhanced service fee deduction features.
- All 20 dzongkhags and 173 gewogs are now connected with mobile services.
- Physical fiber connectivity with Airtel of 220 Mbps bandwidth was established. The bandwidth in 2008 was 110 Mbps.
- The last two Dzongkhags – Dagana and Gasa were provisioned with internet lease line and IP-VPN services.
- Number of broadband customers increased by 138% from 1,300 in 2008 to 3,100 in 2009.
- Internet Leased line customers decreased by 65% from 108 in 2008 to 38 in 2009.
- The number of fixed line customers decreased by 4% from 27,475 in 2008 to 26,348 in 2009.
- Facilitated Data Centre for BoB, E-ticketing for Drukair, SMS banking and IVR calls for Ministry of Agriculture.

Financial Performance

The total income for 2009 increased to Nu. 1,314.31 million from Nu. 1,217.37 million in 2008, an increase of Nu. 96.94 million. The profit after tax also increased to Nu. 212.996 million in 2009 from Nu. 190.937 million in 2008, an increase of Nu. 22.06 million.

Investments

Bhutan Telecom, installed and commissioned the Yabala-Denchukha link for BTS for mobile coverage to Dorkha, Denchukha and Dumtse gewog. Also installed and commissioned the Chelela-Tegola-Sombay Jeelam link for BTS for mobile coverage to Sombekha and Galing gewogs. Optical fiber SDH link between Wangdue and Damphu was installed. 32 BTS and 5 RBS towers were erected in 2009 to expand connectivity.

Corporate Governance

Customer satisfaction in the western dzongkhags of Paro, Thimphu and Haa, increased from 49% in 2008 to 77% in 2009. The surveys in the other regions have not yet been completed. In 2009, performance Management System was also put in place.

Bank of Bhutan Limited

Operational Performance

- Total deposits grew to Nu. 22,178.98 million from Nu. 18,436.80 million in 2008, registering a growth of 20.3%.
- Total loans/ advances grew by 16.46% to Nu. 9,444.84 million from Nu. 8,109.70 million in 2008.
- Total NPL reduced to 6.74% compared to 8.78% in 2008.
- Interest income from loans and advances grew by 54.14% from Nu. 713.96 million in 2008 to Nu. 1,100.51 million in 2009.
- Total clients increased to 201,089 from 180,980 in 2008.

Financial Performance

- Total income grew by 47.16% to Nu. 1,400.59 million from Nu. 951.74 million in 2008.
- Total expenditure saw a marginal growth of 1.64% to Nu. 721.45 million from Nu. 709.82 million in 2008.
- Record growth of 181.35% in profit after tax which grew from Nu. 167.62 million in 2008 to Nu. 471.60 million.
- Net profit per employee saw a growth of 121.95% to Nu. 0.91 million per employee from Nu. 0.41 million per employee in 2008.
- Revenue per employee grew by 60% to Nu. 2.56 million per employee from Nu. 1.60 million per employee in 2008.

Investments

During 2009, the Bank of Bhutan rolled out CBS in its branches, carried out installation of ATMs and also launched internet and SMS banking. Repair and up gradation of some branches were also carried out. Also constructed a data center.

Corporate Governance

Sunday banking was introduced to provide seven days services to the customer. A complaint handling manual was formulated. In order to improve the human capacity, the Bank has instituted the BoB employee scholarships. PBIS and PMS manuals have also been prepared and implemented and the BoB service rules has been revised.

DHI Investments

Ongoing Projects

Dungsam Cement Corporation Ltd. (DCCL)

The major highlights/ achievements of DCCL are given below:

- Incorporated the Dungsam Cement Corporation Limited.
- Awarded contract for Main Machinery package at Nu. 1,940 million.
- Tendered and awarded the main Civil Works for Nu. 860 million.
- Have received in principle approval for borrowing of Nu. 4,350 million. Rs 2,250 million from Indian Financial Institutions and Nu. 2,100 million from local financial institutions.

Dagachu Hydro Power Corporation (DHPC)

- CDM application is under process at the UNFCCC website. Approval from host country and the Indian National CDM Authority has been obtained.
- Feasibility report envisaged an installed capacity of 114 MW, however, the order for equipment is now for 126 MW.
- The project is on scheduled for completion by March 2013.
- Financial closure for on lending agreement for OeKB loan for Euro 41 million was signed with RGoB on 13 August 2009.
- Shareholder agreements with Tata and NPPF are in place.
- Civil works awarded was to Hindustan Construction Company (HCC) and completion date is Sept. 22, 2012.

New Projects

Thimphu Techpark Private Ltd.

DHI and its partner Assetz Property Group from Singapore formed a JV called "Thimphu Techpark Pvt. Ltd" which won the bid for the development of the IT Park in Thimphu. The construction of the IT Park is expected to begin in March 2010 and to be completed by June 2011.

Other investments considered during the year

- Cement Plant in Myanmar
- Data Centers
- Bhutan Green fund
- Education City

Corporate Governance

Service Rules Guidelines and Corporate Salary

In order to harmonise the major human resource policies across all DHI companies, DHI developed and implemented a Services Rules Guideline in the DOCs. DHI also carried out a detailed study of corporate salary and allowance and revised the salary in the DOCs including Bank of Bhutan.

Trainings, workshops & seminars

The following training were conducted in 2009:

- Blue Ocean Strategy in collaboration with MoLHR

- Corporate Governance in collaboration with IFC
- Human Resource Management
- Workshop on Performance Management and Customer Service
- Customer Service Training
- Corporate Marketing Training

Performance Management System

A performance management system (PMS) has been developed and is being implemented in DHI. Besides aligning the work of each employee with the overall goals of the company for the year, it will also help assessing the quality and quantity of work of the analysts and determine their performance based variable pay for the year in question.

Delegation of Powers

Proposed and implemented a Delegation of Powers for the management of DHI.

Other initiatives at DHI

Providing feedback on Government policies

DHI provided feedback and made comments on the following Government policies:

- Economic Development Policy
- FDI policy
- Financial Services Act

Dungsam – Penden Synergies

A study on the strategic partnership between Dungsam Cement and Penden Cement was carried out. However, due to construction project risks of Dungsum, the stakeholders felt that the merger should be looked into once the Dungsam Cement plant is commissioned.

SOE Transfer Study

Based on the instructions of the Cabinet, DHI carried out a preliminary study on the transfer of the Government companies currently under MOF, DHI has completed the study and submitted the report to the Cabinet.

CEO RTMs

CEO Roundtable continue to play an important role in exploiting synergies between different DHI companies. These have proved to be very useful in strengthening the good relationships between the DHI companies and are used to provide feedback on new policies and guidelines being developed.

DHI coordinated and conducted three RTMs with the CEOs of DOCs in the months of January, May and October in 2009. The second RTM was attended by CEOs of DLCs as well.

Charity and advertisements

DHI combined felicitations during important events among DoCs for cost reduction and savings. Donations and major charity work was also done jointly to build unity and reduce cost. DHI and its companies contributed generously to the Kidu Fund which was set up for the earthquake victims of eastern Bhutan.

DHI plans for the coming year

TARGET FOR 2010	
T1. Performance Improvement	
A	Establish media support in DHI
B	Set new compact targets and monitor performance of DOCs
C	Develop a plan for achieving national / regional centre of excellence in each DOCs
D	Implement Ownership Policy, Finalise Procurement Manual
E	Initiate three corporate governance initiatives
F	Continue improving customer services in BT, NRDC, DA, BOB
G	Identify three key areas for efficiency enhancements in DOCs for implementation in 2011
H	Establish institutional linkages with regional companies / organisation
I	Finalize SOE transfer issue
T2. Resource Optimization	
J	Develop a Divestment Strategy / work on an engagement with RSEB
K	Fund mobilization scheme to meet requirements for investments, dividend, etc
L	Optimise fund utilisation at the DHI Group level
M	Explore hedging options / strategies
N	Explore guarantees from multilateral / bilateral organisations
O	Stock taking and strategy of landholding with DOCs
T3. New Investments	
P	Start two new projects
Q	Start two pre-feasibility studies
R	Participate in the domestic air services bidding
S	DHI Corporate Office
T	Explore forming a real estate / construction subsidiary of DHI
U	Build up HR for new investments
V	Manual on JVs, negotiation and setting up new companies
W	Work towards setting up DHI Consultancy Services
T4. Private Sector Development	
X	Create awareness of the DPP framework
T5. Revenue to the Government	
Y	Meet remittance obligation for 2010 and 90% of PAT of THPA in agreed upon monthly tranches
Z	Get clarity from MOF/ Government on subsidy issues for DOCs

Acknowledgements

I take this opportunity to thank the Chairpersons, Boards and Management and employees of the DHI companies for the excellent results of the past year. Although we were in the midst of the global financial crisis and we also had some unfortunate natural calamities like Cyclone Aila and the earthquakes in the East, our companies have done very well thanks to the guidance and efforts of the Boards, management and staff of the DHI companies.

I would also like to thank the DHI Board for the support provided to DHI in the past year. Your guidance and advice has enabled DHI to achieve most of the targets that were set out at the beginning of 2009. The Board has been able to very successfully deal with some of the challenging issues that it faced in the course of the year. I see the experiences gained during such challenging times providing a solid foundation for the very important work that we will have to continue doing in the future. I would therefore like to request the Board to kindly continue provide the input and support required to grow DHI into the organization envisioned by His Majesty. I commend the work of the DHI Management and the CEO Karma Yonten.

DHI thanks the Ministry of Finance and the Ministry of Economic Affairs for their advice, guidance, understanding and cooperation to DHI in the course of implementing its mandates. The Ministry of Finance has been very cooperative and considerate in finalizing dividends to be provided by DHI. The Ministry of Economic Affairs has been supportive of DHI, and DHI thanks the Ministry for the smooth and efficient handover of the Tala Hydropower Project, and involvement of DHI in the implementation of other major hydropower projects.

DHI's gratitude goes to the Hon'ble Prime Minister and the Lhengye Zhungtshog for their vision, consistent understanding and support for the national objectives contained in the Royal Charter towards safeguarding the "people's wealth" for the people's benefit for all time to come.

In the years ahead, let us all join hands in pursuing the grand national vision of our beloved Monarch, His Majesty King Jigme Khesar Namgyel Wangchuck, to strengthen our Kingdom's sovereignty, the national economy and further enhance the wellbeing and welfare of the Bhutanese people.

Thank you and Tashi Delek.

For and on behalf of the Board of Directors

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

(Lyonpo Om Pradhan)

Chairman

Druk Holding & Investments

THE TEAM



“committed to work towards excellence”

AUDITORS' REPORT

To
The Members of Druk Holding and Investments Ltd.
Thimphu
Bhutan

1. We have audited the attached Balance Sheet of Druk Holding & Investments Limited (the Company), as at 31st December 2009 and the Profit & Loss account and the Cash Flow Statement of the Company for the year ended on that date which are in agreement with the books of account. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by section 75 of The Companies Act of the Kingdom of Bhutan, 2000 read with part II of Schedule XIV thereto (Minimum Audit Examination and Reporting requirements), we enclose in the annexure a statement on the matters specified therein to the extent applicable.
4. Further, to our comments in the annexure as referred above, we report that:
 - (a) Our examination was made in accordance with the generally accepted auditing standards and accordingly included such tests of accounting records and such other auditing procedures, as we considered appropriate for the purpose of our audit.
 - (b) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - (c) In our opinion, proper books of account as required by the law have been kept by the Company, so far as it appears from our examination of those books.
 - (d) The Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with in this report are in agreement with the books of account and have been compiled on the basis of generally accepted accounting principles.
5. We draw attention to the following:
As indicated in note no.4 of Schedule 17, we report that in the absence of audited accounts of the subsidiaries/linked companies for the year ended 31st December 2009, adjustments if any, required in these accounts cannot be commented upon.
6. In our opinion and to the best of our information and according to the explanations given to us and subject to Para 5 of above, the said accounts give the information required by The Companies Act of the Kingdom of Bhutan, 2000, in the manner so required and the said accounts give a true and fair view:

- I. In the case of Balance Sheet, of the state of affairs of the Company as at 31st December 2009.
- II. In the case of Profit & Loss account, of the profit of the Company for the year ended on that date;
and
- III. In the case of Cash Flow Statement, of the cash flows during the year ended on that date.

Place: Kolkotta



Date: 10 April, 2010

For **S. N. Mukherji & Co.**
Chartered Accountants.

A handwritten signature in blue ink, written over a circular blue ink stamp. The stamp is identical to the one on the left, with "S. N. MUKHERJI & CO." and "Chartered Accountants" around the perimeter and "KOLKATA" in the center.

Sudip K. Mukherji
Partner

ANNEXURE TO AUDITORS' REPORT (ANNEXURE AS REFERRED TO IN OUR REPORT OF EVEN DATE)

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENT (Part-II of schedule XIV to The Companies Act of the Kingdom of Bhutan, 2000)

1. The Company is maintaining records showing full particulars including quantitative details of fixed assets. Situation of fixed assets and descriptions thereof are maintained by Accounts department. As informed to us, no material discrepancies were noticed on the physical verification.
2. None of the fixed assets has been revalued during the year.
3. During the year the Company has availed a loan of Nu.160.00 million @ 6% interest p.a. from its subsidiary Druk Green Power Corporation Ltd. The Loan was taken for purchase of shares of Bank of Bhutan Ltd. The terms of the said loans are prima facie not prejudicial to the interest of the Company. The Company has fixed deposits with BNB earning interest @ 5% on Nu.100.00 million and 2.25% on Nu.78.256 million which could have been utilised to prepay the loan amount of Nu.160.00 million thereby effecting a saving of interest. However if the prepayment is made the Company will have no funds for investments.
4. The company has not granted any loans, secured or unsecured to other companies, firms or other parties, and/or to the companies under the same management except advance to staff.
5. Loans and advances are not given by the Company to any party.
6. The advances granted to officers/staffs are in keeping with the provisions of service rule and no excessive and frequent advances are given.
7. In our opinion, the internal control procedures of the Company to ensure completeness, accuracy and reliability of accounting records, in carrying out the business in orderly and efficient manner, to safeguard the assets of the Company as well as to ensure adherence to the systems and procedures are reasonable. However the Company does not have any formal procedures to ensure adherence to all laws and regulations.
8. As informed to us, there is a reasonable system of obtaining competitive bidding/quotations from parties/vendors in respect of purchase of fixed assets and services including, plant & machinery, equipments and other assets commensurate with the size of the Company and nature of its business. The company is not engaged in manufacturing or trading activities. Hence the question of purchasing goods or selling goods and services does not arise.
9. (a) As informed to us, there is no transaction for purchase and sales of goods and services made in pursuance of contracts on agreements entered into with the directors or any other parties related to directors or with the Company or firms in which the directors are directly or indirectly interested.
(b) In view of our remarks in paragraph 13 (a) above, paragraph 13 (b) of the Minimum Audit Examination and Reporting Requirements is not applicable to the Company.



10. According to the records, the Company has been regular in depositing rates and taxes, duties etc. and other statutory dues with the appropriate authorities during the year 2009. Provision for Corporate Income Tax is adequate and necessary adjustments have been made to compute the amount of tax required under The Rules on the Income Tax Act of the Kingdom of Bhutan, 2001.
11. There are no undisputed amounts payable in respect of rates, taxes, duties, provident funds and other statutory deductions payable as at 31.12.2009.
12. According to the information and explanations given to us, no personal expenses have been debited to the Profit and Loss Account other than those payable under contractual obligations/service rules of the Company.
13. The Company has a reasonable system for follow-up with various parties for recovery/adjustment of outstanding amounts.
14. The management of liquid resources particularly cash / bank is reasonably adequate considering the nature and size of the business and fund is not lying idle in non-interest bearing account subject to our observations as mentioned under item No.3 of the Minimum Audit Examination and Reporting Requirement.
15. According to the information and explanations given to us and on the basis of examination of books and records on test check basis, the activities carried out by the Company are in our opinion lawful and intravires the Articles of Incorporation of the Company.
16. The Company has established an effective budgetary control system.
17. System of standard costing, variance analysis etc. is not applicable for the Company.
18. The details of remuneration to the Chairman and Chief Executive Officer have been indicated in the Notes to the Accounts (Note No.8, Schedule No.17).
19. According to the information and explanation given to us the directives of the Board have generally been complied with subject to our observations as stated in item No. 6 of the separate Auditors' Report to the Management.
20. According to the information and explanations given to us, the officials of the Company have not transmitted any price sensitive information, which is not made publicly available, to their relatives/ friends/associates, or close persons, which would directly or indirectly benefit themselves.

In Case Of Finance and Investment Company:

1. Adequate documents and records are maintained for investments made by the Company and adequate agreements have been drawn up timely for the same.
2. Proper records of the transactions and contracts have been maintained and timely entries have been made for the investments made.
3. The Company has not accepted any deposits.
4. Investments made by the Company have not undergone any permanent diminution in value.



5. The Company does not have any formal procedures to ensure adherence to all laws and regulations.
6. Provisioning for the non-performing investments is not applicable to the Company for the financial year 2009.
7. Recognition of interest income in respect of non-performing investments is not applicable to the Company for the financial year 2009.
8. The Company does not hold any assets hypothecated against loans and advances.
9. The Company has not sanctioned any loan for any project during the financial year 2009.
10. Taking over of assets for default of loans/advances is not applicable to the Company for the financial year 2009.
11. Rephrasing/rescheduling of loans is not applicable to the Company for the financial year 2009.
12. Granting of additional loans to those who have defaulted payments of previous advances is not applicable to the Company for the financial year 2009.

Only those clauses that are applicable to this Company under the Minimum Audit Examination and Reporting Requirement have been reported upon.

Computerized Accounting environment

1. The Company has a Computerized accounting system and the internal control system seems to be adequate taking into account the size and nature of its computer installations.
2. Adequate safeguard measures and back up facilities exist.
3. The Company is having back up and disaster recovery measure including keeping files in different locations.
4. Operational controls are adequate to ensure correctness and validity of input data and output information.
5. There are adequate preventive measures to prevent unauthorized access over the computer installation and files.

GENERAL

1. Going Concern Problem

Based on the Company's financial statements for the year ended 31st December, 2009 audited by us, the Company has earned sufficient profit during the year under audit and we have no reason to believe that the Company is not a going concern.

2. Ratio Analysis

Financial and operational ratio in respect of the Company is given in the statement of Ratio Analysis.

3. Compliance of Companies Act of Kingdom of Bhutan:

The Company has complied with the Requirement of The Companies Act of the Kingdom of Bhutan, 2000.



Our observations in detail have been furnished in 'COMPLIANCE CHECKLIST' – Annexure - C.

4. **Adherence of Laws Rules & Regulations:**

Audit of the Corporation is governed by The Companies Act of the Kingdom of Bhutan, 2000 and the scope of audit is limited to examination and reviews of the financial statement as produced to us by the management. In the course of audit, we have considered the compliance of provision of the said Companies Act and its Article of Incorporation. The Company does not have a comprehensive Compliance Reporting and Recording System as regards adherence to all laws, rules and regulations, systems, procedures and practices. Under the circumstances we are unable to comment on the compliance of the same by the Company during the year under 2009.

Place: Kolkotta

For **S. N. Mukherji & Co.**
Chartered Accountants.

Date: 10 April, 2010

Sudip K. Mukherji
Partner

BALANCE SHEET AS AT 31st DECEMBER 2009

Particulars	Schedule	Figures in Ngultrums As at 31 st December 2009	Figures in Ngultrums As at 31 st December 2008
<u>SOURCES OF FUNDS</u>			
Shareholders' Funds			
Share Capital	1	44,268,248,600	19,513,122,600
Reserves and Surplus	2	163,653,984	44,993,833
		44,431,902,584	19,558,116,433
Loan Funds			
Unsecured Loans	3	160,000,000	-
Total		44,591,902,584	19,558,116,433
<u>APPLICATION OF FUNDS</u>			
Fixed Assets			
	4		
Gross Block		10,594,707	9,293,597
Less: Depreciation		2,620,065	1,272,966
Net Block		7,974,642	8,020,631
Investments	5	44,441,222,100	16,450,237,600
Current Assets, Loans and Advances			
Inventories		110,608	-
Cash and Bank Balances	6	181,916,496	56,396,493
Other Current Assets	7	3,359,608,640	3,299,343,000
Loans and Advances	8	4,250,554	3,071,914,230
		3,545,886,297	6,427,653,723
Less: Current Liabilities and Provisions			
Current Liabilities	9	1,268,682,812	1,216,882,825
Provisions	10	2,134,497,643	2,110,912,696
		3,403,180,455	3,327,795,521
Net Current Assets		142,705,843	3,099,858,202
Total		44,591,902,584	19,558,116,433



Significant Accounting Policies	16
Notes on Accounts	17

This is the Balanced Sheet referred
To in our report of even dates

Schedules referred to above form
an integral part of the Accounts



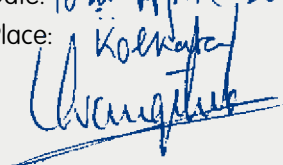
(Sudip K. Mukherji)
Partner

For and on behalf of S.N. Mukherji & Co.
Chartered Accountants




(Lyonpo Om Pradhan)
Chairman

Date: 10th April 2010
Place: Kolkata



(Ugen Wangchuk)
Head, Finance and Accounts



(Karma Yonten)
Chief Executive Director



(Kuenzang Dechen)
Director

PROFIT AND LOSS ACCOUNT

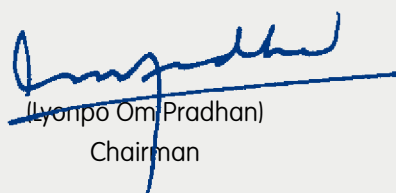
For the period 1st January to 31st December 2009

Particulars	Schedule	Figures in Ngultrum	Figures in Ngultrum
		1 st Jan to 31 st Dec 2009	11 th Nov 2007 to 31 st Dec 2008
Income			
Income from Investments	11	2,285,044,959	2,191,700,771
Other Income	12	2,637,121	31,679,697
		2,287,682,080	2,223,380,468
Expenditure			
Employees' Remuneration and Benefits	13	19,029,706	12,867,076
Financial Expenses	14	9,021,370	-
Other Expenses	15	15,054,753	53,753,593
Depreciation		1,347,099	1,272,966
		44,452,929	67,893,635
Profit Before Tax		2,243,229,151	2,155,486,833
Provision for Tax		672,979,261	646,646,050
Profit After Tax		1,570,249,890	1,508,840,783
Appropriation			
Proposed Dividend		1,451,589,739	1,463,846,950
Transfer to General Reserve		118,660,151	44,993,833

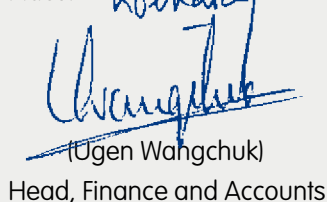

(Sudip K. Mukerji)
Partner



For and on behalf of S.N Mukherji & Co.
Chartered Accountants


(Lyonpo Om Pradhan)
Chairman

Date: 10th April 2010
Place: Kolkata


(Ugen Wangchuk)
Head, Finance and Accounts


(Karma Yonten)
Chief Executive Director


(Kuenzang Dechen)
Director

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st DECEMBER 2009

Particulars	Figures in Ngultrum 31 st December 2009		Figures in Ngultrum 31 st December 2008	
	Amount	Amount	Amount	Amount
Net profit before tax / Operating profit	2,243,229,151		2,155,486,833	
Add: Depreciation	1,347,099		1,272,966	
Interest payable	9,021,370		-	
Less: Interest receivable	(2,490,861)		-	
Less: Dividend	(2,054,871,603)		(2,191,700,771)	
(Increase)/Decrease in Inventories	(110,608)		-	
(Increase)/Decrease in Advances	(63,586,264)		(3,300,273,030)	
Increase/(Decrease) in Payables	75,384,934		3,327,795,521	
Net Cash Flow from Operating Activities		207,923,218		(7,418,481)
Return on Investments and Servicing of Finance				
Interest received	2,490,861		-	
Interest paid	(9,021,370)		-	
Dividends paid	(1,451,589,739)		(1,463,846,950)	
Dividends received	2,054,871,603		2,191,700,771	
	596,751,355		727,853,821	
Taxation	(672,979,261)		(646,646,050)	
Capital Expenditure:				
Acquisition of Tangible Fixed Assets	(1,301,110)		(9,293,597)	
Net Cash inflow from Investing Activities		(77,529,016)		71,914,174
Net Cash Inflow / (outflow) before Financing		130,394,203		64,495,693
Financing				
Purchase of Shares	(4,874,200)		(8,099,200)	
Cash Inflow / (outflow) from Financing		(4,874,200)		(8,099,200)
Increase / (Decrease) in Cash (Note 2)		125,520,003		56,396,493

Notes:

1. Net Cash Flow from Operating Activities has been arrived at under Indirect Method.
2. Increase / (Decrease) in cash as shown above may also be arrived as follows:


Opening Cash	56,396,493	-
Closing Cash	181,916,496	56,396,493
Increase / (Decrease) in Cash	125,520,003	56,396,493

This is the Cash Flow Statement referred to in our report of even date.





(Sudip K. Mukherji)
Partner

For and on behalf of S.N Mukherji & Co.
Chartered Accountants



(Lyonpo Om Pradhan)
Chairman

Date: 10th April 2010
Place: Kolkata



(Ugen Wangchuk)
Head, Finance and Accounts



(Karma Yonten)
Chief Executive Director



(Kuenzang Dechen)
Director

Schedules forming part of the Accounts

Schedule 1: Share Capital

Particulars	Figures in Ngultrum As at 31 st December 2009	Figures in Ngultrum As at 31 st December 2008
Authorised Share Capital		
1,000,000,000 equity shares of Nu 100/- each	100,000,000,000	100,000,000,000
-		
Issued, Subscribed & Fully Paid-Up Share Capital		
442,682,486 equity shares of Nu 100/- each	44,268,248,600	19,513,122,600
(The above shares are allocated as fully paid up pursuant to a contract without payment being received in cash)		

Schedule 2 : Reserves & Surplus

Particulars	Figures in Ngultrum As at 31 st December 2009	Figures in Ngultrum As at 31 st December 2008
General Reserve		
As per last accounts	44,993,833	-
Transfer from Profit & Loss Account	118,660,151	44,993,833
	163,653,984	44,993,833

Schedule 3 : Loan Funds

Particulars	Figures in Ngultrum As at 31 st December 2009	Figures in Ngultrum As at 31 st December 2008
Unsecured Loans		
Loan from Druk Green Power Corporation Ltd.	160,000,000	-
	160,000,000	-



Schedules forming part of the Accounts

Schedule 4: Fixed Assets

Particulars	Dep. Rate	Gross Block			Depreciation			Net Block		
		Opening 01.01.09 Nu.	Additions/ Adjust. Nu.	Deletion/ Adjust. Nu.	As at 31.12.09 Nu.	Opening 01.01.09 Nu.	Additions/ Adjust. Nu.	Deletion/ Adjust. Nu.	As at 31.12.09 Nu.	As at 31.12.08 Nu.
Furniture & Fixtures	15%	1,206,547	149,971	-	1,356,518	136,815	168,932	-	305,748	1,050,771
Electrical Equip-ments	15%	125,602	32,090	-	157,692	51,303	26,295	-	77,598	80,094
Data Processing Equipments	15%	1,369,105	1,064,151	-	2,433,255	222,042	272,994	-	495,035	1,938,220
Office Equip-ments	15%	459,718	17,693	-	477,411	105,236	63,901	-	169,136	308,275
Motor Vehicles	15%	5,836,777	-	-	5,836,777	657,998	776,816.86	-	1,434,815	4,401,962
Computer Soft-ware	15%	62,000	-	-	62,000	25	9,296.19	-	9,322	52,678
Miscellaneous Assets	15%	233,848	37,205	-	271,053	99,547	28,864	-	128,411	142,642
Total Fixed As-sets		9,293,597	1,301,110	-	10,594,707	1,272,966	1,347,099	-	2,620,065	7,974,642
Previous Year's Total		-	9,293,597	-	9,293,597	-	1,272,966	-	1,272,966	8,020,631



Schedules forming part of the Accounts

Schedule 5 : Investments (Long Term - At Cost)

Particulars	No. of shares	Figures in Ngultrum	No. of shares	Figures in Ngultrum
		As at 31 st Decem-ber 2009		As at 31 st Decem-ber 2008
<u>Quoted - Equity Shares fully paid up</u>				
Bhutan Board Products Ltd.	668,334	66,833,400	668,334	66,833,400
Bhutan Ferro Alloys Ltd.	385,946	38,594,600	385,946	38,594,600
Bhutan National Bank Ltd.	485,952	24,297,600	485,952	24,297,600
Penden Cement Authority Ltd.	1,371,074	91,404,900	1,371,074	91,404,900
Royal Insurance Corporation of Bhutan Ltd.	441,950	17,678,000	176,780	17,678,000
SUBSIDIARIES				
<u>Quoted - Equity Shares fully paid up</u>				
State Trading Corporation of Bhutan Ltd.	102,000	10,200,000	102,000	10,200,000
<u>Unquoted - Equity Shares fully paid up</u>				
Bank of Bhutan Ltd.*	320,000	240,000,000	160,000	80,000,000
Bhutan Telecom Ltd.*	854,082	854,082,000	854,082	854,082,000
Druk Green Power Corporation Ltd.*	30,508,291	30,508,291,000	7,125,451	7,125,451,000
Druk Air Corporation Ltd.	22,252,111	2,225,211,100	22,252,111	2,225,211,100
Natural Resources Development Corporation Ltd.	300,000	30,000,000	300,000	30,000,000
Bhutan Power Corporation Ltd.*	7,258,771	7,258,771,000	5,886,485	5,886,485,000
Dungsum Cement Corporation Ltd.	30,709,843	3,070,984,300	-	-
JOINT VENTURE				
<u>Unquoted - Equity Shares fully paid up</u>				
Thimphu Techpark Private Ltd.	48,742	4,874,200	-	-
		44,441,222,100		16,450,237,600
Aggregate value of Quoted Investments		249,008,500		249,008,500
Aggregate value of Unquoted Investments		44,192,213,600		16,201,229,100
		4,441,222,100		16,450,237,600
Market Value of Quoted Investments		1,739,032,260		1,837,432,060

Notes:

1. All shares except as indicated by * are Nu. 100 each fully paid up
2. * represents shares of Nu. 1,000 each fully paid up
3. All investments are other than trade.



Schedules forming part of the Accounts

Schedule 6 : Bank Balances

Particulars	As at 31 st December 2009	As at 31 st December 2008
Bank of Bhutan Ltd. - current accounts	3,472,748	55,500,520
Bhutan National Bank Ltd - current account	187,622	895,973
Bhutan National Bank Ltd - fixed deposits	178,256,126	-
	181,916,496	56,396,493

Schedule 7 : Other Current Assets

Particulars	As at 31 st December 2009	As at 31 st December 2008
Advance remittance to Ministry of Finance	3,357,509,000	3,299,343,000
Accrued interest on fixed deposits	2,068,257	-
Tax deducted as source on fixed deposits	20,809	-
Library books	10,575	-
	3,359,608,640	3,299,343,000

Schedule 8 : Loans & Advances

Particulars	As at 31 st December 2009	As at 31 st December 2008
Advance to Subsidiary	-	500,000
Advance recoverable in cash or in kind or for value to be received		
Considered good:		
- Advance against investments (Dungsum Cement Project Authority)	-	3,070,984,230
- Staff advances	-	400,000
- Advance to SBI Capital Market Ltd.	1,837,766	-
- Accounts receivable from Subsidiaries	1,144,924	-
- Advance for ERP Software	1,237,863	-
- Security deposits	30,000	30,000
	4,250,554	3,071,914,230



Schedule forming part of the Accounts

Schedule 9 : Current Liabilities

Particulars	As at 31 st December 2009	As at 31 st December 2008
Sundry Creditors	869,779	904,476
Other Liabilities:		
- Government of India grant for DHI	18,400,939	19,133,103
- Advance received from Dungsum Cement Corporation Ltd.	12,929,079	-
- Advance dividend received	1,232,940,000	1,194,639,190
- Employee related liability	3,511,143	2,111,954
- Security deposit	31,872	94,102
	1,268,682,812	1,216,882,825

Schedule 10 : Provisions

Particulars	As at 31 st December 2009	As at 31 st December 2008
Provision for gratuity	907,273	419,696
Interest payable on DGPCL loan	9,021,370	-
Provision for corporate income tax	672,979,261	646,646,050
Provision for dividend payable	1,451,589,739	1,463,846,951
	2,134,497,643	2,110,912,696

Schedule 11 : Income from Investments

Particulars	1 st Jan to 31 st Dec 2009	11 th Nov 2007 to 31 st Dec 2008
Dividend income from subsidiaries	2,138,890,523	2,089,406,641
Dividend income from others	146,154,436	102,294,130
	2,285,044,959	2,191,700,771



Schedules forming part of the Accounts

Schedule 12 : Other Income

Particulars	1 st Jan to 31 st Dec 2009	11 th Nov 2007 to 31 st Dec 2008
Government of India grant	-	31,666,897
Sale of tender documents	2,100	12,800
Interest income on fixed deposits – BNBL	2,484,433	-
Interest income on fixed deposits – BOBL	6,427	-
Miscellaneous income	144,160	-
	2,637,121	31,679,697

Schedule 13 : Employees' Remuneration and Benefits

Particulars	Figures in Ngultrum 1 st Jan to 31 st Dec 2009	Figures in Ngultrum 11 th Nov 2007 to 31 st Dec 2008
Salary, wages, bonus and other allowances	14,358,298	10,819,240
Contribution to provident and other funds	574,596	307,071
Gratuity expenses	487,577	419,696
Staff welfare	343,299	6,056
Training - human resource development	3,265,936	1,315,013
	19,029,706	12,867,076

Schedule 14 : Financial Expenses

Particulars	1 st Jan to 31 st Dec 2009	11 th Nov 2007 to 31 st Dec 2008
Interest expense on Druk Green Power Corporation Ltd. loan	9,021,370	-
	9,021,370	-



Schedules forming part of the Accounts

Schedule 15 : Other Expenses

Particulars	1 st Jan to 31 st Dec 2009	11 th Nov 2007 to 31 st Dec 2008
Advertisement, printing and marketing	915,991	1,666,988
Audit fees and expenses	293,197	435,170
Sitting fees	640,000	1,037,500
Professional & consultancy charges	1,442,075	32,625,274
Donation	4,230,000	6,707,500
Electricity and water charges	118,424	100,418
Entertainment	609,146	960,956
Travelling expenses	3,298,903	2,840,369
Insurance	88,905	205,149
Repairs & maintenance	671,134	173,456
Rent	840,000	899,000
Stationeries	177,684	315,233
Workshops and seminars	578,375	1,821,922
Share transfer fees	-	2,652,069
Postage, telephone, telex, etc	749,513	1,014,797
Bank charges	100,459	55,647
Miscellaneous expenses	300,948	242,145
	15,054,753	53,753,593



Schedule 16

Significant Accounting Policies

1. Accounting Conventions

The financial statements are prepared on accrual basis under the historical cost convention and in accordance with the Generally Accepted Accounting Principles and provisions of the Companies Act of the Kingdom of Bhutan, 2000.

2. Fixed Assets and Depreciation

Fixed Assets are stated at cost less accumulated depreciation. Cost includes taxes and incidental expenses related to acquisition and installation of assets.

Depreciation on fixed assets is provided on Straight Line Method (on prorata basis from the date of purchase) at the rates specified in Annexure II of Rules on the Income Tax Act of the Kingdom of Bhutan, 2001. However, depreciation on items purchased upto Nu. 5,000/- is charged at the rate of 100% in the year of addition.

3. Investments

Investments which are long term in nature are stated at cost and provisions, where applicable, is made against permanent diminution in their value.

4. Revenue Recognition

Dividend Income is recognized in the accounts in the year of dividend declaration by the subsidiaries and other companies.

5. Government Grant

Government grants related to revenue are recognized on a systematic basis as "Other Income" in the profit and loss account over the periods necessary to match them with the related costs against which they are received. The unutilized grant amount has been shown as a liability.

6. Foreign Currency Transactions

Foreign Exchange transactions are recorded at the exchange rates prevailing at the time of transaction.

7. Employee Benefits

Contributions to Provident Fund are recognized in the profit and loss account on accrual basis.

Gratuity liability is provided for as per the Service Rules of the Company presuming that all the employees cease to work as at the end of the year.

Provision for leave encashment and leave allowance has been accounted for on accrual basis as per the Service Rules of the Company.



Schedule 17**Notes to the accounts**

1. On 11th November 2007, His Majesty King Jigme Khesar Namgyel Wangchuck issued a Royal Charter to establish Druk Holding and Investments (DHI). DHI was subsequently incorporated into a limited liability company under the Companies Act of the Kingdom of Bhutan 2000 on 16th November 2007. Shares held by the Ministry of Finance, Royal Government of Bhutan, in 14 companies, amounting to Nu. 15,998,982,400/- was transferred to Druk Holding and Investments Limited as its issued and subscribed capital divided into 159,989,824 equity shares of Nu. 100 each. In the previous year, the issued share capital had further increased by Nu. 3,514,140,200/- divided into 35,141,402 equity shares of Nu. 100 each to Nu. 19,513,122,600/- on account of investments made by the Ministry of Finance, Royal Government of Bhutan (RGoB) in different companies /projects.

During the period, the issued share capital had further increased by Nu. 24,755,126,000/- divided into 247,551,260 equity shares of Nu. 100 each on account of handover of Tala Hydroelectric Project to Druk Green Power Corporation Limited.

2. The profit before tax for the current year was Nu 2,243,229,151/-. A sum of Nu. 35,053/- has been added as inadmissible expenditure to the profit before tax, thereby giving the final tax liability of Nu 672,979,261/- (previous year Nu. 646,646,050/-)
3. The Company under current tax laws of the country has determined its taxation liability for the year as Nu. 672,979,261/- (previous year Nu. 646,646,050/-) and proposes dividend for the year amounting to Nu. 1,451,589,739/- (previous year Nu. 1,463,846,950/-). Both these amounts payable on account of taxation and dividend are included under 'Current Liabilities and Provisions'. The Company as per its understanding with the Ministry of Finance and guidelines laid down in the Articles of Incorporation of the Company has already remitted in advance an amount of Nu. 2,124,569,000/- (previous year Nu. 2,110,493,000/-). After the formal declaration of dividend in the forthcoming AGM, the Company proposes to adjust such amount paid in advance to Ministry of Finance against provision for taxation and dividend for the year 2009. A further amount of Nu. 1,232,940,000/- (previous year Nu. 1,188,850,000/-) has been paid to Ministry of Finance as advance remittance for 2010.
4. The audit of the Companies which are either subsidiaries or in which the Company has investments are in various stages of progression. Pending completion of such audits, adjustments, if any, arising there from has not been considered in these accounts.
5. Fixed deposit of Nu. 100 million has been pledged with Bhutan National Bank Ltd. for credit card facilities extended by the bank to the Chairman and Chief Executive Officer of the company.



6. During the year DHI and Assetz Property Group had entered into a joint venture to form the company Thimphu Techpark Private Limited (TTPL) in the equity contribution ratio of 26% and 74% respectively.

The total cost of the project is Nu. 225,372,711/-, which will be funded as 33.84% equity of Nu. 76,274,711/- and 66.16% debt of Nu. 149,098,000/-.

DHI share of the equity contribution of 26% amounts to Nu. 19,831,425/-. During the year DHI had injected an equity contribution of Nu. 4,874,200/-. The balance equity contribution of Nu. 14,957,225/- will be injected in 2010.

7. During the year DHI had entered into letter of credit agreements with SAP Asia Pte Ltd for the purchase of SAP software. The total cost of the SAP software of USD 1,106,750/- is shared between Bhutan Power Corporation Ltd. (66.73%), Druk Green Power Corporation Ltd. (28.53%) and DHI (4.74%). DHI's share of the SAP software amounts to USD 52,459.96/-, out of which a sum of USD 26,229.98/- had been paid during the year. The balance amount will be due for payment in 2010.

8. Managerial Remuneration

- i) Remuneration paid /payable for the period 1.1.2009 to 31.12.2009 to the Chairman and the Chief Executive Officer of the Company are as follows:

Particulars	Current Year Amount (Nu.)	Previous Year Amount (Nu.)
Salary & Allowances	3,401,472	3,882,805
Other benefits	1,576,928	1,032,721
Provident fund	201,966	124,474
Gratuity	177,160	204,397
Sitting Fees	157,500	330,000
Total	5,515,026	5,514,397

- ii) Sitting Fees paid/payable to other members of the Board of Directors Nu. 482,500/- (previous year Nu. 707,500/-)

9. Auditor's Remuneration - amount payable to Auditors for:

Particulars	Current Year Amount (Nu.)	Previous Year Amount (Nu.)
Statutory Audit	150,000	300,000
Other Audit Expenses	143,197	135,170
Total	293,197	435,170

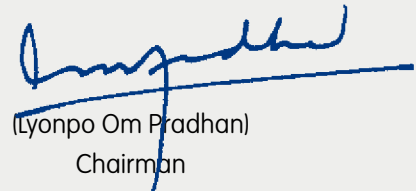


10. The current year's financial statements cover the period from 1st January 2009 to 31st December 2009.



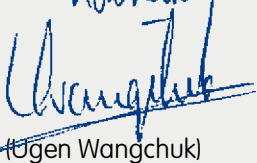
(Sudip K. Mukerji)
Partner

For and on behalf of S.N Mukherji & Co.
Chartered Accountants



(Lyonpo Om Pradhan)
Chairman

Date: 10th April 2010
Place: Kolkata



(Ugen Wangchuk)
Head, Finance and Accounts



(Karma Yonten)
Chief Executive Director



(Kuenzang Dechen)
Director