ANNUAL REPORT 2018

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INTRODUCTION

WHO WE ARE

On 11th November 2007, His Majesty issued a Royal Charter establishing Druk Holding and Investments Limited (DHI) to hold and manage the existing and future investments of the Royal Government for the long-term benefit of the people of Bhutan.

In keeping with the Charter, DHI was formed with an initial grouping of selected companies in hydropower, banking, natural resources and manufacturing sectors, where the government had full or partial stake. The company started with a total net worth of Nu. 19,558.12 million.

Being a revolutionary concept in the country, the establishment of DHI, however, posed some challenges. The greatest challenge was in its existence itself, as it had to justify the need for the country to have a holding company. Operationally, the biggest challenge was in establishing the autonomy of DHI. Fortunately, whenever there were doubts about how issues were to be resolved, the Royal Charter provided the clarity and inspiration in meeting these challenges. DHI developed the ownership policy, which provided a framework for administering its portfolio companies and defining its key relationships with other stakeholders. With its implementation, DHI firmly established itself as the largest and only government holding and investment company in the country.

In order to ensure that DHI creates and maximizes returns to its shareholders, the 19 primary functions highlighted in the Royal Charter, were summarized and grouped into a Thrust Area Framework, as illustrated in the following Figure, and used as the basis for making strategic plans, setting targets and evaluating performance.

• Ensure Strong Corporate Governance • Improve Performance • Provide Managerial Support • Promote Brand Bhutan	**T1 Performance Improvement**
• Ensure Optimal Capital Efficiency • Provide Guarantees if required • Divestment • Raise Fund • Subscribe or Purchase Equity, Debt or other Securities	**T2 Resource Optimization**
• Undertake Investments • Undertake Investments outside Bhutan • Undertake Investments in Reserved Areas • Undertake Commercial Investments of the Government	**T3 New Investments**
• Provide venture Capital & Institutional Support • Incubation for New Business • Policy Feedback • Initiate R&D	**T4 Private Sector Development**
• Provide Increasing Dividends to MoF • Provide the Dividends in Advance	**T5 Revenue to the Government**

Thrust area framework

OUR MANDATE

As the holding company for the Government Linked Companies (GLCs), DHI's primary mandates are to strengthen Corporate Governance (CG), enhance performance of the GLCs by making them responsible and accountable for their performance, raise funds for investments and maximize return on investments. Further, DHI is also mandated to play a catalytic role in the development of our private sector.

MISSION

"Safeguard and enhance national wealth for all generations of Bhutanese through prudent investments."

DESTINATION

DHI Group finances the entire of Government's current expenditure for fiscal year 2029/30 and the Bhutan Future Fund is Nu. 30 billion in year 2030.

GUIDING

FUNCTIONS OF DHI

- PERFORMANCE IMPROVEMENT
- RESOURCE OPTIMIZATION
- NEW INVESTMENT
- PRIVATE SECTOR DEVELOPMENT
- REVENUE TO THE GOVERNMENT

VISION

VISION

"To be the leading wealth management and creation organization that helps transform Bhutan into a globally competitive economy guided by the principles of Gross National Happiness."

CORE VALUES

- Integrity
- Honesty
- Excellence
- Prudence
- Teamwork
- Responsibility

HUMAN CAPITAL

THEMES

Portfolio Companies

DHI Owned Companies: 100%
DHI Controlled Companies: 51% - 80%
DHI Linked Companies: 50% and below

*DML and ABHL: under project phase

MANUFACTURING

100%
Wood Craft Center Ltd.

80%
Dungsam Cement Corporation Ltd.

51%
Dungsam Polymers Ltd.

47.7%
Bhutan Board Products Ltd.

40.3%
Penden Cement Authority Ltd.

40%
Druk Metallurgy Ltd.*

80%
Koufuku International Ltd.

28%
Azista Bhutan Healthcare Ltd.*

25.7%
Bhutan Ferro Alloys Ltd.

ENERGY & RESOURCES

100%
Druk Green Power Corporation Ltd.

100%
Bhutan Power Corporation Ltd.

100%
Natural Resources Development Corporation Ltd.

100%
State Mining Corporation Ltd.

FINANCIAL SERVICES

80%
Bank of Bhutan Ltd.

18.4%
Royal Insurance Corporation of Bhutan Ltd.

11.5%
Bhutan National Bank Ltd.

COMMUNICATION & TRANSPORTATION

100%
Bhutan Telecom Ltd.

100%
Druk Air Corporation Ltd.

REAL ESTATE & CONSTRUCTION

100%
Construction Development Corporation Ltd.

100%
Thimphu Tech Park Ltd.

TRADING

57%
State Trading Corporation of Bhutan Ltd.

DHI PORTFOLIO COMPANIES DEPICTING DHI SHAREHOLDING AND NET WORTH/ MARKET CAPITALIZATION OF THE COMPANIES AS AT 31ST DECEMBER 2018

Sector	Shareholding (in %)	DPC Category	Net Worth*/ Market Capitalization (in million Nu.)
Energy & Resources			
Druk Green Power Corporation Ltd.	100	DOC	45,993.01
Bhutan Power Corporation Ltd.	100	DOC	13,076.56
Natural Resources Development Corporation Ltd.	100	DOC	566.94
State Mining Corporation Ltd.	100	DOC	410.60
Communication & Transport			
Bhutan Telecom Ltd.	100	DOC	3,757.83
Drukair Corporation Ltd.	100	DOC	2,956.51
Finance			
Bank of Bhutan Ltd.	80	DCC	5,250.64
Bhutan National Bank Ltd. **	11.5	DLC	1,449.11
Royal Insurance Corporation of Bhutan Ltd.**	18.4	DLC	1,763.38
Real Estate and Construction			
Thimphu Tech Park Ltd.	100	DOC	264.12
Construction Development Corporation Ltd.	100	DOC	981.02
Trading			
State Trading Corporation of Bhutan Ltd.***	56.6	DLC	351.64
Manufacturing			
Dungsam Cement Corporation Ltd.	80	DCC	3,118.62
Wood Craft Center Ltd.	100	DOC	138.44
Dungsam Polymers Ltd.**	51	DCC	144.48
Penden Cement Authority Ltd.**	40.3	DLC	1,549.31
Bhutan Ferro Alloys Ltd.**	25.7	DLC	231.57
Bhutan Board Products Ltd.***	57.6	DLC	93.53
Koufuku International Ltd.	80	DCC	18.45

ACCOMPANYING NOTES:

* Net worth is calculated only for DHI's shareholding in the companies and is reflected based on book value.

**Market Capitalization is reflected for listed DHI Linked Companies

***Due to indirect holding through BOB, DHI's shareholdings in STCBL and BBPL have increased.

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 percent or less of the paid up equity share capital.

YEAR IN REVIEW

MARCH

CDCL completes the construction of 57m Network Arch bridge in Samdrup Jongkhar

JULY

Dasho Ugen Chewang joins DHI as the Chairman

OCTOBER

DHI launches its first-ever DHI Business Acceleration Program (DHI BizAP) to help entrepreneurs on 13th October 2018.

DECEMBER

BPC completes the re-fill in of 382 households for the year and CE Network for Eastern and South Western Wing formation.

FEBRUARY

BoBL unveils 'Chharo- an e-Wallet app' to boost cashless economy

MAY

DHI conducts Salang Tendrel of Azista Bhutan Healthcare Limited (ABHL), a Pharmaceutical plant at Motanga Industrial Park

BOB celebrates 'Golden Jubilee' on May 28th, 2018

BT launches 'Paku'- mobile financial solution and 'My BT' applications.

SEPTEMBER

DHI conducts Salang Tendrel of Druk Metallurgy Limited (DML), located in Motanga Industrial Park, Samdrup Jongkhar, Bhutan.

Drukair introduces a new route from Paro to Singapore via Guwahati from 29th September 2018 with two flights a week.

NOVEMBER

DHI launches the DHI Roadmap 2030, titled "INTO THE NEXT DECADE - A Roadmap for DHI and Group."

Phuentsholing Township Development Project (PTDP) kicks off.

OUR GOVERNANCE FRAMEWORK

Druk Holding and Investments (DHI) upholds high standards of corporate governance to ensure transparency and accountability in managing the existing and future investments of the State for the long term benefit of people of Bhutan as envisaged by His Majesty the King. The governance structure of DHI is guided by the Royal Charter, which sets out clear authority and duties of the Board.

To facilitate efficient decision-making, DHI Board has established Board Committee for Performance Management that reviews annual compact target setting and performance evaluation of DHI owned and controlled companies. Nomination and Governance Committee is established as a special committee of board member representatives from both the individual Company Board and DHI Board for the selection and appointment of Chief Executive Officers in DHI owned and controlled companies.

As the holding company, DHI is also mandated to strengthen corporate governance in DHI portfolio companies. The Ownership Policy that was introduced in 2010 and revised in 2013 provides the guiding framework for the governance of DHI's companies. The Ownership Policy document articulates expectations, policies and functional relationships with respect to its companies to fulfill the mandate of the Royal Charter.

As part of our continuing efforts in strengthening corporate governance, DHI introduced Corporate Governance Code in 2013. The Code is based on internationally accepted good corporate governance practices. The document contains corporate governance principles; and associated model charters, namely Board Charter, Board Audit Committee Charter, and Code of Conduct for Board Directors and Senior Managers.

To develop the professional capacity of the Board Directors in DHI portfolio companies, DHI conducts orientation program every year and Board Directorship skills training for the newly appointed Board Directors.

BOARD OF DIRECTORS

DASHO UGEN CHEWANG
Chairman, Druk Holding and Investments Ltd.
Appointed on 27th July 2018

MR. NIM DORJI
Secretary, Ministry of Finance.
Appointed on 21st July 2016

MR. PEMA CHEWANG
Secretary, National Land commission of Bhutan
Appointed on 18th June 2014 and
reappointed on 17th November 2018

MR. THINLEY NAMGYEL
Secretary, Gross National Happiness Commission Secretariat
Appointed on 17th November 2018

MR. KINGA TSHERING
Founder, Institute of Happiness
Appointed on 17th November 2018

MR. DECHEN DORJI
Country Representative, World Wildlife Fund Bhutan
Appointed on 17th November 2018

DASHO KARMA YEZER RAYDI
Chief Executive Officer, Druk Holding and Investments Ltd.
Appointed on 27th November 2015.

EXECUTIVE MANAGEMENT TEAM PROFILE

DR. DAMBER SINGH KHARKA

DIRECTOR

CORPORATE PERFORMANCE DEPARTMENT

Dr. Damber Singh Kharka serves on the Board of Bhutan Telecom Limited and Natural Resources Development Corporation Limited.

MS. TASHI LHAMO

DIRECTOR

DEPARTMENT OF FINANCE

Ms. Tashi Lhamo serves on the Board of Druk Green Power Corporation Limited and the Bank of Bhutan Limited.

MR. CHENCHO TSHERING NAMGAY

DIRECTOR

DEPARTMENT OF INVESTMENTS

Mr. Chencho Tshering Namgay serves on the Board of Construction Development Corporation Limited and Koufuku International Limited.

MR. SONAM LHUNDRUP

ASSOCIATE DIRECTOR

CORPORATE SERVICE DIVISION & GENERAL COUNSEL

Mr. Sonam Lhundrup serves on the Board of Bhutan National Bank Limited and Bhutan Board Products Limited.

DIRECTORS' REPORT

Dear Shareholders,

MAJOR HIGHLIGHT OF THE YEAR

The Group stepped into the new decade with renewed commitment and redefined purpose. In doing so, major highlight of the year was the launch of the document titled ***INTO THE NEXT DECADE – A Roadmap for DHI and Group.*** DHI prepared and launched the Roadmap on 11th November 2018, coinciding with the 63rd birth anniversary of the Fourth Druk Gyalpo. The day also marked exactly a year since DHI celebrated its 10th anniversary, during which His Majesty the King graced the event and commanded a need for such a document.

Just as the spirit of the Royal Charter that provided DHI with the will and determination during its first 10 years, the Royal presence during the celebration served us with opportunities to reconsider our goals and purpose. Drawing much inspiration and guidance, DHI and Group set forth to undertake the tasks of the next decade.

FINANCIAL HIGHLIGHTS

First, we would like to report that the presentation format of FY2018 account statement has been changed from that of earlier years'. As against two account statements, *consolidated accounts for the Group* and *DHI standalone accounts,* prepared until FY2017, the account statement for FY2018 captures both *consolidated and standalone* accounts in one document. However, the audit reports are prepared and reported separately for clarity of information.

The following table summarizes the Group and DHI's standalone accounts for the year ended 2018:

Table 1: Consolidated and DHI standalone accounts

Particulars	Group (in million Nu.)			DHI Standalone (in million Nu.)		
	2018	2017	Variance	2018	2017	Variance
Total assets	179,738.07	172,724.12	4.06%	60,828.21	57,728.92	5.37%
Net worth	90,705.48	89,717.03	1.11%	58,436.74	55,836.70	4.66%
Income	36,462.89	38,835.11	-6.11%	8,778.69	7,922.98	10.80%
Expenditure	25,395.63	26,935.35	-5.72%	113.16	155.95	-27.44%
PBT	11,067.26	11,899.77	-7.00%	8,665.53	7,767.03	11.57%
Tax	6,935.86	5,888.99	17.78%	2,612.59	2,326.06	12.32%
PAT	4,131.40	6,010.78	-31.27%	6,052.94	5,440.97	11.25%

GROUP ACCOUNTS

TOTAL ASSETS AND NET WORTH

The Group's financial position saw an increase in size in FY2018, as the total assets increased by 4.06% (Nu. 7,019.48 M) and the net worth increased marginally by 1.11% (Nu. 993.98 M).

The increase in total assets was mainly on account of substantial increase in 'capital works in progress' (by 24.68% or Nu. 2,322.99 M), 'investments' (by 25.30% or Nu. 1,038.24 M), 'banking loans and advances' (by 4.07% or Nu. 1,376.25 M) and 'other receivables and advances' (by 98.05% or Nu. 7,470.48M).

The increase in net worth was mainly on account of increase in 'reserve' (by 1.76% or Nu. 685.73 M).

REVENUE

In the income statement, the group realized a total comprehensive income of Nu. 36,462.89 M during the year, a drop of 6.11% from FY2017. It was mainly on account of decrease in 'Energy and Resource' segment's total income to Nu. 23,536.21 M from Nu. 25,871.13 M in FY2017, as the year experienced poor hydrological flows, which reduced aggregate electricity generation.

EXPENDITURE

On expenditure front, the year saw a marginal decrease of 1.68% over FY2017 figure. The decrease is attributed to decrease in direct cost of sales by 24.35%, to Nu. 8,395.94 M from Nu. 11,098.05 M in FY2017.

PROFIT AFTER TAX (PAT)

Despite decrease in expenditure, the Group's Profit on Operations after Tax (PAT) decreased by 31.27%, to Nu. 4,131.40 M from Nu. 6,010.78 M FY2017. The main reasons being the following:

- i The total income from Energy and Resources segment decreased by 9% (or Nu. 2,334.92 million), from Nu. 25,871.13 million in FY2017 to Nu. 23,536 million in FY2018, as the actual generation fell short by 9.31% from the aggregate generation of FY2017 mainly on account on the low hydrological flows especially in the Wangchhu, which was the lowest the Group observed since 2008. The poor hydrological flows impacted both DGPC's export revenue and BPC's wheeling revenue;
- ii. Similarly, BPC also suffered revenue loss of more than Nu. 1,992.7 M in the construction of Associated Transmission System (ATS), as the construction works for the ongoing hydropower projects were mostly complete; and
- iii. Finally, as there is no negation with regards to tax payables, i.e. tax payable of profitable company cannot be offset against the losses of another, although the Profit Before Tax reduced by about 7% (or Nu. 832 Million), the tax component increased by 26.64% (or Nu.1.04 Billion), from Nu. 5.89 Billion paid in FY2017 to Nu. 6.94 Billion FY2018. This has also increased the 'effective tax rate' charged to the Group to 62.67% from 49.49% charged for FY2017.

DHI STANDALONE ACCOUNTS

TOTAL ASSETS AND NET WORTH

Under DHI's standalone accounts, the total assets and the net worth grew by 5.37% and 4.66% respectively.

The increase in total assets was mainly on account of increase in 'investments' by 4.46% or Nu. 2,274.24 M. Investments increased due to allotment of DGPC's shares worth Nu. 230.52 injected by GoI in Kholongchhu Hydro Energy Limited (KHEL) to MoF, and increase in market capitalization of RICBL's and BNB's stocks by Nu. 287.27 M and 183.69 M respectively. Further, fresh equities were also injected into SMCL (Nu.50 M), TTPL (Nu. 92.31 M), DPL (Nu. 35.70 M) and to DCCL (Nu. 1,275.60 M) from the internal accruals.

The increase in net worth was mainly on account of increase in 'paid-up share capital' (to Nu. 46,201.53 M from Nu. 45,946.20 M in FY2017) due to allotment of DGPC's KHEL share as explained before and transfer of ownership of lands of DOCs to DHI for which an aggregate value of share of Nu. 24.80 M was allotted to MoF.

REVENUE

Total income for FY2018 registered a growth of 10.80%, an increase of Nu. 855.71 M over FY2017 figure. The growth was largely due to 11.30% (or Nu. 858.05 M) increase in dividend income during the year. It may be informed that dividend from DGPC, however, decreased marginally by 1.76% (or Nu. 88 M).

EXPENDITURE

Total expenditure for FY2018 decreased by 27.44% (Nu. 42.79 M). The decrease was mainly on due to reduction of expenses for 'office expenses', 'travelling expenses (foreign)' and 'consulting charges.'

PROFIT AFTER TAX (PAT)

On account of increase in the total income and decrease in the total expenditure, the overall profitability for the year saw an increase of 11.25%, an increase of over Nu. 611.96 M from FY2017.

DHI posted a Profit After Tax (PAT) of Nu. 6,052.94 M in FY2018, as against Nu. 5,440.97 M in FY2017.

OPERATIONAL HIGHLIGHTS

In FY2018, DHI and the group companies continued to improve performances and achieved higher level of efficiencies. With the signing of annual performance compacts with DHI, companies reported excellent performance in FY2018. Companies across all segments registered growth as compared to FY2017.

ENERGY AND RESOURCES

While the year experienced lower hydrological flows, which reduced the aggregate electricity generation, DGPC ensured operations of power plants at their optimum levels. It achieved 99.51% power plant availability and 100% water utilization factor.

Similarly, BPC ensured minimum losses of electricity during transmission and distribution (T&D). It restricted the global energy loss to 2.21% and the domestic T&D loss to 6.15%. The lower electricity generation, however, reduced DGPC's and BPC's profitability by 11.61% and 40.51% respectively. Nonetheless, they contributed close to 85% of the total returns (dividend) to DHI in FY2018.

NRDCL posted a positive financial performance, as the net profit increased to Nu. 39 M from a Nu. 61 M loss in FY2017. But SMCL continued to dominate the segment, as its profit increased by about 36% from Nu. 67 M in FY2017. It contributed to DHI's dividend income in FY2018 and also declared a much higher dividend in its recent AGM. SMCL continue to hold the top position among DHI subsidiaries in terms of return on equity (RoE).

COMMUNICATION AND TRANSPORT

Following hydropower, the communication and transport segment contributes the next highest dividend to DHI at close to 12% of the total. In FY2018, Bhutan Telecom (BT) posted one of the highest profit figures among the group companies and followed SMCL to the top position among DHI subsidiaries in the RoE chart. However, it remained the top company in terms of shareholders return (dividend divided by DHI's share of total net worth) in FY2018 as well.

We are also delighted to report that Drukair continued with its profit spell for the third consecutive year, as it posted a net profit of Nu. 159 M, despite operating at 15% reduced fare for the entire FY2018. Drukair introduced a new route from Paro to Singapore via Guwahati from 29th September 2018 with two flights a week. With respect to its fleet management, Drukair signed the Purchase Agreement with Airbus for the purchase of A320 NEO on 10th April 2018 and with ATR for purchase of ATR 42-600 on 6th April 2018. The airline made a capital advance of USD 15,766,916, equivalent to Nu. 1,119.84 M, as commitment fees and Pre-Delivery Payments to Airbus and ATR companies. The delivery of A320 NEO is expected in the first quarter of 2020 and the delivery of ATR 42-600 is expected in July 2019.

MANUFACTURING

Under this segment, as per the objectives set for the companies, DCCL, KIL and DPL managed to reduce losses significantly in FY2018. In fact, we are happy to report that both DCCL and DPL did not suffer any cash loss in FY2018, as their bottom line figures showed significant improvements.

FINANCIAL SERVICES

BOB continued to impress its customers with its products and services. It introduced 'senior citizen priority counters' across all branch offices, 'banking on-wheels' service in Thimphu to cater to its growing population and 'a 24/7 network operation center' to improve service reliability. These new services garnered a lot of goodwill from the clients. The best was when the bank closed its accounts for the year with a bottom line figure that crossed a billion Ngultrum (Nu. 1,040.83 M) for the first time in its history. Further, the bank's dividend contribution to DHI in FY2018 also increased by 15%.

REAL ESTATE AND CONSTRUCTION

As mandated, Thimphu Tech-Park Limited (TTPL) achieved commercial space occupancy rate of 98% and generated direct employment to more than 454 youths. It also posted a profit of Nu. 10.95 M for FY2018 and declared a dividend of Nu. 8.91 M during its recent AGM, to be remitted in FY2019.

Construction Development Corporation Ltd. (CDCL) commenced the implementation of Phuentsholing

Township Development Project (PTDP) and also carried out all construction activities as per the set deadlines. We take pride in reporting that with its engagement in hydropower constructions, CDCL made head start in ensuring capacity development of Bhutanese and higher level of engagement of local firms in the implementation of hydropower projects in Bhutan, and not just be bystanders. Additionally, it may be noted that despite acquiring hydropower constructions at competitive rates and absorbing high costs at the same time, CDCL posted a positive bottom line figure for FY2018, as it posted a PAT of Nu. 5.59 M.

TRADING

In the trading segment, STCBL marked 50 years of commercial operation in FY2018. Despite operating in the most competitive sector, STCBL continued to register growth in its non-vehicular segment, as it grew by more than 31% (Nu.137 M) from FY2017. STCBL contributed a dividend of Nu. 18.32 M to DHI and also posted a PAT of Nu. 67.48 M in FY2018.

OTHER OPERATIONAL HIGHLIGHTS

The higher level of performance that the Group achieved over last decade was mainly on account of enhanced corporate governance (CG) and performance management system (PMS). In FY2018, DHI, in keeping with the PMS systems in place, signed performance compacts with all its fully owned subsidiary companies as well as the controlled companies, namely BOB, DCCL and DPL. The performances of the companies were monitored and evaluated against the compacts, following which performance based incentives were paid.

In terms of synergy between the group companies, the revenue from inter-group transaction increased by 10%, to Nu. 15,145.59 M from Nu. 13,756.90 M in FY2017, and also resulted in savings of Nu. 6,783.32 M, which otherwise, would have gone out of the group as expenses.

Further, in continuation to the consolidation of DOCs' lands under freehold with DHI over past two years, DHI in FY2018 completed leasing of all lands back to the respective DOCs. Similarly, DHI also commenced construction of a DHI co-location building in Paro. The building will house Drukair's headquarters and BOB's and NRDCL's branch offices.

NEW INVESTMENTS

After numerous feasibility studies and detailed project reports, we are delighted to report that in FY2018 we finally commenced construction of Nu. 200 M Azista Bhutan Healthcare Ltd. and Nu. 1,284 M Druk Metallurgy Ltd. in Motanga, Samdrup Jongkhar. DHI released Nu. 4.15 M and Nu. 20 M as equities in Azista and Druk Metallurgy during the year.

Further, as the need arises, DHI also supports the growth of its existing portfolio companies either through issuance of corporate guarantees or injection of capital in the form of equity. In FY2018, DHI injected Nu. 50 M into SMCL to support additional mining activities, Nu. 35.7 M into DPL to support business operation and Nu. 92.3 M into TTPL for business expansion.

Also, in keeping with the mandate, DHI prudently carried out 'investment abroad' initiative and made USD 4 M investment and USD 1 M investment with two seperate fund managers.

Other investments through group companies included the following:

- Signing of MoU between DGPC and Bernard Gruppe of Austria to provide consultancy services to existing and future hydropower projects within and outside Bhutan;
- Supply and construction of 33/11 kV, 2x5MVA GIS substation at Thongdue, Paro and upgradation of 33/11,1x2.5MVA AIS substation to 2x2.5 MVA GIS substation in Phobjikha;
- Upgradation of East-West Microwave Radio Backbone from existing capacity of 1Gbps to 4Gbps to overcome the network break-down issues, which are mainly caused by fibre damages;
- Set up of new fibre links connecting Thimphu - Dochula and Lobesa - Wangde regions as redundant fibre link connecting Jakar Disaster Recovery site;
- Introduction of 24/7 'network operation center' in BOB to constantly monitor the systems stability and rectify issues as early as possible;
- Construction of new IT Park building in the same location for business expansion; and
- Commissioning of three-stage 200 TPH capacity crushing plants at Dzonthug and Dzungdi, mainly to supply aggregates to KHEL.

PRIVATE SECTOR DEVELOPMENT

In order to 'promote and encourage entrepreneurship and business development though venture capital and other required institutional support, DHI in partnership with IC2 Institute, University of Texas, launched DHI Business Acceleration Program (DHI BizAP) on 13th October with 25 entrepreneurs as first batch of trainees. The program is aimed at complementing the growth of the cottage and small industry in the country. Program graduates stand to benefit from IC2 rich and wide mentorship network with local support comprising of subject matter experts and experienced Bhutanese entrepreneurs.

In addition to the advanced level entrepreneurship training, DHI provides a collateral and interest free funding support to provide for the entrepreneurs' contribution to their businesses. Out of 25 entrepreneurs who successfully completed the Business Acceleration Program in FY2018, 23 entrepreneurs applied for the funding, of which 16 entrepreneurs secured the funding.

DIVIDENDS AND TAXES

During FY2018, DHI remitted a dividend of Nu. 4,021 M in total to MoF as advance dividend. DHI's tax contribution for FY2018 also increased by 12.32% to Nu. 2,612.59 M from 2,326.06 in FY2007.

Also, as per the consolidated accounts, the group as a whole paid an income tax of Nu. 6,935.86 M for FY2018. The 'effective tax rate' charged to the DHI Group works out to 62.67%, which is an increase of 26.64% over FY2017, when it was charged 49.49%.

Further, DGPC also made a payment of Nu. 2,158.11 M in FY2018, which included Nu. 96.54 M arrear payment after tariff revision, on account of royalty energy.

Hence, the Group in FY2018 made a consolidated payment (dividend, tax and payment for royalty energy) of Nu. 13,114.97 M to the Government.

CORPORATE GOVERNANCE

One of the key components behind the Group's success has always been strong corporate governance (CG). In order to strengthen CG, DHI in FY2018 revised the CEO selection guidelines and carried out CG assessment of the subsidiary companies. The assessment results showed higher level of compliance with the CG Code and relevant polices. Further, DHI also carried out capacity development and re-orientation programs for the board directors and senior executives on CG best practices, performance management systems and finance.

DHI continued to maintain high level of accountability and transparency it has achieved over the years in FY2018 as well. Similar to FY2017, DHI neither had any audit issue with the Royal Audit Authority (RAA) or any audit qualifications in the Audited Accounts for FY2018. DHI also fully complied with the Companies Act of Bhutan 2016 and other statutory requirements in FY2018.

At the end of 2018, the DHI Board consisted of seven Directors including the Chairman and the CEO. Seven board meetings were held in FY2017 and the gap between two meetings did not exceed three months in accordance with the Companies Act of Bhutan 2016.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Being a responsible corporate entity, DHI also strive to generate maximum social value through CSR activities and charitable contributions. In FY2018, DHI provided financial support amounting to Nu. 5.99 M as CSR, charitable contributions and donations to activities initiated by external agencies, CSOs/NGOs, institutions and individuals.

Majority of the activities supported by DHI were targeted to benefit community at large. DHI's CSR activities reflect our ongoing commitment to the society and support to the activities that excite and benefit the society as a whole. We believe that doing so enhances corporate value and helps to build a better, more sustainable society for all.

STATUTORY AUDIT REPORT

M/s Singhi and Company was appointed as the statutory auditors for the year 2018 by RAA. The firm audited the standalone accounts from 13th March to 29th March 2019 and the consolidated accounts from 30th March to 10th April 2019. The audit was carried out in accordance with the auditing standard prescribed by the Accounting and Auditing Standard Board of Bhutan and the relevant provisions of the Companies Act of Bhutan 2016.

The Auditors' Report for the standalone accounts does not have any qualifications on the accounts of the company. The auditors concur that the accounts along with schedules, significant accounting policies and notes to accounts are in compliance with the requirements of the Bhutanese Accounting Standards and Companies Act of Bhutan 2016. `

However, the Auditor's Report for Consolidated accounts has made a few observations, which are spillover of DOCs qualifications. We would like to assure that the comments and observations will be addressed in a phased manner.

CHALLENGES AND WAY FORWARD

DHI successfully completed the first 10 years of its journey. DHI was able to define its roles and justify its existence. It was able to consolidate the Group and strengthen subsidiary companies in areas of corporate governance and performance management systems.

DHI will have to shoulder bigger responsibilities and play a significantly effective role here on. It steps into the next decade with a destination to meet Government's entire recurrent expenditure by fiscal year 2029/2030, and build Bhutan Future Fund worth Nu. 30 Billion, mainly to help the country achieve new economic development goals.

One of the main challenges is expected in the areas of operations and management of the hydropower plants as the Group takes in its fold the completed projects. Primarily, contribution of this sector will be monitored to every chetrum, as the country's new economic development goal is being proposed based on assessment of the optimal pace of development of hydropower plants.

Further, with the lease period of three big mines against private companies completing in coming two years, DHI will have to deal with the challenge of the managing raw materials for its subsidiary companies and for new investments, irrespective of mining operation modalities government decides.

Therefore, it is evident that DHI's main focus in the coming years would be in these two sectors, given the significant impact they would have on country's economic development. As envisioned in the Royal Charter, DHI's role for the next decade shall be *" to build a strong dynamic economy."*

ACKNOWLEDGEMENTS

Finally, on behalf of the DHI Board, I would like to take the opportunity to offer our heartfelt gratitude to His Majesty the King for his wisdom in establishing DHI and for continued guidance bestowed upon the Group.

We also owe our sincere gratitude to the Royal Government of Bhutan, the Ministry of Finance and all other ministries and their respective departments as we worked together to safeguard our national wealth. We would also like to thank the regulatory agencies, the CSOs and all private sector agencies for their valuable support and cooperation that enabled us to achieve our mandates.

We also thank the Government of India and other international agencies for their support in many of our initiatives.

Finally, we would like to thank all the Board directors, the CEOs, executives and employees of DHI and companies for their tireless efforts toward achieving the shared common mission.

Thank you!

[Ugen Chewang]
CHAIRMAN
Druk Holding and Investments

DIRECTORS' REPORT – ANNEXURE

BACKGROUND

For FY2018, DHI's dividend income comprised 85% from hydropower segment (DGPC and BPC), 12% from 'transport and communication' segment and remaining 3% from other segments.

While DHI's standalone revenue for the current year (FY2018) gets impacted by companies' previous year's (FY2017's) financial performances, the Consolidated Financial Statement (CFS) for FY2018 is a direct impact of companies' accounts for FY2018. Further, since DHI's dividend to the Ministry of Finance is accounted on CFS' Net Profit, it imperative to provide details of the variables that have impacted the CFS.

IMPACT OF LOWER HYDROLOGICAL FLOWS

Electricity generation

During FY2018, on account of lower hydrological flows, Tala, Chhukha, Kurichhu and Basochhu Hydropower Plants generated a total of 6,573.990 million units (MU) of electricity, a substantial decrease of 9.31% from the aggregate generation of 7,249.74 MU in FY2017.

The table below presents the forecast vs actual electricity generation and the power plant availability (PPA) factor and water utilization factor (WUF), the main indicators used in the industry to measure efficiency of hydropower generating units.

Table 1. Electricity generation forecast vs actual and efficiency indicators

Year	Actual (MU)	Forecast (MU)	Difference (MU)	PPA %	WUF %
2008	7,135.27	6,558.65	576.62	98.78%	-
2009	6,897.69	6,922.42	(24.73)	98.13%	99.83%
2010	7,304.35	6,938.38	365.97	97.72%	99.91%
2011	7,046.16	6,978.45	67.71	97.35%	99.99%
2012	6,811.99	7,006.50	(194.51)	99.28%	99.89%
2013	7,532.10	6,863.11	668.99	98.96%	99.99%
2014	7,147.25	7,029.89	117.36	99.62%	100.00%
2015	7,380.43	7,221.35	159.08	98.16%	99.99%
2016	7,567.09	7,175.57	391.52	98.44%	99.40%
2017	7,249.74	7,568.29	(318.55)	98.92%	99.96%
2018	6,573.98	7,440.40	(866.42)	99.51%	100.00%

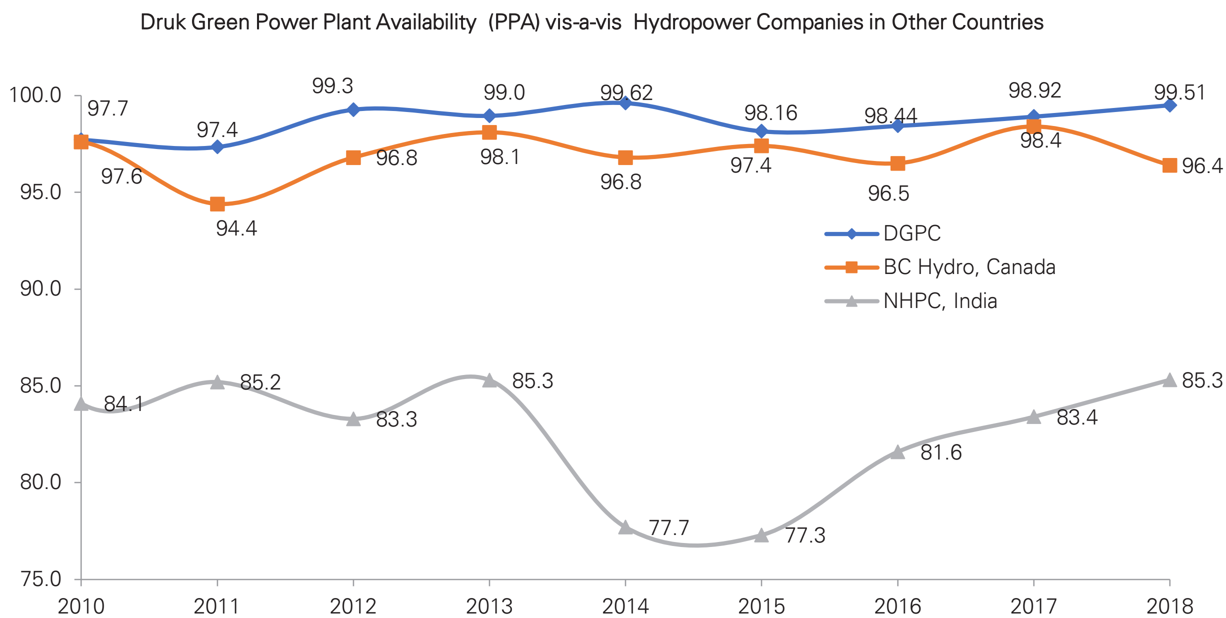
The lower hydrological flow was especially experienced in the Wangchhu, which was the lowest that the Group observed since FY2008. The actual generation therefore fell short by 13.18% (or 866.42 MU) against the generation target of 7,440.400 MU set for FY2018. Calculated at an average export tariff of Nu. 2.185 per unit (minus the royalty energy of 15%), DGPC's revenue figure got lowered by Nu. 1,609.157 million.

However, in order to ensure maximum electricity generation at all times, DGPC monitors and evaluates hydropower plants' performances through two key efficiency indicators, viz. Power Plant Availability (PPA) and Water Utilization Factor (WUF).

Power Plant Availability

The Power Plant Availability (PPA) factor is an indicator to ensure the availability of the generating units at their maximum efficiencies and forced outages are dealt with expeditiously, auxiliary consumption and losses are minimized, periodic maintenance of the plants are optimized to minimize the planned losses, and the frequencies of start/stop of generating units in summer are minimized. PPA indicates the percentage of the time a generating unit is available to generate energy during the peak five months of the year i.e. from June to October when the river inflow is more than the discharge required for full generation.

DGPC has made significant achievement in the PPA factor and is now comparable to other hydropower companies in the world. The PPA at the corporate level is computed by taking the weighted average of the four power plants. For the last 10 years, including FY2018, DGPC's PPA factor never fell below 99%, or alternately, DGPC kept its plants at least 99% available at all times. The following chart present a comparison of PPAs between DGPC and hydropower plants in other countries.



As presented in the chart above, DGPC's PPA achievement ranks on top as compared to hydropower plants in other countries. Hence, it can be stated that in FY2018, and also during other previous years, there was no generation loss during peak five months' period due to power plants not being available for generation.

Water utilization factor

The Water Utilization Factor (WUF) is another performance indicator that is derived by computing the percentage of the total actual energy generated against the total energy equivalent of the utilizable river inflow for the month. This indicator is especially relevant during the lean season when the river inflow drops below that of the full generating capacity and that the available inflow should be utilized to the maximum.

The WUF at the corporate level is the simple average of the weighted averages of the four hydropower plants for the seven lean months of the year i.e. from November to May.

Similar to PPA, DGPC's WUF achievements in the last decade have been remarkable. DGPC consistently maintained WUF of more than 99% every year in last 10 years.

Hence, it can also be stated that FY2018, and any particular year before, DGPC did not suffer electricity generation loss on account of hydropower plants being incapable of utilizing the available river inflows to the maximum.

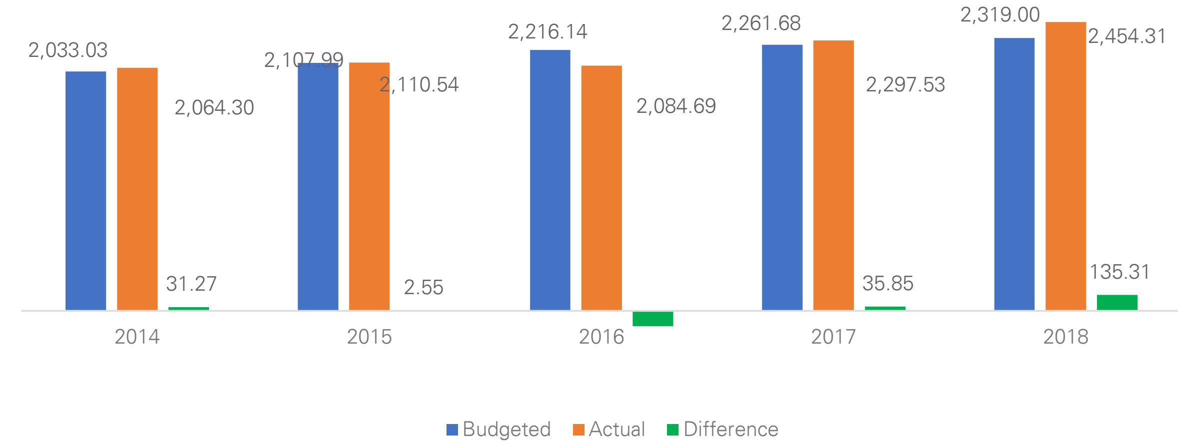
It was mainly on account of poor hydrological flows that DGPC suffered electricity generation loss to the tune of 866.42 MU or Nu. 1,609.157 million in FY2018 in revenue losses.

Import of electricity and increase in domestic demand

Further, in FY2018, DGPC was net importer by 29.32 MU for February and March months. In addition, as the domestic demand increased by more than 135 MU against BPC's forecast, DGPC had to increase the import of electricity by 132.46 MU from the budget. This further lowered the revenue by Nu. 614.73 million.

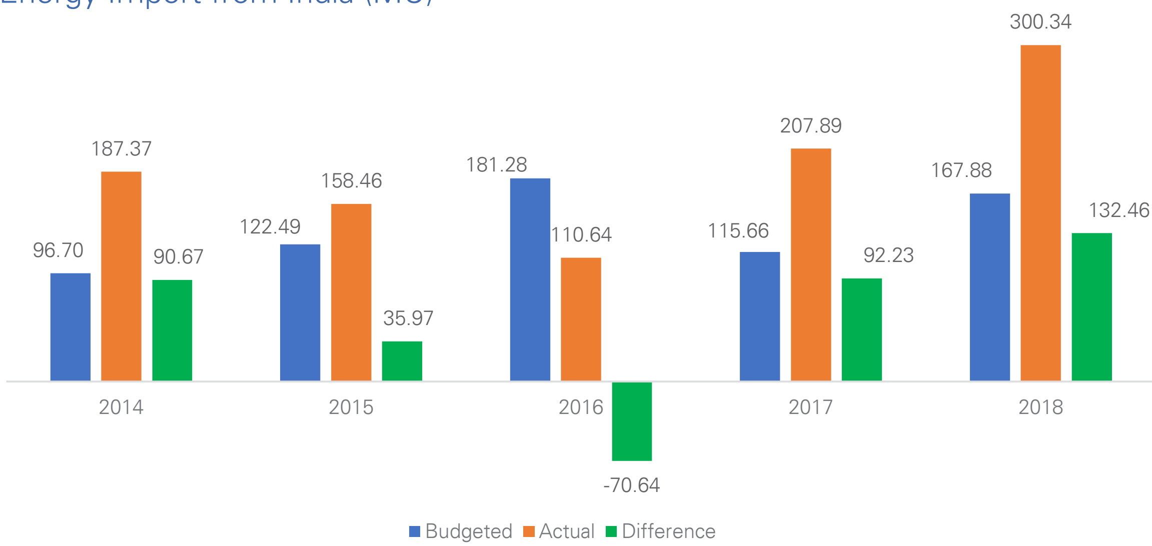
The following chart present histological figures on sale of electricity to BPC and, consequent, import of electricity.

Domestic Sale to BPC (MU)



It is evident from the above chart that the actual domestic demand surpassed the budgeted figure by more than 135 MU (6%) and FY2017 demand by 156.98 MU (7%). The lower electricity generation, due to poor hydrological flows, combined with higher domestic demand forced DGPC to import more electricity than before in FY2018.

Energy Import from India (MU)



As more than 132 MU of electricity had to be imported, DGPC's revenue reduced further by Nu. 614.73 million. Consequently, DGPC realized a total revenue of Nu. 11,681.98 million only, as against the projected Nu. 12,296.71 million.

DGPC would have surpassed its target and made a revenue of Nu. 13,291.137 million for FY2018, if the generating units had not lost 866.42 MU to poor hydrological flows.

IMPACT OF LOWER HYDROLOGICAL FLOWS ON BPC'S REVENUE

As the electricity generated by DGPC's hydropower plants are exported through BPC's transmission lines, termed as wheeling, BPC generates wheeling revenue from DGPC @ Nu. 0.195 per unit of electricity wheeled. However, on account of poor hydrological flows, which reduced DGPC's electricity generation, and coupled by increased domestic demand, the total energy wheeled in FY2018 reduced to 4,437 MU from 5,306.56 MU wheeled in FY2017.

System losses (electricity losses)

Similar to PPA and WUF in the hydropower generating units, BPC keeps check on '*system losses*' as one of the key efficiency indicators.

It may be noted that system losses that the country suffered between the last four-year period (Fiscal Year 2000 to FY 2003) when electricity was transmitted and distributed by Department of Power (DoP), averaged at 11.99% of total electricity purchased[1].

The losses continued to average at 12% under BPC as well during the four-year period, when it was corporatized and remained as MoF SOE – from FY2004 to until FY2007.

However, after BPC was transferred to DHI, the losses for the period of 11 years (FY2008 – FY2018) averaged at 5.11% only of the total electricity purchased.

Calculated at today's average tariff (@ Nu. 3.03 per unit), the revenue loss to the Government are estimated to be:

i. Nu. 690 M for last four-year period under Department of Power (from 2000 – 2003),
ii. Nu. 711 M for the four-year period under MoF (from 2004 – 2007), and
iii. Nu. 294 M only for 11-year period under DHI (from 2008-2018).

The table below summarizes the losses during different periods

Company and Period	Losses (average MUs)	Loses (average%) of total purchased	Total electricity purchased / generated (MU)	Losses (MUs) calculated on total electricity purchased in FY2018 (MU)	Losses in million Nu. (@ average tariff Nu.3.03 per unit)
Department of Power (2000 - 2003)	72.32	11.99%	588.28	227.87	Nu. 690.46 M in 4 Years
BPC _MoF SoE (2004 - 2007)	93.75	12.36%	786.02	234.87	Nu. 711.67 M in 4 Years
BPC _DHI Company (2008-2018)	97.04	5.11%	1,900.55	97.07	Nu. 294.12 M In 11 Years

Source: Department of Power data book and BPC power data book

1 *Includes some internal generation from mini and micro hydels.*

System losses comparison

It may further be submitted that as compared to the system losses South Asian countries suffer, BPC's system losses are the lowest in the region. Table below highlight the system losses of few South Asian countries for FY2016 compiled by PWC.

Countries	Bhutan	India	Nepal	Laos	Bangladesh
System Losses	4.26%	22.8%	25.8%	12.0%	13.5%

Data for Nepal (NEA), Lao PDR (EdL), Bangladesh (BPDB), India (averaged over the country).

Source: PWC report on assessment of restructuring of BPC, July 2018

It may be informed that BPC's system loss presented is excluding wheeling. If the total wheeling units are included, BPC's system loss for FY2016 further reduces to 1.14% only. The system loss for FY 2018 (including wheeling) was only 2.21%.

Impact on BPC's revenue by construction contracts

While it is not directly relevant to hydrological flows, BPC's lower revenue for FY2018 was also impacted by reduced construction contracts. Construction of associated transmission system (ATS) for power evacuation reduced significantly, as the works for the ongoing hydropower projects were mostly complete. The revenue from this segment reduced by 57.85%, from Nu. 3,446.41 million in FY2017 to Nu. 1,452.71 million only in FY2018. This subsequently impacted FY2018 profitability negatively by about Nu. 117 million.

ENERGY & RESOURCE SEGMENT CONTRIBUTION TO CONSOLIDATED FINANCIAL STATEMENTS 2018

Based on the reasons presented above, the total income from Energy and Resources segment decreased by 9% (or Nu 2,334.92 million), from Nu. 25,871.13 million in FY 2017 to Nu. 23,536 million in FY2017.

At the same time, the total expenditure also decreased by 4.3% (or Nu. 830.35 million), from Nu. 19,419.21 million in FY2017 to Nu. 18,588.86 million in FY2018. However, the decrease in the expenditure is much lower compared to the drop in the total revenue.

Consequently, the net profit for the segment decreased by 23% (or Nu. 1,504.57 million), from Nu. 6,451.92 million in FY2017 to Nu. 4,947.35 million in FY2018.

From 47.78% contribution to the consolidated net profit in FY2017, the segment's contribution reduced to 39.60% in FY2018. It is the primary reason behind decrease in consolidated Profit on Operations after Tax, as it dropped by 31.27% (or Nu. 1,879.39 million), from Nu. 6,010.78 million in FY2017 to Nu. 4,131.40 million in FY2018.

COMMUNICATION AND TRANSPORT SEGMENT CONTRIBUTION TO CONSOLIDATED FINANCIAL STATEMENTS 2018

The total income from this segment increased by 8.7% (or Nu. 601.37 million), from Nu. 6,918.11 million in FY2017 to Nu. 7,519.48 million in FY2018. At the same time, the expenditure also increased by more than 12% (or Nu. 694.66 million), from Nu. 5,740.58 million in FY2017 to Nu. 6,435.24 million in FY2018.

The much higher increase in the expenditure was mainly on account of Nu. 293.26 million increase in '*aircraft fuel and oil*' (32% increase from FY2017) and Nu. 155.09 million increase in '*aircraft maintenance*' (84% increase from FY2017). This impacted Drukair's profitability negatively, as it decreased by 54.27%, to Nu. 159.41 million from Nu. 348.61 million in FY2017.

Consequently, 'communication and transportation' segment's profitability also got impacted negatively. The segment's net profit decreased by 8% (or Nu. 93.29 million), from Nu. 1,177.53 million in FY2017 to Nu. 1,084.24 million in FY2018. However, the segment's contribution to the consolidated net profit reduced only marginally to 8.68% from 8.72% in FY2017.

REPORT ON CORPORATE GOVERNANCE

Corporate Governance (CG) comprises the systems and procedures by which enterprises are directed and controlled. In the interests of transparency and accountability, it is important that corporate governance of all enterprises should operate to the highest standards applicable in the business world generally. Sound corporate governance is essential for companies in improving their operational performance and enhancing shareholder value.

DHI and its group of companies, aims to achieve high standards of CG and ensures compliance with legislation, regulation and DHI CG codes to ensure the sustainability of the business.

Having been given the mandate to strengthen CG, DHI has not only complied with the Companies Act of Bhutan 2016 and other statutory requirements for the FY 2018 but also continues to adopt CG best practices in DHI and its Companies.

BOARD OF DIRECTORS

The Board of Directors is entrusted with the ultimate responsibility for guiding the strategic direction and performance of DHI to achieve the mandates bestowed in the Royal Charter. The management of DHI is headed by the Chairman and the Chief Executive Officer (CEO) for the management of day to day affairs of the Company.

In 2018, His Majesty, the King appointed Dasho Ugen Chewang as the Chairman of DHI. Further, the Board of DHI was reconstituted by Blue Ribbon Panel in 2018 (for details refer table below). As on the end of December 2018, the number of DHI Board consisted of seven Board Directors including the Chairman and the CEO.

Composition of the Board and attendance in 2018:

Name of Director	Profile	No. of BM attended during 2018	No. of Directorship on other DHI owned/ controlled companies	
			Chairman	Member
Dasho Sangay Khandu [1]	Chairman, DHI	2	1. Druk Green Power Corporation Ltd. 2. Druk Air Corporation Ltd. 3. Bank of Bhutan.	
Dasho Ugen Chewang [2]	Chairman, DHI	3	1. Bank of Bhutan Ltd. 2. Bhutan Power Corporation Ltd.	
Mr. Nim Dorji	Secretary, MoF	6	-	1. Druk Green Power Corporation Ltd.
Mr. Tenzin Dhendup[3]	Secretary, MoAF	6	1. Bhutan Telecom Ltd.	-

Mr. Pema Chhewang[4]	Secretary, NLC	6	1. Druk Air Corporation Ltd.	-
Mr. Ugyen Rinzin [5]	Chairman, Yangphel Private Limited	6	-	-
Mr. Karma Tsetop Rinchhen [6]	CEO, Middle Path to Bhutan	6	-	-
Mr. Thinley Namgyel [7]	Secretary, GNHC	1	-	1. State Mining Corporation Ltd.
Mr. Dechen Dorji [8]	Country Representative WWF	1	-	1. Bhutan Telecom Ltd.
Mr. Kinga Tshering [9]	Founder, Institute of Happiness	1	-	-
Dasho Karma Yezer Raydi	CEO, DHI	7	1. State Mining Corporation Ltd, 2. Dungsam Cement Corporation Ltd.	

NOTE:

1. Dasho Sangay Khandu completed his tenure as the Chairman, DHI on 30th March 2018 and 81st Board Meeting was his last Board Meeting.
2. Dasho Ugen Chewang was appointed as the Chairman, DHI on 27th July 2018 and the 84th Board Meeting was his first Board Meeting
3. Mr. Tenzin Dhendup completed his tenure as the Board Director, DHI on 16th November 2018 and 85th Board Meeting was his last Board Meeting.
4. Mr. Pema Chewang was completed his tenure as the Board Director, DHI on 16th November 2018 and was again reappointed.
5. Mr. Ugyen Rinzin, completed his tenure as the Board Director, DHI on 16th November 2018 and 85th Board Meeting was his last Board Meeting.
6. Mr. Karma Tsetop Rinchhen completed his tenure as the Board Director, DHI on 16th November 2018 and 85th Board Meeting was his last Board Meeting.
7. Mr. Thinley Namgyel was appointed as a Board Director, DHI on 17th November 2018 and 86th Board Meeting was his first meeting.
8. Mr. Dechen Dorji was appointed as a Board Director, DHI on 17th November 2018 and 86th Board Meeting was his first meeting.
9. Mr. Kinga Tshering was appointed as a Board Director, DHI on 17th November 2018 and 86th Board Meeting was his first meeting.

7 Board Meetings were held in 2018 and the gap between two meetings did not exceed three months in accordance with the Companies Act 2016.

BOARD COMMITTEE MEETINGS AND PROCEDURES

BOARD COMMITTEE FOR PERFORMANCE MANAGEMENT (BCPM)

The DHI BCPM is the standing committee of the DHI Board to negotiate, finalize, monitor, review and evaluate the annual compacts of DHI with DHI Board, DHI Owned Companies and DHI Controlled Companies.

A total of 24 BCPM meetings were held in 2018 including the compact negotiation meetings and mid-term review of the compacts

NOMINATION AND GOVERNANCE COMMITTEE (NGC) FOR THE SELECTION OF CEOS OF DHI OWNED COMPANIES

The Nomination and Governance Committee is a special committee of board member representatives from both the company board and DHI board established for selection and appointment of CEO in DHI owned companies. In 2018, a total of three NGCs was formed for selection and appointment of CEOs in Drukair Corporation Ltd (DACL), Bhutan Power Corporation Ltd (BPCL) and Thimphu TechPark Ltd (TTPL).

Details of the NGCs held in 2018 are as follows:

	Drukair	BPC	TTPL
1st meeting	03rd Aug	08th Jun	08th Nov
2nd meeting	30th Oct	12th Jul	04th Dec
3rd meeting	16th Nov	20th Jul	24th Dec
4th meeting	04th Dec	30th Jul	

BOARD AND CEO EVALUATION

DHI has a system of conducting online survey annually, whereby feedback is collected from the Chairman and CEO on the performance of the individual board directors in the DHI Owned and Controlled Companies. The key parameters covered include the board directors' dedication and preparedness for the meeting, professional and ethical attributes, team work and their contribution in the meeting. The report is used to identify the skill-development needs of Directors and is also considered in determining the reappointment of the current board directors.

Further, DHI conducts annual performance evaluation of the CEOs of DHI Owned Companies. The performance evaluation of CEO is divided into two parts: 1) a questionnaire-based leadership assessment which accounts for 20% weight of the overall evaluation; and 2) an annual compact performance which accounts for 80% weight. The leadership assessment is administered online by Corporate Performance Department, DHI, and is undertaken by all the Board Directors. The combined score is used to pay out the CEO's performance linked financial incentives and is also considered during the renewal of contracts of the CEO in DHI owned companies.

RISK MANAGEMENT

Risk Management is an increasingly important business driver and stakeholders have become much more concerned about risk. Risk Management is a recognized tool for prudently managing investments in today's very fast changing business environment. A Risk Management Framework based on the enterprise risk management principles has been issued by DHI in 2013 to ensure that risks related to the activities undertaken by the portfolio companies are managed deliberately and effectively through a properly established process of assessment, resource allocation, review and reporting. An enterprise risk management framework is used to manage risks more consistently, comprehensively and economically.

An enterprise-wide approach to risk management enables an organization to consider the potential impact of all types of risks on all processes, activities, stakeholders, products and services. Risk may be a driver of strategic decisions, it may be the cause of uncertainty in the organization or it may simply be embedded in the activities of the organization. The Risk Management Framework have been instituted for the DHI and DHI owned companies with the following objectives:

i. To identify the risk associates with all the activities of the organization.
ii. To rationalize and prudently allocate effort and resources to manage the risk.
iii. To institutionalize the risk management system with reporting requirement resulting in conscious recognition and management of risk in fulfilling the goal, objectives and mandates of the group and the organization

As a means of institutionalizing the risk management process, a compact target on Risk Management process has been included for all DOC's clearly specifying minimum process/activity requirements, mitigations measure thereof and reporting intervals.

2018 CHARITABLE CONTRIBUTION HIGHLIGHTS

In 2018, under the CSR charitable contributions alone, DHI provided financial support to activities initiated by external agencies, CSOs/NGOs, institutions and individuals amounting to a total contribution of 4.025 million and under the Donation scheme, DHI contributed to more than 20 activities amounting to Nu. 1.975 million. Some of the Major activities are as below:

RELIGION

- Hindu Dharma Samudaya of Bhutan: as one-time donation for seed fund.
- Throema Tshokchung Committee: the construction of choekhang at Thimphu under the guidance of DUDJOM DHARMA HOUSE.
- Financial contribution to offer Ku-Sung-Thuk Mendrel at Memorial Chorten, Thimphu for DHI and its companies.
- Royal Audit Authority: for the construction of Chorten at Professional Development Center, Tsirang.

SOCIAL

- Lhak-Sam : for the mass commercial greenhouse for disadvantaged Bhutanese people at Ganeykha gewog, Thimphu.
- Bhutan Center for Media & Democracy : to support initiatives in strengthening democracy and citizenship in Bhutan.
- Journalist Association of Bhutan: for the Annual Journalism Award 2018.

YOUTH/SPORTS

- Department of Youth & Sports: for the Regional School Sports Meets and National School Games.
- Youth Development Fund: for 11th Golden Youth Award Camp 2018.
- Thimphu Mountain Biking Club: for the Premier National Bicycle races of the 9th Tour of the Dragon and 4th Dragon's Fury events 2018.

EDUCATIONAL

- Ministry of Information & Communications: for Techstar Startup Weekend 2018.
- Motithang Higher Secondary School, Thimphu: for choedsam construction.
- Khesar Gyalpo University of Medical Sciences : for 4th International Conference on Medical and Health Sciences 2018.

NATIONAL SIGNIFICANCE

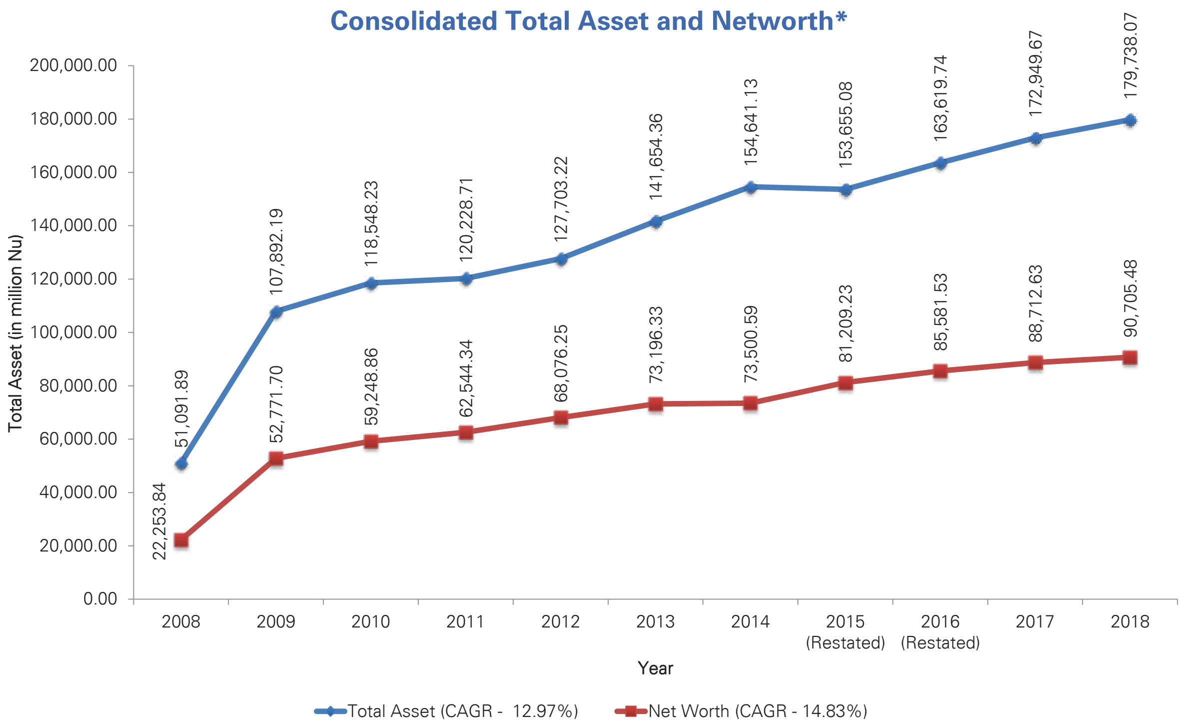
- DHI and its companies jointly contributed Nu.1.25 million for Bhutan week event organized by the Royal Bhutanese Embassy in New Delhi, India.
- Fund support for the Royal Bhutan Flower Exhibition 2018.
- Fund support for the celebration of Bhutan's National Day 2018 in Samtse.

CULTURAL

- Mountain Echoes Literary Festival 2018.
- Gasa Dzongkhag for 3rd Edition of the Royal Highland Festival 2018.

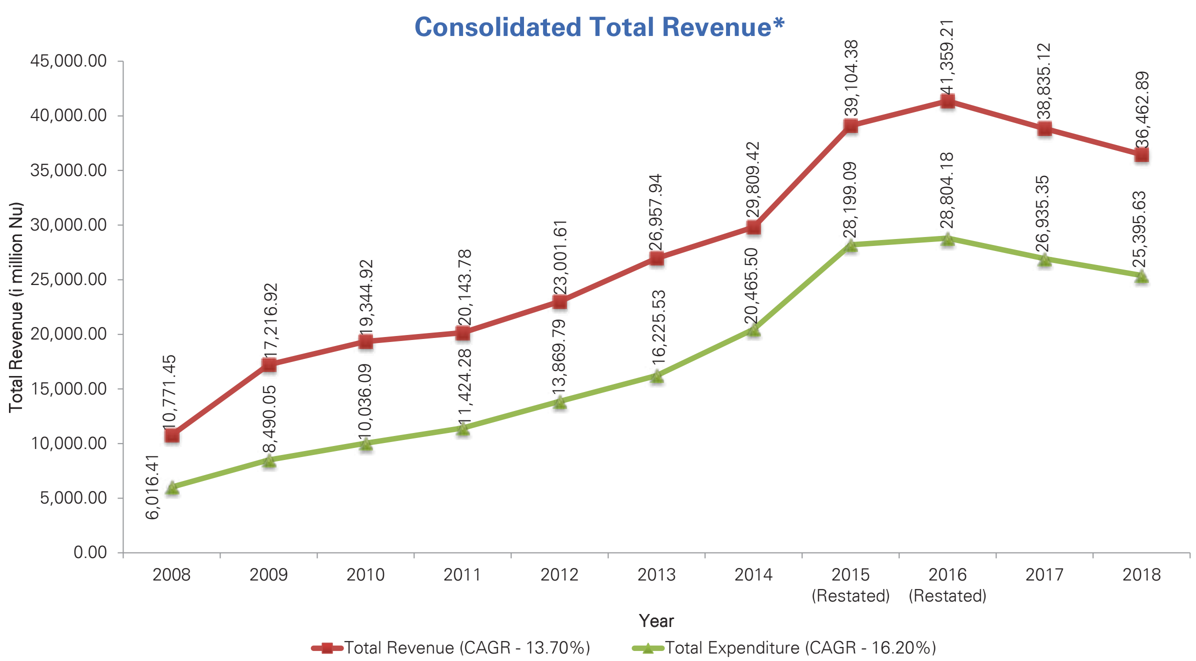
FINANCIAL REVIEW

GROUP ASSETS AND NETWORTH



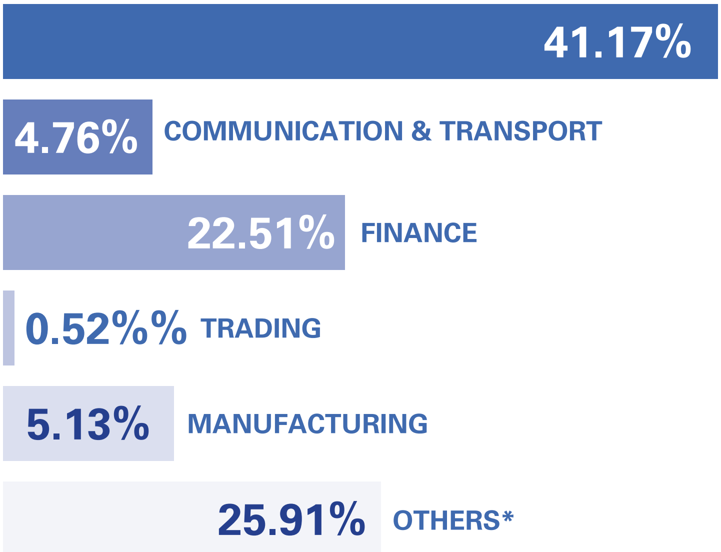
*With implementation of BAS from 2014 onwards, the stated figures from 2013 to 2016 are from the Consolidated Accounts

GROUP REVENUE AND PROFIT BEFORE TAX (PBT)



*With implementation of BAS from 2014 onwards, the stated figures from 2013 to 2016 are from the Consolidated Accounts

ASSET BY SECTOR, 2018



**DHI, Real Estate and Construction*

PERCENTAGE CONTRIBUTION TO NATIONAL REVENUE

Source	2017-18	2016-17	2017-18 (%)	2016-17 (%)
DHI	5,667.10	4,961.70	14.20%	14.40%
DGPCL	2,329.60	2,486.50	-6.30%	5.90%
TCB	1,397.30	1,372.30	1.80%	3.60%
RMA	1,001.00	874.1	14.50%	2.60%
BPCL	543.4	561.6	-3.20%	1.40%
RSTA	423.1	391	8.20%	1.10%
BTCL	415.1	437	-5.00%	1.10%
DGM	405.8	329.5	23.20%	1.00%
BNBL	376.4	340.3	10.60%	1.00%
BOBL	289.4	439.84	-34.20%	0.70%
Total	**12,848.10**	**12,193.90**	**5.40%**	**32.80%**

KEY FINANCIAL AND OPERATIONAL HIGHLIGHTS OF DHI SUBSIDIARIES

DRUK GREEN POWER CORPORATION LIMITED

- Achieved power plant availability (PPA) of 99.51% and water utilization factor (WUF) of 100%;
- Generated 6,573.990 million units (MU) of electricity during FY2018;
- Entered into an agreement with Bhutan Automation for the implementation of a SCADA system, including replacement of governing and excitation systems for Kurichhu Hydropower Plant(KHP). The order worth Nu. 157 million was placed on Bhutan Automation.
- Signed MoU with Bernard Gruppe of Austria to collaborate in providing consultancy services to existing and future hydropower projects within and outside of Bhutan.
- Entered into an MoU with Andritz O&M to collaborate in providing O&M services to hydropower plants outside of Bhutan. For the first time, deputed 11 engineers and technicians to work with Andritz O&M in the operation and maintenance of the 110 MW Pare Hydroelectric Project in Arunachal Pradesh.

Company	Particulars	2018	2017
DGPC	Total Assets	53,476.13	54,943.37
	Net Worth	45,993.01	46,167.10
	Income	11,681.98	12,277.25
	Expenditure	5,002.92	5,052.79
	PBT	6,679.06	7,224.45
	Tax	2,182.49	2,137.48
	PAT	4,496.57	5,086.97

BHUTAN POWER CORPORATION LIMITED

- Domestic electricity consumption increased by 6.5% to 2,328.44 MU from 2,185.75 MU in 2017;
- Achieved global energy loss of 2.21% and transmission and distribution (T&D) loss of 6.15%;
- Wheeled 4,437.93 MU of energy for export to India for DGPC;
- Completed upgradation of 22/660 Singhigaon substation from AIS to GIS substation and commissioned 10MVA 132/33kV transformer at Kilikhar substation to meet the increasing power demand of Kilikhar, including the Bondeyma Industrial Estate.

Company	Particulars	2018	2017
BPC	Total Assets	30,056.79	28,964.16
	Net Worth	13,076.56	13,694.80
	Income	9,648.26	11,507.14
	Expenditure	8,495.22	9,614.59
	PBT	1,153.04	1,892.55
	Tax	390.73	564.59
	PAT	762.31	1,327.96

BHUTAN TELECOM LIMITED

- Deployed 81 new 3G sites in the rural areas and 30 new 4G (LTE) sites in major towns across the country;
- Increased active mobile customers to 396,502 from 390,335 in 2017 and fixed line customers to 22,015 from 21,364 in 2017;
- Increased leased line Internet subscriptions to 772 from 598 in 2017;
- Deployed B-Ngul (Mobile Financial Service) and made financial services available to rural folks as well.

Company	Particulars	2018	2017
BTL	Total Assets	5,418.88	5,495.82
	Net Worth	3,757.83	4,224.35
	Income	3,573.74	3,194.09
	Expenditure	2,208.31	1,977.67
	PBT	1,365.43	1,216.42
	Tax	442.97	387.51
	PAT	922.46	828.91

NATURAL RESOURCES DEVELOPMENT CORPORATION LIMITED

- Increased timber extraction to 2.04 million cft from 1.66 million cft in 2017 and extracted 501,586.84 m3 of sand;
- Operationalized new sand extraction site at Phaperkheti in Drujeygang, Dagana to supplement sand supply for central and western Dzongkhags,
- Carried out plantation in 63.90 Ha under social mandate; 59.90 Ha under normal plantation and 4 Ha under Green Compensatory Plantation Program in partnership with BOB and Drukair.

Company	Particulars	2018	2017
NRDCL	Total Assets	726.46	742.05
	Net Worth	569.3	522.05
	Income	672.5	459.01
	Expenditure	615.06	510.91
	PBT	59.74	-51.90
	Tax	17.57	9.93 (deferred tax)
	PAT	42.17	-61.83

DRUKAIR CORPORATION LIMITED

- Increased total number of passenger flown by 5.31%, to 285,397 passengers from 271,007 passengers carried in FY2017 and achieved a load factor of 72.57%.
- Retained 73% market share on the four competitive routes, which was also the share for 2017.
- Introduced a new route from Paro to Singapore via Guwahati with two flights a week
- Signed purchase agreements with ATR and Airbus companies for purchase of ATR 42-600 and A320 NEO aircrafts.

Company	Particulars	2018	2017
Drukair	Total Assets	6,381.79	6,261.59
	Net Worth	2,956.51	2,943.36
	Income	3,945.74	3,526.45
	Expenditure	3,683.85	3,024.74
	PBT	261.88	540.07
	Tax	102.47	191.46
	PAT	159.41	348.62

CONSTRUCTION DEVELOPMENT CORPORATION LIMITED

- Completed numerous complex "design and build" bridge projects;
- Took advanced steps into electricity transmission works by taking up the construction of the 18 km 132 kV transmission line from the pothead of the Nikachhu project's powerhouse to the pothead yard of the Mangdechhu project at Yurmo, which is in addition to the 66 kV transmission project from Jemina to Changidaphu that is nearing completion.
- Commenced river training and urban development project in the Phuentsholing Township Development Project (Zone A);
- Continued to maintain fully national workforce in all its projects. At the same time, continued to render high quality services at competitive rates;
- Made significant progress in major hydropower construction projects – construction of an Adit and the Head Race Tunnel for the 118 MW Nikachhu project.

Company	Particulars	2018	2017
CDCL	Total Assets	1,787.91	1,521.01
	Net Worth	981.03	951.92
	Income	733.00	689.13
	Expenditure	730.65	696.70
	PBT	2.35	-7.56
	Tax	3.24	0.07 (deferred tax)
	PAT	5.59	-7.56

WOODCRAFT CENTRE LIMITED

- Carried out training of 25 Bhutanese youths with the financial assistance from Department of Employment and Human Resources, MoLHR in carpentry with indigenous designs;
- Increased usage of local timber to 21.10% in its total production;
- Developed 10 years Roadmap, that is in in line with DHI's 10 Years Roadmap for the Group.

Company	Particulars	2018	2017
WCCL	Total Assets	184.32	149.75
	Net Worth	138.66	123.18
	Income	109.92	93.51
	Expenditure	88.01	85.94
	PBT	21.91	7.57
	Tax	6.48	3.32
	PAT	15.43	4.25

THIMPHU TECHPARK LIMITED

- Achieved an annual average occupancy rate of 98%;
- Created over more than 450 direct employment at the Park;
- Made significant progress in the construction of second IT Park building within the five-acre compound of the Park; and
- Successfully conducted various entrepreneurship, HR and IT training programs in partnership with MoLHR and MoIC.

Company	Particulars	2018	2017
TTPL	Total Assets	385.32	369.75
	Net Worth	264.12	243.44
	Income	36.58	48.72
	Expenditure	25.62	31.48
	PBT	10.95	17.24
	Tax	-	Tax exempted
	PAT	10.95	17.24

STATE MINING CORPORATION LIMITED

- Increased coal production by 60% from 2017 to a total of 80,253.154 MT from the two mines at Habrang and Tshophangma;
- Commissioned a three-stage 200 tons per hour (TPH) capacity crushing plant at Dzongthung and Dzungdi, Trashigang and Trashi Yangtse, respectively. The crushing plants were established to supply aggregates to Kholongchu Hydro Electric Project (KHEP);
- Produced 32,194.64 MT of aggregates of which 10,563.67 MT was sold to the local market;
- Worked towards takeover of the Khothakpa Gypsum Mine from 1 January 2019 and ensured seamless transfer of the entire operations.

Company	Particulars	2018	2017
SMCL	Total Assets	642.76	365.35
	Net Worth	410.60	295.85
	Income	449.72	260.44
	Expenditure	325.61	170.19
	PBT	124.11	90.25
	Tax	37.84	22.86
	PAT	91.39	67.39

BANK OF BHUTAN LIMITED

- Introduced the first e-wallet services in the country under the brand name "Chharo";
- Registered a Net Profit of Nu. 1,040.83 million in the year 2018 an increase of 31.62 percent. This is the first time in its history that the Bank has crossed Nu.1 billion in Net Profit.
- Opened three new branch offices at Jomotshangkha, Pasakha and Paro Airport and an extension counter at Chukha
- Improved the service reliability and introduced 'Network Operations Center' which is manned 24x7 to constantly monitor the systems stability and rectify issues as early as possible

Company	Particulars	2018	2017
BOB	Total Assets	55,581.58	51,132.28
	Net Worth	6,563.30	5,899.17
	Income	3,997.20	3,045.28
	Expenditure	2,292.39	1,975.35
	PBT	1,441.19	1,019.47
	Tax	432.36	311.96
	PAT	1,008.83	707.52

DUNGSAM CEMENT CORPORATION LIMITED

- Achieved plant availability of 89.52% in the clinkerisation unit compared to 84% in the FY2017.
- Achieved plant availability of 73.13% in the grinding units as against 60% in the FY2017, recording an impressive growth of almost 22%;
- Produced 610,845.01 MT of clinker, an increase of almost 15% from 532,913 MT produced in FY2017; and
- Produced 633,629.00 MT of cement compared to 571,150 MT in the FY2017, recording a growth of almost 11%; and
- Sixteen new distributors were appointed during the year in the domestic market.

Company	Particulars	2018	2017
	Total Assets	10,201.50	11,231.05
	Net Worth	3,898.27	3,635.06
	Income	3,783.54	3,299.86
DCCL	Expenditure	3,813.91	4,020.04
	PBT	-30.38	-720.18
	Tax	-	206.67
	PAT	-30.38	-513.51

KOUFUKU INTERNATIONAL LIMITED

- Plant capacity utilization increased to 32.5% from 28% in the FY2017;
- Improved milk quality and quantity with aggressive quality control measures and support from Dzongkhag Livestock and Regional Livestock Development Center;
- Worked with 12 farmer groups and 3 private farms and benefitted more than more than 300 households directly in the dairy value chain sector in eastern Bhutan;
- Obtained ISO 22000-2005 certification and BAFRA GHP/GMP certification, mainly I the areas of quality and standards in the manufacture of food products;
- Identified and appointed a distributor in Assam to establish presence in the Indian market; and
- Started supplying high-end yogurts to Drukair and Bhutan Airlines.

Company	Particulars	2018	2017
	Total Assets	79.03	79.07
	Net Worth	-23.06	-2.15
	Income	12.93	35.80
KIL	Expenditure	33.84	31.78
	PBT	-20.91	4.01
	Tax		
	PAT	-20.91	-30.10

DUNGSAM POLYMERS LIMITED

- Achieved plant availability of 98.75% compared to 90.72% in the FY2017l;
- Achieved a plant capacity utilization of 52.38% compared to 44.55% in the FY2017;
- Increased fabrics production by 16%, to 1,257.99 MT;
- Increased bags production by 18%, to 17.28 million bags compared to 14.7 million in the FY2017;

Company	Particulars	2018	2017
	Total Assets	199.71	150.48
	Net Worth	48.05	-22.06
	Income	179.90	146.10
DPL	Expenditure	180.24	152.69
	PBT	-0.34	-6.59
	Tax	0.31	
	PAT	-0.64	-6.59

STATE TRADING CORPORATION LIMITED

- Successfully completed 50 years of commercial operations. The day was marked with the unveiling of new company logo and inauguration of crèche for working mothers.
- Introduced service center for Walton home appliances and launched Hitachi home appliances at the multi-brand showroom located at Olakha;
- Received various recognitions and awards from Eicher and Tata companies during the year.

Company	Particulars	2018	2017
STCB	Total Assets	1,295.72	950.89
	Net Worth	471.05	439.20
	Income	2,366.19	2,285.79
	Expenditure	2,253.82	2,167.95
	PBT	112.37	117.83
	Tax	44.88	36.58
	PAT	67.49	81.26

FINANCIAL STATEMENTS 2018

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To,
The Members of Druk Holding and Investments Limited

Report on the Consolidated Financial Statements

Qualified Opinion

We have audited the Consolidated Financial Statements of Druk Holding and Investments Limited and its subsidiaries ("the Group"), which comprise the Consolidated Statement of Financial Position as at December 31, 2018, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flow for the year then ended, and notes to the Consolidated Financial Statements, including significant accounting policies and other explanatory information (hereinafter referred to as "the Consolidated Financial Statements")

In our opinion, except for the possible effects of matters described in the Basis for Qualified Opinion section of our report, the accompanying Consolidated Financial Statements give a true and fair view of the Consolidated Financial Position of the Group as at December 31, 2018 and its Consolidated Financial Performance and its Consolidated Cash Flows for the year then ended in accordance with Bhutanese Accounting Standards (BAS).

Basis for Qualified Opinion

1. *We draw attention to Note 39 of this consolidated Financial Statements with regards to non-compliance of Bhutanese Accounting Standard (BAS) 19, Employee Benefit, Bhutanese Financial Reporting Standard (BFRS) 9,Financial Instruments (early adopted) and Bhutanese Financial Reporting Standard (BFRS) 15, Revenue from Contract with Customers.*

   i. *With respect to BAS 19 it is noted that certain companies have followed Actuarial valuation for measurement and recognition of post employee benefits. The disclosure requirement as per BAS 19 has not been followed by certain companies. The group is not able to ascertain the impact of this non-compliance.*
   ii. *Certain subsidiaries have not disclosed the information required to be disclosed under BFRS 9 Financial Instruments – Measurement and Recognition. Consequently the Group has also not reported the required information.*
   iii. *None of the subsidiaries has disclosed the information required to be disclosed under BFRS 15.Consequently the required information has not been disclosed.*

2. *We draw attention to the following matters qualified by the other auditor who audited the financial statements of Bhutan Board Products Limited - (BBPL), Subsidiary, not audited by us, who have expressed an opinion that except for the effects of the matters described below, the*

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financial statements of the company (BBPL) give a true and fair view of the state of affairs of the Company (BBPL) as at December 31, 2018, of the profit of the Company (BBPL) for the year ended on that date, of the changes in equity of the Company (BBPL) for the year on that date and of the movement in cash flows for the year on that date:-

i. *Deferred Tax Asset is being carried in the statement of financial position at Nu. 18.18 million, instead of being charged to statement of Comprehensive Income, which constitutes a departure from Bhutanese Accounting Standard 12. Had the Company (BBPL) charged the same, Deferred Tax Expense would have been increased by Nu.18.18 million and net income and shareholders' equity would have been reduced by Nu.18.18.*

ii. *The Company's (BBPL) inventories are carried in the financial statements at Nu.172.21 million, however the auditors of the Company (BBPL) were unable to obtain sufficient appropriate audit evidence in terms of basis of valuation of the following inventories, to ascertain the appropriateness and the basis in accordance with BAS 2 – "Inventories", as the Management has not stated the inventories at the "lower of cost and net realizable value", but has valued the same as follows:*

   a. *Stock of Ready to Assemble furniture has been valued at Selling prices, instead of actual cost incurred during the year, which constitutes a departure from "Bhutanese Accounting Standard 2- Inventories".*

   b. *Board Stock has been valued based on the cost determined in the year 2013, and not the actual cost incurred during the year. Since the costs of all components used for arriving at the cost in 2013 has increased, valuing and carrying the stock at 2013 prices may impact the profitability, which constitutes a departure from Bhutanese Accounting Standard 2- Inventories.*

   c. *Other Inventories has been valued based on the cost incurred for the last purchase for the year. Had the company valued the inventory based on "weighted average Cost" the carrying value of inventory may have an impact on the profitability, which constitutes a departure from Bhutanese Accounting Standard 2- Inventories.*

   However, possible adjustments of these, if any, on the carrying value of inventories as at December 31, 2018 is not ascertainable.

iii. *The Company (BBPL) carries out activities of Planting and afforestation, of components covered under "Biological Assets" and "Agricultural Produce", as per "BAS 41- Agriculture". The Company (BBPL) has not valued such "Biological assets" and hence have not recognized the same as asset, in the accompanying financial*

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statements as at December 31, 2018, which constitutes a departure from Bhutanese Accounting Standard 41- Agriculture.

However, possible adjustments of the "Biological Assets", if any, on the carrying value of assets as at December 31, 2018 is not ascertainable.

iv. *The Company (BBPL) has not prepared consolidated financial statements as required by the Bhutanese Financial Reporting Standard 10 "Consolidated Financial Statements". In our opinion, the presentation of consolidated information is necessary for a proper understanding of the financial position, the financial performance and the cash flows of the Company and its subsidiary.*

3. *We draw attention to the following matters qualified by the other auditor who audited the the financial statements of Construction Development Corporation Limited (CDCL), Subsidiary, not audited by us, who have expressed an opinion that except for the effects of the matters described below, the financial statements of the company (CDCL) give a true and fair view of the state of affairs of the Company (CDCL) as at December 31, 2018, of the profit of the Company (CDCL) for the year ended on that date, of the changes in equity of the Company (CDCL) for the year on that date and of the movement in cash flows for the year on that date.*

   i. *Owing to inconsistent policy of estimation of residual value of Property Plant and Equipment (PPE) contrary to BAS-16, and shortcomings in data migration to ERP system, incorrect depreciation has been charged to the statement of comprehensive income.*
   Further physical verification of PPE conducted by the management revealed PPE having and aggregate cost of Nu.12.86 million and corresponding accumulated depreciation of Nu.6.21 million as at December 31, 2018 have not been recorded in the books of accounts. Those assets has been restated in the books of the Company by crediting retained earning as on that date. However, in the process of restating of the assets, opening accumulated depreciation in few of such old assets has been incorrectly recorded at "Nil" value, as a result of which the net value or related PPE and retained earnings stands overstated.
   In absence of requisite details, the impact of the same on the value of PPE, corresponding depreciation thereon and on the Statement of Comprehensive Income for the year could not be ascertained.

   ii. *Items of fixed assets held for Auction / Disposal and unusable assets have been booked at Net Book Value and not at lower of net realizable value or net book value. The aforesaid treatment of Property, Plant & Equipment and Impairment of Assets are not consistent with the provisions of BAS 16 and BAS 36.*

   iii. *The Company (CDCL) has reduced "Direct Cost" by Nu.4.01 million being net resultant impact on writing off inventory of Nu.12.21 million and write back of inventory of*

Nu.16.22 million, for which relevant supporting documents was not provided to us for our verification. Moreover, in absence of physical verification report of inventories conducted by the management, we could not examine the discrepancies between book balance and physical balance. Owing to the above, we are unable to comment on adequacy of stock of inventory and effect of the same on the financial statements of the Company (CDCL).
Further on examination of opening inventory migrated to ERP, revealed that quantity of opening balance of inventory have been incorrectly recorded. As a result of the value of consumption of materials, which are charged to project expenses vis-à-vis the value of closing inventories have been incorrectly measured, the impact of which on Statement of Comprehensive Income could not be ascertained.

4. *We draw attention to the following matters qualified by the other auditor who audited the financial statements of Dungsum Cement Corporation Ltd (DCCL), Subsidiary, not audited by us, who have expressed an opinion that except for the effects of the matters described below, the financial statements of the Company (DCCL) give a true and fair view of the state of affairs of the Company (DCCL) as at December 31, 2018, of the loss of the Company (DCCL) for the year ended on that date, of the changes equity of the Company (DCCL) for the year on that date and of the movement in cash flows for the year on that date :-*

   i. *In terms of BAS-16 Property Plant and Equipment (PPE), items such as spare parts, standby equipment and servicing equipment are recognized under PPE when they meet the definition. However, certain stores, spares and service equipment meeting the definition in terms of BAS-16 have not been recognized as PPE due to wear and tear, technical or commercial obsolesce.*

5. *We draw attention to the following matters qualified by the other auditor who audited the financial statements of Penden Cement Authority Ltd (PCAL), Subsidiary, not audited by us, who have expressed an opinion that for the effects of the matters described below, the financial statements of the Company (PCAL) give a true and fair view of the state of affairs of the Company (PCAL) as at December 31, 2018, of the profit of the Company (PCAL) for the year ended on that date, of the changes in equity of the Company (PCAL) for the year on that date and of the movement in cash flows for the year on that date :-*

   i. *In accordance with BAS 16 "Property, Plant and Equipment" significant parts/ components of assets are required to be identified and depreciated over their estimated useful life. The Company has not identified any significant parts / components / of property plant and equipment and the impact of same has neither been assessed nor disclosed.*
   ii. *Not availability of Balance Confirmations for various receivable and payables, which may have financial impact on the profitability and certain disclosures.*

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iii. *Computation of Corporate Income Tax could not be ascertained accurately as depreciation expense as per the Income Tax Act of the Kingdom of Bhutan, 2001 could not be determined.*

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

Emphasis of Matter

We draw your attention the following matters:

1. Restatement of earlier years Consolidated Financial Statements - The consolidated financial statement for the year ended December 31, 2016 and December 31, 2017, were adopted by the board of directors in their meeting held on May 9, 2017 and June 11, 2018. The above standalone financial statements were audited by the erstwhile auditor and they had issued their qualified opinion vide their report dated May 9, 2017 and June 15, 2018 respectively on the same. These financial statements were approved by the members in their meeting held on May 9, 2017 and June 11, 2018 respectively.

    i. It was identified by the management that the consolidated financial statement for the earlier years were inadvertently prepared by the parent company accounting the proposed divided in the year to which it relates rather than in the year of approval by the members in their annual general meeting. The above treatment of proposed divided was not in compliance to Bhutan Accounting Standard 10. To correct these errors, the Company has restated the consolidated financial statement for the year December 31, 2016 and December 31, 2017 by reversing the divided erroneously accounted for in December 31, 2016 of Nu.3,782.20 million and December 31, 2017 Nu.4,038.23 million in the opening retained earnings as on January 1, 2017 and January 1, 2018 respectively. However there is no impact of the above restatement adjustment on the retained earning as on December 31, 2018.

    ii. The company did not recognize the dividend for the year 2013 approved in the year 2014 amounting to Nu.3,128 million which has now been rectified by debiting to the retained earning as on January 1, 2017 and crediting to Advance to Ministry of Finance. The other adjustment of Nu.94 million mainly represents the other reconciliation items with Ministry of Finance.

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The above adjustment has resulted in net credit to Retained Earning by Nu.1004 million and corresponding debit to Advance to Ministry of Finance as on December 31, 2018.

2. In case of Bank of Bhutan Limited (BOBL), Subsidiary, not audited by us, the other auditor who audited BBL has drawn attention, without qualifying his opinion, to the following matters;
    i. Non-reconciliation of the cover fund, draft cover and principal accounts maintained with the State Bank of India, India, resulting in non-accounting / adjustment / reversal of the entries of Nu.239.77 million and Nu.308.90 million lying debit and credit respectively in these accounts, with consequential impact on the financial statements, if any.
    ii. Non-reconciliation of the nostro accounts maintained with various foreign banks resulting in non-accounting / adjustment / reversal of the entries of Nu.131.76 million and Nu.190.42 million lying debit and credit respectively in these accounts, with consequential impact on the financial statements, if any.
    iii. Preparation of the financial statements with adoption of Bhutanese Accounting Standards (BAS) of Phase -III, as applicable to the Bank, and resultant impact thereof due to change in the accounting policies adopted as per BAS (Phase-III) as compared to those followed earlier under GAAP.

3. In case of Dungsum Cement Corporation Limited (DCCL), Subsidiary, not audited by us, the other auditor who audited DCCL has drawn attention, without qualifying his opinion, to the following matters:
    i. Non-confirmation/reconciliation of certain balances of advances to vendors and others, trade receivables, sundry creditors, intra group company balances, advances received from customers and others and other current liabilities.
    ii. The Royal Audit Authority (RAA) has conducted two special audits during the year 2015 and 2016, the impact of which on the Company (DCCL) is not ascertainable.

4. In case of a Subsidiary of the Holding company Dungsam Polymers Limited (DPL), not audited by us, the other auditor who audited DPL has drawn attention, without qualifying his opinion, to the following matter:
    i. Non availability of balance confirmation in certain cases.

5. In case of Construction Development Corporation Limited (CDCL), Subsidiary, not audited by us, the other auditor who audited CDCL has drawn attention, without qualifying his opinion, to the following matters:-
    i. In case of reusable inventories, in absence of system of recording inventory return from one project to other Projects, we have noticed returned and reusable items of inventories amounting to Nu.9.70 million transferred from one project to another

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multiple projects but charged off as consumption of the projects, where the materials have been used.

6. In case of Natural Resources Development Corporation Limited (NRDCL), Subsidiary, not audited by us, the other auditor who audited NRDCL has drawn attention, without qualifying his opinion, to the following matters:-

   i. Non confirmation / reconciliation in respect of receivables, creditors, advances and payables where balance confirmations were not obtained.

7. In case of a Penden Cement Authority Ltd (PCAL), Subsidiary, not audited by us, the other auditor who audited PCAL has drawn attention, without qualifying his opinion, to the following matters:-

   i. Accounting of Tax Deducted at Source is being mostly done at the time of making payment to suppliers and contractors in contradiction of the guidelines issued by Department of Revenue & Customs, that Tax deducted at sources should be accounted for at the time of making payment or crediting in the books of accounts, whichever is earlier.

Our opinion is not modified respect of these above matters.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have determined the matter described below to be the key audit matter to be communicated in our report. We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

A. Key Audit Matters as reported by Principal Auditors in their Independent Audit Report

1. **Transition as auditors including the audit of the opening balances.**

Initial audit engagements involve a number of considerations not associated with recurring audits. We identified the audit transition, including the audit of the opening balance as a key audit matter as this involves additional planning activities and considerations necessary to establish an appropriate audit plan and strategy. This includes:

- Gaining an initial understanding of the Group and its business including its control environment and information systems, sufficient to make an audit assessment and develop the audit strategy and plan
- Obtaining sufficient appropriate audit evidence regarding the opening balances including the selection and application of accounting principles.

Audit process

Prior to becoming the Group's auditors, we developed a transition plan to understand the connection between the Group's strategy, the related business risks and the way these impact the Group's financial reporting and internal controls framework. Our transition plan included, among other:

- Including a process of file review
- Active knowledge sharing with Business, Finance, Risk and Internal Audit functions to understand their perspectives on the business, (emerging) risks and key findings from their work

- Evaluation of key accounting positions and audit matters from prior years

Review of management's control documentation to assist us in obtaining and understanding of the Group's financial reporting and business processes.

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Other Matters

1. We did not audit the financial information of 19 subsidiaries, whose financial information reflects total assets of Nu.185,883 million as at December 2018, total revenues of Nu.41,349 million and cash flows for the year amounting to Nu. 9,012 million for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statement also includes the Group's share of net profit of Nu.26.58 million for the year December 31, 2018, as considered in the consolidated financial statements, in respect of 2 associates and 2 joint venture, whose financial information have not been audited by us. These financial statements information have been audited by other auditors whose reports have been furnished to us by the managements and our opinion, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries and associates, is based solely on the reports of the other auditors. Our opinion is not qualified respect of this matter with respect to our reliance on the work done and the reports of the other auditors.

2. Attention is drawn to the fact that the comparative figures for the year ended December 31, 2017, which have been restated to give impact of error as explained above, are based on the previously issued consolidated financial statement, prepared in accordance with the BAS, that were audited by the erstwhile Auditor. The audit report dated June 15, 2018 on the audited consolidated financial statement of the Company for the year ended December 31, 2017 issued by predecessor auditor expressed a qualified opinion.

Our opinion is not modified in respect of the above matters.

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

Management is responsible for the preparation and fair presentation of these Consolidated Financial statements in accordance with Bhutanese Accounting Standards (BAS), and for such internal controls as management determines is necessary enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not that an audit conducted accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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vi. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, extremely rare circumstances, determine that matter should not be communicated our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Navindra Kumar Surana.

For Singhi & Co.
Chartered Accountants
Firm Registration No.- 302049E

SINGHI & CO. * Chartered Accountants *

(Navindra Kumar Surana)
Partner
Membership No.-053816

Place : Kolkata
Date: May 6, 2019

Singhi & Co.
Chartered Accountants
161, SARAT BOSE ROAD, KOLKATA-700 026, (INDIA)
✆ : +91(0)33-2419 6000/01/02 • E-mail : kolkata@singhico.com • Website : www.singhico.com

To,
The Members of Druk Holding and Investments Limited
Thimpu: Bhutan

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the standalone financial statements of Druk Holding and Investments Limited(the Company), which comprise the statement of financial position at December 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cashflows for the year then ended, and notes to the standalone financial statements, including a summary of significant statement accounting policies.

In our opinion the accompanying standalone financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Bhutanese Accounting Standards.

Basis for Opinion

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

Emphasis of Matter

We draw attention to the following notes in the financial statements :

1. **Restatement of earlier years Standalone Financial Statements** - The standalone financial statement for the year ended December 31, 2016 and December 31, 2017, were adopted by the board of directors in their meeting held on February 9, 2017 and February 13, 2018. The above standalone financial statements were audited by the erstwhile auditor and they had issued their unmodified opinion vide their report dated February 9, 2017 and February 14, 2018 respectively on the same. These financial statements were approved by the members in their meeting held on May 9, 2017 and June 11, 2018 respectively. The above financial statements have been restated to rectify the following errors :-
   i. It was identified by the management that the standalone financial statement for the earlier years were inadvertently prepared by accounting the proposed divided in the year to which it relates rather than in the year of approval by the members in their

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annual general meeting. The above treatment of proposed divided was not in compliance to Bhutan Accounting Standard 10. To correct this error, the Company has restated the standalone financial statement for the year December 31, 2016 and December 31, 2017 by reversing the dividend erroneously accounted for in December 31, 2016 of Nu. 3,782,199,322 and December 31, 2017 Nu. 4,038,232,337 in the opening retained earnings as on 1st January 2017 and 1st January 2018 respectively. Further the dividend have been accounted for in the year of approval in the Annual General Meeting. However there is no impact of the above restatement adjustment on the retained earning as on December 31, 2018 (Refer note no. 37 A to the standalone financial statements).

ii. The company did not recognize the dividend for the year 2013 approved in the year 2014 amounting to Nu.3128 million which has now been rectified by debiting to the retained earning as on January 1, 2017 and crediting to Advance to Ministry of Finance. The other adjustment of Nu.94 million mainly represents the other reconciliation items with Ministry of Finance (Refer note no. 37 B to the standalone financial statements).

The above adjustment has resulted in net credit to Retained Earning by Nu. 1,004 million and corresponding debit to Advance to Ministry of Finance as on December 31, 2018.

Our opinion is not qualified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements for the financial year ended December 31,2018. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have determined the matters described below to be the key audit matters to be communicated in our report. We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the standalone financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the standalone financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying standalone financial statements.

1. Transition as auditors including the audit of the opening balances.

Initial audit engagements involve a number of considerations not associated with recurring audits. We identified the audit transition, including the audit of the opening balance as a key audit matter as this involves additional planning activities and considerations necessary to establish an appropriate audit plan and strategy. This includes:

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- Gaining an initial understanding of the company and its business including its control environment and information systems, sufficient to make an audit assessment and develop the audit strategy and plan
- Obtaining sufficient appropriate audit evidence regarding the opening balances including the selection and application of accounting principles.

How our audit addressed the key audit matter-

Prior to becoming the company's auditors, we developed a transition plan to understand the connection between the company's strategy, the related business risks and the way these impact the company's financial reporting and internal controls framework. Our transition plan included, among other:

- Including a process of file review interaction with the previous auditor.
- Active knowledge sharing with Business, Finance, Risk and Internal Audit functions to understand their perspectives on the business, (emerging) risks and key findings from their work
- Evaluation of key accounting positions and audit matters from prior years
- Review of management's control documentation to assist us in obtaining and understanding of the company's financial reporting and business processes

2. Carrying value of investment in a Subsidiary company

The Company is required to annually test the amount of investments made in subsidiary companies for impairment. This annual impairment test is significant to our audit because the Company's investment in subsidiary companies is Nu.53,313 million as of December 31, 2018, and is material to the financial statements. The value of cost of investment in case of certain subsidiaries namely Dungsum Cement Corporation Limited, Dungsum Polymer Limited, Dagachu Hydropower Corporation Limited and Koufuku International Limited is lower than the net worth of the investee company at December 31, 2018.The existence of the above indicator require management to estimate the recoverable amount of the above investments. Further the said subsidiary company has been in operation for only five years and management is of the view that the decline in value of investment in the said subsidiary company is temporary in nature as there is signification improvement in the performance over the last couple of years. The management's assessment on impairment of investment is judgmental and is based on assumptions viz, future profitability and free cash flow generation of the said subsidiary company to meet the financial obligations which are affected by future market and economic conditions prevailing in Bhutan and outside of Bhutan. The assessment was done by the management of the Company on value in use basis using discounted cash flow model after taking in to account the proposed action taken by the management of the subsidiary to achieve optimum operational, marketing and financial performances to improve the said subsidiary's financial results. Based on such assessment, management is of the view that the recoverable value of the investments of the above subsidiaries is higher than the carrying value of investments accordingly no impairment is required.

How our audit addressed the key audit matter-

Our audit procedures included, discussion with the Company management for subsidiary company's with regard to current state of performance and its proposed action plan to improve operational, marketing and financial performances so that cash flow is improved. We have reviewed document/plan signed by the management of DHI explaining improvement in financial and operational metrics of the subsidiary company and exploring new markets to increase the sales and results of the subsidiary company. We have reviewed the future business plan including key assumptions and estimates such as sales price, production volume, reserves and operating cost, and other parameter including discounting rate used and found that the valuation methodology used to be in line with the generally accepted market practice and that the key assumptions used were within the range of the market data and accordingly we concluded, based on assessment of the recoverable amount of the investment which is higher than their carrying value, that there is no impairment required in the carrying value of the investment.

Other Matter

Attention is drawn to the fact that the comparative figures for the year ended December 31, 2017, which have been restated to give impact of error as explained above, are based on the previously issued standalone financial statement, prepared in accordance with the BAS, that were audited by the erstwhile Auditor. The audit report dated February 14, 2018 on the audited standalone financial statement of the Company for the year ended December 31, 2017 issued by predecessor auditor expressed a unmodified opinion.
Our opinion is not qualified in respect of the above matter.

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

Management is responsible for the preparation and fair presentation of the standalone financial statements in accordance with the Bhutanese Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the standalone financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Standalone Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these standalone financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by Section 266 of the Companies Act 2016, we enclose in the Annexure a statement on Minimum Audit Examination and Reporting Requirement to the extent applicable.

As required by Section 265 of the Act, we report that:

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a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.

b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books.

c) The Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows dealt with by this report have been prepared accordance with accounting principles generally accepted and are in agreement with the books of account.

d) In our opinion, the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows comply with the Bhutanese Accounting Standards and provisions of the Companies Act of Bhutan, 2016.

The engagement partner on the audit resulting this independent auditor's report is Mr. Navindra Kumar Surana.

For Singhi & Co.
Chartered Accountants
Firm Registration No.- 302049E

SINGHI & CO. * Chartered Accountants *

(Navindra Kumar Surana)
Partner
Membership No.-053816

Place : Kolkata
Date: May 6, 2019

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Chartered Accountants

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MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

1) The Company has maintained proper records to show full particulars including quantitative details and situation of its fixed assets. The Company's Management had conducted physical verification of fixed assets during the year. The discrepancies noted were not material and the same have been properly dealt with in the books of accounts.

2) As informed to us, the Company had received a land by way of Grant from the State on 6thSeptember, 2011 free of cost to construct its Corporate office building. The said land has been valued at Nominal value. The fixed assets were not revalued during the year.

3) The Company has taken unsecured loans during the year from the Royal Government of Bhutan and the rate of interest and the other terms and conditions of the of loan availed are prima facie not prejudicial to the interest of the company.

4) The Company had granted loans to Subsidiary Companies during the year. In our opinion and according to the information and explanations given to us during the course of the audit, the rate of interest and other terms and conditions of such loan are prima facie not prejudicial to the interest of the Company. The principal along with the interest have been paid during the year as per agreement. The guarantees are active during the year as the loans against which such guarantees were given have not been fully repaid.

5) The parties to whom the loans and advances have been given by the Company are generally regular in repaying the amounts as stipulated period except a few cases wherein the company has extended the repayment schedule.

6) The loans/advances granted to officers/staff are generally in keeping with the provisions of its service rules and no excessive/frequent advances are granted and accumulation of large advances against particular individual is generally avoided.

7) In our opinion and according to the information and explanations given to us, the Company has established an adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records during the year, to carry out the business in an orderly and efficient manner, to safeguard the assets of the Company as well as to ensure adherence to the applicable rules/regulations and systems and procedures.

8) In our opinion and according to the information and explanations given to us, there is a reasonable system of obtaining competitive biddings/quotations/agreed rate contracts in place from the parties in respect of purchase of fixed assets and commensurate with the size of the Company and the nature of its business. The Company is not engaged in manufacturing or trading activities or sale of services, hence the question of purchasing or selling goods or services does not arise.

9) (a)According to the information and explanations given to us, the Company has a process of obtaining confirmation from all Directors with respect to transactions for purchases and sales of goods and services made in pursuance of contracts or arrangement entered into with the directors or any other parties related to the directors or with company or firms in which the

directors are directly or indirectly interested have been made at prices, which are reasonable having regard to the prevailing market prices for such goods or services or at prices at which the transactions for similar goods or services have been made with other parties.

(b)Based on the information and explanations given to us during the course of the audit and based on our examination of books and records, in our opinion the transactions entered into by the Company wherein the directors are directly or indirectly interested are not prejudicial to the interest of the other shareholders and the Company.

10) The Company is regular in depositing rates and taxes, duties, and statutory dues with the appropriate authorities. According to the information and explanations given to us during the course of the audit, we believe that the provision for corporate tax is adequate.

11) The undisputed outstanding amount payable in respect of contractor taxes / health tax / salary tax etc. at the year end is as follows :-

Particulars	Amount in Nu.
Contractor tax deducted at source – deduction of December 2018 remitted subsequently in 2019.	13,179
Corporate Income Tax Payable – provision for the year ended December 2018 remitted subsequently in 2019.	1,381,901,182
Total	**1,381,914,361**

12) According to the information and explanations given to us, no personal expenses of employees or directors have been charged to the account other than those payable under contractual obligation/in accordance with generally accepted practice.

13) In our opinion, the system for follow up with debtors and other parties for recovery of outstanding amounts are reasonable. Also age wise analysis of outstanding amount is carried out on a regular basis for management information and follow-up action.

14) In our opinion and on the basis of information and explanations given to us, the management of liquid resources, particularly cash/bank is adequate and we further report that excessive amounts are lying idle in non- interest-bearing accounts as on December 31, 2018.

15) According to the information and explanations given to us, and on basis of examination of books and records on test check basis, the activities carried out by the Company during the year are in our opinion lawful and intra vires to the Articles of Incorporation of the Company.

16) According to the information and explanations given to us, and on basis of examination of books and records on test check basis, in our opinion the activities/ investment decisions are made after the prior approval of the Board and in new projects are made only after ascertaining the technical and economic feasibility of such new ventures.

17) In our opinion, the Company has established an effective budgetary control system.

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18) The details of remuneration, commission and other payments made in cash or kind to the board of Directors or any of their relatives by the Company directly or indirectly are disclosed in the Note- 30 of Notes to Financial Statements.

19) According to the information and explanations given to us, the directives of the Board have been complied with.

20) Based on information and explanation provided to us, adequate documents and records are maintained for loans and advances granted, agreements have been drawn up and timely entries have been made therein.

21) During the course of our audit we have not come across any investments (shares) that would require provision for permanent diminution.

22) Based on information and explanation provided to us, the Company is not covered under Financial Institutions Act, 1992 and has complied with other applicable laws, rules and regulations and guidelines issued by the appropriate Authorities.

23) The company has partly converted the loan of Nu.875 million given to one of its subsidiary Dungsum Cement Corporation Limited into investment in equity shares of Dungsum Cement Corporation Limited by following the prescribed procedures and with due approval of the Board.

COMPUTERISED ACCOUNTING ENVIRONMENT

1. In our opinion the organizational and system development controls and other internal controls are adequate relative to size and nature of Computer installations.

2. The Company has adequate safeguard measures and backup facilities.

3. As regards back up facilities and disaster recovery measures, we are given to understand that the back-up files are kept at different locations.

4. The operational controls are found adequate to ensure correctness and validity of input data and output information.

5. Measures taken by the Company to prevent unauthorized access over the computer installation and files are generally adequate.

The clauses 3,4,5,6,7,8,9,10,11,20,21,22,23,26,27,28,29,30,36,39,40 and 41 of the Companies Act of the Kingdom of Bhutan 2016 read with Section II of Schedule XIV thereto relating to the Minimum Audit Examination and Reporting Requirements are not applicable the Company. In addition, the above clauses 1,3,4,7,9,10,11,12 and 13 for Finance and Investment Company, all the clauses for Trading Company and for other service sector Companies and clause 6 of Computerized Accounting Environment are not applicable.

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GENERAL

1. **Going Concern Problems:**

   Based on the Company's financial statements for the year ended 31" December 2018audited by us, the Company has earned sufficient profit during the year under audit and wehave no reason to believe that the Company is not a going concern. Accordingly, the financial statements have been prepared under the going concern basis

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2. **Ratio Analysis**.

Financial and Operational Ratio Analysis in respect of the Company are given below:

Ratios	Basis	2018	2017
Earnings per share	(Profit After Tax/No. of shares Issued)	13.18	11.95
Net Profit Ratio (%)	(Net Profit/Turnover*100)	69.05	68.67
Return on Assets (%)	(Net Profit/Total Assets*100)	9.96	9.59
Return on Equity (%)	(Net Profit/Owner's Equity*100)	10.37	9.92
Dividend Coverage Ratio	(Net Profit Available to equity shareholders/Dividend paid to Equity shareholders)	1.50	1.35
Dividend payout Ratio (%)	(Dividend per share/Earning per share*100)	66.62	73.54
Current Ratio	Current Asset/Current Liability	4.92	4.44

3. **Adherence to Laws, Rules and Regulations**:

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

SINGHI & CO. * Chartered Accountants *

1. STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Note	Consolidated		Parent	
		31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
INCOME					
Revenue from customers	2.a	33,342.80	37,110.26	-	-
Dividend Income	2.b	107.23	111.24	8,452.11	7,594.06
Other Income	3	2,986.60	1,613.62	326.59	328.93
Share of Profits of Associates & Joint Ventures	4	26.26	-	-	-
Total Income		**36,462.89**	**38,835.12**	**8,778.70**	**7,922.99**
EXPENDITURE					
Direct Costs of Sales	5	8,395.94	11,098.05	-	-
Employee related Costs	6	4,047.02	3,870.01	61.00	68.19
R & M and other Costs	7	4,914.55	4,591.76	42.70	78.60
Finance Cost		1,790.17	1,614.49	4.95	0.78
Depreciation and amortisation	8	5,973.65	5,667.89	4.51	8.39
Impairment losses		274.30	88.64	-	-
Share of Losses of Associates & Joint venture	4	-	4.51	-	-
Total Expenditure		**25,395.63**	**26,935.35**	**113.16**	**155.96**
Profit on Operations before Tax		**11,067.26**	**11,899.77**	**8,665.54**	**7,767.03**
Income Tax Expenses	9	6,935.86	5,888.99	2,612.59	2,326.06
Profit on Operations after Tax		**4,131.40**	**6,010.78**	**6,052.95**	**5,440.97**
OTHER COMPREHENSIVE INCOME					
Actuarial gain/(loss) on post employment benefits		(127.99)	121.99	(1.14)	(3.20)
Fair value gain/(loss) on Equity Investment (FVOCI)		482.95	352.07	473.22	399.44
Currency translation variances		-	66.79	-	-
Tax on Other Comprehensive Income		(0.16)	(158.79)	(141.62)	(118.87)
TOTAL COMPREHENSIVE INCOME		**4,486.20**	**6,392.84**	**6,383.41**	**5,718.34**
Basic and Diluted Earnings per Share	10	8.99	13.20	13.17	11.95
Attributable to shareholders of DHI		4,541.83	6,226.06		
Attributable to Non controlling interest		(55.63)	166.78		

This is the Statement of Comprehensive Income referred to in our report of even date

For Singhi & Co
Chartered Accountants
Firm Registration No. 302049E

Dasho Ugen Chewang
Chairman

Dasho Karma Y. Raydi
Chief Executive Officer

Navindra Kumar Surana
Partner
Membership No: 053816
Place: Kolkata
Date: May 6, 2019

Tashi Lhamo
Director, Finance
Place: Thimphu
Date: May 6, 2019

Nim Dorji
Board Director

SINGHI & CO. Chartered Accountants

DRUK HOLDING & INVESTMENTS LTD.

2. STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2018

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Note	Consolidated		Parent	
		31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Non-current Assets					
Property, Plant and Equipment	8	88,445.88	88,715.53	104.85	68.51
Capital work in progress	11	11,533.81	9,414.25	75.84	12.37
Investment Property	12	335.06	325.05	-	-
Intangible Assets	13	1,438.12	1,354.27	0.34	0.64
Goodwill	14	11.95	11.95	-	-
Investments	15	5,136.32	4,103.61	53,312.53	51,038.29
Long Term Financial assets	16	2,169.09	2,444.69	-	-
Banking Loans and Advances		35,179.02	33,802.76	-	-
Long Term Employee Benefits		75.39	6.52		
Other Non Current Assets	17	128.51	252.02	367.59	86.09
Total Non-current Assets		**144,453.15**	**140,430.65**	**53,861.15**	**51,205.90**
CURRENT ASSETS					
Inventory	18	3,500.26	3,199.06	-	-
Trade Receivables	19	2,166.82	2,235.23	638	7.35
Employee Benefits	30	-	-	1.2	0.76
Other Receivables and Advances	20	15,089.49	7,619.01	356.62	1,163.16
Advance to Ministry of Finance	21	4,021.00	4,038.23	4,021.00	4,038.23
Cash and Cash Equivalents	22	10,507.35	15,201.94	1,950.24	1,313.53
Total Current Assets		**35,284.92**	**32,293.47**	**6,967.06**	**6,523.03**
TOTAL ASSETS		**179,738.07**	**172,724.12**	**60,828.21**	**57,728.93**
EQUITY					
Paid up Share capital	23	46,201.53	45,946.20	46,201.53	45,946.20
Reserves		39,718.18	39,037.99	12,235.21	9,890.50
Non-controlling Interests		4,785.77	4,732.84	-	-
Total Equity		**90,705.48**	**89,717.03**	**58,436.74**	**55,836.70**
NON-CURRENT LIABILITIES					
Long Term Borrowings (Borrowings)	24	26,590.76	22,928.47	36.74	-
Customer Deposits in Banking Sector		43,387.21	40,313.68	-	-
Deferred Government Grants	25	2,069.19	1,700.18	146.73	-
Long Term Employee Benefits		1,322.48	1,318.08	-	-
Deferred Tax Liabilities	9	1,245.04	252.44	779.71	637.11
Other Non Current Liabilities	26	601.91	1,093.75		
Total Non-current Liabilities		**75,216.59**	**67,606.60**	**963.18**	**637.11**

SINGHI & CO. Chartered Accountants

DRUK HOLDING & INVESTMENTS LTD.

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2018 Contd.

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

CURRENT LIABILITIES					
Current Portion of Borrowings	24	1,640.94	3,654.86	-	-
Working Capital Loans from Banks	24	83.59	249.6	-	-
Deferred Government Grants	25	63.24	76.45	-	-
Income Tax Payable		3,576.63	3,477.22	1,390.23	1,199.23
Employee Benefits	30			0.6	0.05
Trade and Other Payables	27	3,256.59	4,173.67	17.91	29.32
Other Current Liabilities	28	5,195.01	3,768.69	19.55	26.52
Total Current Liabilities		**13,816.00**	**15,400.49**	**1,428.29**	**1,255.12**
TOTAL EQUITY AND LIABILITIES		**179,738.07**	**172,724.12**	**60,828.21**	**57,728.93**

This is the Statement of Financial Position referred to in our report of even date

For Singhi & Co
Chartered Accountants
Firm Registration No. 302049E

Dasho Ugen Chewang
Chairman

Dasho Karma Y. Raydi
Chief Executive Officer

Navindra Kumar Surana
Partner
Membership No: 053816
Place: Kolkata
Date: May 6, 2019

Tashi Lhamo
Director, Finance
Place: Thimphu
Date: May 6, 2019

Nim Dorji
Board Director

3. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

		Consolidated		Parent	
	Note	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax		11,067.27	11,899.77	8,665.53	7,767.03
Adjustments for:					
Depreciation and amortization		5,973.65	5,667.88	4.99	8.39
Net loss / (gain) on sale of property, plant and equipment		(0.01)	-	(0.14)	(0.03)
Dividend Received		(107.23)	(111.24)	(8,452.11)	(7,594.06)
Interest expenses		1,790.17	1,614.49	2.53	0.06
Interest income		(380.82)	(430.08)	(111.88)	(124.78)
Operating profit before working capital changes		**18,343.03**	**18,640.82**	**108.92**	**56.61**
Decrease / (Increase) in Inventories		(301.20)	423.67	-	-
Decrease / (Increase) in Trade and other receivables		(7,018.53)	(3,643.53)	(14.05)	(1.04)
Increase / (Decrease) in current assets		123.51	-	(282.40)	(75.38)
Increase / (Decrease) in non current assets		-	1,482.01		
Increase / (Decrease) in Amounts from Grants			-	(11.42)	11.05
Increase / (Decrease) in Trade and other payables		(917.08)	796.88	-	-
Increase / (Decrease) in current and non current liabilities		934.48	1,511.47	(8.22)	(740.85)
Increase / (Decrease) in provision		34.94	(496.10)	0.11	2.66
Net cash generated from operating activities before income tax		**11,199.15**	**18,715.22**	**-207.06**	**(746.95)**
Tax Paid		(5,943.42)	(6,202.18)	(1,665.87)	(2,048.61)
Movements in Banking Loans and Deposits					
- Decrease/(Increase) in Customer Loans		(1,376.25)	(8,527.90)	-	-
-Increase/(Decrease) in Customer Deposits		3,073.52	6,536.21	-	-
Net cash generated from operating activities		**6,953.00**	**10,521.35**	**(1,872.93)**	**(2,795.56)**
CASHFLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment and Intangible assets		(7,868.18)	(7,109.55)	(65.14)	(1.05)
Investments in Investment Property		(10.01)	(0.60)		
Dividend Received		107.23	111.24	6,589.14	7,594.06
Investments in other investments		(288.58)	(2,174.98)	(1,323.13)	(1,144.38)
Loan to subsidiary companies		-	-	(354.25)	(261.88)
Loan repaid by subsidiary companies		-	-	1,160.55	-
Interest received		380.82	430.08	111.20	124.77
EPF		-	-	0.80	0.72
Net cash generated from investing activities		**(7,678.72)**	**(8,743.81)**	**6,119.17**	**6,312.24**

SINGHI & CO. Chartered Accountants

DRUK HOLDING & INVESTMENTS LTD.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018 Contd.

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

CASHFLOWS FROM FINANCING ACTIVITIES				
Proceeds from Borrowings	1,482.35	(2,278.51)	36.74	-
Receipt/(repayments) of government grants	355.81	74.33	146.73	-
Issue of share Capital	230.52	832.82	230.52	832.82
Advance to MoF	(4,021.00)	(4,038.23)	(4,021.00)	(4,038.23)
Interest paid	(1,790.18)	(1,614.49)	(2.52)	(0.06)
Payment of dividend on ordinary shares	(226.37)	(215.91)		
Net cash used in financing activities	**(3,968.87)**	**(7,239.99)**	**(3,609.53)**	**(3,205.47)**
Net increase in cash and cash equivalents	(4,694.59)	(5,462.45)	636.71	311.22
Opening Cash and Bank Balances	15,201.94	20,664.39	1,313.53	1,002.31
Closing Cash and Bank Balances	10,507.35	15,201.94	1,950.24	1,313.53

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

For Singhi & Co
Chartered Accountants
Firm Registration No. 302049E

Navindra Kumar Surana
Partner
Membership No: 053816
Place: Kolkata
Date: May 6, 2019

Dasho Ugen Chewang
Chairman

Tashi Lhamo
Director, Finance
Place: Thimphu
Date: May 6, 2019

Dasho Karma Y. Raydi
Chief Executive Officer

Nim Dorji
Board Director

SINGHI & CO. Chartered Accountants

DRUK HOLDING & INVESTMENTS LTD.

4. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Note	Share Capital	Retained earnings	Statutory and Restricted Reserves	Group Investment Reserve	Other Reserves	Total Shareholder Equity	Non Controlling Interests	Total Equity
Opening Balance 1 January 2017		**45,087.59**	**20,589.59**	**5,648.99**	**1,022.09**	**9,187.50**	**81,535.76**	**4,794.04**	**86,329.80**
Operating Income for the year		-	5,844.60	-	-	-	5,844.60	166.17	6,010.77
Other Comprehensive Income for the year		-	381.47	-	-	-	381.47	0.61	382.08
Dividends Paid		-	(3,782.10)	-	-	-	(3,782.10)	(215.92)	(3,998.02)
Transfer to Reserve		-	(1,087.15)	-	(313.18)	1,400.33	-	-	-
Share of losses and other adjustment		-	148.23	-	-	-	148.23	(12.07)	136.16
Shareholders contributions to paid up capital		858.61	(2.37)	-	-	-	856.24	-	856.24
Closing Balance 31 December 2017		**45,946.20**	**22,092.27**	**5,648.99**	**708.91**	**10,587.83**	**84,984.20**	**4,732.83**	**89,717.03**
Opening Balance 1 January 2018		**45,946.20**	**22,092.27**	**5,648.99**	**708.91**	**10,587.83**	**84,984.20**	**4,732.83**	**89,717.03**
Operating Income for the year		-	4,547.63	-	-	-	4,547.63	(61.43)	4,486.20
Other Comprehensive Income for the year		-	349.00	-	-	-	349.00	5.80	354.80
Dividends Paid		-	(4,038.23)	-	-	-	(4,038.23)	(226.37)	(4,264.60)
Transfer to Reserve		-	136.75	-	(136.75)	-	-	-	-
Share of losses and other adjustment		-	(178.20)	-	-	-	(178.20)	87.29	(90.91)
Shareholders contributions to paid up capital		255.33	-	-	-	-	255.33	247.63	502.96
Closing Balance 31 December 2018		**46,201.53**	**22,909.22**	**5,648.99**	**572.16**	**10,587.83**	**85,919.73**	**4,785.75**	**90,705.48**

This is the Statement of Change in Equity referred to in our report of even date

For Singhi & Co
Chartered Accountants
Firm Registration No. 302049E

Navindra Kumar Surana
Partner
Membership No: 053816
Place: Kolkata
Date: May 6, 2019

Dasho Ugen Chewang
Chairman

Dasho Karma Y. Raydi
Chief Executive Officer

Nim Dorji
Board Director

Tashi Lhamo
Director, Finance
Place: Thimphu
Date: May 6, 2019

5. STANDALONE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Note	Ordinary Shares			Retained Earnings	General Reserve	OCI	Total
		No. of Shares (issued and fully paid up)	Par value per Share	Total Value of Shares				
Balance as at 1 January 2017		**450.87**	**100**	**45,087.59**	**3,748.50**	**2,998.56**	**1,207.63**	**53,042.28**
Profit after income-tax		-	-	-	5,440.97	-	-	5,440.97
Other comprehensive income for the year		-	-	-	-	-	277.37	277.37
Dividends paid		-	-	-	(3,782.10)	-	-	(3,782.10)
Shares allotted to MoF		8.59	100	858.61	-	-	-	858.61
Transferred to General Reserve		-	-	-	(1,400.33)	1,400.33	-	-
Transfer to Entrepreneurship Promotion Fund		-	-	-	(0.43)	-	-	(0.43)
Balance as at 31 December 2017		**459.46**	**100**	**45,946.20**	**4,006.61**	**4,398.89**	**1,485.00**	**55,836.70**
Balance as at 1 January 2018		**459.46**	**100**	**45,946.20**	**4,006.61**	**4,398.89**	**1,485.00**	**55,836.70**
Profit after income-tax		-	-	-	6,052.95	-	-	6,052.95
Other comprehensive income for the year		-	-	-	-	-	330.46	330.46
Dividends paid		-	-	-	(4,038.23)	-	-	(4,038.23)
Shares allotted to MoF		2.55	100	255.33	-	-	-	255.33
Transferred to General Reserve		-	-	-	(639.13)	639.13	-	-
Transfer to Entrepreneurship Promotion Fund		-	-	-	(0.47)	-	-	(0.47)
Balance as at 31 December 2018		**462.01**	**100**	**46,201.53**	**5,381.73**	**5,038.02**	**1,815.46**	**58,436.74**

This is the Statement of Change in Equity referred to in our report of even date

For Singhi & Co
Chartered Accountants
Firm Registration No. 302049E

Navindra Kumar Surana
Partner
Membership No: 053816
Place: Kolkata
Date: May 6, 2019

Dasho Ugen Chewang
Chairman

Dasho Karma Y. Raydi
Chief Executive Officer

Nim Dorji
Board Director

Tashi Lhamo
Director, Finance
Place: Thimphu
Date: May 6, 2019

A. GENERAL INFORMATION

Druk Holding and Investments Limited was constituted through a Royal Charter on 11 November 2007. DHI was subsequently incorporated into a limited liability company under the Companies Act of the Kingdom of Bhutan, 2000 on 16th November 2007.

The primary mandate of Druk Holding and Investments Limited (DHI/the company) is "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" and it is the investment arm of the Government. The Ministry of Finance of the Royal Government of Bhutan is DHI's sole shareholder.

The key purpose of Druk Holding and Investments Limited is to ensure that its companies are able to meet the challenges and requirements of the corporate sector in a highly competitive global economy, such that DHI create and maximise returns to its shareholders.

Initially 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 & Investments Limited as it's issued and subscribed capital divided into 159,989,824 equity shares of Nu. 100/- each. In subsequent years the Royal Government of Bhutan has handed over various projects to the Company and the relevant share capital has been issued to the Ministry of Finance.

Currently there are 23 companies that come under DHI's investment as subsidiaries, associates and joint venture. These companies cover the segments like hydropower, telecommunication, aviation, natural resources, banking, insurance, manufacturing, infrastructure and trading.

All significant operations take place within Bhutan. The ultimate parent is the Royal Government of Bhutan. These financial statements relate to the year ended 31 December 2018.

B. SIGNIFICANT ACCOUNTING POLICIES

1. REPORTING ENTITY

The financial statements cover Druk Holding and Investments Ltd (DHI), the Parent company and the consolidated statements of all companies in the DHI Group.

The principal activity of the Parent company is the holding company for investments. The major activities of subsidiary companies include electricity generation and distribution, telecommunication, airline, manufacturing, construction, trading and banking.

The Company is a limited liability company incorporated and domiciled in Bhutan. The address of its principal place of business is 18 Thori Lam, Motithang, Thimphu, Bhutan.

These financial statements relate to the year ended 31 December 2018.

SINGHI & CO. Chartered Accountants

DRUK HOLDING & INVESTMENTS LTD.

2. BASIS OF PREPARATION

The 'Accounting and Auditing Standards Board of Bhutan' (AASBB), decided to adopt IFRS in phases with minor changes. These standards are referred to as Bhutanese Accounting Standards (BAS). The financial statements of the group have been prepared in accordance with Bhutanese Accounting Standards and accounting policies set out in these financial statements. The financial statements have also been prepared under the accrual, historical cost and going concern conventions.

The preparation of financial statements is in conformity with BAS that requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

- Income: Revenue is determined on the basis of the percentage of completion of contracts and the likely outcome of the contract.
- Fixed assets: Critical judgments are expected for period of use, condition of the asset, technological advances, regulation, and residual values.
- Actuarial valuation of employee benefits: Expected uptake of the gratuities and the discount rate used in the valuation.
- Investments are generally stated at cost except for investments other than in subsidiaries, associates and joint ventures companies, where the investments are measured at market value and the net gain or loss reflected in Other Comprehensive Income as per BFRS-9 .
- Investment properties: Investment property is measured at fair value and movements in the fair value are included in reported income. The valuation of investment property involves assumptions on changes in costs and useful life of the asset.
- Tax: The Group is subject to taxes in Bhutan and other jurisdictions in which it operates. The application of tax law to specific circumstances and transactions require the exercise of judgment by management.

The functional currency and presentation currency is the Bhutanese Ngultrum.

3. APPLICATION OF BHUTANESE ACCOUNTING STANDARDS

The Financial Statements have been prepared in accordance with the Bhutanese Accounting Standards and in compliance with the relevant provisions of The Companies Act of Bhutan 2016. One of the subsidiary Bank of Bhutan Limited has converged into full BAS from 2018 and has restated it previous years reported figures for 2017. However in for preparing the Consolidated Financial Statement for the current year the comparative figures of the previous year 2017 have not been restated.

4. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

5. CONSOLIDATION

The financial statements of the Group companies are consolidated on a line-by-line basis. Significant intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. These financial statements are prepared by applying uniform accounting policies in use at the Group. In certain cases, companies in the Group have applied accounting policies that do not match Group accounting policies. Adjustments have been made to ensure that consistent accounting policies have been applied in the consolidated financial statements.

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Thus, the Company controls an investee if and only if the Company has all the following:

(a) Power over the investee;
(b) Exposure, or rights, to variable returns from its involvement with the investee; and
(c) The ability to use its power over the investee to affect the amount of the Company's returns.

Generally, there is a presumption that majority of voting rights results in control. To support this presumption and when the Group has less than a majority of voting of similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee.

The financial statements of subsidiaries are consolidated from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

6. FOREIGN CURRENCY TRANSLATION

a) Transactions in foreign currencies are initially recognized in the financial statements using exchange rates prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the relevant functional currency at the exchange rates prevailing at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date

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DRUK HOLDING & INVESTMENTS LTD.

that the fair value was determined. Non-monetary assets and liabilities denominated in a foreign currency and measured at historical cost are translated at the exchange rate prevalent at the date of transaction. Foreign currency differences arising on translation are recognized in the income statement for determination of net profit or loss during the period.

b) Borrowing costs may include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Such borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognised as an expense in the period in which it incurs them.

7. PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment, if any. Cost includes purchase price, taxes and duties, labour cost, direct financing costs, direct overheads for self-constructed assets, borrowing costs, other direct costs incurred up to the date the asset is ready for its intended use including initial estimate of dismantling and site restoration cost.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Asset Class	Useful life
Land Development Cost	30 - 40 years
Buildings and civil structures	30 - 40 years
Plant and machinery and other equipment	05 - 20 years
Furniture and fixtures	07 - 10 years
Computers and office equipment	03 - 07 years
Cables and power system	05 - 10 years
Vehicles	07 - 10 years
Capital tools and spare parts	05 - 10 years
Aircraft fleet	15 - 17 years
Other aviation assets	10 years
Transmission and Distribution lines	30 years

The assets' useful lives and residual values are reviewed by the concerned company, and adjusted if appropriate, at the end of each reporting period.

When parts of an item of Property, Plant and Equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other Income' or 'Other expenses' as the case may be, in the Statement of Comprehensive Income.

8. INTANGIBLE ASSETS

COMPUTER SOFTWARE

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 10 years.

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

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

9. BUSINESS COMBINATION

i) Business combination other than under common control
Accounting for Business combinations requires the identifiable intangible assets and contingent consideration to be fair valued in order to ascertain the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. Significant estimates are required to be made in determining the value of contingent consideration and intangible assets. The valuations are conducted by independent valuation experts.

Business combinations have been accounted for, using the acquisition method. The cost of acquisition is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of acquisition. The cost of acquisition also includes the fair value of any contingent consideration. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition.

Transactions costs that the Group incurs in connection with a business combination such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

Business combinations involving entities or businesses under common control have been accounted for using the pooling of interests method.

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination. Corporate assets for the purpose of impairment testing are allocated to the cash generating units on a reasonable and consistent basis.

ii) Business combination under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

In case of business combinations involving entities under common control, the above policy does not apply. Business combinations involving entities under common control are accounted for using the pooling of interests method. The net assets of the transferor entity or business are accounted at their carrying amounts on the date of the acquisition subject to necessary adjustments required to harmonise accounting policies.

10. GOODWILL

Goodwill on the acquisition of a subsidiary is the difference between the consideration paid and the fair value of the underlying assets and liabilities. Goodwill is shown at the fair value calculated at the time of acquisition. It is not subject to amortisation, but will be reviewed for impairment on a regular basis.

11. INVESTMENT PROPERTY

An Investment Property is a property held to earn rental or for capital appreciation or both, rather than use in the production or supply of goods and services, or for administrative purpose, or sale in the ordinary course of business. An investment property shall be initially measured at its cost and the

SINGHI & CO. Chartered Accountants

DRUK HOLDING & INVESTMENTS LTD.

transaction costs shall be included in the initial measurement. The investment properties are accounted for using the cost model (Depreciated Replacement Method). Gain or loss arising from the change in fair value of the investment property shall be recognised in profit or loss for the period in which it arises.

12. RESEARCH AND DEVELOPMENT COSTS

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

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

13. INVESTMENTS

The Group holds investments in Associate and joint venture Companies and in other entities.

i) Associates
Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights and the representative on the Board of Directors. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The company's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to `share of profit (loss) of associates' in the income statement.

SINGHI & CO. Chartered Accountants

DRUK HOLDING & INVESTMENTS LTD.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

ii) Joint Ventures
Joint venture is an arrangement where two or more parties have joint control through contractual agreement to the net assets of the arrangement. The group uses equity method of accounting for its investment in joint venture.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

An Associate Company is one in which the group does not have control, but is in the position of being able to influence the decisions of the Associate. In general, influence is indicated by a shareholding of between 20% and 50% and a representative on the Board of Directors. Joint venture is an arrangement where two or more parties have joint control bond contractual agreement.

The parent company shows any dividends received as income and the investment at cost. The consolidated financial statements account for the investment in Associate Companies using the equity method. The group share of profits or loss is included in the reported income for the year, with any dividends received being offset against the investment. The value of the investment comprises the original cost of the investment, plus the group share of Reserves.

Other investments include entities where the Group is not in the position of being able to control or have significant influence over the decisions of the entity. This is indicated by a shareholding of less than 20%. The investments are held for the dividends only and the investment are measured at fair value through other comprehensive income (FVOCI).

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14. EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

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

15. NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE

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

16. INVESTMENTS AND OTHER FINANCIAL ASSETS

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

(ii) Classification and subsequent measurement
For the purpose of subsequent measurement, financial assets of the Company are classified in the following categories:

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

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

FINANCIAL ASSETS MEASURED AT AMORTIZED COST

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

a. The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows; and
b. Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

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

a. the objective of the business model is achieved by both collecting contractual cash flows and selling financial assets; and
b. the asset's contractual cash flow represent SPPI.

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

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS (FVPL)

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

(iii) Impairment of financial assets
The Company assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost and FVOCI debt instruments. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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

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

- The rights to receive cash flows from the asset have been transferred, or
- The Company retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients.
- When the Company has transferred an asset, it evaluates whether it has substantially transferred all risks and rewards of ownership of the financial asset. In such cases, the financial asset is derecognized.
- When the Company has not transferred substantially all the risks and rewards of ownership of a financial asset, the financial asset is not derecognised.
- When the Company has neither transferred a financial asset nor retains substantially all risks and rewards of ownership of the financial asset, the financial asset is derecognised if the entity has not retained control of the financial asset. When the entity retains control of the financial asset, the asset is continued to be recognized to the extent of continuing involvement in the asset.

(v) Income recognition

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

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

17. FINANCIAL LIABILITY

i) Initial recognition and measurement

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

ii) Subsequent measurement

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

Financial Liabilities at fair value through profit or loss

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

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

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

Borrowings

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

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

Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

iii) Derecognition

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

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

Financial guarantee contracts

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

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

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

18. OFFSETTING FINANCIAL INSTRUMENTS

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

19. INVENTORIES

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

20. TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at the fair value of the amounts to be received. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Receivables are reviewed regularly for impairment.

21. CASH AND CASH EQUIVALENTS

In the Statement of Cash Flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and Royal Monetary Authority, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

22.TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at the fair value of the amounts to be paid. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

23. CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in Other Comprehensive Income. In this case, the tax is also recognised in other comprehensive income.
The current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date in Bhutan.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the Balance Sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted at the balance sheet date and are expected to apply when the related income tax asset is realised or the income tax liability is settled.

Deferred income tax assets are reviewed at each reporting date and are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

24. BORROWING COSTS

General and specific borrowing costs directly attributable to the acquisition, construction or production of a major capital project, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.
All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

25. EMPLOYEE BENEFITS

a) Retirement Benefits

Under defined contribution scheme

Employees belong to a defined contribution Benefit plan managed by a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Under Defined Benefit Scheme

The Company makes retirement payments based on the final salary and years of service.
The gratuity is accrued on the basis of actuarial valuation. Changes in service and interest cost are charged to Profit or loss under Statement of Comprehensive Income. All actuarial gains and losses arising from defined benefit plan are recognised in Other Comprehensive Income.

b) Other benefits

The accumulated leave liability is accrued on the basis of actuarial valuation for the leave balance over and above the annual leave encashment against each employee as at the end of the year. Changes in leave balance, interest and changes to actuarial valuation are charged to the Statement of Comprehensive Income

Other short-term employee benefits such as annual leave encashment and bonus are accrued at year end.

26. LEASE PAYMENTS

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the life of the lease term.
The DHI Group currently has no financial leases.

27. PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

28. REVENUE RECOGNITION

Revenue is measured at the amount entity expects to be entitled in exchange for transferring promised goods or services to a customer, and represents amounts receivable for goods supplied, stated net of discounts, returns and taxes and royalty collected on behalf of government.

a) Sale of goods and services: The group recognises revenue when the entity satisfies a performance obligation identified in the contract by transferring a promised good or service (ie an asset) to a customer and the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the group. An asset is assumed to be transferred to customer when (or as) the customer obtains control of that asset. Incremental cost incurred by the company for obtaining as contract with customer is recognised as assets if the recovery of such cost is expected. Such assets are amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

Bilateral contracts between two entities in the same line of business for non-monetary exchange of goods and services to facilitate sales to its customers or potential customers are not accounted for as sales (revenue) as per BFRS 15. Any balance against such exchange contracts not settled during the same financial year are accounted for as payable/receivable and included under other current assets/ liabilities in statement of financial position.

b) Construction Contracts: In case of construction contracts, group recognises revenue, if one of the following criteria as enunciated in BFRS 15, "Revenue from contract with customers" is met:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Earnings on construction contracts are determined using the percentage-of-completion method. Earnings are not recognised until the outcome can be reliably estimated. The company uses its professional judgment to assess both the physical completion and the forecast financial result of the contract. Provision is made for estimated future losses on the entire contract from the date it is first recognised that a contract loss may be incurred.

Construction work in progress is stated at cost plus profit recognised to date, less progress billings and any provision for foreseeable losses. Cost includes all expenditure directly related to specific projects, plus a share of relevant overheads.

29. INTEREST INCOME

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

30. DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established. The company's operating revenue comprises of Dividend income, interest income, guarantee fees which are guided by the principles of recognition, measurement and disclosure requirements as per BFRS 9. Accordingly the principles enunciated under BFRS 15: Revenue from Contracts with Customers is not applicable to the company.

31. GOVERNMENT GRANTS

Grants from Royal Government of Bhutan and other organisations relating to costs incurred are recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to property, plant and equipment are included in noncurrent liabilities as Deferred Government Grants. Depreciation on the assets is charged against the grant and not to the Operating Statement.

32. IMPAIRMENT OF NON-FINANCIAL ASSETS

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit or group of units on a pro rata basis.

Reversal of impairment loss:

An impairment loss in respect of goodwill is not reversed. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized directly in other comprehensive income and presented within equity.

33. EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

34. COMPARATIVE INFORMATION

Where necessary certain comparative information has been reclassified in order to provide a more appropriate basis for comparison.

NOTE 1. SEGMENTAL REPORT FOR THE 31ST DECEMBER 2018

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Energy & Resources	Communication & Transport	Manufacturing	Finance	Trading	Others	Total	Eliminations	Grand Total
Revenue	8,442.37	7,075.05	5,419.04	2,064.83	2,439.24	8,958.92	34,399.45	(8,577.59)	25,821.86
Revenue (PTC India)	7,520.94	-	-	-	-	-	7,520.94	0.00	7,520.94
Revenue from group transactions	5,562.43	89.51	449.81	191.31	47.28	241.60	6,581.94	(6,581.94)	-
Interest Received	144.60	106.23	37.17	146.00	-	120.52	554.52	(173.70)	380.82
Other Income	1,865.87	248.69	51.23	94.38	64.40	227.09	2,551.66	187.61	2,739.27
Total Income	**23,536.21**	**7,519.48**	**5,957.25**	**2,496.52**	**2,550.92**	**9,548.13**	**51,608.51**	**15,145.62**	**36,462.89**
Direct Cost of Sales	6,521.00	1,877.43	2,995.15	0.00	2,208.23	295.32	13,897.13	(5,501.19)	8,395.94
Personnel and Other Costs	4,440.16	2,426.63	1,841.44	659.30	174.39	502.80	10,044.72	(1,083.15)	8,961.57
Finance Cost	1,141.81	211.66	583.29	8.63	29.33	14.43	1,989.16	(198.98)	1,790.18
Depreciation and Amortisation	4,018.65	1,365.37	433.46	80.38	19.31	56.47	5,973.65	0.00	5,973.65
Impairment losses	3.49	8.71	4.48	250.37	6.98	0.28	274.30	0.00	274.30
Income Tax	2,463.75	545.44	844.26	436.52	44.88	2,601.02	6,935.86	0.00	6,935.86
Total Expenses	**18,588.86**	**6,435.24**	**6,702.08**	**1,435.20**	**2,483.12**	**3,470.32**	**39,114.81**	**(6,783.32)**	**32,331.49**
Net Profit after tax	**4,947.35**	**1,084.24**	**(744.83)**	**1,061.32**	**67.80**	**6,077.81**	**12,493.70**	**(8,362.30)**	**4,131.40**
OCI	3.41	(14.44)	(11.76)	39.26	0.37	337.95	354.80	-	354.80
Current Assets	13,192.85	2,263.64	2,663.73	10,141.84	982.10	9,219.59	38,463.76	(3,178.84)	35,284.92
Non Current Assets	88,882.21	9,537.03	10,058.24	8,860.42	316.66	55,019.67	172,674.24	(63,400.11)	109,274.13
Assets - Bank	-	-	-	36,809.71	-	-	36,809.71	(1,630.69)	35,179.02
Total assets	102,075.06	11,800.67	12,721.97	55,811.97	1,298.76	64,239.26	247,947.70	(68,209.63)	179,738.07
Current Liabilities	9,524.08	2,753.34	1,773.50	672.88	713.58	3,130.96	18,568.34	(4,752.34)	13,816.00
Non Current Liabilities	26,567.72	2,333.00	5,371.27	52.64	116.25	1,416.75	35,857.63	(4,028.25)	31,829.38
Liabilities - Bank	-	-	-	48,011.09	-	-	48,011.09	(4,623.88)	43,387.21
Total Liabilities	**36,091.80**	**5,086.34**	**7,144.77**	**48,736.61**	**829.83**	**4,547.71**	**102,437.06**	**(13,404.47)**	**89,032.59**

NOTE 1. SEGMENTAL REPORT FOR THE 31ST DECEMBER 2017

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Energy & Resources	Communication & Transport	Manufacturing	Finance	Trading	Other	Total	Eliminations	Grand Total
Revenue	8,317.73	6,475.31	5,334.04	2,715.96	2,133.36	449.56	25,425.96	3,416.77	28,842.74
Revenue (PTC India)	8,267.51	-	-	-	-	-	8,267.51	-	8,267.51
Revenue from group	5,136.55	100.68	381.01	122.31	113.01	279.85	6,133.41	(6,133.41)	-
Interest Received	357.36	26.62	40.38	176.57	-	145.43	746.36	(316.28)	430.08
Other Income	3,791.97	315.50	104.76	31.96	39.42	7,795.62	12,079.23	(10,724.00)	1,355.23
Total Income (A)	**25,871.13**	**6,918.11**	**5,860.19**	**3,046.80**	**2,285.79**	**8,670.46**	**52,652.48**	**(13,756.90)**	**38,895.56**
Direct Cost of Sales	8,040.53	1,563.65	3,113.30	1,228.60	1,992.55	418.47	16,357.10	(5,259.05)	11,098.05
Personnel and Other Costs	3,677.34	2,264.50	2,129.81	601.73	151.31	392.35	9,217.04	(690.32)	8,526.72
Finance Cost	1,046.06	196.52	591.82	70.42	14.10	11.43	1,930.35	(315.86)	1,614.49
Depreciation and Amortization	3,867.48	1,136.44	531.44	76.13	9.99	46.41	5,667.89	-	5,667.89
Impairment losses	4.69	0.50	17.21	50.45	-	15.79	88.64	-	88.64
Income Tax	2,783.11	578.97	(147.67)	311.96	36.58	2,326.04	5,888.99	-	5,888.99
Total Expenses (B)	**19,419.21**	**5,740.58**	**6,235.91**	**2,339.29**	**2,204.53**	**3,210.49**	**39,150.01**	**(6,265.23)**	**32,884.78**
Net Profit after tax (A-B)	**6,451.92**	**1,177.53**	**(375.72)**	**707.51**	**81.26**	**5,459.97**	**13,502.47**	**(7,491.69)**	**6,010.78**
OCI	60.03	43.98	(1.27)	1.38	0.04	277.92	382.08	0.02	382.06
Current assets	13,752.52	2,936.62	2,505.51	13,139.91	626.25	6,349.30	39,310.11	(8,021.04)	31,28.07
Non Current Assets	86,694.09	8,820.80	11,249.95	3,083.30	324.64	52,265.97	162,438.75	(55,687.23)	106,751.52
Assets –Bank				34,909.07			34,909.07	-	34,909.07
Total assets	100,446.61	11,757.42	13,755.46	51,132.28	950.89	58,615.27	236,657.93	(63,708.27)	172,949.66
Current Liabilities	11,469.08	2,106.00	2,782.76	716.48	411.09	1,675.60	19,161.01	(3,760.54)	15,400.49
Non Current Liabilities	22,702.98	2,483.71	5,571.82	26.63	100.60	912.01	31,797.75	(7,451.18)	24,346.57
Liabilities-bank				44,489.99			44,489.99	-	44,489.99
Total Liabilities	**34,172.06**	**4,589.71**	**8,354.58**	**45,233.10**	**511.69**	**2,587.61**	**95,448.75**	**(10,638.31)**	**84,237.03**

The following companies are members of the DHI group of companies. Their assets and liabilities and their results of operations are included in the consolidated financial statements. The percentage shareholding shown includes shares held by DHI and the appropriate percentage of shareholdings by other group companies.

Company	Segment	31-Dec-18	31-Dec-17
Druk Holding and Investments Ltd	Holding Company	100%	100%
Bank of Bhutan Ltd	Finance	80%	80%
Dungsum Cement Corporation Ltd	Manufacturing	80%	80%
Dungsum Polymers Ltd	Manufacturing	51%	51%
Bhutan Board Products Ltd	Manufacturing	57.60%	57.60%
Bhutan Board Exports Ltd	Manufacturing	57.60%	57.60%
State Trading Corporation of Bhutan Ltd	Trading	56.60%	56.60%
Construction Development Corporation Limited	Real Estate	100%	100%
Thimphu TechPark Ltd	Real Estate	100%	100%
State Mining Corporation Ltd	Non-trading	100%	100%
Bhutan Telecom Ltd	Communications and Transport	100%	100%
Drukair Corporation Ltd	Communications and Transport	100%	100%
Druk Green Power Corporation Ltd	Energy and Resources	100%	100%
Bhutan Power Corporation Ltd	Energy and Resources	100%	100%
Natural Resources Development Corporation Ltd	Energy and Resources	100%	100%
Dagachu Hydropower Corporation Ltd	Energy and Resources	59%	59%
Tangsibji Hydro Energy Ltd	Energy and Resources	100%	100%
Wood Craft Centre Limited	Manufacturing	100%	100%
Penden Cement Authority Ltd	Manufacturing	40.40%	40.40%
Koufuku International Limited	Manufacturing	80%	80%

The following companies are associates where the shareholding range is 15% to 51% and Joint Ventures. The consolidated financial statements accounts in associates and joint ventures using equity method.

Associates Company	Segment	31-Dec-18	31-Dec-17
Bhutan Ferro Alloys Limited	Manufacturing	28.42%	28.42%
Royal Securities Exchange of Bhutan Limited	Securities	16.35%	16.35%

Joint Venture Company	Segment	31-Dec-18	31-Dec-17
Bhutan Hydro Services Limited	Energy and Resources	51.00%	51.00%
Kholongchu Hydro Energy Limited	Energy and Resources	50.00%	50.00%
Bhutan Automation & Engineering Limited	Manufacturing	51.00%	51.00%
Azista Bhutan HealthCare Limited	Manufacturing	26.00%	26.00%
Druk Metallurgy Limited	Manufacturing	40.00%	40.00%

NOTE 2.A REVENUE FROM CUSTOMERS

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Sale of:				
Goods	5,584.41	5,336.65	-	-
Services	7,484.04	10,378.66	-	-
Energy	15,161.17	16,008.97	-	-
Trading	3,003.31	2,601.18	-	-
Interest	2,109.87	2,784.79	-	-
Total	**33,342.80**	**37,110.26**	**-**	**-**

NOTE 2.B DIVIDEND INCOME

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Dividend income from Subsidiaries -				
State Trading Corporation of Bhutan Ltd.	-	-	18.35	16.52
Bank of Bhutan Ltd.	-	-	275.77	240.00
Bhutan Telecom Ltd.	-	-	843.90	685.38
Druk Green Power Corporation Ltd.	-	-	4,905.35	4,993.35
Druk Air Corporation Ltd.	-	-	108.00	-
State Mining Corporation Limited	-	-	26.84	-
Bhutan Power Corporation Ltd.	-	-	2,044.74	1,449.03
Penden Cement Authority Ltd.	-	-	95.98	95.98
A	**-**	**-**	**8,318.93**	**7,480.25**
Dividend income from Associates and Portfolios -				
Bhutan Ferro Alloys Ltd.	-	-	38.59	3.86
Bhutan National Bank Ltd.	66.74	54.70	66.75	54.70
Bhutan Carbides and Chemicals Ltd	5.55	-	-	-
Druk Ferro Alloy Ltd	7.10	1.30	-	-
Royal Insurance Corporation of Bhutan Ltd.	27.84	55.24	27.84	55.24
B	**107.23**	**111.24**	**133.18**	**113.80**
Total (A+B)	**107.23**	**111.24**	**8,452.11**	**7,594.06**

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NOTE 3. OTHER INCOME

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Grants and Subsidies	284.42	235.57	-	-
Brand Management Fee	-	-	173.38	184.15
Interest Received	380.82	430.08	121.92	126.16
Other Income	2,321.36	947.97	31.29	18.62
Total	**2,986.60**	**1,613.62**	**326.59**	**328.93**

NOTE 4. SHARE OF PROFIT OF ASSOCIATES & JV

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Profits of BFAL	90.83	60.30	-	-
Profit of BHSL	(65.05)	(64.96)	-	-
Profits of KIL	-	-	-	-
Profits of RSEBL	0.48	0.15	-	-
Total	**26.26**	**(4.51)**	**-**	**-**

NOTE 5. DIRECT COSTS OF SALES

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Energy and wheeling charges	122.26	122.34	-	-
Aircraft fuel, oil and operating Costs	1,760.28	1,402.85	-	-
Cost of Goods Sold	4,959.07	6,093.06	-	-
Material used in infrastructure development	1,554.33	3,479.80	-	-
Total	**8,395.94**	**11,098.05**	**-**	**-**

NOTE 6. EMPLOYEE RELATED COSTS

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Payroll and Related Costs	3,558.14	3,382.12	56.21	63.69
Employee Related Costs	488.88	487.89	4.79	4.50
Total	**4,047.02**	**3,870.01**	**61.00**	**68.19**

NOTE 7. R & M AND OTHER COSTS

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Other Costs	3,231.87	2,995.60	41.64	77.61
Maintenance	1,682.68	1,596.16	1.06	0.99
Total	**4,914.55**	**4,591.76**	**42.70**	**78.60**

NOTE 8. PROPERTY, PLANT & EQUIPMENT- CONSOLIDATED

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

2018	COST					DEPRECIATION					Net Book Value
	Opening	Additions	Adjustments	Disposals	Closing	Opening	Additions/	Disposals	Adjustments	Closing	
Land and Buildings	64,161.45	857.71	(14.20)	(186.95)	64,818.01	17,121.93	1,915.38	(21.56)	275.18	19,290.93	45,527.08
Plant and Equipment	40,367.73	1,285.85	(511.44)	(156.18)	40,985.96	17,876.65	1,641.83	(109.51)	40.10	19,449.07	21,536.89
Furniture & Office Equipment	2,265.03	390.57	(0.17)	(78.09)	2,577.34	1,518.40	207.43	(70.08)	13.97	1,669.72	907.62
Vehicles	1,044.76	117.85	-	(57.84)	1,104.77	666.79	93.57	(55.50)	11.72	716.58	388.19
Aircraft and other aviation assets	6,595.73	493.95	-	-	7,089.68	3,072.99	380.80	-	19.77	3,473.56	3,616.12
Transmission & Distribution Lines	20,153.02	2,685.46	-	(77.24)	22,761.24	5,615.43	724.65	(47.80)	(1.02)	6,291.26	16,469.98
Total	**134,587.72**	**5,831.39**	**(525.81)**	**(556.30)**	**139,337.00**	**45,872.19**	**4,963.66**	**(304.45)**	**359.72**	**50,891.12**	**88,445.88**

Note: The gross carrying amount for the year 2018 has been adjusted by Nu. (525.81) million and Nu. 359.73 million to represent the difference in the movement of Gross Cost and Gross Accumulated Depreciation respectively. The net difference in the movement in Property, Plant and Equipment amounting to Nu. 166 million is due to mismatch in the closing cost and accumulated depreciation as per the audited financials statements and the signed Trial balance of 2017.

2017	COST					DEPRECIATION					Net Book Value
	Opening	Additions	Adjustments	Disposals	Closing	Opening	Additions/	Disposals	Adjustments	Closing	
Land and Buildings	63,664.37	509.21	0.01	(12.13)	64,161.46	15,008.21	2,115.37	(1.65)	0.00	17,121.93	47,039.53
Plant and Equipment	38,777.88	1,635.74	45.07	(90.97)	40,367.72	15,968.52	1,951.12	(63.89)	20.90	17,876.65	22,491.08
Furniture & Office Equipment	2,060.72	256.63	(3.02)	(49.31)	2,265.02	1,358.84	206.72	(46.12)	(1.04)	1,518.40	746.62
Vehicles	992.02	139.52	(46.26)	(40.52)	1,044.76	641.39	83.03	(33.20)	(24.43)	666.79	377.97
Aircraft and other aviation assets	6,899.44	284.56	-	(588.27)	6,595.73	3,215.51	445.74	(588.27)	-	3,072.98	3,522.75
Transmission & Distribution Lines	19,348.51	869.83	-	(65.32)	20,153.02	4,991.37	653.71	(29.65)	-	5,615.43	14,537.59
Total	**131,742.94**	**3,695.49**	**(4.20)**	**(846.52)**	**134,587.71**	**41,183.84**	**5,455.69**	**(762.78)**	**(4.57)**	**45,872.18**	**88,715.53**

Property, Plant and Equipment -Standalone

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

2018	COST				DEPRECIATION				Net Book Value
	Opening	Additions	Disposals	Closing	Opening	Additions/	Disposals	Closing	
Freehold Land	48.12	39.22	-	87.34	-	-	-	-	87.34
Furniture and Fittings	4.10	0.13	-	4.22	2.50	0.31	-	2.80	1.42
Electrical Equipment	0.58	-	-	0.58	0.35	0.05	-	0.40	0.18
Data Processing Equipment	23.92	0.80	(0.25)	24.48	19.48	2.44	(0.14)	21.78	2.69
Office Equipment	2.81	0.03	-	2.84	1.75	0.24	-	1.99	0.86
Vehicles	19.53	0.69	(1.12)	19.09	6.46	1.16	(0.90)	6.73	12.37
Total	**99.06**	**40.86**	**(1.37)**	**138.55**	**30.55**	**4.19**	**(1.04)**	**33.70**	**104.85**

2018	COST				DEPRECIATION				Net Book Value
	Opening	Additions	Disposals	Closing	Opening	Additions/	Disposals	Closing	
Freehold Land	22.33	25.79	-	48.12	-	-	-	-	48.12
Furniture and Fittings	4.15	0.04	(0.09)	4.10	2.20	0.36	(0.07)	2.49	1.60
Electrical Equipment	0.59	-	(0.01)	0.58	0.31	0.05	(0.02)	0.34	0.24
Data Processing Equipment	23.11	0.82	-	23.92	16.22	3.26	-	19.48	4.44
Office Equipment	2.82	-	(0.00)	2.81	1.50	0.26	0.00	1.76	1.05
Vehicles	20.11	2.65	(3.23)	19.53	5.76	1.28	(0.58)	6.46	13.06
Total	**73.10**	**29.30**	**(3.34)**	**99.06**	**26.00**	**5.21**	**(0.66)**	**30.55**	**68.51**

DHI was granted a land of 1.08 acre at Kawajangsa, Thimphu from the State on 6 September, 2011 to construct its corporate office building. The said land is recorded in the books at nominal value of Nu. 100/-. During the year 2018 DHI got the ownership of 16 plots of land transferred from its subsidiaries for a total amount of Nu. 39.22 million through book adjustments as per Boards approval for which an aggregate value of shares of Nu. 24.80 million (after the reduction of investment in CDCL by Nu. 14.41 million) has been allotted to MoF. The relevant adjustment entries have been duly communicated to the Registrar of Companies (RoC) and MoF in 2016.

Physical verification of all assets was carried out in 2018 and where practical, assets were given a physical identification number and the final assets in working condition matched with the book records as on 31 December 2018.

NOTE 9 TAXATION

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Income Tax Payable -				
Current Tax	6,287.55	6,063.13	2,601.43	2,333.72
Prior Period Tax	-	-	10.52	(7.62)
Total Income Tax Expenses Recognised	6,287.55	6,063.13	2,611.95	2,326.10
Deferred Tax Payable	648.32	(174.13)	0.64	(0.04)
Total Tax on Operating Income	6,935.86	5,888.99	2,612.59	2,326.06
Reconciliation of Tax on Operating Income -				
Profit Before Income-tax from Operations	11,067.27	11,899.77	8,665.53	7,767.29
Tax at 30%	3,320.18	3,569.93	2,599.66	2,330.19
Adjustments required for:				
- Non deductible expenditure & Non Assessed Income	155.15	15.27	2.41	3.49
- Tax losses	192.50	230.05	-	-
- Other Adjustments (Timing)	76.82	(171.10)	(0.64)	0.04
- Tax on Dividends from subsidiaries	3,191.21	2,244.84	-	-
Current Tax Expenses	**6,935.86**	**5,888.99**	**2,601.43**	**2,333.72**
Effective Tax Rate -	62.67%	49.49%	30.02%	30.05%
Reconciliation of Deferred Tax -				
Opening	(252.44)	(406.85)	(637.45)	(517.31)
Recognised during Year	648.32	(174.13)	(142.26)	(119.79)
Restatement of prior years	(1,640.92)	328.54	-	-
Closing	**(1,245.04)**	**(252.44)**	**(779.71)**	**(637.10)**
Deferred Tax Assets	545.19	1,229.96	7.65	8.93
Deferred Tax Liabilities	(1,790.24)	(1,482.40)	(787.36)	(646.03)
Total	**(1,245.04)**	**(252.44)**	**(779.71)**	**(637.10)**
Tax on Comprehensive Income				
Actuarial Gain/(Loss) on Post employment benefit	(127.99)	121.99	(1.14)	(3.20)
Fair value gain/(loss) on Equity Investment measured through FVOCI	482.95	352.07	473.22	399.44
Less : Tax	(0.16)	(158.79)	(141.62)	(118.87)
	354.80	315.27	330.46	277.37
Currency translation Variance	-	66.79	-	-
Total	**354.99**	**382.07**	**330.46**	**277.37**

NOTE 10 EARNINGS PER SHARE

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Profit after income-tax	4,131.40	6,010.78	6,052.94	5,440.97
Profit used to determine basic earnings per share	4,131.40	6,010.78	6,052.94	5,440.97
Number of shares at the beginning of the year	459.46	450.88	459.46	450.88
Number of Shares allotted to MoF during the year	2.55	8.59	2.55	8.59
Number of shares at the end of the year	462.02	459.46	462.02	459.46
Weighted average number of ordinary shares in issue	459.75	455.25	459.75	455.25
Basic and Diluted Earnings per Share	8.99	13.20	13.17	11.95

NOTE 11 CAPITAL WORK IN PROGRESS

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Electricity Generation	6,873.39	4,401.05	-	-
Power Generation	3,030.96	4,416.95	-	-
Manufacturing	1,119.84	13.22	-	-
Others	509.61	583.03	75.84	12.37
Total	**11,533.81**	**9,414.25**	**75.84**	**12.37**

NOTE 12 INVESTMENT PROPERTY

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Investment Property	325.05	315.16	-	-
Increase in valuation for the period	10.01	9.89	-	-
Total	**335.06**	**325.05**	**-**	**-**

NOTE 13 INTANGIBLE ASSETS

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
A) Software				
Cost				
Opening	2,282.27	1,753.89	16.28	16.09
Additions less disposals	484.95	528.38	0.02	0.20
Closing	2,767.22	2,282.27	16.31	16.28
Amortisation				
Opening	972.43	695.68	15.64	12.46
Additions less disposals	401.88	276.75	0.33	3.18
Closing	1,374.31	972.43	15.97	15.64
TOTAL A	**1,392.91**	**1,309.84**	**0.34**	**0.64**
B) Pre-operative Expenses				
Opening	44.43	22.21	-	-
Additions	7.44	22.64	-	-
Amortisations	(6.66)	(0.42)	-	-
Closing B	**45.21**	**44.43**	**-**	**-**
TOTAL (A+B)	**1,438.12**	**1,354.27**	**0.34**	**0.64**

NOTE 14 GOODWILL

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Goodwill	11.95	11.95	-	-
Total	**11.95**	**11.95**	**-**	**-**

NOTE 15 INVESTMENT AS PER STANDALONE

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	2018				2017			
	% of Holding	Face Value per Share	Number of Shares	December 31, 2018	% of Holding	Face Value per Share	Number of Shares	December 31, 2017
A) Investments in Subsidiaries -								
Quoted - Equity Shares fully paid up -								
Bhutan Board Products Ltd. (Refer Note b below)	58%	10	6.68	66.83	58%	10	6.68	66.83
State Trading Corporation of Bhutan Ltd. (Refer Note b below)	55%	10	9.18	10.20	55%	10	9.18	10.20
Dungsam Polymers Ltd.	51%	10	0.00	78.52	51%	10	4.22	42.82
Penden Cement Authority Ltd. (Refer Note c below)	40%	10	13.71	91.40	40%	10	13.71	91.40
Unquoted - Equity Shares fully paid up -								
Bank of Bhutan Ltd.	80%	100	24.00	240.00	80%	100	24.00	240.00
Bhutan Telecom Ltd.	100%	1,000	0.85	854.08	100%	1,000	0.85	854.08
Druk Green Power Corporation Ltd. (Refer Note h Below)	100%	1,000	0.00	31,776.21	100%	1,000	31.55	31,545.69
Druk Air Corporation Ltd.	100%	100	22.25	2,225.21	100%	100	22.25	2,225.21
Natural Resources Development Corporation Ltd.	100%	100	0.45	45.00	100%	100	0.45	45.00
Bhutan Power Corporation Ltd. (Refer Note f below)	100%	1,000	8.23	7,350.60	100%	1,000	8.23	7,350.60
Dungsam Cement Corporation Ltd. (Refer Note d and f below)	80%	100	0.00	5,949.55	80%	100	46.74	4,673.95
Thimphu TechPark Ltd. (Refer Note d below)	100%	100	2.23	210.02	100%	100	1.31	117.71
State Mining Corporation Ltd. (Refer Note d below)	100%	100	0.00	293.99	100%	100	2.44	243.99
Wood Craft Center Ltd.	100%	100	0.73	73.32	100%	100	0.73	73.32
Construction Development Corporation Ltd. (Refer Note i below)	100%	1,000	0.00	981.02	100%	1,000	1.00	995.43
Koufuku International Ltd. (Refer note e below)	80%	100	0.40	15.00	80%	100	0.15	15.00
Total Investments in Subsidiaries				**50,260.95**				**48,591.23**

	2018				2017			
	% of Holding	Face Value per Share	Number of Shares	December 31, 2018	% of Holding	Face Value per Share	Number of Shares	December 31, 2017
B) Investments in Associates and Joint Ventures -								
Quoted - Equity Shares fully paid up -								
Bhutan Ferro Alloys Ltd. (Associate)	26%	10	3.86	38.59	26%	10	3.86	38.60
Unquoted - Equity Shares fully paid up -								
Azista Bhutan Healthcare Limited (JV)	28%	10	0.00	5.60				-
Druk Metallurgy Limited (JV)	40%	100	0.00	30.00				-
Total Investments in Associates & Joint Ventures				**74.19**				**38.60**

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Contd.

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	2018				2017			
	% of Holding	Face Value per Share	Number of Shares	December 31, 2018	% of Holding	Face Value per Share	Number of Shares	December 31, 2017
C) Other Investments -								
Quoted - Equity Shares fully paid up -								
Bhutan National Bank Ltd. (Refer Note j below)	12%	10	40.82	1,265.42	12%	10	40.82	1,081.73
Royal Insurance Corporation of Bhutan Ltd. (Refer Note j below)	18%	10	22.10	1,591.02	18%	10	22.10	1,303.75
Investment Abroad				95.81				
Total (i)				**2,952.25**				**2,385.48**
Investments in EPF Assets (Refer Note 15) -								
Bank balance				2.46				0.07
Term deposits				7.00				8.80
Accrued interest				0.40				0.38
Contribution to Loden-DHI Fund (Refer Note g below)				15.27				13.73
Total (ii)				**25.13**				**22.98**
Total Other Investments (i+ii)				**2,977.38**				**2,408.46**
Total Investments (A+B+C)				**53,313.53**				**51,038.29**
Aggregate value of Quoted Investments				3,141.98				2,635.33
Aggregate value of Unquoted Investments				50,170.55				48,402.96
Total Aggregate Value				**53,312.53**				**51,038.29**

a) All investments that have been made other than for trading purpose are included in this schedule.

b) The "% of Holding" represents the effective holding of DHI after considering the holding percentage of its subsidiaries. In Bhutan Board Products Ltd. DHI directly holds 48% and through Bank of Bhutan holds 10%. In State Trading Corporation of Bhutan Ltd. DHI directly holds 51% and through Bank of Bhutan holds 4%. For all other cases direct holding is equal to the chain holding.

c) Penden Cement Authority Ltd. (PCAL) has been classified as subsidiary on the merit that DHI retains control over PCAL in spite of holding 40% of shares as there are large number of other share holders holding small number of shares. At a company AGM, those smaller shareholders, with a total holding amounting to 41% of PCAL would have to attend and all vote against DHI to over-ride any decision by DHI. The share holder turn-out of this size does not occur. Hence, the test of "control" as per BFRS 10 is therefore met.

d) During the year 2018, Druk Holding and Investments Ltd. (DHI) has injected as equity Nu. 50,000,000/- into State Mining Corporation Ltd. (SMCL), into Thimphu Tech Park Ltd. (TTPL) Nu. 92,308,400/-, Nu. 35,700,000/- to Dungsam Polymers Limited, Nu. 1,275,600,000 to Dungsam Cement Corporation Limited, Nu. 5,600,000 in Azista Bhutan Healthcare Limited (ABHL) and Nu. 30,000,000 in Druk Metallurgy Limited (DML) from its internal accruals.

e) During the year 2017 restructuring of Koufuku International Limited(KIL) was carried out and shareholding of Shin Nippon Biomedical Laboratories (SNBL) reduced from 70% to 14.99%, and DHI shareholding was increased to 80% from 30% and also a new shareholder (Sano Unyu Company Ltd, a company incorporated in Japan) was introduced with shareholding of 5.01% without any consideration being paid by both DHI and Sano Unyu Company Limited to SNBL.

f) During the year 2014 DHI pledged 1,960,000 number of equity shares of Nu. 1,000/- each of Bhutan Power Corporation Limited as collateral at par with the Dungsam Cement Corporation Limited Corporate Bond of Series - I and Series - II for amount of Nu. 1,260,000,000/- and Nu. 700,000,000/- respectively. Subsequently, in 2015 DHI further pledged 1,500,000 number of equity shares of Nu. 1,000/- each of Bhutan Power Corporation Limited as collateral at par with the Dungsam Cement Corporation Limited Corporate Bond of Series - III for amount of Nu. 1,500,000,000/-.

g) During the year 2015, DHI management entered into an agreement with The Loden Foundation and created Loden-DHI Fund to provide alternative access to the entrepreneurs in obtaining finance to start a new business or for expansion / growth of the existing business leading to employment generation and economic development of the nation. The Loden Foundation shall be solely responsible for the management of the fund as per the agreed conditions between DHI and Loden and will operate in line with the existing Loden Entrepreneurship Programme guidelines. As per the agreement DHI needs to contribute Nu. 20,000,000/- in three consecutive years starting from the year 2015. Following this, DHI contributed Nu. 20,000,000/- to Loden-DHI Fund till 31 December 2017. With Full adoption of BAS investment in EPF is fair valued.

h) During the year DGPC alloted total shares of Nu. 230,520,000/- to DHI on account of grant received from Government of India (for onward injection as equity in KHEL) and DHI alloted shares of eqiuvalent amount to MoF.

i) During the year 2018 DHI got the ownership of plot of land transferred from its subsidiaries CDCL for a total amount of Nu. 33,767,723/- through book adjustments as per Boards approval for which reduction of investment in CDCL by Nu. 14,414,000/ was done. The relevant adjustment entries have been duly communicated to the Registrar of Companies (RoC) and MoF in 2016.

j) BFRS-9 also requires fair valuation of investments in BNBL and RICBL thus the change in investments is due to change in share prices every closing period i.e. on 31st December every year.

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NOTE 15 INVESTMENTS AS PER CONSOLIDATED

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Percentage	31-Dec-18	31-Dec-17
A) Associates Companies			
Bhutan Ferro Alloys Limited	28.50%	506.08	492.13
Royal Securities Exchange of Bhutan Limited	18.00%	19.75	23.80
A		**525.83**	**515.93**
B) Joint Ventures			
Bhutan Hydro Services Limited	51.00%	118.91	110.23
Kholongchu Hydro Energy Limited	50.00%	1,215.16	996.60
Bhutan Automation & Engineering Limited	51.00%	30.60	-
Azista Bhutan HealthCare Limited	28.00%	5.60	-
Druk Metallurgy Limited	40.00%	30.00	-
B		**1,400.27**	**1,106.83**
C) Other Investments			
Bhutan National Bank Ltd		1,265.42	1,081.73
Financial Institution Training Institute		19.57	18.00
Bhutan Development Bank Ltd		61.09	12.73
Royal Insurance Company of Bhutan Ltd		1,591.02	1,303.75
Druk Ferro Alloy Ltd		66.99	23.65
Investments Abroad		95.81	-
Bhutan Carbides and Chemicals Ltd		100.07	16.26
Entrepreneur Promotion Fund		7.08	22.97
Credit Information Bureau		3.17	1.75
C		**3,210.22**	**2,480.85**
Total Associates and Other Investments (A+B+C)		**5,136.32**	**4,103.61**
Summarised Information of Associate Companies		**31-Dec-18**	**31-Dec-17**
Long Term Assets		1,377.45	1,415.46
Current Assets		1,074.92	727.58
Long Term Liabilities		132.82	91.93
Current Liabilities		417.84	236.50
Equity		1,901.70	1,814.60
DHI Group Share of Equity		**525.83**	**506.04**
Net Profit after Tax		322.14	213.34
Other Comprehensive Income		0.46	(0.94)
DHI Group share of Profits after Tax		91.32	60.45
Summarised Information of Joint Venture		**31-Dec-18**	**31-Dec-17**
Long Term Assets		3,355.03	2,917.02
Current Assets		112.77	164.12
Long Term Liabilities		659.46	746.70
Current Liabilities		144.87	135.38
Equity		2,663.47	2,199.06
DHI Group Share of Equity		**1,334.07**	**1,101.59**
Net Profit after Tax		(126.04)	(128.44)
Other Comprehensive Income		(1.51)	1.06
DHI Group share of Profits after Tax		(65.05)	(64.96)

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NOTE 16 LONG TERM FINANCIAL ASSETS

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Debt Securities				
- Listed	-	706.77	-	-
-Unlisted	802.58	-	-	-
Term Deposits with Bank & Financial Institutions	1,366.51	1,737.92	-	-
Total	**2,169.09**	**2,444.69**	**-**	**-**

NOTE 17 OTHER NON CURRENT ASSETS

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Advances provided for projects	-	-	365.51	82.40
Trade Receivables & Others	49.78	21.28	1.98	3.60
Advance Payments to Suppliers	58.25	203.20	0.09	0.09
Prepaid Expenses - Non current	20.48	27.54	-	-
Total	**128.51**	**252.02**	**367.59**	**86.09**

NOTE 18 INVENTORY

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Raw material	313.60	480.40	-	-
Work in progress	431.88	219.87	-	-
Finished goods	854.92	528.00	-	-
Other inventory	924.91	998.32	-	-
Stores, spares and loose tools	974.95	972.47	-	-
Total	**3,500.26**	**3,199.06**	**-**	**-**

NOTE 19 TRADE RECEIVABLES

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Receivable in Ngultrum	1,855.87	1,704.66	638.00	7.35
Receivable in foreign currency	372.14	716.53	-	-
Less Provision for Impairment	(61.19)	(185.96)	-	-
Total	**2,166.82**	**2,235.23**	**638.00**	**7.35**

NOTE 20 OTHER RECEIVABLES AND ADVANCES

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Non Trade Receivables and Advances	1,805.44	3,376.34	-	-
Loan to subsidiary company (including interest accrued)	-	-	354.97	1,161.27
Term deposits with financial institutions	1,554.54	533.56	-	-
Other Financial Assets	8,007.59	3,189.78	1.61	1.61
Advance payments to vendors	3,316.81	259.19	-	-
Advance payments to employees	36.37	38.05	-	0.24
Prepaid expenses - current	258.02	123.06	0.04	0.04
Income Tax Paid in Advance	110.72	99.03	-	-
Total	**15,089.49**	**7,619.01**	**356.62**	**1,163.16**

NOTE 21 ADVANCE TO MINISTRY OF FINANCE

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Advance to Ministry of Finance	4,021.00	4,038.23	4,021.00	4,038.23
Total	**4,021.00**	**4,038.23**	**4,021.00**	**4,038.23**

In the course of any financial year, DHI (the Company) is in the practice of providing advance to its parent Ministry of Finance (MoF) in relation to dividend which is usually declared for the financial performance of the Company for a particular financial year in the following year on its approval in the Annual General Meeting.

NOTE 22 CASH AND BANK BALANCES

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Cash in hand	3,616.24	810.05	-	-
Cash at bank	4,962.17	3,312.59	1,950.24	300.56
Short-term deposits	1,926.34	462.17	-	1,012.97
Cash Reserve and Balances with RMA	2.60	10,617.13	-	-
Total	**10,507.35**	**15,201.94**	**1,950.24**	**1,313.53**

NOTE 23 SHARE CAPITAL

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Authorised Capital				
5,000,000,000 equity shares of Nu. 100/- each	500,000.00	500,000.00	500,000.00	500,000.00
Issued and Paid up capital				
Opening				
450,875,898 equity shares	45,946.20	45,087.59	45,946.20	45,087.59
Issues during the year	255.33	858.61	255.33	858.61
Closing	**46,201.53**	**45,946.20**	**46,201.53**	**45,946.20**

NOTE 24 LONG TERM BORROWINGS

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Borrowings from:				
Banks and Financial Institutions in Bhutan	2,723.58	3,298.39	8,989,972.00	-
Banks and Financial Institutions in other countries	21,456.25	18,858.36	-	-
Foreign Governments	762.02	920.39	-	-
Bonds listed by the RSEB	3,289.85	3,506.19	-	-
Working Capital Loans from Banks	83.59	249.60	-	-
	28,315.29	26,832.93	36.74	-
Less Portion repayable within 1 year	1,724.53	3,904.46	-	-
Net Long Term Borrowings	**26,590.76**	**22,928.47**	**36.74**	**-**

NOTE 25 DEFERRED GOVERNMENT GRANTS

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Opening Balance	1,700.18	1,601.95	-	-
Add: Receipts during the year	716.62	410.24	146.73	-
Less: Amortisation against expenditure	(284.37)	(235.56)	-	-
	2,132.43	1,776.63	146.73	-
Less: Current portion	63.24	76.45	-	-
Total	**2,069.19**	**1,700.18**	**146.73**	**-**

In line with the DHI Group accounting policy, all grants received for the purchase of capital assets are treated as a deferred liability. The depreciation on the relevant asset is debited to the Deferred Liability over the useful life of the asset.

NOTE 26 OTHER NON CURRENT LIABILITIES

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Trade and other payables - noncurrent	208.93	287.19	-	-
Advances - noncurrent	-	167.37	-	-
Retention money payable - noncurrent	-	282.94	-	-
Deposits received - noncurrent	392.98	356.25	-	-
Total	**601.91**	**1,093.75**	**-**	**-**

NOTE 27 TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Trade Payables	2,380.97	2,524.25	2.48	1.50
TDS Payable	104.92	83.51	-	-
Employee and other payables	666.09	1,050.42	13.46	27.01
Accrued expenses	98.64	513.94	1.97	0.81
Unclaimed Dividend	5.97	1.55	-	-
Total	**3,256.59**	**4,173.67**	**17.91**	**29.32**

NOTE 28 OTHER CURRENT LIABILITIES

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Advances and Deposits Received	348.56	767.33	19.54	12.55
Construction Contracts*	2,667.62	1,826.81	-	-
Listed Bond repayable	216.35	216.34	-	-
Retention money payable	42.64	394.25	-	-
Other Liabilities	1,750.38	135.33	0.01	0.74
Provision	169.46	428.63	-	-
Total	**5,195.01**	**3,768.69**	**19.55**	**26.52**

* Note 29

NOTE 29 CONSTRUCTION CONTRACT

(All figures in millions of Bhutanese Ngultrums, except share data and as otherwise stated)

	Consolidated		Parent	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Gross Advance Received	19,280.16	18,784.66	-	-
less: Recognised as Revenue	2,667.62	16,957.85	-	-
	16,612.54	1,826.81	-	-
Construction contracts				
-with net work in progess	3,879.75	3,601.51	-	-
-with advances received in respect of revenue booked	(1,212.13)	(1,774.70)	-	-
Total	**2,667.62**	**1,826.81**	**-**	**-**

NOTE 30. STANDALONE EMPLOYEE BENEFITS

a) Defined Contribution Plan- Provident fund

Qualifying employees are members of a defined contribution plan operated by the National Pension and Provident Fund. The Company matches employee contributions to the fund. The only obligation on the Company is to make the contribution monthly.

Total cost of contributions for the year ended 31 December 2018 was Nu. 1,864,142/- (2017 Nu. 2,099,558/-).

b) Defined Benefit Scheme - Post-employment Benefit : Gratuity

Qualifying employees are members of a defined benefit plan sponsored by the Company. Employees are entitled to a lump sum payment of 60% of Total Fixed Monthly Remuneration (TFMR) for each year of service. A separate fund is maintained to cover the future liability for payments.

The obligation for the plan is subject to risks in respect of investment, interest rates, employee attrition and Salary rates.

Investment risk: The discount rate for this valuation is based on the weighted average yield obtained by the assets of the scheme due to absence of high quality corporate and government issued bond. All funds are held in this type of investment as approved by the Royal Monetary Authority of Bhutan (RMA). Interest risk: Interest rates available will change over time. The reduction in interest rates will increase the actuarial value of the obligation.

Employee attrition: The obligation is based on Management’s estimate of the expected number of staff who will resign before reaching the standard retirement age. If the number of staff resigning is greater or less than the expected rate, the outstanding obligation will be affected.

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Salary risk: Since the benefit is dependent on the employee's final salary, there is a risk that salary increases will be greater than those included in the actuarial valuation. Salary increases cover regular increases for length of service as well as periodic increases of salary scales for inflation.

The actuarial valuation of the obligation of the defined benefit plan has been carried out by Willis Towers Watson India Private Limited and the figures are in Nugultrums.

i) Statement of Profit or Loss

	2018	2017
Current service cost	1.13	1.21
Net interest on net defined benefit liability / (asset)	(0.09)	(0.27)
Cost recognised in Statement of Profit or Loss	1.04	0.94

ii) Other Comprehensive Income (OCI)

	2018	2017
Actuarial (gain)/loss due to liability experience	2.80	0.03
Actuarial (gain)/loss due to liability assumption changes	(1.71)	2.19
Return on plan assets (greater)/less than discount rate	0.05	0.97
Actuarial (gains)/ losses recognized in OCI	1.14	3.20
Cumulative Actuarial (Gain) Loss Recognized via OCI at Current Period End	1.14	3.20

iii) Defined Benefit Cost

	2018	2017
Service Cost	1.13	1.21
Net interest on net defined benefit liability/(asset)	(0.09)	(0.27)
Acturial (gain)/losses recognised in OCI	1.14	3.20
Defined benefit Cost	2.18	4.14

iv) Statement of Financial Position

	2018	2017
Defined benefit obligation (DBO)	(8.57)	(7.63)
Fair value of plan assets (FVA)	7.97	7.58
Funded status [surplus/(deficit)]	(0.60)	(0.05)
Net defined benefit asset (DBA)	(0.60)	(0.05)

v) Reconciliation of Net Fnancial Position

	2018	2017
Net defined asset/ (liability) at the end of prior period	(0.05)	(2.83)
Service Cost	(1.13)	-
Net interest on net defined beneit liability / (asset)	0.09	0.94
Amount recognised in OCI	(1.14)	3.20
Employer contributions	1.63	(1.26)
Benefits paid by Employer		(0.00)
Net defined benefit asset/(liability) at the end of current period	(0.60)	0.05

vi) Movements in the Present Value of Defined Benefit Obligation

	2018	2017
Opening Defined Benefit Obligation	7.63	4.49
Current service cost	1.13	1.21
Interest cost	0.51	0.33
Actuarial loss on experience adjusted	2.80	0.32
Benefits paid from plan assets	(1.78)	(0.62)
Actuarial (gain)/loss due to change in demographic assumptions	-	2.19
Actuarial (gain)/loss due to change in financial assumptions	(1.71)	-
Benefits paid by the employer		(0.00)
Closing Defined Benefit Obligation	8.57	7.63

vii) Movements in the Fair Value of Plan Assets

	2018	2017
Opening Fair Value of Plan Assets	7.58	7.32
Income on assets at the discount rate	0.59	0.06
Actual interest less than discount rate	(0.05)	(0.97)
Contribution by DHI	1.63	1.26
Benefits paid from plan assets	(1.78)	(0.62)
Closing Fair Value of Plan Assets	7.97	7.58

viii) Expected Benefit Payments as at 31 December 2018

31 December 2019 (Retirement Benefit Obligations - Current)	0.98
31 December 2020	1.17
31 December 2021	2.14
31 December 2022	1.49
31 December 2023	1.24
31 December 2024 to 31 December 2028	7.64

ix) Expected Benefit Payments as at 31 December 2017

31 December 2018 (Retirement Benefit Obligations - Current)	2.31
31 December 2019	5.43
31 December 2020	1.63
32 December 2021	0.09
32 December 2022	0.61
31 December 2023 to 31 December 2027	4.02

x) Expected Employer Contribution for the period ending 31 December 2019	0.98

xi)	2018	2017
Weighted Average Duration of Defined Benefit Obligation	6 Years	7.56 Years

xii)	2018	2017
Accrued Benefit Obligation at 31 December	5.92	5.80

xiii) Plan Asset Information (Asset Allocation in Percentage)

	2018	2017
Insurance Policy with RICBL	95.52%	91.86%
Gratuity Fund with BIL		4.32%
Balance in Current Account	0.16%	0.17%
Total	100.00%	100.00%

xiv) Sensitivity Analysis

I) Discount Rate -

	2018	2017
Discount Rate as at 31 December	7.80%	7.80%
Effect on DBO due to 1% (0.5% in 2017) increase in Discount Rate	(0.56)	(7.74)
Effect on DBO due 1% (0.5% in 2017) decrease in Discount Rate	0.56	7.74

II) Salary Escalation Rate -

	2018	2017
Salary Escalation Rate as at 31 December	7.00%	10.00%
Effect on DBO due to 1% increase in Salary Escalation Rate	0.50	7.83
Effect on DBO due to 1% decrease in Salary Escalation Rate	(0.50)	(7.83)

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c) Defined Benefit Scheme - Other Long-term Employee Benefit

Annual Leave Accumulation

As per the revision in the Service Rule of the company during 2015 effective from 1 January 2015 annual leave exceeding the minimum allowable days not availed at the end of a calendar year shall be carried forward and credited to the annual leave account. Employees shall be allowed to accrue up to a maximum of thirty six (36) days of annual leave which can be encashed during separation at the rate of proportionate Total Fixed Monthly Remuneration (TFMR at the time of separation) per day times the total leave accumulated.

The accumulated leave liability is subject to risks in respect of investment, interest rates, employee attrition and Salary rates.

Investment risk: The discount rate for this valuation is based on the weighted average yield obtained by the assets of the scheme due to absence of high quality corporate and government issued bond. All funds are held in this type of investment as approved by the Royal Monetary Authority of Bhutan (RMA).

Interest risk: Interest rates available will change over time. The reduction in interest rates will increase the actuarial value of the leave encashment liability.

Employee attrition: The leave encashment liability is based on Management's estimate of the expected number of staff who will resign before reaching the standard retirement age. If the number of staff resigning is greater or less than the expected rate, the outstanding leave encashment liability will be affected.

Salary risk: Since the benefit is dependent on the employee's final salary, there is a risk that salary increases will be greater than those included in the actuarial valuation. Salary increases cover regular increases for length of service as well as periodic increases of salary scales for inflation.

The actuarial valuation of the obligation of the leave encashment liability has been carried out by Willis Towers Watson India Private Limited

i) Statement of Profit or Loss

	2018	2017
Current service cost	0.44	0.32
Net interest on net defined benefit liability / (asset)	(0.08)	(0.06)
Remesuremet (gains) / losses	(0.30)	0.02
Cost recognised in Statement of Profit or Loss	0.06	0.28

Other Comprehensive Income (OCI)

	2018	2017
Actuarial (gain)/loss due to liability experience	0.11	-
Actuarial (gain)/loss due to liability assumption changes	(0.37)	-
Actuarial (gain)/loss arising during period	(0.27)	-
Return on plan assets (greater)/less than discount rate	(0.30)	-
Cumulative Actuarial (Gain) Loss Recognized via OCI at Current Period End	-	-

ii) Statement of Financial Position

	2018	2017
Defined benefit obligation (DBO)	(1.66)	(1.64)
Fair value of plan assets (FVA)	2.86	2.41
Funded status [surplus/(deficit)]	1.20	0.76
Net defined benefit asset (DBA)	1.20	0.76

Reconciliation of Net Balance Sheet Position	2018	2017
Net defined benefit asset/(liability) at the end of prior period	0.76	0.54
Service cost	(0.44)	
Net increase on net defined beenfit liability/(asset)	0.08	
Acturial (losses)/(gains	0.30	(0.28)
Employer contribution	0.50	0.50
Net defined benefit asset (DBA)	1.20	0.76

iii) Movements in the Present Value of Defined Benefit Obligation

	2018	2017
Opening Defined Benefit Obligation	1.64	1.32
Current service cost	0.44	0.32
Interest cost	0.11	0.10
Actuarial (Gains)/loss due to plan experience	0.11	0.19
Benefits paid from plan assets		(0.14)
Actuarial (gain)/loss due to change in demographic assumptions	(0.27)	(0.15)
Actuarial (gain)/loss due to change in financial assumptions	(0.37)	-
Closing Defined Benefit Obligation	1.66	1.64

iv) Movements in the Fair Value of Plan Assets

	2018	2017
Opening Fair Value of Plan Assets	2.41	1.86
Income on assets at the discount rate	0.19	0.16
Actual interest less than discount rate	0.03	0.02
Contribution by DHI	0.05	0.50
Benefits paid from plan assets	(0.27)	(0.14)
Closing Fair Value of Plan Assets	2.86	2.41

v) Expected Benefit Payments as at 31 December 2018

31 December 2019 (Retirement Benefit Obligations - Current)	0.24
31 December 2020	0.26
31 December 2021	0.41
31 December 2022	0.39
31 December 2023	0.23
31 December 2024 to 31 December 2028	1.22

vi) Expected Benefit Payments as at 31 December 2017

31 December 2018 (Retirement Benefit Obligations - Current)	0. 45
31 December 2019	0.66
31 December 2020	0.17
31 December 2021	0.07
31 December 2022	0.05
31 December 2023 to 31 December 2027	0.26

vii) Expected employer contributions for the period ending 31 December 2019	0.24

viii)	2018	2017
Weighted Average Duration of Defined Benefit Obligation	6 Years	6.70 Years

ix)	2018	2017
Accrued Benefit Obligation at 31 December	1.15	1.18

x) Plan Asset Information (Asset Allocation in Percentage)

	2018	2017
Investment with RICBL	100.00%	100.00%
Total	100.00%	100.00%

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xi) Sensitivity Analysis

I) Discount Rate -

	2018	2017
Discount Rate as at 31 December	7.80%	7.80%
Effect on DBO due to 0.5% increase in Discount Rate	(0.10)	1.61
Effect on DBO due to 0.5% decrease in Discount Rate	0.10	1.68

II) Salary Escalation Rate -

	2018	2017
Salary Escalation Rate as at 31 December	7.00%	10.00%
Effect on DBO due to 1% increase in Salary Escalation Rate	0.09	1.72
Effect on DBO due to 1% decrease in Salary Escalation Rate	(0.09)	1.58

NOTE 31 STANDALONE CAPITAL MANAGEMENT

(a) Risk management

The Company's objectives when managing capital are to-

- safeguard their ability to continue as a going concern, so that they can continue to provide returns to shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

The primary mandate for which DHI has been constituted is to hold and manage the existing and future investments of the Royal Government of Bhutan (RGoB) for the long term benefit of its shareholders, the people of Bhutan. 100% of the Company's share capital is owned by the Ministry of Finance (MoF) of the RGoB. Company manages the share capital issued and subscribed along with the reserves appearing in the financial statement of the company.

The Company has the requirement to meet dividend and tax expectations as contained in Annual Compacts with RGoB.

(b) Dividends

	December 31, 2018	December 31, 2017
Final dividend for the year	4,021.00 *	4,038.23

* Represents amount paid in 2018 (shown as advance to MoF), pending to be approved in AGM to be held in 2019

NOTE 32 STANDALONE FINANCIAL RISK MANAGEMENT

The company's activities expose it to market risk, liquidity risk and credit risk.

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

Risk	Exposure arising from	Measurement	Management
Credit risk	Cash and cash equivalents, financial assets measured at amortised cost.	Constant monitoring	Diversification of bank deposits, management support to the subsidiaries
Liquidity risk	Trade payables and other financial liabilities	Cash flow forecasts	Access to short term borrowings
Market risk – foreign exchange	Recognised financial assets and liabilities not denominated in Ngultrum(Nu.)	Constant monitoring	Company currently has foreign currency exposure only in the form of Investment made abroad which is long term in nature and hence current foreign currency fluctuation is insignificant
Market risk – interest rate	Long-term borrowings at variable rates	NA	Company does not have any borrowing on variable rate outstanding on the report-ing date
Market risk – security prices	Investments in equity securities	Sensitivity analysis	Portfolio diversification

(A) Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Credit risk arises from cash and cash equivalents, investments carried at amortised cost and deposits with banks and financial institutions and trade and other receivables.

(i) Credit risk management

In case of intercorporate loans and other receivables, the company on an ongoing basis throughout each reporting period, assesses whether there has been a significant increase in credit risk. In case there is a significant increase in the credit risk of the other party due to factors such as poor financial performance, position, etc., the company considers the probability of default and provides for loss allowance based on the expected credit loss.

Investment in banks and financial institutions are only in high rated banks and institutions. The Company is exposed to credit risk in relation to financial guarantees given for loan taken by subsidiaries and associates. The Company's maximum exposure in this respect is the maximum amount the Company could have to pay if the guarantee is called on. The Company regularly monitors the financial performance, position, etc., of the Companies on whose behalf the guarantees have been given to evaluate its exposure for payments on default by those Company.

During the year 2012, DHI setup Entrepreneurship Promotion Fund (EPF) to provide partial capital support to upcoming entrepreneurs in the private sector with the primary objective of promoting entrepreneurship in Bhutan. The fund was setup with DHI providing the seed capital of Nu. 15,000,000 and with Nu. 10,000,000 investment from the Bank of Bhutan Limited. Investments are made from the Entrepreneurship Promotion Fund (EPF) into projects that are approved by the Management. During the year 2015, DHI management entered into an agreement with The Loden Foundation and created Loden-DHI Fund to provide alternative access to the entrepreneurs in obtaining finance to start a new business or for expansion / growth of the existing business leading to employment generation and economic development of the nation. The management has evaluated the recoverability of the investment made in The Loden Foundation and considered it for impairment. Out of the contribution to Loden-DHI Fund as on 31 December 2015 and 31 December 2016 and 31 December 2017 amounting to Nu. 7,000,000, Nu. 7,000,000 and Nu. 6,000,000 and total provision for impairment loss of Nu. 217,000 and Nu. 217,000 and Nu. 186,000 has been recognised respectively.

(B) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions. The company is not expose to significant liquidity risk as no significant borrowings or financial liabilities are outstanding on the reporting date. Further, as a step to maintain sufficient liquidity to pay dividend and other payables, company usually receives dividend from its subsidiary in advance. Management monitors rolling forecasts of the Company's liquidity position and cash and cash equivalents on the basis of expected cash flows.

Company has also given guarantee for the corporate bond issued by one of its subsidiary Dungsum Cement Corporation Limited (DCCL). The subsidiary company started commercial operation in 2014 only and still under gestation period. The bond are due for maturity in 2022 onwards. As per the management estimate, although the subsidiary company has incurred losses in all the years since inception, however, the quantum of loan has decreased year by year and also the earnings are improving. Further, management believes that subsidiary will start generating profit in coming years and by the time bond will be due to redeemed, subsidiary will have sufficient liquidity to meets its obligation towards bond redemption. Accordingly, as per the management estimate, no liability has been recognised for the financial guarantee contracts issued by the company.

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(i) Financing arrangements

The company does not have any undrawn borrowing facilities at the end of the reporting period.

(ii) Maturities of financial liabilities

The tables below analyses the company's financial liabilities into relevant maturity groupings based on their contractual maturities.

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

Contractual maturities of financial liabilities:

Non-derivatives	Less than 1 year	More than 1 year	Total
December 31, 2018			
Borrowings from Asian Development Bank	-	36.74	36.74
Liability towards EPF	-	11.78	11.78
Trade payables	2.48	-	2.48
Employee payables	13.43	-	13.43
Deposits received	-	-	-
Advance from Subsidiaries	5.05	-	5.05
Other liabilities	2.01	-	2.01
Total non-derivative liabilities	22.97	48.52	71.49
December 31, 2017			
Liability towards EPF	-	10.52	10.52
Trade payables	1.50	-	1.50
Employee payables	14.19	-	14.19
Deposits received	0.19	-	0.19
Other liabilities	13.44	-	13.44
Total non-derivative liabilities	29.32	10.52	39.84

(C) Market risk

(i) Foreign currency risk

Foreign Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company at its own does not have international operations, but have investment abroad and bank balance to which foreign exchange risk may arise.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company does not have any borrowing on variable rate outstanding. Further the loan given and investment made by the Company is at fixed rate interest. Accordingly, company is not exposed to interest rate risk.

(iii) Price risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market. The company's exposure to equity securities price risk arises from investments held by the company in equity securities and classified in the balance sheet as at fair value through other comprehensive income. All the investment in equity investment measured at fair value through other comprehensive income are publicly traded and listed on Stock Exchange of respective country. The table below summarises the impact of increases/decreases of the prices of respective securities on company's equity and total other comprehensive income for the period. The analysis is based on the assumption that the market price of the respective securities had increased by 5% or decreased by 5% with all other variables held constant:

Impact on total other comprehensive income before tax

	31-Dec-18	31-Dec-17
Increase by 5%	146.58	119.27
Decrease by 5%	(146.58)	(119.27)

NOTE 33 STANDALONE FAIR VALUE MEASUREMENTS

Financial instruments by category

	As at December 31, 2018			As at December 31, 2017		
	FVPL	FVOCI	Amortised cost	FVPL	FVOCI	Amortised cost
Financial assets						
Investment in equity shares of entities other than subsidiary, associate and JV		2,952.25	-		2,385.48	-
Investment in EPF assets		-	25.13	-	-	22.97
Security deposits paid to third parties		-	0.09	-	-	0.09
Trade Receivables and other receivables		-	638.00	-	-	7.35
Loan to subsidiary company including Interest		-	354.97	-	-	1,161.27
Cash and Cash Equivalaents		-	1,950.24		-	1,313.53
Total financial assets		2,952.25	2,968.43		2,385.48	2,505.20
Financial liabilities						
Borrowing			36.74		-	-
Liability towards EPF			11.78		-	10.52
Trade payables			2.48		-	1.50
Employee payables			13.43		-	14.19
Deposits received			-		-	0.19
Other liabilities			2.01		-	13.44
Advance from Subsidaries			5.05		-	12.55
Total financial liabilities		-	71.49		-	52.39

(i) Fair value hierarchy

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

Level 1: Level 1 hierarchy includes financial instruments measured using quoted prices. This includes listed equity instruments that have quoted price. The fair value of all equity instruments which are traded in the stock exchanges is valued using the closing price as at the reporting period.

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

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

During the year, there has been no movement between fair value levels from previous year.

(ii) Valuation technique used to determine fair value

Specific valuation techniques used to value financial instruments include:

i. the use of quoted market prices for listed equity shares
ii. the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

Financial assets and liabilities measured at fair value - recurring fair value measurements

	As at December 31, 2018			As at December 31, 2017		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial Investments at FVOCI						
Investment in equity shares of:						
Bhutan National Bank Ltd.	1,265.42	-	-	1,081.73	-	-
Royal Insurance Corporation of Bhutan Ltd.	1,591.02	-	-	1,303.75	-	-
Investment Abroad	75.25	20.56	-	-	-	-
Total financial assets	**2,931.69**	**20.56**		**2,385.48**	**-**	**-**

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

	As at December 31, 2018		As at December 31, 2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial Assets				
Investment in EPF assets	25.13	25.13	22.97	22.97
Security deposits paid to third parties	0.09	0.00	0.09	0.09
Trade Receivables and other receivables	638.00	638.00	7.35	7.35
Loan to subsidiary company including Interest	354.97	354.97	1,161.27	1,161.27
Cash and Cash Equivalents	1,950.24	1,950.24	1,313.53	1,313.53
Total financial assets	**2,968.43**	**2,968.34**	**2,505.20**	**2,505.20**
Financial Liabilities				
Borrowing	36.74	36.74	-	-
Liability towards EPF	11.78	11.78	10.52	10.52
Trade payables	2.48	2.48	1.50	1.50
Employee payables	13.43	13.43	14.19	14.19
Deposits received	-	-	0.19	0.19
Other liabilities	2.01	2.01	13.44	13.44
Advance from Subsidiaries	5.05	5.05	12.55	12.55
Total financial liabilities	**71.49**	**71.49**	**52.39**	**52.39**

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

NOTE 34 CONSOLIDATED RELATED PARTY DISCLOSURES

a) Related Parties

Parent (State) -	**2018 % Holding**	**2017 % Holding**
Ministry of Finance (MoF), Royal Government of Bhutan	100%	100%

Subsidiaries -		
Bhutan Board Products Ltd. (BBPL)	58%	58%
State Trading Corporation of Bhutan Ltd. (STCBL)	55%	55%
Dungsam Polymers Ltd. (DPL)	51%	51%
Penden Cement Authority Ltd. (PCAL)	40%	40%
Bank of Bhutan Ltd. (BOBL)	80%	80%
Bhutan Telecom Ltd. (BTL)	100%	100%
Druk Green Power Corporation Ltd. (DGPCL)	100%	100%
Drukair Corporation Ltd. (DCL)	100%	100%
Natural Resources Development Corporation Ltd. (NRDCL)	100%	100%
Bhutan Power Corporation Ltd. (BPCL)	100%	100%
Dungsam Cement Corporation Ltd. (DCCL)	80%	80%
Thimphu TechPark Ltd. (TTPL)	100%	100%
State Mining Corporation Ltd. (SMCL)	100%	100%
Wood Craft Center Ltd. (WCCL)	100%	100%
Construction Development Corporation Ltd. (CDCL)	100%	100%
Koufuku International Ltd. (KIL)	80%	80%

Associates -		
Bhutan Ferro Alloys Ltd. (BFAL)	28.50%	28.50%
Royal Securities Exchange of Bhutan Limited	16.35%	16.35%

Joint Venture		
Azista Bhutan Healthcare Limited	28%	0%
Bhutan Automation & Engineering Limited	51%	0%
Bhutan Hydro Services Limited	51%	51%
Druk Metallurgy Limited	40%	0%
Kholongchu Hydro Energy Limited	50%	50%

State Owned Enterprises -
Bhutan Development Bank Ltd. (BDBL)
Bhutan Postal Corporation Ltd. (BPCL)
Kuensel Corporation Ltd. (KCL)
Bhutan Broadcasting Services Corporation Ltd. (BBSCL)
Food Corporation of Bhutan (FCB)
Bhutan Chamber and Commerce Industry (BCCI)

Key Management Personnel -
Dasho Ugyen Chewang, Chairman (w.e.f 01.08.2018)
Dasho Sangay Khandu, Chairman (till 31.03.2018)
Dasho Karma Y. Raydi, Chief Executive Officer and Director
Mr. Nim Dorji (Director)
Mr. Ugyen Rinzin (Director)
Mr. Tenzin Dhendup (Director)
Mr. Pema Chewang (Director)
Mr. Karma Tsetop Rinchhen (Director)
Mr. Dechen Dorji (Director)
Mr. Kinga Tshering (Director)
Mr. Thinley Namgyel (Director)

b) (i) Transactions with Parent -	2018	2017
Dividend paid	-	4,038.23
Allotment of shares (fully paid of Nu. 100/- each)	255.32	858.61
Advance as made for dividends	4,021.00	-
Expenses adjusted by the company on behalf of MoF	1.49	1.57

b) (ii) Balance as at the end of the year with Parent -	2018	2017
Advance to MoF	4,021.00	4,038.23

c) (i) Transactions with Associates -	2018	2017
Dividend income	38.59	3.86
Advances given on behalf (net)	-	(0.20)

c) (ii) Outstanding Balances with Associates -	2018	2017
Advances given on behalf (net)	0.20	0.20

d) (i) Transactions with Joint Ventures	2018	2017
Equity contribution in cash	35.60	-
Azista Bhutan Healthcare Limited	5.60	-
Druk Metallurgy Limited	30.00	-

e) Compensation to Key Management Personnel -	2018	2017
Short-term benefits	8.48	7.08
Post-employment benefits	0.18	0.26

f) Remuneration & Benefits etc. paid to the former Chairman -	2018	2017
Remuneration and other benefits	1.98	-
Separation benefits	1.08	-

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g) Transactions with SoEs -	2018	2017
Media and publication expenses	0.75	0.77
Postage charges	0.10	0.08

NOTE 35 STANDALONE RELATED PARTY DISCLOSURES

a) Related Parties

Parent (State) -	2018 % of Holding	2017 % of Holding
Ministry of Finance (MoF), Royal Government of Bhutan	100%	100%

Subsidiaries -		
Bhutan Board Products Ltd. (BBPL)	58%	58%
State Trading Corporation of Bhutan Ltd. (STCBL)	55%	55%
Dungsam Polymers Ltd. (DPL)	51%	51%
Penden Cement Authority Ltd. (PCAL)	40%	40%
Bank of Bhutan Ltd. (BOBL)	80%	80%
Bhutan Telecom Ltd. (BTL)	100%	100%
Druk Green Power Corporation Ltd. (DGPCL)	100%	100%
Drukair Corporation Ltd. (DCL)	100%	100%
Natural Resources Development Corporation Ltd. (NRDCL)	100%	100%
Bhutan Power Corporation Ltd. (BPCL)	100%	100%
Dungsam Cement Corporation Ltd. (DCCL)	80%	80%
Thimphu TechPark Ltd. (TTPL)	100%	100%
State Mining Corporation Ltd. (SMCL)	100%	100%
Wood Craft Center Ltd. (WCCL)	100%	100%
Construction Development Corporation Ltd. (CDCL)	100%	100%
Koufuku International Ltd. (KIL)	80%	80%

Associates -		
Bhutan Ferro Alloys Ltd. (BFAL)	26%	26%

Joint Venture		
Azista Bhutan Healthcare Limited (w.e.f 30.04.2018)	28%	0%
Druk Metallurgy Limited (w.e.f. 30.08.2018)	40%	0%

State Owned Enterprises -
Bhutan Development Bank Ltd. (BDBL)
Bhutan Postal Corporation Ltd. (BPCL)
Kuensel Corporation Ltd. (KCL)
Bhutan Broadcasting Services Corporation Ltd. (BBSCL)
Food Corporation of Bhutan (FCB)
Bhutan Chamber and Commerce Industry (BCCI)

Key Management Personnel -
Dasho Ugyen Chewang, Chairman (w.e.f 01.08.2018)
Dasho Sangay Khandu, Chairman (till 31.03.2018)
Dasho Karma Y. Raydi, Chief Executive Officer and Director
Mr. Nim Dorji (Director)
Mr. Ugyen Rinzin (Director)
Mr. Tenzin Dhendup (Director)
Mr. Pema Chewang (Director)
Mr. Karma Tsetop Rinchhen (Director)
Mr. Dechen Dorji (Director)
Mr. Kinga Tshering (Director)
Mr. Thinley Namgyel (Director)

b) (i) Transactions with Parent -	2018	2017
Dividend paid	-	4,038.23
Allotment of shares (fully paid of Nu. 100/- each)	255.32	858.61
Expenses adjusted by the company on behalf of MoF	1.49	1.57

b) (ii) Balance as at the end of the year with Parent -	2018	2017
Advance to MoF	4,021.00	4,038.23

c) (i) Transactions with Subsidiaries -	2018	2017
Equity contribution in cash	1,453.61	312.31
Dungsam Cement Corporation Ltd.	1,275.60	-
State Mining Corporation Ltd.	50.00	108.00
Construction development Corporation Ltd.	-	169.79
Dungsam Polymers Ltd.	35.70	-
Thimphu Techpark Ltd.	92.31	34.52
Augmentation in shares of DGPC by transfer (Grant received from GoI)	230.52	832.82
Dividend income	8,318.93	7,480.25

Brand management fee	173.38	184.14
Druk Green Power Corporation Ltd.	98.37	107.42
Bhutan Power Corporation Ltd.	30.22	32.43
Bhutan Telecom Ltd.	19.19	19.44
Others	25.59	24.86
Corporate guarantee fee	30.57	17.71
Bhutan Power Corporation Ltd.	12.12	-
Dungsam Cement Corporation Ltd.	17.54	17.54
Others	0.87	0.17
Interest income on bank deposits- Bank of Bhutan Ltd.	61.71	51.60
Interest Income on inter company loans provided	57.67	66.64
Dungsam Cement Corporation Ltd.	43.89	64.83
Drukair Corporation Ltd.	7.79	-
Others	57.67	1.82
Interest expenses- Bank of Bhutan Ltd.	2.47	-
Electricity expenses- Bhutan Power Corporation Ltd.	0.25	0.24
Telephone and internet expenses - Bhutan Telecom Ltd.	1.38	1.53
Purchase of air tickets and others - Drukair Corporation Ltd.	2.40	2.89
Repairs and maintenance charges- State Trading Corporation Ltd.	0.85	0.35
Transfer of ownership of lands	39.22	25.79
Purchase of assets - State Trading Corporation Ltd	0.42	1.01
Hall hiring charges- Natural Resources Development Corporation Ltd.	0.04	0.04
Bank charges- Bank of Bhutan Ltd	0.05	0.05
Inter-company loan	1,766.50	1,130.99
Dungsam Cement Corporation Ltd.	1,100.00	1,100.00
Drukair Corporation Ltd	321.00	-
Druk Green Power Corporation Ltd.	200.00	-
Others	145.50	30.99
Advances received on behalf	4.85	12.35
Advance provided for project- Construction Development Corporation Ltd.	365.51	82.40

c) (ii) Corporate guarantee provided	**2018**	**2017**
Corporate guarantee provided	6,639.49	4,039.49
Dungsam Cement Corporation Ltd.	3,995.00	3,995.00
Bhutan Power Corporation Ltd.	2,000.00	-
State Tradng Corporation of Bhutan Ltd.	410.00	-
Construction Development Corporation Ltd.	100.00	-
State Mining Corporation Ltd.	80.00	-
Natural Resources Development Corporaiton Ltd.	44.49	44.49
Koufuku International Ltd.	10.00	-

c) (iii) Balance as at the end of the year with Subsidiaries -	2018	2017
Current account balances- Bank of Bhutan Ltd.	1,788.94	218.69
Fixed deposits- Bank of Bhutan Ltd.	7.00	939.72

c) (iv) Outstanding Balances with Subsidiaries -	2018	2017
Accrued interest on bank deposits- Bank of Bhutan Ltd.	0.40	3.09
Other interest receivable	-	30.28
Electricity expenses payable- Bhutan Power Corporation Ltd.	0.04	0.04
Telephone and internet expenses payable- Bhutan Telecom Ltd.	0.11	0.11
Inter-company loan receivable (principal and interest)	354.97	1,161.27
Drukair Corporation Ltd.	328.79	-
Dungsam Cement Corporation Ltd.	-	1,129.02
Others	26.18	32.25
Payable for purchase of Assets- State Trading Corporation of Bhutan Ltd.	0.24	-
Repairs and maintenance charges payable	-	0.01
Advances taken for CSR	4.85	12.35
Payable for air tickets- Drukair Corporation Ltd.	-	0.13

c) (v) Outstanding Balances with Subsidiaries -	2018	2017
Corporate guarantee fee receivable	19.09	6.27
Bhutan Power Corporation Ltd.	12.12	-
Dungsam Cement Corporation Ltd.	6.09	6.09
Others	0.87	0.17

d) (i) Transactions with Associates -	2018	2017
Dividend income- Bhtan Ferro Alloys Ltd.	38.59	3.86

d) (ii) Outstanding Balances with Associates -	2018	2017
Advances given on behalf (net)	0.20	0.20

e) (i) Transactions with Joint Ventures	2018	2017
Equity contribution in cash	36	-
Azista Bhutan Healthcare Limited	5.60	-
Druk Metallurgy Limited	30.00	-

f) Compensation to Key Management Personnel -	2018	2017
Short-term benefits	8.48	7.08
Post-employment benefits	0.18	0.26

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g) Remuneration, separation benefits etc. paid to the former Chairman -	2018	2017
Remuneration and other benefits	1.98	-
Separation benefits	1.08	-

h) Transactions with SoEs -	2018	2017
Media and publication expenses - Kuensel	0.75	0.77
Postage charges - Bhutan Post	0.10	0.08

NOTE 36 RESTATEMENT OF FINANCIAL STATEMENTS ON ACCOUNT OF ERRORS

A The standalone financial statement for the year ended December 31, 2016 and 31st December 2017 , were adopted by the board of directors in their meeting held on February 9, 2017 and February 13, 2018 respectively. The above standalone financial statements were audited by the erstwhile auditor and they had issued their unmodified opinion vide their report dated February 9, 2017 and February 14, 2018 respectively on the same. These financial statements were approved by the members in their meeting held on May 9, 2017 and June 11, 2018 respectively. Subsequently, it was identified by the management that the standalone financial statement for the earlier years were inadvertently prepared by accounting the proposed divided in the year to which it relates rather than in the year of approval by the members in their annual general meeting. The above treatment of proposed divided was not in compliance to Bhutan Accounting Standard 10. To correct these errors, the Company has restated the standalone financial statement for the year December 31, 2016 and 31st December 2017 by reversing the divided erroneously accounted for in 31st December 2016 of Nu. 3,782,199,322 and in 31st December 2017 of Nu. 4,038,232,337 in the opening retained earnings as on 1st January 2017 and 1st January 2018 respectively. However there is no impact of the above restatement adjustment on the retained earning as on 31st December 2018.

B In earlier years inadvertantly the company did not recognise the dividend for the year 2013 approved in the year 2014 amounting to Nu.3,128 million which has now been rectified by debiting to the retained earning as on January 1, 2017 and crediting to Advance to Ministry of Finance. The other adjustment of Nu. 94 million mainly represents the other reconciliation items with Ministry of Finance which has now been rectified by crediting to the retained earning as on January 1, 2017 and debiting to Advance to Ministry of Finance.

The restated and reported figures of 2017 are as follows:

Balance Sheet (abstract)	January 1, 2017 (Reported)	Restatement Adjustment	January 1, 2017 (Restated)	December 31, 2017 (Reported)	Restated Adjustment during 2017	December 31, 2017 (Restated)
Retained Earnings	3,000.23	748.27	3,748.50	3,002.21	1,004.40	4,006.61
		(Note-1)			(Note-2)	
Advance to Ministry of Finance	3,033.83	748.27	3,782.10	3,033.83	1,004.40	4,038.23

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Note - 1.

Particulars	Amount in Nu.
Dividend Reversed for 2016 in compliance to BAS - 10	3,782.10
Less : Dividend not accounted of 2013 in 2014 now adjusted	(3,128.00)
Other Adjustment	94.17
Net Cerdit Adjustment as on January 1, 2017 to Retained Earnings and Debit Advance to Ministry of Finance	748.27

Note - 2

Particulars	Amount in Nu.
Adjustment done on January 1, 2017 as explained above	748
Less : Dividend adjusted on approval during 2017 related to 2016	(3,782)
Add : Dividend Reversed for 2017 which was wrongly accounted in 2017	4,038.23
Net Credit Adjustment as on December 31, 2017 to Retained Earnings and Debit Advance to Ministry of Finance	4,038.23

NOTE 37 OTHER INFORMATION

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

NOTE 38 EVENTS AFTER BALANCE SHEET DATE

On 6 May, 2019, the board of directors approved the dividend of Nu. 4,021 million for the financial year ended December 31, 2018 representing 8.70% on paid up capital.

NOTE 39 BAS 19 LONG TERM EMPLOYEE BENEFITS, BFRS 9 FINANCIAL INSTRUMENTS & BFRS 15 REVENUE FROM CONTRACT WITH CUSTOMERS

Bhutanese Accounting Standards- BAS 19 Long term employee benefits, BFRS 9 Financial Instruments and BFRS 15 Revenue from contract with customers is applicable for the group's compliance from 1.1.2017. In respect with the mentioned standards there is no consistency in adoption by the group companies. It is noted that certain companies have followed the said standards (where applicable) whereas certain other companies have not followed. The group is not able to ascertain the impact of this non compliance in the consolidated financial statements and accordingly full disclosure as per the standards is not provided/disclosed in these financials' statements.

NOTE 40. MANAGERIAL REMUNERATION

	As on December 31, 2018	As on December 31, 2017
Remuneration paid to the Chairman of the company -*		
Salary and allowances	1.67	2.43
Other benefits	2.34	1.15
Provident fund contribution by employer	0.1	0.15
Gratuity contribution	-	-
Sitting fees	0.13	0.12
	4.23	3.85
Remuneration paid to the Chief Executive Officer of the company -		
Salary and allowances	1.83	1.7
Other benefits	0.88	0.84
Provident fund contribution	0.12	0.11
Gratuity contribution	-	-
Sitting fees	0.2	0.11
	3.03	2.75
Sitting fees paid to the other Board of Directors of the company -	1.22	0.74

* includes separation benefit paid to Ex Chairman of Nu. 0.61 million.

The contribution charged in the Statement of Comprehensive Income for actuarial valuation of gratuity (Refer Note 30) is assessed for the company as a whole. Hence, impact on individual employee is dropped. The salary and other benefits including seperation benefits paid to former chairman amounts to Nu. 3.06 million

NOTE 41. AUDITOR'S REMUNERATION

	As on December 31, 2018	As on December 31, 2017
Statutory audit fee for standalone financial statements	0.17	0.17
Statutory audit fee for consolidated financial statements	0.46	0.46
Other audit expenses (relating to previous year)*	0.43	0.44
	1.06	1.07

* Paid to erstwhile Auditor

NOTE 42. COMMITMENTS AND CONTINGENT LIABILITIES

a) Commitments

Commitments for capital expenditure by various members of the Group total Nu. 11,985.80 million (2017: Nu 16,302.92 million).

b) Contingent Liabilities

There are contingent liabilities for transactions arising in the normal course of banking operations.

	31-Dec-18	31-Dec-17
Liability for Acceptances Endorsements and other Obligations	771.38	1,467.23
Guarantees issued and outstanding and bill payable	5,906.43	3,085.92
Total	**6,677.81**	**4,553.15**

Guarantees have been provided for loans owing by subsidiary and associate companies amounting to Nu. 6,677.81 million (2017: Nu 4,553.15 million). No loss is expected on these guarantees.

DHI's investments totaling Nu. 3,460.00 million (2017: Nu. 3,460.00) in some of the subsidiaries have been pledged in support of the guarantee.

Various companies have outstanding legal claims totaling Nu 82.37 million (2017: Nu 82.37 million). Provision for payment hasn't been in included in these financial statements as no liability is anticipated.

During the year 2013, DHI's contingent liability went up by Nu. 533 million on account of guarantees provided to Bhutan National Bank Ltd. for working capital loan extended to Dungsam Cement Corporation Ltd. The outstanding balance of the loan as on 31 December 2018 is Nil.

Corporate Gurantee provided by DHI to Koufuku Internationl Private Limited for loan taken from Bhutan Development Bank Limited and Bank of Bhutan limited were completely paid up by DHI and SNBL in 2017 and therefore there is no corporate guarantee extended to KIPL.

During 2014, DHI provided its corporate guarantee to Dungsam Cement Corporation Ltd. for DCCL Bond Series I (Nu. 1,260 million), DCCL Bond Series II (Nu. 700 million). For both the cases outstanding balances as on 31 December 2018 is equal to the amount of guarantee originally provided for.

Again, during the year 2015, DHI's corporate guarantee has been extended to Dungsam Cement Corporation Ltd. for DCCL Bond Series III for Nu. 1,500 million. The outstanding balance as on 31 December 2018 is equal to the amount of guarantee originally provided for.

During the year 2018, additional Corporate Gurarantees were provided to Bhutan Power Corporation Limited amounting to Nu. 2,000 million, Nu. 30.80 million to Thimphu Techpark Limited, Nu. 80 million to State Mining Corporation Limited, Nu, 410 million to State Trading Corporation limited, Nu. 100 million to Construction Corporation Limited and Nu. 10 million to Koufuku International Limited.

The current year's financial statements cover the period from 1 January 2018 to 31 December 2018.

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Druk Holding & Investments

Design and Concept by Bhutan Printing Solutions and Media & PR Unit, DHI

Printed at Bhutan Printing Solutions