

REGULATIONS FOR ISSUE OF CORPORATE BOND, 2012

PREAMBLE

These Regulations are issued in pursuance to the power vested with the Ministry in section 138(b) of the Companies Act, 2000. These regulations shall govern the issuance of Corporate Bond in Bhutan.

1. Short Title and Commencement:

- (a) These Regulations may be called, "The Regulations for issue of Corporate Bond, 2012".
- (b) These Regulations shall come into force on the date of public notification by the Ministry of Economic Affairs.

2. Definitions:

The terms and phrases used in this regulation, unless otherwise stated, shall mean:

- (a) **Bond** is a long term debt sold to the investors by the issuer.
- (b) **Capital Fund** means the sum total of paid up capital and the free reserves of the issuer.
- (c) **Charge** means an interest or right which a subscriber or creditor obtains in the property of the issuer by way of security that the issuer will pay back the bond money at the time of maturity.
- (d) **Issuer** means an issuing Company which shall be a Public Listed Company.
- (e) **Prospectus** means offer document prescribed in Companies Act of the Kingdom of Bhutan, 2000 and amendment thereto.

PART I: APPROVAL PROCESS

3. Approval and Registration of Prospectus:

The Prospectus for Bond issue shall be reviewed and approved by the Prospectus Approval Committee (PAC). The Registrar of Companies shall register the Prospectus after the approval of the same by the PAC as per Section 34 of the Companies Act of the Kingdom of Bhutan, 2000 and amendment thereto.

4. Contents of Prospectus:

The issuer shall submit the Prospectus for Bond issue, as prescribed in the Companies Act. The Prospectus must be accompanied by the auditor's report covering at least three years audited accounts and the following ratios for three financial years preceding the issue:

- a) Earnings Before Interest and Taxes (EBIT)
- b) Net profit margin
- c) Debt to Equity ratio
- d) Gearing Ratio
- e) Debt Service Coverage Ratio

In addition the issuer shall submit a projected balance sheet, a profit and loss accounts for three years subsequent to the issue.

5. Documents to be submitted to Registrar of Companies:

The following documents shall be submitted along with the Prospectus:

- a) Permission from Securities Exchange for the Bond to be transacted through the exchange
- b) Certified copy of the Articles of Incorporation and the amendments thereto.
- c) The resolution of the Annual General Meeting / Extraordinary General Meeting approving the issue of Bond together with the documents and reports presented to the meeting.
- d) Summary of audited financial statements for the last three years preceding the issue or for the period from the date of incorporation to the date of issue whichever is less.
- e) Detailed statement of the Bond.
- f) Statement of purpose, Terms, conditions for redemption and expenses of the issue.
- g) Any additional statements required by the Companies Act of the Kingdom of Bhutan, 2000 and amendments thereto.

6. Other requirements:

The issuer shall also fulfill the following requirements, prior to the issue of Bond:

- (a) Submit a Clearance/approval from their respective regulators/regulatory authorities.
- (b) Shall be listed with Royal Securities Exchange of Bhutan Limited (RSEBL).
- (c) Shall be rated by credit rating agency, upon establishment of credit rating agency.
- (d) The Bond shall be fully secured.
- (e) The broker to the issue of Bond shall not be, directly or indirectly, related to the issuer.
- (f) No further issue of Bond shall be permitted unless approved by the Registrar of Companies.
- (g) The Bond shall be listed with RSEBL.

PART II: CONDITIONS FOR BOND ISSUE:

7. Capital Fund:

The Capital Fund of the issuer shall not be less than Nu.200 million and shall be maintained at that level during the period that the bond remains outstanding. In the event that the issuer does not meet the required level of Capital Fund prescribed above, the issuer shall obtain a financial guarantee from a bank or any other financial institution to support the bond.

8. Track Record

The issuer shall have a track record of profits earned, in at least two of the last three financial periods preceding the date of application.

9. Debt ratios

The total indebtedness (debt contracted with a maturity period of one year and above), including the proposed issue of Bond shall not exceed 300% of the issuer's net worth as of

the latest date of financial statements. This ratio shall be maintained till the maturity of the Bond.

10. Registration of Charges:

The issuer shall register a charge on the title of the collaterals pledged for the issue of Bond within 30 days from the date of allotment of Bond. The collaterals pledged for the issue shall be free of all encumbrances or prior charge. The issuer and each individual director of the issuer shall be liable for fines ranging from Nu.2000 to Nu.5000 for every default. In addition a sum of Nu.500/- per day shall be levied for continuing default until the default is rectified.

11. Guarantee Bond:

- (a) Where there is a Guarantor to the issue, the issuer shall be exempted from the conditions under sections 7, 8, 9 & 10 above. However, all these conditions shall be fulfilled by the Guarantor.
- (b) If the guarantor is a financial institution, the consent of the RMA is required. When the Guarantor is a state owned enterprises, consent of the Ministry of Finance is also required. In addition, the Guarantor shall provide financial capability statements duly certified by the Guarantors Auditors and the same shall be endorsed by the Board of Directors.
- (c) In case of Sovereign Guarantee, the Guarantor shall also be exempted from the conditions under sections 7, 8, 9 and 10 of these Regulations.

PART III: GENERAL PROVISIONS

12. Size of issue

The minimum size of issue shall be Nu. 50 million carrying a face value of Nu.1,000 each.

13. Timing

The Bond shall be open for subscription for a period not exceeding 30 days and it shall be allotted within 30 days from the closing date for subscription.

14. Redemption Fund (RF):

- (a) The issuer shall create an Escrow Account with any commercial bank to be an agent bank for the issue. The issuer shall deposit the prescribed percentage of the Bond amount, based on the percentage and frequency of deposits, to be determined by the PAC, depending on the tenure of the Bond.
- (b) The issuer shall also submit a report of the Escrow Account created with any agent bank for the Bond, within a week after the allotment of Bond to the PAC.
- (c) A quarterly report on the account & coupon amount being paid to the Bond holders/investors shall be submitted to the Registrar of Companies. At any time during

the period of the Bond, if the Company is found to be financially unsound by the Committee, the PAC reserves the right to restrict further lending, investment and payment of dividends by the issuer to ensure adequate liquidity for redemption of the Bond on maturity.

15. Announcement

The issuer shall make public announcement in media atleast one week before the issue date. The contents of such announcement shall be in the form of an Abridged Prospectus as prescribed by the Securities Exchange.

16. Prospectus Review Fees:

The issuer shall deposit a copy of the draft prospectus along with the application as prescribed in **Annexure I**, to the Registrar of Companies for Approval and simultaneously deposit a draft prospectus along with non-refundable review fees to the Royal Securities Exchange of Bhutan (RSEBL). The Fees collected by RSEBL shall be deposited with the Royal Monetary Authority (Securities Regulator) as mandated by Financial Services Act, 2011.

ANNEXURE I

Date:

The Registrar of Companies,
Company Registry Division,
Department of Industry,
Ministry of Economic Affairs,
Thimphu, Bhutan

Sub: Application to issue Corporate Bond

Sir,

We are desirous to issue Corporate Bond amounting to Nu..... We confirm and declare that our application is in full compliance with the Regulations on Issuance of Corporate Bond, 2012 issued by the Ministry of Economic Affairs.

We further confirm and declare that the company is a public listed company and we are satisfied to the best of our knowledge and belief, that there is no information or statement nor is there any omission in the draft Prospectus, which would make our statements false or misleading. We undertake to provide such information and documents as this office may reasonably require in relation to the application.

This application is made by the undersigned authorized person of (.....*Issuer's Name*.....) pursuant to the authority granted to by a written resolution of our Board of Directors passed on (.....Date.....).

Faithfully yours,

For and on behalf of issuer

Name:
Address:
Tel No:
Fax No.:
Email:

Enclosed: Documents as prescribed in section 12 of these regulations, and the Draft Prospectus.