

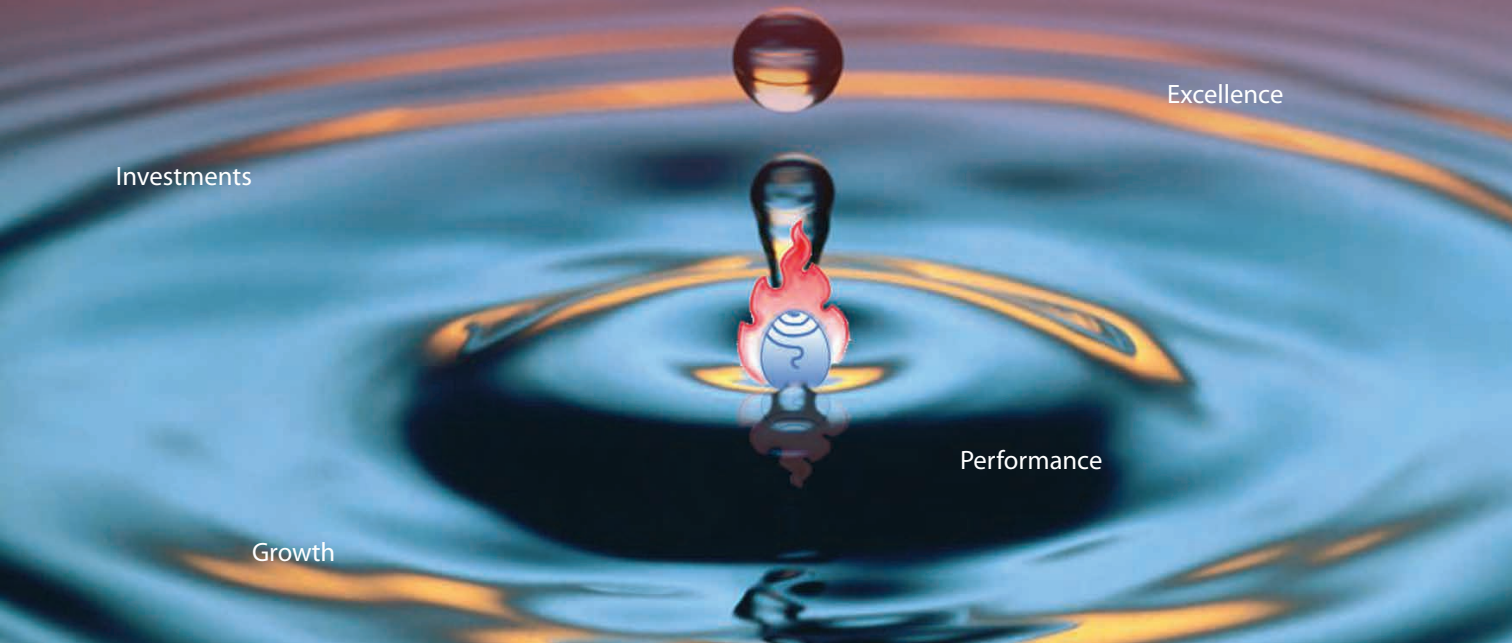
## Ripples in the economy

Investments

Excellence

Growth

Performance





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# Druk Holding & Investments

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

**(May 30, 2011)**

**“Druk Holding and Investments (DHI) has performed admirably since its establishment in 2007. It has built a strong foundation for effectively fulfilling the goals of holding and managing the commercial investments of the Royal Government for the long-term benefit of the Bhutanese people.”**

His Majesty the King

As we proceed into this Third Annual General Meeting, I would like to first extend a warm welcome to representatives of the Ministry of Finance, DHI's shareholder on behalf of the Royal Government and to all other participants present here today, along with the newly appointed Board Directors.

Three years have gone by successfully since the establishment of DHI in 2007 and with it, the completion of the first term of the Board of Directors. I wish to thank each and every one of them for their role during the critical years of DHI's formation. His Majesty the King, who instituted the DHI issued a Royal Kasho on September 28, 2010 commending the efforts and achievements of DHI. I feel honored in quoting some lines from the royal decree.

“Druk Holding and Investments (DHI) has performed admirably since its establishment in 2007. It has built a strong foundation for effectively fulfilling the goals of holding and managing the commercial investments of the Royal Government for the long-term benefit of the Bhutanese people.”

Thank you, again, for all your valuable contributions. I am also pleased to say that Dasho Lam Dorji will continue as a board member for another term. His expertise is welcome as we take on more challenges.

As we set forth into the second term, I would like to reflect on DHI's performance during the reporting year. The financial performances of DHI companies have improved and continue to do so substantially, compared to the previous years. The remittance target of the Government has been met by DHI and 98.88% of the Compact Target set by the Ministry of Finance has been achieved. Of the 12 companies, nine saw increase in profits if weighed against 2009. However, the profit margin of DGPC, DHI's biggest company, has decreased marginally for obvious reasons, namely, increase in domestic

demand and decrease in revenue resulting from changes in the energy pricing policy. Based on the experiences we had last year with regard to power tariff revisions in BPC and DGPC, it is important for DHI to closely interact and work together with the Ministry of Finance on such issues.

On the whole, DHI companies have brought about a profit growth of 8% over 2009. And the Profit Before Tax for all 12 companies combined stands at Nu. 11.143 billion in 2010 compared with Nu. 10.250 billion in 2009. Also, the Corporate Revenue Tax these companies paid to the Government increased from Nu. 3.085 billion in 2009 to Nu. 3.405 last year.

I would like to inform you, that, in 2010, DHI changed its accounting policy so that the dividend income for the year is recognized in the same year the dividends are declared by portfolio companies unlike in the past years where the dividend was recognized on a cash basis. For the year 2010, the total dividend declared was Nu. 2989.37 million excluding DHI corporate tax of Nu. 1327 million

Further, in 2010, to improve performance within DHI, a media and public relations unit was set up, ownership policy implemented, customer satisfaction surveys in five companies carried out and a framework for operationalization of centres of excellence implemented among other initiatives.

Another achievement of 2010 was the strategizing towards establishment of DHI Infra Ltd. This was done because DHI was mandated by the Government to undertake major infrastructure projects such as the Education City Project, the Amochhu Land Reclamation and Township Project and development of SEZs under a PPP model. These projects will now be carried out by DHI Infra Ltd.

The establishment of Dungsam Polymers Ltd is also a worthy mention in our list of achievements. The company shall manufacture packaging materials for the Dungsam Cement Project.

Besides the Dungsam Cement Project which is expected to be delayed by about four months due to labour issues, early monsoon rains and extra excavation works required, the other new projects that are being implemented such as the Dagachu Hydropower, the IT Park and the SAP-ERP projects are well on track.

Wrapping up the first three years, we must not forget that DHI's journey has only begun. And His Majesty's Kasho is also a reminder of that.

I quote once again from the Kasho: "As a matter of urgency, the DHI must explore additional opportunities outside Bhutan, especially in the region, in order to diversify investments and take timely advantage of favourable conditions that may emerge."

With this, I now conclude by seeking your approval on today's agenda which was distributed in advance along with relevant documents.

I now call upon CEO Karma Yonten to present the Directors' Report.

# ABOUT DHI

## INTRODUCTION

Druk Holding Investments (DHI) was established on 11 November, 2007 by His Majesty Jigme Khesar Namgyel Wangchuck “to hold and manage the existing and future investments of the Royal Government of Bhutan for the long term benefit of its shareholders, the people of Bhutan.” The Ministry of Finance is the sole shareholder of the DHI.

## DHI PORTFOLIO COMPANIES





### DHI PORTFOLIO COMPANIES DEPICTING DHI SHARE HOLDING AND NET WORTH/ MARKET CAPITALIZATION OF THE COMPANIES:

	DHI Share Holding (In %)	DPC Categories	2010 Revenue (Mil)		Net Worth/Market Capitalization (mil)*	
			BTN	USD**	BTN	USD**
Energy & Resources						
Druk Green Power Corporation Ltd.)	100	DOC	11,811.46	263.65	37,442.65	835.77
Bhutan Power Corporation Ltd.	100	DOC	3,366.15	75.14	11,751.35	262.31
Natural Resource Development Corporation Ltd.	100	DOC	382.33	8.53	495.18	11.05
Communications & Transportation						
Bhutan Telecom Ltd.	100	DOC	1,563.49	34.90	2,486.77	55.51
Druk Air Corporation Ltd.	100	DOC	1,704.36	38.04	2,072.44	46.26
DHI Infra	100	DOC	0	0		
Financial Services						
Bank of Bhutan Ltd.	80	DCC	1,467.31	32.75	2,549.98	56.92
Bhutan National Bank Ltd.	13.61	DLC	1,584.15	35.36	1,579.99	35.27
Royal Insurance Corporation of Bhutan Ltd.	18.41	DLC	332.23	7.42	974.42	21.75
Real Estate						
Thimphu Tech Park Pvt. Ltd.***	26	DLC	0	0	0	0
Trading						
State Trading Corporation of Bhutan Ltd.	51	DCC	1,723.09	38.46	201.03	4.49
Manufacturing						
Dungsam Cement Corporation Ltd****	100	DOC	0	0		
Dungsam Polymers	100	DOC	0	0		
Penden Cement Authority Ltd	40.33	DLC	1,984.96	44.31	1,138.48	25.41
Bhutan Ferro Alloys Ltd.	25.73	DLC	1,975.30	44.09	731.85	16.34
Bhutan Board Products Ltd.	47.74	DLC	349.35	7.80	232.07	5.18

#### Accompanying Notes:

\* Net worth is reflected for DHI Owned Companies and for BOBL and is based on book value.

Market Capitalization is reflected for DHI Linked Companies and 2010 refers to positions as at March 2010

\*\*1USD = 44.80 BTN as of December 2010

\*\*\*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.



DHI Board of Directors 2010

### The Chairman



**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



**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.

**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.

**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.



**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.





**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



**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.

### BOARD OF DIRECTORS REPORT – 2010

I take this opportunity, on behalf of the Board of Directors, to present to you the Annual Report of Druk Holding and Investments 2010. This report, I would like to add, contains not only the audited financial statements for the year ended December 31, 2010, but also summarizes reports of the management, giving you an overview of the various activities of the company, an insight into the performance of DHI owned companies along with the proposed activities for 2011.

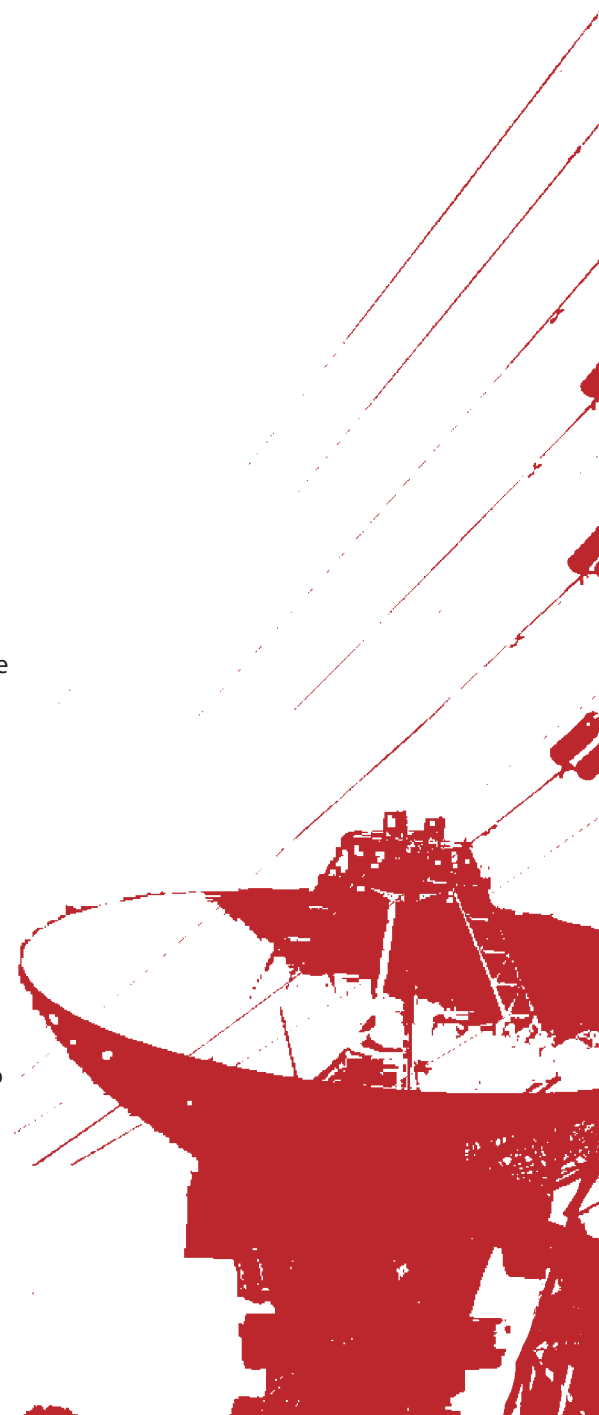
In September 2010, DHI received a *Kasho* from His Majesty the King, commending the DHI Board, management and companies “for the positive changes that have been brought about in the corporate sector in the last three years.” It also mentions DHI’s role in exploration and establishment of new businesses in cooperation with the Royal Government and its initiatives to promote the best practices of corporate governance.

The *Kasho* also reappoints the current Chairman of the DHI to another term of three years.

#### ***DHI and Gross National Happiness***

To seek a more holistic development approach, DHI’s primary mandate – to promote economic, commercial and business excellence – is strongly steered by the philosophy of Gross National Happiness (GNH). DHI is not only guided by the GNH framework in the overall governance of its companies, but also continuously seeks to promote various elements of GNH through its companies and activities.

Although the primary objective of DHI companies is to increase financial gains, there is also a social responsibility incorporated in their mandates such as providing critical public services at affordable prices. For example, Bhutan Power Corporation (BPC) is working towards providing electricity to all by 2013. In 2010, BPC financed electrification of 994 rural households as part of the RE program. On the other hand, Bhutan Telecom (BT) provides free-of-cost internet connection to three rural schools. Also, BT with its goal of providing telecom connectivity to all the 205 gewogs in the country, has as of December 2010, provided mobile connectivity to 195 gewogs including 13 gewogs with partial







connectivity. NRDCL, apart from providing timber to rural households at highly subsidized rates, also provides construction materials like sand, stone and timber at affordable rates throughout the country. Further, Drukair offers lower rates to Bhutanese travelers and continues to increase connectivity through expansion of its air services internationally with Guwahati being the latest addition.

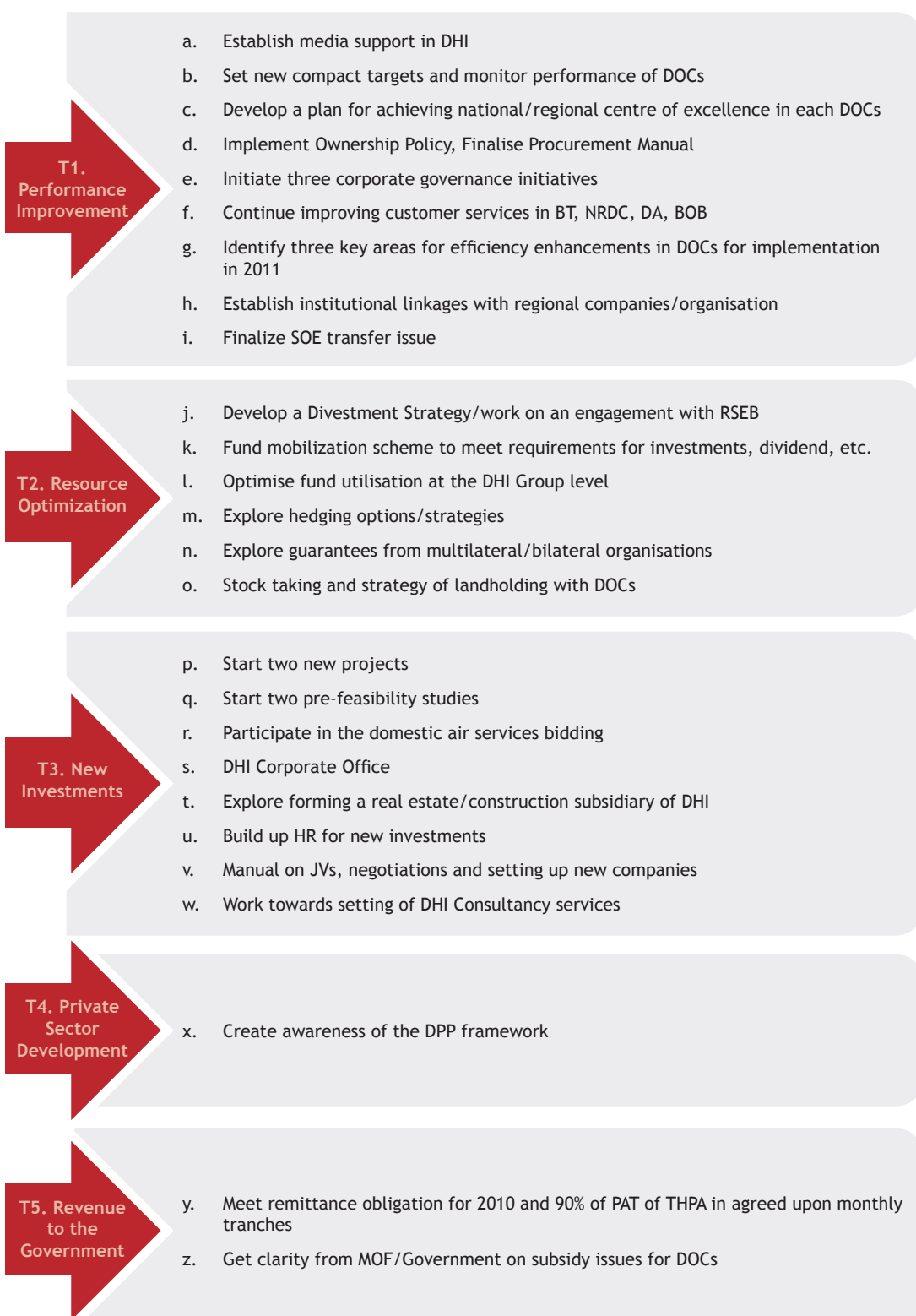
As far as environmental conservation is concerned, DHI is taking appropriate measures to reduce the adverse effect of development on the environment. The IT Park, which is being developed in partnership with the Assetz Property Group and which will open to the public in November 2011, is expected to be a state-of-the-art facility in terms of using green sustainable technology. The IT Park design was accorded the LEEDS Platinum Certificate, making it the first building in the country to receive such an award. Further, the Dagachu Hydropower Project, developed by DGPC, is the first cross border CDM project in the world.

As Good Governance is one of the four pillars of GNH, DHI has embarked on a series of initiatives towards improving transparency and accountability in its companies. DHI companies are, today, more attentive to customer needs and undertake periodic customer satisfaction surveys in order to constantly improve their services. The Ownership Policy which includes many of the best corporate governance practices was implemented in 2010. The Annual Compact Agreement initiated in 2009 was implemented in all the DOCs as well as the BoB. All DHI owned companies have a Performance Management System in place and bonus payments are linked to the achievement of performance targets. Further, as part of gender mainstreaming DHI strives to include at least one female board director in its DHI Owned Companies.

DHI, as part of its Corporate Social Responsibility, has made contributions to deserving institutions in areas that reflect the ethos of GNH.

### ***Operational Performance***

Mandates of DHI as outlined in the Royal Charter are clubbed under five main thrust areas. Accordingly key performance indicators corresponding to each thrust area are depicted in the chart below followed by an outline of achievements made under each thrust area.





### Thrust Area 1: Performance Improvement

a. Establish media support in DHI

DHI has established a Media and Public Relations Unit and appointed a Public Relations Officer. Group branding efforts were initiated and a DHI Group magazine (DHI Melong) was introduced.

b. Set new compact targets and monitor performance of DOCS

Compacts for 2010 were set and signed with the DOCS and BOB. Performances were monitored through the Annual and Half Yearly Progress Reports. Performance Management Systems put in place in all the five DOCS.

c. Develop a plan for achieving national/regional centre of excellence in each DOCS

A framework for operationalisation of centre of excellence formulated. Each of the DOCS was identified for a specific excellence theme. For example, Drukair for customer service.

d. Implement Ownership Policy, Finalise Procurement Manual

The Ownership Policy was implemented in 2010 and changes were made in the Article of Incorporation of DOCS where necessary. A checklist was developed to ensure compliance with the Ownership Policy. DHI Procurement Manual was developed and approved.

e. Initiate three corporate governance initiatives

Through the Ownership Policy, two initiatives such as reduction in interference of SOE management and clarification of board mandates and functions were adopted. Board Performance Evaluation for DOCS and DCCS were also developed. Service Rules guidelines for DOCS were developed. A draft recommendation for procurement at DHI and linked companies was developed.

f. Continue improving customer services in BTL, NRDCL, DAL, BOBL

Customer satisfaction surveys were conducted in BTL, BPCL, DCL, NRDCL and BOBL. Customer help desks and helpline were introduced in DAL and BOBL among other initiatives such as call center, suggestion box, information brochure and posters and grievance cell.

g. Identify three key areas for efficiency enhancements in DOCS for implementation in 2011

Development of operational procedures for small and new DOCS, Strategy for optimal land utilization of DOCS and setting up customer grievance cells in DOCS were identified.

h. Establish institutional linkages with regional companies/organization

MOU was signed with The Blue Economy KK based in Japan dedicated to implementing the vision and experience of the ZERI foundation. Another MOU was signed between First Sky Service Ltd based in Cyprus and Drukair in the area of developing new routes for Drukair. Membership on OECD's Asia Network on Corporate Governance was obtained. Further DHI networked with SEPO, ICD, PSI, Temasek etc.

i. Finalize SOE transfer issue

DHI conducted an as-is study of the seven SOEs directly under the MOF namely, Bhutan Post, Bhutan Agro Industries, Bhutan Broadcasting Service, Kuensel corporation, Food Corporation of Bhutan, Bhutan Development & Finance Corporation and Wood Craft Centre. Recommendations on the SOE transfer issue were submitted to the Cabinet Secretariat in January 2010.

### Thrust Area 2: Resource Optimization

- j. Develop a Divestment Strategy/work on an engagement with RSEB

A divestment strategy was developed for divestment of DHI ownership in its companies and the limits for divestment in these companies. Clarification on IPO, FPO, Listing and FDI in Secondary market was sought from the RSEB.

- k. Fund mobilization scheme to meet requirements for investments, dividend, etc.

Monthly tranches of 2010 dividend remitted in a timely manner. A study on Fund Mobilization for New Investments was conducted.

- l. Optimise fund utilisation at the DHI Group level

Based on the Five Year Investment Plan of the DOCS, DHI carried out the following;

- Studied the financing plan of the companies and recommended measures to improve returns and optimise its capital structure.
- Reviewed the dividend/reserve policy of the company vis-à-vis their investment plans and recommended changes wherever found necessary.
- Assessed fund requirements at the DHI and DOCS and looked at optimising fund utilization at the group level.

- m. Explore hedging options/strategies

The report on Foreign Exchange Risk management (hedging Options and Strategies for DHI Group) analyses the forex exposures of the DOCS, quantifies the group forex risk, uncovers inefficiencies in the current exchange methodologies and makes clear recommendations to effectively manage forex risk for the DHI group.

- n. Explore guarantees from multilateral/bilateral organizations

IFC, ADB and MIGA guarantees were studied.

- o. Stock taking and strategy of landholding with DOCS

Land holdings of DOCS and DCCS were undertaken in February 2010.

### Thrust Area 3: New Investments

- p. Start two new projects

Education City Project, Amochhu Land Reclamation Project and Dungsum Polymer Project were started in 2010.

- q. Start two pre-feasibility studies

Pre feasibility studies on eight projected were completed namely, bottle water, magnesium metal production, convention center, domestic air service, education city, carbon services, shin Nippon biomedical laboratories and Amochhu land reclamation and township project.

- r. Participate in the domestic air services bidding

Drukair participated in the domestic air services bidding and was awarded the bid alongside a new private airline.

- s. DHI Corporate Office

Land identified and demarcation is underway.

- t. Explore forming a real estate/construction subsidiary of DHI

A report on formation of a real estate and construction company as a subsidiary of DHI was presented and proposal for establishment of DHI Infra Ltd was approved in December 2010. DHI was mandated by the Royal Government to undertake major infrastructure projects such as the Education City Project, Amochhu Land Reclamation and Township Project and development of SEZs to be

implemented under a PPP model. DHI Infra Ltd will undertake these projects.

u. Build up HR for new investments

Recruitment for Education City was carried out and a pool of eligible candidates created. DHI's organization and staffing structure have also been reviewed to prepare for new investments and projects that will initially have to originate at DHI itself.

v. Manual on JVs, negotiations and setting up new companies

DHI's Joint Venture Manual was developed to provide a basic introduction to joint ventures and to guide DHI analysts in forming and negotiating joint ventures.

w. Work towards setting of DHI Consultancy services

A concept paper for establishing a consultancy unit within the DHI was framed and approved.

### Thrust Area 4: Private Sector Development

x. Create awareness of the DPP framework

The DHI-Private Sector Framework was presented to the CEOs of DOCS and at a separate occasion to the Bhutan Chamber of Commerce and Industry and members of the private sector in July 2010.

### Thrust Area 5: Revenue to the Government

y. Meet remittance obligation for 2010 and 90% of PAT of THPA in agreed upon monthly tranches

DHI met the dividend remittances to Government of Nu 1470 million as well as the 90% of Profit After Tax of THPA in monthly tranches.

z. Get clarity from MOF/Government on subsidy issues for DOCS

DHI communicated to the MOF on subsidy issues related to BPCL, BTL, DCL, and NRDC and a response from MoF is awaited.

### FINANCIAL PERFORMANCE

DHI currently reports on a stand-alone basis and in the absence of consolidation, the financial performance of DHI is driven mainly by the dividends declared by the portfolio companies for the financial year.

In 2010, DHI changed its accounting policy so that the dividend income for the year is recognized in the same year the dividends are declared by portfolio companies unlike in the past years where the dividend was recognized on a cash basis. The change was carried out to enable DHI to remit taxes on actual basis instead of remitting in advances and to make the financial statement more relevant.

The financial performance statements of DHI for the years 2010, 2009 and 2008 are given below. It should be noted that the financial statements for 2009 and 2008 have been restated to ensure consistency and comparability.

**Table 1 Financial Performance of DHI in 2010, 2009 and 2008 (In Million Nu.)**

Particulars		2010	2009 (restated)	2008 (restated)	% Variance*
1	Total Income	4,468.69	5,098.55	4,508.43	-12.35%
2	Total Expenditure	45.28	44.45	67.89	1.87%
3	Profit Before Tax	4,423.41	5,054.10	4,440.53	-12.48%
4	Tax	1,327.03	1,516.24	1,332.16	-12.48%
4	Profit After Tax	3,096.38	3,537.86	3,108.37	-12.48%
5	Dividend	2,989.37	2,864.35	2,902.90	4.36%
6	Transfer to General Reserve	107.01	673.51	205.47	-84.11%

\* 2010 financial performance as compared to 2009.

#### Income

The total income for DHI in 2010 was Nu. 4,468.69 million compared to Nu. 5,098.55 million in 2009. The total income decreased by 12.35% because the dividend income received from the portfolio companies decreased by 12.50%. The following factors attributed to the decrease in income:

1. Higher retention of profits in DGPC to enable equity investments in DHI Infra Limited.
2. Dividend from DGPC and BPC decreased because of the companies' future investment plans. DGPC's profits also decreased on account of tariff revisions, increase in domestic energy demands and overall expenses at THPA.

#### Expenditure

The total expenditure for 2010 was Nu. 45.28 million compared to Nu. 44.45 million in 2009. The total expenditure for 2010 has increased by 1.87%.

#### Profits

The profit before tax (PBT) for 2010 was Nu 4,423.41 million compared to Nu. 5,054.10 million in 2009. Profit

after tax (PAT) was Nu. 3,096.38 million compared to Nu. 3,537.86 million in 2009. The decrease in PBT and PAT is the consequent effect of decrease in income by 12.35% in 2010 over 2009.

### Dividends

Total remittance from DHI to MoF till 2009 was agreed as a lump-sum amount comprising both tax and dividends. From 2010 onwards, at the request of MoF, it has been agreed that tax will be paid as per actual profits and agreement from 2010 onwards will only be on dividends. The dividend agreement comprises of two parts – dividend from DGPC's Tala Hydropower Plant at actuals and dividend from other sources. For the year 2010, the total dividend amounts to Nu. 2,989.37 million as against Nu. 2,864.35 million in 2009 resulting in a 4.36% increase.

A sum of Nu. 107 million was transferred from current year's profits into the reserves. DHI's total reserve as at the end of the financial year was Nu. 986 million.

The dividends declared by companies in 2010 as compared to 2009 is given below:

**Table 2: Dividends received from DHI Portfolio companies in 2010 and 2009**

Sl. No.	Company Name	Dividends received in 2010	Dividends received in 2009	Increase/ Decrease %	% of total dividends
1	DGPC	3,848.97	4,325.43	-11.02%	86.32%
2	NRDCL	21.91	28.81	-23.95%	0.49%
3	BTL	168.27	100.00	68.27%	3.77%
4	BPCL	99.61	333.11	-70.10%	2.23%
5	DACL	-	-		
6	BOBL	112.00	115.20	-2.78%	2.51%
7	STCBL	5.10	2.04	150.00%	0.11%
8	PCAL	137.11	137.11	0.00%	3.08%
9	BNB	13.85	13.85	0.00%	0.31%
10	BFAL	32.81	19.29	70.09%	0.74%
11	RICB	11.05	11.05	0.00%	0.25%
12	BBPL	8.02	10.03	-20.04%	0.18%
<b>TOTAL</b>		<b>4,458.70</b>	<b>5,095.92</b>	<b>-12.50%</b>	<b>100.00%</b>

It may be noted that dividends from DGPC and BPC alone constitute 88.55% of the total dividend income of DHI. This indicates that DHI's exposure to the performance of these companies, which in turn are mainly dependent on hydrology, is very high.



## LEADERS OF DHI OWNED COMPANIES



### From Left to right

Dorji Norbu CEO DCCL, Thinley Dorji CEO BTL, Dasho Bharat Tamang CEO BPC, Karma Yonten CEO DHI, Lyonpo Om Pradhan Chairman DHI, Dasho Chhewang Rinzin CEO DGPC, Passang Tshering CEO BOB, Tandin Jamso CEO Drukair, Gem Tshering CEO NRDCL.

## PERFORMANCE SUMMARY OF DHI COMPANIES IN 2010

The summary and highlights of the performance of DHI companies including Bank of Bank is depicted below;

Table 5: Financial performance of DHI owned companies including BoB

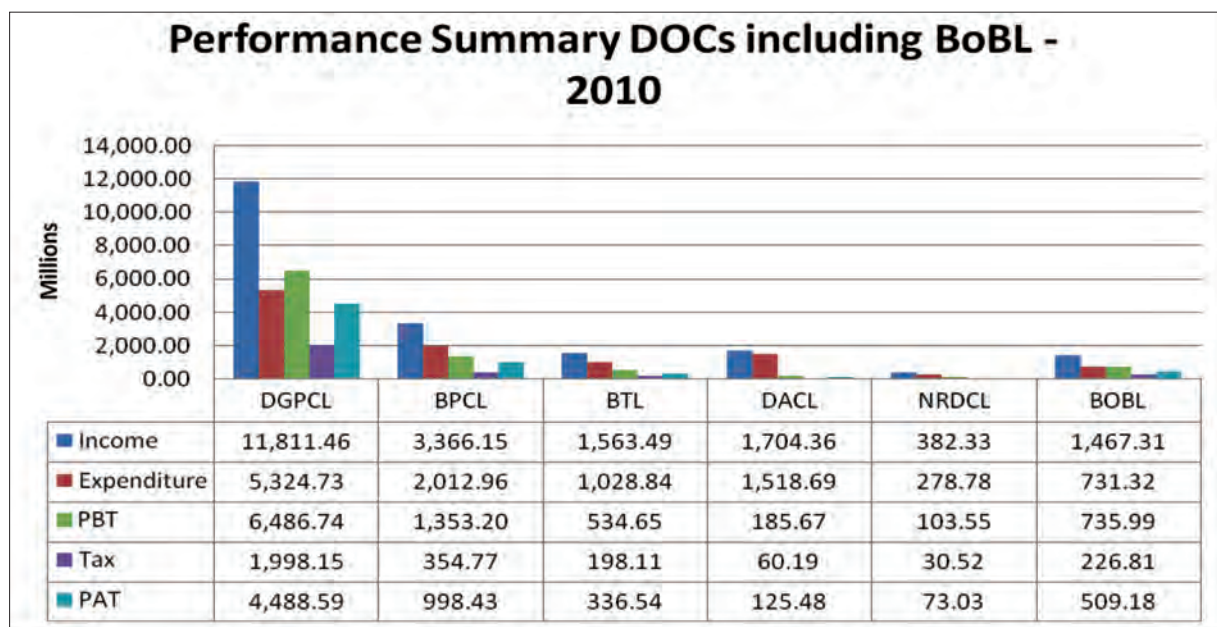
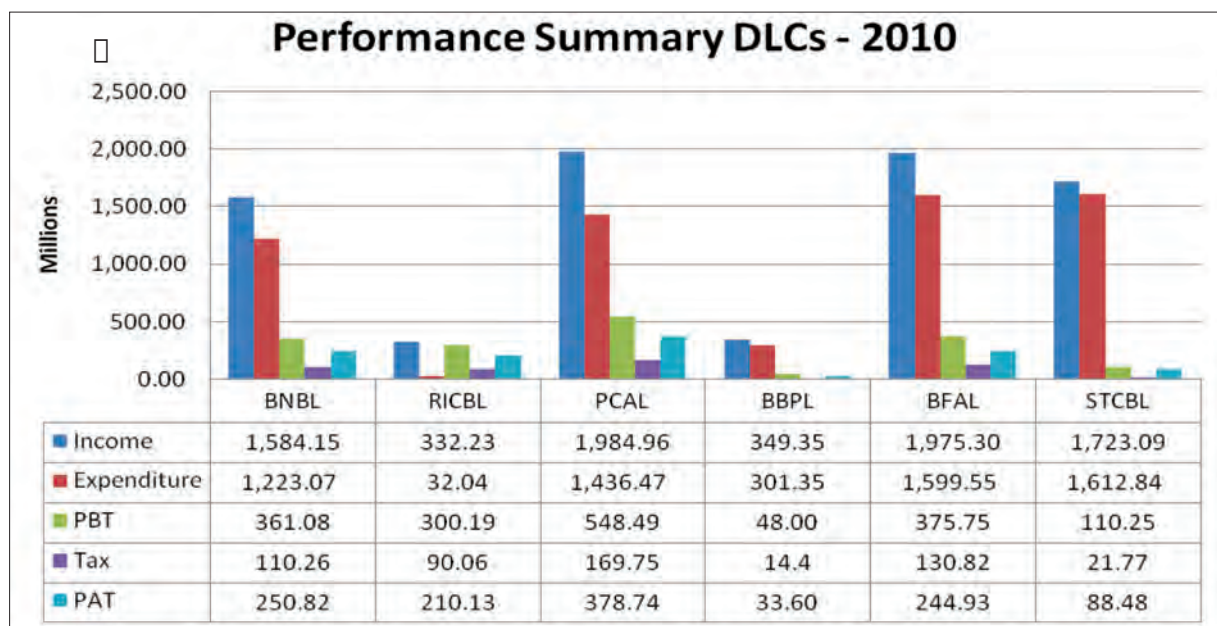


Table 6: Financial Performance of DHI linked companies in 2010



### DRUK GREEN POWER CORPORATION LIMITED



#### **i. Operational Performance**

- The energy generation of 7,304.52 GWh during the year exceeded the previous year's energy generation by 406.85 GWh, which is mainly attributed to good hydrology and to the higher plant availability factors during 2010. The actual generation also exceeded the forecasted generation by 366.14 GWh.
- The revenues of THP for year 2009 had been accounted only for 9 months (April-December 2009) in comparison to the 12 months for the year 2010. The total generation during the first quarter of 2010 for THP was 367.99 GWh.
- During the year, Druk Green imported 128.31 GWh of energy compared to 61.60 GWh in 2009, which increased the energy available for sale during the year although overall such imports have a negative impact on the profit and loss statement.
- The Pre-Feasibility Study of the 210 MW Nikachhu Hydroelectric Project, located on Nikachhu between 3 Km downstream of the Chhennabchhu confluence and the Nikachhu/Mangdechhu confluence in Trongsa Dzongkhag, was completed in June 2010. About 30% of the Feasibility level studies were also completed.
- Establish 3 Centers of excellence in DGPC

#### **ii. Financial Performance**

Revenue of Nu.11,811.46 million in 2010 has increased by Nu. 921.51 million compared to the previous year's revenue of Nu.10,889.85 million. Profit After Tax (PAT) of Nu. 4,488.59 million in 2010 was a decrease of Nu. 86.02 million from the previous year's profit of Nu. 4,574.61 million. The reduction of PAT was on account of the following:

- a. Reduction in the domestic energy tariff from 0.30 Chetrum to 0.13 Chetrum per KWh for royalty energy with effect from August 2010 resulting in decrease in revenue from the sale of royalty energy by Nu. 107.14 million.
- b. Increase in domestic energy demand by 213.60 GWh resulting in the revenue opportunity loss of Nu.113.60 million, which Druk Green would have earned if the energy had been exported to India.



- c. The overall expenses at THP increased by Nu. 878.68 million in 2010 over the previous year.
- d. Druk Green implemented a comprehensive Insurance Policy for all its assets starting 2010 which resulted in an increase of Nu. 63.68 million in 2010 over the previous year.

However, against the profit target of Nu. 4,157.20 million, the actual PAT was higher by Nu. 331.39 million mainly due to the increase in revenues as a result of better energy generation.

### **iii. Investments**

- The Feasibility Study of the Tsibjalumchhu Diversion Scheme to the THP Dam was initiated and completed in 2010. In view of the high returns on investment as confirmed by the Feasibility Study and to provide domestic energy security, Druk Green plans to further conduct detailed study of the design and engineering of the project and initiate implementation processes during 2011.
- As of 31st December 2010, Druk Green has injected Nu. 921.45 million for the 59% equity holding in Dagachhu Hydro Power Corporation Limited (DHPC). The amount represents Nu. 482.03 called up and paid up of Nu. 1,000 per share for the 1,911,600 shares held by Druk Green.

### **iv. Corporate Governance**

- During 2010, a number of important Plans, Strategies, and Manuals were adopted and are being implemented. Transparent systems and controls are in place. The fact that there are no major audit issues pending with the Royal Audit Authority and no audit qualifications in the Audited Accounts for 2010 is reflective of the management systems in place.
- Druk Green has also implemented the Employee Appraisal System and the Performance Linked Incentive Schemes, which have had far reaching impact on the efficient delivery of services by Druk Green.
- Initiated implementation the Enterprise Resource Planning System (ERP) SAP in all Plants.

### BHUTAN POWER CORPORATION LIMITED

#### **i. Operational Performance**

- Total energy sold increased to 1,570.77GWh from 1,334.15GWh in 2009
- Energy purchased increased to 1,656.70MU from 1,414.44GWh in 2009 check units
- SAIFI (interruptions per customer per year) increased to 2.50 compared to 2.45 in 2009.
- SAIDI (hours of interruption per customer per year) dropped to 4.62 from 5.18 in 2009.
- A total of 11,868 households have been electrified under ADB JICA RE project and 994 rural households have been electrified under the RE fill-in scheme under BPC funding.
- Introduced an online bill payment service.
- No fatalities of BPC employees.



#### **ii. Financial Performance**

The total income increased to Nu. 3,366.15 million from 2,899.49 million in 2009, an increase of 16%. The profit after tax increased to Nu. 998.43 million from Nu. 732.44 million in 2009, an increase of 36.30%.

#### **iii. Investments**

10% of contract value of Punatsangchu project

40% of contract value of East West line

60% of contract on Replacement of ground wire with OPGW on the Phuentsholing-Thimphu 220 kV line. Awarded the ADSS project contract for gewog connectivity.

#### **iv. Corporate Governance**

- The customer satisfaction survey showed the customer satisfaction index had increased to 96.17% 2010 compared to 93.53% in 2009.
- Successfully reviewed and amended the BPC Service Rule.
- Enterprise Resource Planning System (ERP)-SAP introduced.

### DRUKAIR CORPORATION LIMITED



#### i. **Operational Performance**

- Contributed to the success of SAARC Summit in Thimphu.
- Operated 2,622 flights (A319 – 1970 and ATR – 652) compared to 2,165 flights in 2009, an increase of 457 flights.
- 132,615 revenue passengers in 2010 compared to 118,084 revenue passengers in 2009, an increase of 14,531 passengers.
- Earned passenger revenue of Nu. 1,387.20 million in 2010 compared to 1,200.70 million in 2009, an increase of Nu. 186.50 million.
- Earned cargo revenue of Nu. 46.60 million in 2010 compared to 40.10 million in 2009, an increase of Nu. 6.50 million.
- Established historical benchmarks for RASK and CASK.
- Successfully completed migration to web-based financial accounting connecting all stations.
- Developed a pricing strategy for financial sustenance.
- Developed a strategy to be a Centre of Excellence in customer services and marketing.
- Online booking facilities started for foreigners.

#### ii. **Financial Performance**

The total revenue increased to Nu. 1,704.36 million from Nu. 1,531.75 million in 2009, an increase of 11.27%. However, the profit after tax dropped to Nu. 125.48 million compared to Nu. 160.49 million in 2009. The higher profit in 2009 in spite of higher revenue in 2010 can be attributed to the substantial savings in fuel cost in 2009.

#### iii. **Investments**

- Launched new route to Guwahati.
- Secured Domestic Air services bid in 2010 towards which major investments were initiated.
- Conducted feasibility studies of Singapore and Hongkong

#### iv. **Corporate governance**

- Introduced Performance Based Incentive System.
- Proactive in media management and in creating awareness of Druk Air issues.
- Conducted first round of training for Front Desk staff focusing on customer service.
- Conducted customer satisfaction survey and obtained 80%

### NATURAL RESOURCE DEVELOPMENT CORPORATION LIMITED



#### i. Operational Performance

- Produced and disposed 1.91 million cft of timber in 2010 compared to 1.97 million cft in 2009, a decrease of 59,000 cft. Timber production target is subject to the Annual Allowable Cut approved by the Department of Forest. Hence increase/decrease is not within the purview of NRDCL.
- Sold 82,110 truckloads of sand and stone in 2010 compared to 59,364 truckloads in 2009, an increase of 22,746 truckloads.
- Sold 16,441 m<sup>3</sup> of woodchips compared to 21,539 m<sup>3</sup> in 2009, a decrease of 5,098 m<sup>3</sup>. Woodchip is a byproduct of timber and hence the volume of woodchip depends on the residual quantity produced through production of prime logs.
- Sold 461,662 kgs of briquettes compared to 514,815 kgs in 2009, a decrease of 53,153 kgs.
- Constructed 23.22 km of forest roads
- Carried out plantation covering 56.52 hectares and produced 160,824 seedlings compared to 66 hectares and 208,175 seedlings, a decrease of 9.48 hectares and 47,351 seedlings.

#### ii. Financial Performance

The total income for 2010 rose to Nu. 382.33 million from Nu. 313.79 million in 2009, an increase of 21.84%. The profit after tax rose to Nu. 73.03 million from Nu. 41.15 million in 2009, an increase of 77.47%. Increase in profit is attributed to the following:

- a) Increase in the average auction price of timber in the month of September, October and November, 2010
- b) Major increase in production and disposal of sand and stone.
- c) Increase in woodchips supply.
- d) Cost savings through multi tasking and cost sharing

#### iii. Investments

- In 2010, NRDCL completed the construction of Sha Division Office, store and caretaker's house at Jakar Division.
- Financial feasibility for six crushing units and ten stone quarries were completed.
- Strategy report for prioritization of stone quarries and locations for setting crushing plants in different locations has been completed.

#### iv. Corporate Governance

- Customer satisfaction survey was conducted and level of satisfaction was found to be 86%.
- Updated the five year investment plan after incorporating the financial sources for crushing plants/stone quarries



## BHUTAN TELECOM LIMITED

### **i. Operational Performance**

- Mobile subscriber base increased by 35.90% to 298,099 from 219,193 in 2009. 5 new IPVPN customers.
- Acquired 9,798 new IT customers.
- Replaced/Refurbished Satellite Earth Station.
- Launched convergent billing.
- Provided innovative VAS to the customers such as Twitter, Phone Book Backup, Location Based Service and SMS Feedback System.

### **ii. Financial Performance**

The total income for 2010 increased to Nu. 1,563.49 million from Nu. 1,314.33 million in 2009, an increase of 18.96%. The profit after tax also increased to Nu. 336.54 million from Nu. 212.99 million in 2009, an increase of 58.01%. The Increase in Income is mainly due to below reasons:

1. Mobile network expansion in the rural regions which resulted in increase of subscribers and usage.
2. Increase in revenue from IN and VAS services and Data card services of Mobile
3. Broadband coverage expansion which resulted in increase subscribers and revenue

### **iii. Investments**

- Upgraded the Internet backbone from 110 Mbps to 310 Mbps.
- Expanded broadband connectivity to 39 locations from 27 locations in 2009.
- Completed the rural GSM Project where mobile connectivity to 27 gewogs was achieved.

### **iv. Corporate Governance**

- Provided ICT facilities to 3 remote schools.
- Performance Management system in place and all the employees are evaluated based on this performance management system.
- The customer satisfaction survey carried out by consultant hired by DHI and satisfaction rating was 72.60% a decrease from 77% in 2009.

### BANK OF BHUTAN LIMITED



#### **i. Operational Performance**

- Completed the CBS roll out in all 27 branches on February 23, 2011
- Online electricity bill payments with BPC launched.
- Principal membership with MasterCard & Visa obtained in May and MasterCard ATM.
- Point Of Sale acquiring launched on 11th Dec though it was operational from 4th Nov 2010. Only 4 machines were installed in 2010 for monitoring the transactions as instructed by our HBL consultant and MasterCard and VISA project managers.
- Started issuance of Visa Prepaid Card in partnership with Axis Bank.
- 15 ATMs have already been installed at various locations while installation of another 20 machines is under progress.

#### **ii. Financial Performance**

The total income for 2010 increased to Nu. 1,467.31 million compared to Nu. 1,400.59 million in 2009, an increase of 4.67%. The profit after tax also increased to Nu. 509.18 million from Nu. 471.60 million in 2009, an increase of 7.97%.

#### **iii. Investments**

- Nganglam branch was opened in February 2010.

#### **iv. Corporate Governance**

- Reduction in waiting time for each service for which token system was introduced in Thimphu & P/ling branch.
- Extensive train the trainer program held at all zones for customer care.

### DHI INVESTMENTS

#### Ongoing Projects

##### **Dungsam Cement Project:**

One major achievement was the financial closure of the Nu. 4.10 billion loan for Dungsam Cement Corporation Limited through a consortium of Bhutanese (Nu 2,100 million) and Indian financial institutions (Nu 2,000 million). All the major contract packages including main machinery, civil, mechanical and electrical have been awarded and significant progress achieved in implementation, despite the project being severely hampered by its remote location and inadequate connectivity. Due to acute labour mobilisation and retention problems, early and heavy monsoon rains, and extra excavation works required at the project site the project is expected to be delayed by about 3-6 months.



##### **Dungsam Polymers Limited**

A new wholly owned DHI subsidiary company, Dungsam Polymers Limited was incorporated in August 2010 to manufacture and supply polypropylene (PP) bags to Dungsam Cement Corporation Limited.

##### **IT Park:**

The construction works of the IT Park is progressing well and every effort is being made to ensure that the project will be completed on time. Works are also going on to attract and secure anchor tenants for the IT Park.

##### **SAP-ERP Project**

The SAP-ERP ECC 6.0 includes the basic R/3 modules consisting of human resource and payroll, finance and controlling, material management and procurement, employee self service, project system, plant maintenance (for DGPC), customer relation management (for BPC). Apart from these modules, business intelligence, strategy management and business planning and consolidation will also be implemented. Wipro Ltd, Bangalore is the implementation partner. Project started in DHI and DGPC in May 2010 as Project e-Green and BPC in June 2010 as Project iLogmey.



>> DHI -SAP & WIPRO core team members

##### **Dagachu Hydropower Project:**

Construction works on the Dagachu Hydropower Project is progressing well. However due to poor geological conditions and



disruptions caused by cyclone Aila the project is expected to be complete in 2013. 34% of tunneling work, 100% of open excavation work and 11% of concrete structure works have been completed. Dagachu Project has been registered as the first cross-border initiative under the Clean Development Mechanism (CDM) in the World. The Dagachu Project is also the Government's first Public Private Partnership project undertaken with the assistance of the ADB. It is expected to generate 124 MW and provide employment for about 115 people.

## NEW PROJECTS UNDER CONSIDERATION

### Education City:

Work on the Education City is progressing well. In August 2010, DHI formed a Project Advisory Group (PAG), composed of both national and international experts in the areas of cross-border education and related infrastructure, to advise DHI on strategic issues and to provide high-level direction. Ernst and Young (E&Y, India) an international consultancy firm was awarded the work to carry out a series of high-level studies to formulate a concept, an economic case and operating plan for the Education City. The project will be developed on a PPP model on a 1,000 acre located between Paro and Thimphu. DHI has also recruited a full time team headed by a Project Director for the Education City Project. DHI marketed the project in the PAN-IIT Conclave and the FICCI Higher Education Summit in Delhi.

### Amochhu Land Reclamation:

Work on the Amochu land reclamation project is underway. ILF&S (Infrastructure Finance & Leasing Services) was awarded the consultancy work through a competitive bidding process. Based on the business model study done by ILFS, private investors will be sought to develop the project. The project was also handed over to the full time team recruited

for the Education City Project with the objective of consolidating the infrastructure projects to be developed under PPP model and forming a Special purpose vehicle (SPV) to manage these projects. This would also result in building capacity in developing and managing PPP and infrastructure related projects.

## DHI INFRA

In order to manage and take forward the Education City and the Amochhu Land Reclamation Project, DHI's proposal to create a new company called DHI Infra was approved. DHI Infra will also be spearheading the development of the Special Economic Zones besides the Education city and Amochu Land Reclamation Projects. All of these projects are to be put under the umbrella of DHI Infra as they all are to be executed according to the PPP model.

### Other Projects

DHI has also been looking at new projects like bottled water, data centers, development of Special Economic Zones and the Convention Center. To finance these projects, DHI is also exploring various fund mobilizing options both in the domestic and international markets. DHI is also evaluating the Feasibility of Medical Centers in Bhutan.

## OTHER INITIATIVES AT DHI

### Providing feedback on Government policies

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

- Draft Mineral Development Policy
- FDI policy 2010
- Financial Services Act

### CXO-Level Meetings in DHI and DOCS

CXO level meetings were initiated in 2010 and endeavors to bring together heads of functional areas such as IT, HR, legal, finance, procurement marketing/customer service of DHI and DOCS and



BOBL to create peer groups for informal learning, exploiting synergies and keeping abreast of latest developments in the identified areas. Each functional group meets at least twice a year and the lead for each group is taken up by a particular company. For example for legal group the lead is DHI, for IT it is BTL.

### 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, June and August 2010.

### New York Convention

Proposed to the Ministry of Foreign Affairs the need to ratify the New York Convention for the purpose of convenient dispute resolution.

### Private Sector Development Initiatives

Three initiatives were undertaken towards supporting private sector development besides those mentioned under the thrust areas. They were as follows:

- Supported BCCI in organizing trade fairs in Thimphu and Gelephu
- Coordinated Professor Jenik Radon's talk to the BCCI and
- Supported the Happy Valley Solar Project



>> Happy Valley Solar Project

## CORPORATE GOVERNANCE

### Grant from World Bank

Completed preparatory works for securing USD 500,000 as grant from the World Bank for improving corporate governance within the DHI group of companies.

### Service Rules Guidelines

In order to harmonise the major human resource policies across all DHI companies, DHI developed and implemented a Services Rules Guideline in the DOCS.

### Performance Management System

A performance management system (PMS) has been developed and is being implemented in all DHI owned companies. 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.

Performance based incentive schemes implemented in all DOCS and BOBL.

### Performance framework for CEOs of DOCS and DCCS

A performance framework for CEOs of DOCS and DCCS was developed for the Boards to continuously evaluate the work of the CEO and formally appraise his performance at least once a year.

### Corporate Social Responsibility (CSR)

As part of CSR, DHI has made contributions to agencies deserving support in diverse areas that reflects the ethos of GNH such as innovation in education, preservation of environment, knowledge sharing in the public interest and promotion of culture.

Towards end of 2010, DHI initiated formulation of a framework on Corporate Responsibility on Happiness (CRH). The CRH Framework once developed will be consulted with the DOCS to further develop policies that are coherent to the competencies of each company and address social responsibilities coherently.

### DHI PLANS FOR THE COMING YEAR 2011

Performance Targets			Deadline
1	DHI Infra	Develop concept, float RFP for investor, and initiate PPP process for the Amochhu Land Reclamation Project; urge resolution of cross-border issues through the government	December
2		Develop concept, float RFP for investor, and initiate PPP process for the Education City Project	December
3		Ensure implementation of the MoU signed with MoEA on development of SEZs; urge finalization of land issues and SEZ policy with MoEA	As per MoU December
4	BPC	ICT connectivity infrastructure: a. Complete the 383km OPGW line b. Complete the 645km ADSS c. Complete the 41km Tsirang-Gelephu OPGW by June d. Sign project implementation agreement with the RGoB by end of May subject to outstanding issues being resolved e. Sign SLA with DITT by end of June subject to outstanding issues being resolved	December
5		Rural electrification - connect at least 4,066 households and initiate award of contracts for JICA (6061 households) and ARE (8959 households) subject to availability of funds	December
6	BT	Set up second international gateway subject to BPC completing the Gelephu OPGW project and Indian OPGW fiber reaching Gelephu by June	In time for TTPL
7		Complete the installation and commissioning of mobile services in 109 rural villages in 8 dzongkhags, including the 3 remaining gewogs, through USF and BT funding	December
8	DCL	Prepare feasibility report for expansion of Drukair services to Mumbai and Singapore	October
9		Integrate Internet booking engine (IBE) to other portals	April
10		Set up call center services and develop standard operating procedures (SOPs) for customer grievance redressal	December
11		Based on customer satisfaction survey 2010, improve customer services in at least three of the weakest areas	December
12		Implement Revenue Booking Designator (RBD) as part of pricing strategy	June
13		Commence domestic air services when the infrastructure is ready	
14		Explore the possibility of direct online ticket purchase in Ngultrums for nationals	December
15	NRDCL	Subject to the actual quantity approved by the DoFPS, produce 2.1 million cft of timber and dispose the same quantity through allotment or as per the mechanism approved by NRPC	December
16		Subject to the actual area approved by the DoFPS, complete 50 ha of scientific thinning	December

Performance Targets			Deadline
17	NRDCL	Carryout at least 53.24 ha of plantation	December
18		Subject to public requirement, produce and market 55,850 truckloads of sand and 35,200 truckloads of stone/ boulder at the approved rates	December
19		Subject to stakeholder clearances, install and operationalize six crushing plants (four by end of 2011 and two by May 2012)	December May 2012
20		Achieve the commitments made during the local government MTR	
21	BoB	Audit the core banking system so that it is compliant with the RMA rules and regulations	December
22	DHI	Carryout 3 new pre-feasibility studies	December
23		Implement at least 1 new project	December
24		Carryout an economic opportunity scanning of eastern Bhutan	December
25		Set up an incubation center	December
26		Start 1 project in partnership with the private sector	December
27		Carry forward the Water Project with Carpenters & Co.	December
28		Meet dividend remittance target of Nu 1500 million and 90% of PAT of DGPC-THPA (with 70% as dividend and 30% as tax) in agreed upon monthly tranches to MoF	December

### ACKNOWLEDGEMENTS

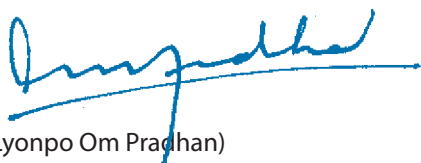
I wish to acknowledge with thanks the continuing guidance and support of the Chairpersons, Boards, management and employees of the DHI companies as well as the assistance and co-operation of the Ministry of Finance and the Ministry of Economic Affairs and to other Government agencies and Departments for their continued assistance.

Since the establishment of DHI in November 2007, three successful years have passed and the first DHI Board's term has concluded. I wish to thank Dasho Sonam Tshering, Dasho Lam Dorji, Dasho Karma Tshiteem, Mr Karma Lotey and Mr Kuenzang Dechen for their valuable contributions during these crucial years of DHI's inception. Your guidance has enabled DHI to achieve 98.88% of the targets that were set for 2010. DHI's achievement is the culmination of the successes in its subsidiary companies. Thus, I would like to thank the Board, management and employees of all the companies for contributing towards these commendable results. On this note, I would to once again quote from His Majesty's recent Kasho dated 28 September 2010: "Druk Holding and Investments (DHI) has performed admirably since its establishment in 2007. It has built a strong foundation for effectively fulfilling the goals of holding and managing the commercial investments of the Royal Government for the long-term benefit of the Bhutanese people."

In conclusion, I continue to urge the Board to kindly provide the input and support required to further grow DHI into the organization envisioned by His Majesty to strengthen our country'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



(Lyonpo Om Pradhan)

Chairman

Druk Holding & Investments



# Auditor's Report

To

The Members of Druk Holding & Investments Ltd.

Thimphu

Bhutan

1. We have audited the attached Balance Sheet of **Druk Holding & Investments Limited** (the Company), as at 31<sup>st</sup> December 2010 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:

*The Company has changed the Accounting Policy on recognition of Dividend Income in the year 2010 (Refer note no.7 of Schedule 17). The above change is not in line with the Generally Accepted Accounting Principles on Recognition of Dividend Income. Under the revised accounting policy the Company has accounted for Income from Investments as Nu.4,458,684,369/- in the year 2010 which should have been Nu.5,095,916,177/- under the earlier accounting policy.*

*This change in the Accounting Policy has resulted in understatement of profit for the year by Nu.637,231,808/- having consequential impact on profit, liability for corporate income tax and retained earnings as at the yearend.*

6. In our opinion and to the best of our information and according to the explanations given to us, 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 31<sup>st</sup> December 2010.
  - 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: Kolkata

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

Date: May 2011

Chartered Accountants.

  
**Sudip K. Mukherji**

Partner





## DRUK HOLDING & INVESTMENTS LTD.

Thimphu, Bhutan

(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 not availed any loan from any companies, firms or other parties and/or from the companies under the same management.
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 adequate.
8. As informed to us, there is a reasonable system of obtaining competitive bidding/quotations from the party 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 ended 31.12.2010. 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 at the last day of the financial year 31.12.2010.
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.
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 to the Articles of Incorporation of the Company.
16. According to the information and explanations given to us, the Company has a system of approval of the Board for all capital investment decision and investments in new projects.
17. The Company has established an effective budgetary control system.
18. The details of managerial remuneration have been indicated in the Notes to the Accounts (Note No.10, 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. 4 & 5 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.

The areas which are not relevant for this Company have not been commented upon in this report.



### **In Case of Finance and Investment Company:**

1. Adequate documents and records are maintained for loans and advances 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 assets including loans and advances is not applicable for the Company for the financial year 2010.
7. Recognition of interest income in respect of non-performing assets is not applicable for the Company for the financial year 2010.
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 2010.
10. Taking over of assets for default of loans/advances is not applicable for the Company for the financial year 2010.
11. Rephasing/rescheduling of loans is not applicable for the Company for the financial year 2010.
12. Granting of additional loans to those who have defaulted payments of previous advances is not applicable for the Company for the financial year 2010.

### **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 31<sup>st</sup> December 2010 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 - B.

### **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 2010.

Place: Kolkata

Date :XX May 2011.

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

*Chartered Accountants.*

  
**Sudip K. Mukherji**

Partner





### DRUK HOLDING & INVESTMENTS LTD.

Thimphu, Bhutan

#### Appendix A: Ratio Analysis

Ratios	2010	2009
Earnings per share (Nu.) (Profit After Tax / No. of shares issued)	6.99	7.99
Net Profit (%) (Net Profit / Turnover * 100)	69.29	69.39
Return on Assets (%) (Net Profit / Total Assets * 100)	6.10	6.90
Return on Equity (%) (Net Profit / Owners Equity * 100)	6.80	7.80
Dividend Coverage Ratio (Net Profit available to equity shareholders / Dividend paid to Equity shareholders)	1.04	1.24
Dividend Payout Ratio (%) (Dividend per share / Earnings per share * 100)	96.54	80.96
Current Ratio (Current Assets / Current Liabilities)	1.13	1.15

  
  
 (Sudip K. Mukherji)  
 Partner  
 For and on behalf of S.N. Mukherji & Co.  
 Chartered Accountants

  
 (Lyonpo Om Pradhan)  
 Chairman

Date:- 25/5/11  
 Place:- Kolkata

  
 (Karma Dorji)  
 Head, Finance and Accounts

  
 (Karma Yonten)  
 Chief Executive Officer

  
 (Lam Dorji)  
 Director

### BALANCE SHEET AS AT 31ST DECEMBER 2010

Particulars		Schedule	2010	[Figures in Ngultrum]	
				2009 (Restated)	As at 1st January 2009 (Restated)
SOURCES OF FUNDS					
Shareholders' Funds					
	Share Capital	1	44,268,248,600	44,268,248,600	19,513,122,600
	Reserves and Surplus	2	985,989,622	878,977,921	205,469,793
			45,254,238,222	45,147,226,521	19,718,592,393
Loan Funds					
	Unsecured Loans	3	-	160,000,000	-
Total			45,254,238,222	45,307,226,521	19,718,592,393
APPLICATION OF FUNDS					
Fixed Assets		4			
	Gross Block		14,174,207	10,594,707	9,293,597
	Less: Depreciation		3,962,662	2,620,065	1,272,966
Net Block			10,211,545	7,974,642	8,020,631
Investments		5	44,484,026,100	44,441,222,100	16,450,237,600
Current Assets, Loans and Advances					
	Inventories		245,215	110,608	-
	Cash and Bank Balances	6	638,087,830	181,916,496	56,396,493
	Other Current Assets	7	1,366,481,098	1,235,039,640	3,299,343,000
	Loans and Advances	8	4,472,223,312	5,100,166,731	5,356,959,189
			6,477,037,455	6,517,233,474	8,712,698,683
Less: Current Liabilities and Provisions					
	Current Liabilities	9	1,399,116,397	1,268,682,812	1,216,882,825
	Provisions	10	4,317,920,480	4,390,520,883	4,235,481,696
			5,717,036,877	5,659,203,695	5,452,364,520
Net Current Assets			760,000,577	858,029,780	3,260,334,162
Total			45,254,238,222	45,307,226,521	19,718,592,393



# Druk Holding & Investments

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Significant Accounting Policies 16

Notes to the Accounts 17

This is the Balance Sheet referred  
to in our report of even date

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:- 25/5/11  
Place:- Kolkata



(Karma Dorji)  
Head, Finance and Accounts



(Karma Yonten)  
Chief Executive Officer



(Lam Dorji)  
Director

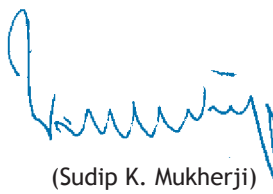
### PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2010

Particulars	Schedule	[Figures in Ngultrums]		Figures in Ngultrums
		2010	2009 (Restated)	As at 1st January 2009 Restated
<b>Income</b>				
Income from Investments	11	4,458,684,369	5,095,916,177	4,476,745,731
Other Income	12	10,006,138	2,637,121	31,679,697
		<b>4,468,690,507</b>	<b>5,098,553,297</b>	<b>4,508,425,427</b>
<b>Expenditure</b>				
Employees' Remuneration and Benefits	13	24,506,949	19,029,706	12,867,076
Financial Expenses	14	7,180,274	9,021,370	-
Other Expenses	15	12,245,951	15,054,753	53,753,593
Depreciation		1,342,597	1,347,099	1,272,966
		<b>45,275,770</b>	<b>44,452,929</b>	<b>67,893,635</b>
Profit Before Tax		4,423,414,737	5,054,100,368	4,440,531,793
Provision for Tax		1,327,034,665	1,516,240,627	1,332,159,538
Profit After Tax		<b>3,096,380,072</b>	<b>3,537,859,742</b>	<b>3,108,372,255</b>
<b>Appropriation</b>				
Proposed Dividend		2,989,368,371	2,864,351,613	2,902,902,462
Transfer to General Reserve		107,011,701	673,508,128	205,469,793
Significant Accounting Policies	16			
Notes to the Accounts	17			

This is the Profit and Loss Account referred to in our report of even date

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:- 25/5/11  
 Place:- Kolkata

  
 (Karma Dorji)  
 Head, Finance and Accounts

  
 (Karma Yonten)  
 Chief Executive Officer

  
 (Lam Dorji)  
 Director



### SCHEDULES FORMING PART OF THE ACCOUNTS

#### Schedule 1: Share Capital

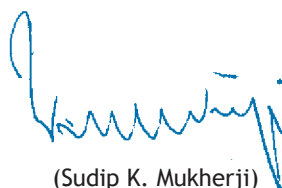
Particulars	[Figures in Ngultrum]		Figures in Ngultrum
	2010	2009 (Restated)	As at 1st January 2009 (Restated)
<b>Authorised Share Capital</b>			
5,000,000,000 equity shares of Nu 100/- each	500,000,000,000	100,000,000,000	100,000,000,000
<b>Issued, Subscribed &amp; Fully Paid-Up Share Capital</b>			
442,682,486 equity shares of Nu 100/- each	44,268,248,600	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	2010	2009 (Restated)	As at 1st January 2009 (Restated)
<b>General Reserve</b>			
As per last accounts	878,977,921	205,469,793	-
Transfer from Profit & Loss Account	107,011,701	673,508,128	205,469,793
	<b>985,989,622</b>	<b>878,977,921</b>	<b>205,469,793</b>

#### Schedule 3 : Loan Funds

Particulars	2010	2009 (Restated)	As at 1st January 2009 (Restated)
<b>Unsecured Loans</b>			
Loan from Druk Green Power Corporation Ltd.	-	160,000,000	-
	-	<b>160,000,000</b>	-

  
 (Sudip K. Mukherji)  
 Partner  
 For and on behalf of S.N. Mukherji & Co.  
 Chartered Accountants



  
 (Lyonpo Om Pradhan)  
 Chairman

Date:- 25/5/11  
 Place:- Kolkata

  
 (Karma Dorji)  
 Head, Finance and Accounts

  
 (Karma Yonten)  
 Chief Executive Officer

  
 (Lam Dorji)  
 Director

**SCHEDULES FORMING PART OF THE ACCOUNTS**

**Schedule 4 : Fixed Assets**

Particulars	Dep. Rate	Gross Block			Depreciation			Net Block	
		Opening 01.01.10 Nu.	Additions/ Adjust. Nu.	Deletion/ Adjust. Nu.	As at 31.12.10 Nu.	Opening 01.01.10 Nu.	Additions/ Adjust. Nu.	As at 31.12.10 Nu.	As at 31.12.09 Nu.
Furniture & Fixtures	15%	1,356,518	164,585	-	1,521,103	305,748	175,370	481,118	1,039,986
Electrical Equipment	15%	157,692	27,200	-	184,892	77,598	17,291	94,889	80,094
Data Processing Equipment	15%	2,433,255	733,087	-	3,166,342	495,035	393,610	888,646	1,938,220
Office Equipment	15%	477,411	141,720	-	619,131	169,136	60,249	229,385	308,275
Motor Vehicles	15%	5,836,777	-	-	5,836,777	1,434,815	660,294	2,095,109	4,401,962
Computer Software	15%	62,000	-	-	62,000	9,322	7,902	17,223	52,678
Miscellaneous Assets	15%	271,053	6,500	-	277,553	128,411	27,881	156,292	142,642
<b>Total Fixed Assets</b>		<b>10,594,707</b>	<b>1,073,092</b>	<b>-</b>	<b>11,667,798</b>	<b>2,620,065</b>	<b>1,342,597</b>	<b>3,962,662</b>	<b>7,705,137</b>
Capital W.I.P		-	2,506,408	-	2,506,408	-	-	-	2,506,408
<b>Gross Total</b>		<b>10,594,707</b>	<b>3,579,500</b>	<b>-</b>	<b>14,174,207</b>	<b>2,620,065</b>	<b>1,342,597</b>	<b>3,962,662</b>	<b>10,211,545</b>
<b>Previous Year's Total</b>		<b>9,293,597</b>	<b>1,301,110</b>	<b>-</b>	<b>10,594,707</b>	<b>1,272,966</b>	<b>1,347,099</b>	<b>2,620,065</b>	<b>7,974,642</b>



### SCHEDULES FORMING PART OF THE ACCOUNTS

#### Schedule 5 : Investments (Long Term - At Cost)

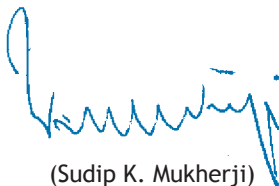
			[Figures in Ngultrum]		Figures in Ngultrum	
Particulars	No. of shares	2010	No. of shares	2009	No. of shares	As at 31st December 2008
Quoted - Equity Shares fully paid up						
Bhutan Board Products Ltd.	668,334	66,833,400	668,334	66,833,400	668,334	66,833,400
Bhutan Ferro Alloys Ltd.	385,946	38,594,600	385,946	38,594,600	385,946	38,594,600
Bhutan National Bank Ltd.	485,952	24,297,600	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	1,371,074	91,404,900
Royal Insurance Corporation of Bhutan Ltd.	441,950	17,678,000	441,950	17,678,000	176,780	17,678,000
SUBSIDIARIES						
Quoted - Equity Shares fully paid up						
State Trading Corporation of Bhutan Ltd.	204,000	10,200,000	102,000	10,200,000	102,000	10,200,000
Unquoted - Equity Shares fully paid up						
Bank of Bhutan Ltd.*	320,000	240,000,000	320,000	240,000,000	160,000	80,000,000
Bhutan Telecom Ltd.*	854,082	854,082,000	854,082	854,082,000	854,082	854,082,000
Druk Green Power Corpora- tion Ltd.*	30,508,291	30,508,291,000	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	22,252,111	2,225,211,100
Natural Resources Develop- ment Corporation Ltd.	300,000	30,000,000	300,000	30,000,000	300,000	30,000,000
Bhutan Power Corporation Ltd.*	7,258,771	7,258,771,000	7,258,771	7,258,771,000	5,886,485	5,886,485,000
Dungsam Cement Corpora- tion Ltd.	30,709,843	3,070,984,300	30,709,843	3,070,984,300	-	-
Dungsam Polymers Ltd.	400,000	40,000,000	-	-	-	-



JOINT VENTURE					
<b>Unquoted - Equity Shares fully paid up</b>					
Thimphu Techpark Private Ltd.	76,782	7,678,200	48,742	4,874,200	-
		<b>44,484,026,100</b>		<b>44,441,222,100</b>	<b>16,450,237,600</b>
Aggregate value of Quoted Investments		249,008,500		249,008,500	249,008,500
Aggregate value of Unquoted Investments		44,235,017,600		44,192,213,600	16,201,229,100
		<b>44,484,026,100</b>		<b>44,441,222,100</b>	<b>16,450,237,600</b>
Market Value of Quoted Investments		1,775,279,800		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 which have been made other than for trading pupose.

  
 (Sudip K. Mukherji)  
 Partner  
 For and on behalf of S.N. Mukherji & Co.  
 Chartered Accountants



  
 (Lyonpo Om Pradhan)  
 Chairman

Date:- 25/5/11  
 Place:- Kolkata

  
 (Karma Dorji)  
 Head, Finance and Accounts

  
 (Karma Yonten)  
 Chief Executive Officer

  
 (Lam Dorji)  
 Director

### SCHEDULES FORMING PART OF THE ACCOUNTS

#### Schedule 6 : Cash and Bank Balances

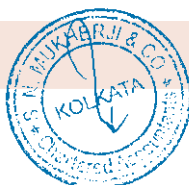
Particulars	[Figures in Ngultrum]		
	2010	2009 (Restated)	As at 1st January 2009 (Restated)
Bank of Bhutan Ltd. - current accounts	13,867,878	3,472,748	55,500,520
Bhutan National Bank Ltd - current account	1,222,788	187,622	895,973
Bhutan National Bank Ltd - fixed deposits	622,950,000	178,256,126	-
Cash and cheques on hand	47,165	-	-
	638,087,830	181,916,496	56,396,493

#### Schedule 7 : Other Current Assets

Particulars	2010	2009 (Restated)	As at 1st January 2009 (Restated)
Advance remittance to Ministry of Finance	1,359,936,000	1,232,940,000	3,299,343,000
Accrued interest on fixed deposits	6,198,879	2,068,257	-
Tax deducted as source on fixed deposits	312,947	20,809	-
Library books	33,272	10,575	-
	1,366,481,098	1,235,039,640	3,299,343,000

#### Schedule 8 : Loans & Advances

Particulars	2010	2009 (Restated)	As at 1st January 2009 (Restated)
Advance to Subsidiary	-	-	500,000
Advance recoverable in cash or in kind or for value to be received			
Considered good:			
- Advance against investments (Dungsam Cement Project Authority)	-	-	3,070,984,230
- Staff advances	79,300	-	400,000
- Advance to SBI Capital Market Ltd.	8,143,288	1,837,766	-
- Dividend Receivable	4,458,684,369	5,095,916,177	2,285,044,959
- Other Account Receivable	84,832	1,144,924	-
- Advance for ERP Software	-	1,237,863	-
- Security deposits	30,000	30,000	30,000
- Advance to Suppliers	1,336,199	-	-
- Advance for ERP-SAP Connectivity	236,686	-	-
- ERP-SAP Implementation Expenses	35,751	-	-
- Project Under Construction	3,592,887	-	-
	4,472,223,312	5,100,166,731	5,356,959,189



### SCHEDULES FORMING PART OF THE ACCOUNTS

#### Schedule 9 : Current Liabilities

Particulars	[Figures in Ngultrum]		
	2010	2009 (Restated)	As at 1st January 2009 (Restated)
Sundry Creditors	2,856,091	869,779	904,476
Other Liabilities:			
- Government of India grant for DHI	17,985,077	18,400,939	19,133,103
- Advance received from Dungsam Cement Corporation Ltd.	11,825,163	12,929,079	-
- Advance dividend received	1,359,936,000	1,232,940,000	1,194,639,190
- Employee related liability	6,384,338	3,511,143	2,111,954
- Security deposit	129,728	31,872	94,102
	<b>1,399,116,397</b>	<b>1,268,682,812</b>	<b>1,216,882,825</b>

#### Schedule 10 : Provisions

Particulars	2010	2009 (Restated)	As at 1st January 2009 (Restated)
Provision for gratuity	1,517,444	907,273	419,696
Interest payable on DGPC loan	-	9,021,370	-
Provision for corporate income tax	1,327,034,665	1,516,240,627	1,332,159,538
Provision for dividend payable	2,989,368,371	2,864,351,613	2,902,902,462
	<b>4,317,920,480</b>	<b>4,390,520,883</b>	<b>4,235,481,696</b>

#### Schedule 11 : Income from Investments

Particulars	2010	2009 (Restated)	As at 1st January 2009 (Restated)
Dividend income from subsidiaries	4,255,853,169	4,904,588,085	4,228,297,165
Dividend income from others	202,831,200	191,328,092	248,448,566
	<b>4,458,684,369</b>	<b>5,095,916,177</b>	<b>4,476,745,731</b>

#### Schedule 12 : Other Income

Particulars	2010	2009 (Restated)	As at 1st January 2009 (Restated)
Government of India grant	-	-	31,666,897
Sale of tender documents	10,900	2,100	12,800
Interest income on fixed deposits - BNBL (Gratuity Fund)	18,065	-	-
Interest income on fixed deposits - BNBL	9,955,326	2,484,433	-
Interest income on fixed deposits - BOBL	-	6,427	-
Miscellaneous income	15,278	144,160	-
Prior period adjustments	6,569	-	-
	<b>10,006,138</b>	<b>2,637,121</b>	<b>31,679,697</b>



### SCHEDULES FORMING PART OF THE ACCOUNTS

#### Schedule 13 : Employees' Remuneration and Benefits

Particulars	[Figures in Ngultrum]		Figures in Ngultrum
	2010	2009 (Restated)	As at 1st January 2009 (Restated)
Salary, wages, bonus and other allowances	19,792,125	14,358,298	10,819,240
Contribution to provident and other funds	805,425	574,596	307,071
Gratuity expenses	610,171	487,577	419,696
Staff welfare	42,331	343,299	6,056
Training - human resource development	3,256,897	3,265,936	1,315,013
	24,506,949	19,029,706	12,867,076

#### SCHEDULE 14 : FINANCIAL EXPENSES

Particulars	2010	2009 (Restated)	As at 1st January 2009 (Restated)
Interest expense on Druk Green Power Corporation Ltd. loan	7,180,274	9,021,370	-
	7,180,274	9,021,370	-

#### SCHEDULE 15 : OTHER EXPENSES

Particulars	2010	2009 (Restated)	As at 1st January 2009 (Restated)
Advertisement, printing and marketing	1,503,044	915,991	1,666,988
Audit fees and expenses	317,800	293,197	435,170
Sitting fees	807,500	640,000	1,037,500
Professional & consultancy charges	1,478,784	1,442,075	32,625,274
Donation	395,000	4,230,000	6,707,500
Electricity and water charges	152,987	118,424	100,418
Entertainment	588,937	609,146	960,956
Travelling expenses	3,529,800	3,298,903	2,840,369
Insurance	56,064	88,905	205,149
Repairs & maintenance	157,068	671,134	173,456
Rent	882,000	840,000	899,000
Stationeries	257,994	177,684	315,233
Workshops and seminars	515,362	578,375	1,821,922
Share transfer fees	-	-	2,652,069
Postage, telephone, telex, etc	901,564	749,513	1,014,797
Bank charges	101,555	100,459	55,647
Miscellaneous expenses	600,491	300,948	242,145
	12,245,951	15,054,753	53,753,593





### SCHEDULES FORMING PART OF THE ACCOUNTS

#### 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 excepting recognition of income from investments [refer para 4 (a)].

##### 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 pro rata 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 up to 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

##### a) Income from Investment:

Dividend Income is recognized as income for the year for which it is declared, provided that the dividends has been approved in the Annual General Meeting of the declaring company, and in the case of financial institutions after the dividends are approved by Royal Monetary Authority of Bhutan.

##### b) Other Income:

Other income is accounted on accrual basis.

##### 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 11<sup>th</sup> November 2007, His Majesty King JigmeKhesarNamgyelWangchuck 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 16<sup>th</sup> 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 subsequent years various projects have been handed over to the company by the Royal Government of Bhutan and the relevant share capital has been issued to the Ministry of Finance.
2. During the year, the authorized share capital has been increased from Nu. 100,000 million to Nu. 500,000 million.
3. The Company under current tax laws of the country has determined its taxation liability for the year 2010 as Nu. 1,327,034,665 /- (previous year Nu. 1,516,240,627/-) and proposes dividend for the year amounting to Nu. 2,989,368,371/- (previous year Nu. 2,864,351,613/-). 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. 1,359,936,000/- (previous year Nu. 1,232,940,000/-).
4. Fixed deposit of Nu. 2 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.
5. DHI and Assetz Property Group had entered into a joint venture to form the company ThimphuTechpark 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/-. Up to 2010 DHI has injected an equity contribution of Nu 7,678,200/- (previous year Nu. 4,874,200/-). The balance equity contribution of Nu. 12,153,225/- will be injected in the subsequent years.

6. DHI is in the process of implementation of SAP Enterprise Resource Planning System which would integrate all the standalone systems like accounting, human resource, fixed asset management system, project system, etc. During the year DHI has committed Nu. 3,536,000/- for SAP ERP implementation.
7. During the year, the Company has changed the accounting policy on recognition of Dividend Income. The dividend income for the year 2010 is recognized based on the dividend declared by various subsidiary/ associates/linked companies for the year 2010 unlike in the past years where the dividend was recognized on cash basis. This change in accounting policy has been necessitated for the following reasons:
  - i) To make the financial statements more relevant to the users of report.
  - ii) To enable DHI to remit taxes on actual basis instead of remitting in advances.

The agreement/arrangement on the above between Ministry of Finance and DHI has been reflected in the minutes of the meeting dated 2<sup>nd</sup> April, 2010.



The change in accounting policy has material impact on the financial statements of DHI and requires the following:

- i) Computation of impact of change in accounting policy to be reflected and accounted for in current year.
- ii) Restatement of financial statements as disclosed this year to ensure consistency and comparability of current year's financial statements with that of previous years.

The change in accounting policy has affected the financial statement line items/balances as below:

### Restatement of comparative year:

For the period ending 31st December 2008(Amount in Ngultrum)

Financial statement line item/Balance affected	2008 [Previously*]	Change in Acc. Policy Adj.	2008 [Restated]
Revenue	2,223,380,468	2,285,044,959	4,508,425,427
<b>Profit before Tax</b>	<b>2,155,486,833</b>	<b>2,285,044,960</b>	<b>4,440,531,793</b>
Tax	646,646,050	685,513,488	1,332,159,538
<b>Profit after Tax</b>	<b>1,508,840,783</b>	<b>1,599,531,472</b>	<b>3,108,372,255</b>
Dividend Liability	1,463,846,950	1,439,055,512	2,902,902,462
Retained Earning	44,993,833	160,475,960	205,469,793
General Reserve	44,993,833	160,475,960	205,469,793

\* As per previous accounting policy

For the period ending 31<sup>st</sup>December 2009 (Amount in Ngultrum)

Financial statement line item/Balance affected	2009 [Previously*]	Change in Acc. Policy Adj.	2009 [Restated]
Revenue	2,287,682,080	2,810,871,217	5,098,553,297
<b>Profit before Tax</b>	<b>2,243,229,151</b>	<b>2,810,871,217</b>	<b>5,054,100,368</b>
Tax	672,979,261	843,261,366	1,516,240,627
<b>Profit after Tax</b>	<b>1,570,249,890</b>	<b>1,967,609,851</b>	<b>3,537,859,741</b>
Dividend Liability	1,451,589,739	1,412,761,874	2,864,351,613
Retained Earning	118,660,151	554,847,977	673,508,128
General Reserve	163,653,984	715,323,937	878,977,921

\* As per previous accounting policy

The comparative financial statements of current year with the restated figures of the previous years.



Financial statement line item/Balance affected	Actual 2010	2009 [Restated]	2008 [Restated]
Revenue	4,468,690,507	5,098,553,297	4,508,425,427
<b>Profit before Tax</b>	<b>4,423,414,737</b>	<b>5,054,100,368</b>	<b>4,440,531,793</b>
Tax	1,327,034,665	1,516,240,627	1,332,159,538
<b>Profit after Tax</b>	<b>3,096,380,072</b>	<b>3,537,859,742</b>	<b>3,108,372,255</b>
Dividend Liability	2,989,368,371	2,864,351,613	2,902,902,462
Retained Earning	107,011,701	673,508,128	205,469,793
General Reserve	985,989,622	878,977,921	205,469,793

The change in accounting policy resulted in the restatement of the following line items:

- i) Revenue has increased by Nu. 2,285,044,959 in 2008 and Nu. 2,810,871,217 in 2009.
  - ii) Tax liability has increased by Nu. 685,513,488 in 2008 and Nu. 843,261,366 in 2009.
  - iii) Dividend liability has increased by Nu. 1,439,055,512 in 2008 and Nu. 1,412,761,874 in 2009.
  - iv) The major impact due to change in accounting policy is in the retained earnings and subsequently in the General Reserve which has increased to Nu. 985,989,622/- in 2010 from Nu. 44,993,833/- in 2008.
8. During the year DHI, has incurred expenses amounting to Nu. 3,592,887/- for the Education City Project (ECP) which is accounted in the books as Project under Construction which in due course will be transferred to DHI Infra Ltd., a subsidiary company, that has been incorporated on 31<sup>st</sup> January 2011 for the purpose.
  9. Advance has been received from Dungsum Cement Corporation Limited (balance outstanding Nu. 11,825,163 as on 31/12/2010) for raising debt from the markets. Against the aforesaid amount Nu. 8,143,288/- has been paid so far to SBI Capital Market Limited for the assignment. On completion of the work the relevant amounts will be adjusted and transferred to Dungsum Cement Corporation Limited.
  10. Managerial Remuneration
    - i) Remuneration paid /payable for the period 1.1.2010 to 31.12.2010 to the Chairman of the Company are as follows:

Particulars	Current Year Amount (Nu.)	Previous Year Amount (Nu.)
Salary & Allowances	1,873,980	1,819,392
Other benefits	1,238,588	900,819
Provident fund	128,832	108,030
Gratuity	97,603	94,760
Sitting Fees	127,500	60,000
<b>Total</b>	<b>3,466,503</b>	<b>2,983,001</b>

- ii) Remuneration paid /payable for the period 1.1.2010 to 31.12.2010 the Chief Executive Officer of the Company are as follows:

Particulars	Current Year Amount (Nu.)	Previous Year Amount (Nu.)
Salary & Allowances	1,629,540	1,582,080
Other benefits	957,174	676,109
Provident fund	112,032	93,936
Gratuity	84,872	82,400
Sitting Fees	127,500	97,500
<b>Total</b>	<b>2,911,118</b>	<b>2,532,025</b>


iii) Sitting Fees paid/payable to other members of the Board of Directors Nu. 552,500/- (previous year Nu. 482,500/-)

### 11. Auditor's Remuneration :

Particulars	Current Year Amount (Nu.)	Previous Year Amount (Nu.)
Statutory Audit	180,000	150,000
Other Audit Expenses	137,800	143,197
<b>Total</b>	<b>317,800</b>	<b>293,197</b>

12. Previous year's figures have been rearranged and regrouped wherever necessary.


13. The current year's financial statements cover the period from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2010.

  
 (Sudip K. Mukherji)  
 Partner  
 For and on behalf of S.N. Mukherji & Co.  
 Chartered Accountants



  
 (Lyonpo Om Pradhan)  
 Chairman

Date:- 25/5/11  
 Place:- Kolkata

  
 (Karma Dorji)  
 Head, Finance and Accounts

  
 (Karma Yonten)  
 Chief Executive Officer

  
 (Lam Dorji)  
 Director