



## ROYAL CHARTER FOR DRUK HOLDING AND INVESTMENTS

## FOREWORD

Thimphu  
15 April 2008

**Dear Readers,**

The Druk Holding and Investments (DHI) is pleased to bring out this booklet giving the full version of the Royal Charter on Druk Holding and Investments granted by His Majesty the King on 11 November 2007, coinciding with the birth anniversary of the fourth Druk Gyalpo, His Majesty King Jigme Singye Wangchuck.

The booklet also includes the Prime Minister's Press Release of 14 November 2007 which announced the establishment of DHI following the Royal Charter. The Prime Minister said that for this important endeavour, the government had sought the guidance of His Majesty through a Royal Charter.

The primary goals of DHI are to hold and manage the existing and future investments of the Royal Government for the long-term benefit of the people of Bhutan. Hence, DHI will work towards promoting the aims of Gross National Happiness. It will strive to safeguard the national wealth, and manage and enhance such wealth through prudent investments. It will work to contribute in establishing a strong economic foundation to support a vibrant democracy.

The DHI's mandate also involves enhancing economic partnerships with India, a country with which Bhutan enjoys close and friendly relations, and which is now becoming a global economic player. At the same time DHI will also be involved in the government's efforts to lead and stimulate private sector development and work assiduously to transform companies with government investments into highly efficient and productive ones that strive for excellence.

As Chairman of DHI, I look forward to working to fulfill the vision of His Majesty the King with the Royal Government of Bhutan, with DHI owned and linked companies, the private sector and other stakeholders both within and outside the country.

**Thank you and Tashi Delek!**

**Lyonpo Om Pradhan**  
Chairman



TASHICHHODZONG

## **ROYAL CHARTER FOR DRUK HOLDING AND INVESTMENTS**

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

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

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

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

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

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

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

**HM The King of Bhutan**

## Annex I: Purpose and Function of Druk Holding and Investments Limited

The primary purpose of Druk Holding and Investments Limited (“DHI”) shall be to ensure that its companies are able to meet the challenges and requirements of the corporate sector in a highly competitive global economy such that DHI creates and maximizes returns to its shareholders, the people of Bhutan. To do so, among others, it will:

- a) Act as the holding company for the government-linked companies (the “GLCs”) transferred under the terms and conditions of a Share Transfer Agreement to be entered into between the Ministry of Finance and DHI (the “Share Transfer Agreement”).
- b) Strengthen corporate governance by ensuring clear separation of the ownership and management of DHI.
- c) Enhance the performance of the GLCs by making them responsible and accountable for their performance.
- d) Raise funds for investment.
- e) Maximize return on investments by optimal utilization of resources.
- f) Lead, complement and spearhead the growth of a dynamic private sector.

In fulfillment of the above purposes, the following shall be the primary functions of DHI:

- a) Improve corporate governance of the GLCs by appointing their Board of Directors and CEOs who are professionally qualified, well experienced, highly motivated and of high integrity.
- b) Improve performance of the GLCs by tracking their performance to ensure sound business management and financial control through setting of performance targets and benchmarks for the GLCs and holding the GLCs responsible for meeting those targets and benchmarks.

- c) Achieve optimal capital efficiency by consolidating resources of the GLCs. Provide guarantees, if required, for the GLCs, if deemed appropriate by DHI.
- d) Invest in the existing GLCs to revitalize, restructure, and expand their business and also invest in new companies and businesses.
- e) Make investments outside Bhutan.
- f) Promote and encourage entrepreneurship and business development through venture capital and other required institutional support.
- g) Act as an incubator and initiate businesses in new areas.
- h) Divest shares in the GLCs with no strategic interest to the government or where government participation may not be necessary.
- i) Raise funds through borrowing from domestic and international financial institutions and through the issuance of debt, equity or other securities in the domestic and international capital markets.
- j) Subscribe or purchase equity, debt or other securities.
- k) Provide managerial and other support services on a fee basis to both public and private sectors.
- l) Undertake investments in reserved sectors and activities.

DHI in the course of its work shall also strive to promote the private sector through the following activities:

- a) Liaise with government agencies to facilitate an enabling environment through credible long-term government policies for the development of a dynamic private sector.
- b) Facilitate research and development to identify changing potentials and challenges for broader investment avenues in and outside the country.
- c) Promote Bhutan's brand image.

## Annex II: Relationship between DHI and the Government

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

### Annex III: DHI Governance Structure

1. The Prime Minister of Bhutan shall be the President of DHI. This shall be a non-executive position with the following role:
  - a) Chair the advisory committee to DHI when it convenes
  - b) Appoint the Board of Directors, except the Chairperson, of DHI upon recommendation of the Blue Ribbon Panel (“BRP”)
  - c) Directly nominate one representative from the Ministry of Finance to serve as a director on the DHI Board of Directors.
2. The Board of Directors of DHI shall have the necessary authority, competencies and objectivity to carry out its function of strategic guidance and monitoring of management. It shall act with integrity and be held accountable for its actions. The Board of Directors of DHI will have all of the rights and privileges of directors as set forth in this Royal Charter, the Act and the Articles of Incorporation of DHI.
3. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Director or committee, as the case may be, consent to the action in writing or by electronic transmission, and the written consents and electronic transmissions are filed with the minutes of proceedings of the Board of Directors or committee.
4. The Board of Directors of DHI has the full authority for making decisions regarding investments, divestments, and issuance of securities.
5. The Board of Directors shall consist of seven or nine members. The number of the Board of Directors shall be determined by the Board of Directors in consultation with the BRP.
6. At inception of DHI, the members of the Board of Directors and the Chief Executive Officer (CEO) shall be appointed by the Prime Minister.
7. Subsequent nominations shall be made by a Blue Ribbon Panel composed of the following:
  - a) Chairperson, National Council
  - b) Chairperson, DHI

- c) Chief Election Commissioner
- d) Chairperson, Royal Civil Service Commission
- e) Secretary, Ministry of Finance
- f) CEO, DHI ("Member Secretary")



#### Annex IV: Nomination, appointment and removal process of directors and chairperson of the DHI Board of Directors

The following shall be the selection and nomination procedures for the directors of the DHI Board of Directors.

1. The BRP shall nominate one person per vacancy and the names shall be submitted to the President of DHI.
2. The Nomination and Governance Committee (“NGC”) of DHI shall develop the board member criteria which shall be used for selection of candidates by the BRP.

The following shall be the appointment procedures for the members of the DHI Board of Directors.

1. His Majesty the King shall appoint the Chairperson of DHI.
2. The President of DHI shall appoint a director to the DHI Board of Directors from the Ministry of Finance as representative of the shareholder.
3. For the nominees submitted by the BRP, the President of DHI may review the list of nominees:
  - a) If the President is satisfied with the nominees, he shall appoint them to the DHI Board of Directors within a month of receiving such a list.
  - b) If the President has objections to any of the names provided, he may use his one time veto power after providing good cause within a month of receiving such list. The BRP shall then submit a revised list of names excluding those vetoed, within a fortnight of such veto to the President, following which they shall be appointed to the DHI Board of Directors by the President within a month of receiving the revised list.
4. The CEO of DHI shall be appointed by the Board of Directors. Upon appointment he shall automatically become a member of the Board of Directors of DHI.

The following shall be the removal procedures for the members of the DHI Board

of Directors before the expiry of period of directorship.

1. A member of the DHI Board of Directors may only be removed by an affirmative vote of at least two thirds of the members of the Board of Directors of DHI, excluding the member being considered for removal.
2. The cause and process for removal shall be specified in the DHI Articles of Incorporation.

## Annex V: Remuneration Guidelines

1. Levels of remuneration shall be sufficient to attract and retain the board members, CEO and employees needed to run the company successfully and shall at least be comparable to the remuneration packages in the region. The Board of Directors of DHI shall determine the remuneration of the Board of Directors, CEO and employees of DHI.

## Annex VI: Dividends and Transfer of General Reserves of DHI

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

## Annex VII: Scope of the Charter

1. This Royal Charter and the Annexes shall extend to the whole of the Kingdom of Bhutan and shall come into force with effect from the date of the above signature. Where any provision of this Royal Charter and the Annexes contradicts any Acts or Laws relating to DHI and its linked companies, the provisions of this Royal Charter and the Annexes shall prevail.