



# LD INVEST VIETNAM K/S

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## CSR Report 2013

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# Introduction

This is the second yearly CSR report of LD Invest Vietnam K/S (LD Invest Vietnam or the Fund). The purpose of this report is to present the CSR initiatives which have been carried out by the portfolio companies during 2013 as well as pointing out the CSR issues in need of rectification in accordance with the respective CSR Action Plans.

In accordance with the Limited Partnership Agreement for LD Invest Vietnam, this CSR Policy and Guidelines is adapted from the CSR Policy and Guidelines of the Investment Fund for Developing Countries (IFU). These are based on the internationally recognised principles of the UN Global Compact constituting the framework for human rights, labour rights, the environment and anti-corruption.

In March 2010 the Fund's CSR policy was slightly modified in order to reflect the Fund's investments directly in Vietnamese companies. In comparison, IFU invests jointly with Danish companies. The Fund's CSR Policy and Guidelines is further described in Appendix 2.

## **The Fund's CSR approach**

The Fund's CSR approach is based on the cooperation with joint owners of the Vietnamese portfolio companies, usually majority owners. As part of the due diligence process prior to investment, the Fund assessed the CSR status of the company in target, and based on the assessment a CSR Action Plan was developed in accordance with relevant Vietnamese legislation and international standards. Additionally, a CSR appendix is an integrated part of the shareholders' agreement between the Fund and the additional owners of the company. The CSR appendix is a roadmap of CSR management of the portfolio company (see Appendix 2).

The portfolio companies are required to complete the actions in accordance with the CSR Action Plan as decided at the time of investment. The Fund's representative on the company's Board of Directors monitors the efforts and results continuously. If necessary, the Fund may require that external specialists assist the company with the implementation of the CSR Action Plan.

## **CSR standards and policies**

The first priority is that the portfolio companies of LD Invest Vietnam at any time are in compliance with all Vietnamese legal and regulatory requirements regarding CSR issues. Further, the second priority is that the portfolio companies shall work towards being in compliance with relevant international CSR standards, and that these international standards shall be used as benchmarks. The CSR Policy and Guidelines of LD Invest Vietnam is based upon international UN, ILO and OECD conventions, declarations and agreements and relevant international standards such as the guidelines of the World Bank/IFC.

## **CSR reporting and implementation**

According to the Fund's CSR Policy and Guidelines, an annual CSR Status Report shall be prepared by the directors of the company, describing the current status of relevant CSR issues of the company. However, the Fund's CSR Policy and Guidelines has been adapted in order to ensure the highest level of reporting. Therefore, the CSR status report has been carried out in collaboration with the Danish Economic and Commercial Office (DECO) of the Danish Consulate in Ho Chi Minh City, Vietnam. The DECO has been engaged as an independent third party consultant assisting with the yearly review of the portfolio companies. Substantial excerpts of the yearly reports from the DECO are included in this report in Appendix 1. The full version of the reports will be forwarded upon request.

# Results

In general, the portfolio companies have been very co-operative in their approach to the CSR review. The four active companies of the portfolio have all addressed and implemented the majority of the issues identified in the assessment of 2012. The audit carried out at the end of 2013 revealed that three out of four companies had very few issues, partly because they are engaged in the service industry, the education industry and the IT industry with limited occupational health and safety (OHS) or adverse environmental impact. One company, AA Corporation, had more issues mostly because it is engaged in the design and furniture production industry. The main conclusions of each CSR audit are:

## **Golden Gate - restaurant chain**

The audit of 2013 established that Golden Gate had fulfilled four out of five non-compliances raised in the report of 2012. This included finalising and approving the salary scale, establishing a collective labour agreement, revising the annual leave policy and establishing labour right policies. However, the contracts for the seasonal employees need to state the payment of a 24% employer contribution to social insurance. A few new issues will be addressed within health and safety management such as providing facilities with evacuation maps, mounting fire extinguishers, installation of emergency lighting and posting of safety instructions next to gas cylinders. Due to the minimal CSR impacts identified during the assessment, the overall CSR compliance of Golden Gate Trade & Service JSC is "high".

## **Vietnam Australia International School (VAS) - education**

Last year's CSR audit did not reveal any outstanding issues, and during 2013 VAS has undergone audits on a regular basis carried out by the local authorities. Thus, the company is found to be in compliance with the local regulations. General information on labour and employee remuneration was obtained, and in addition Maj Invest has specific knowledge from the Board. However, VAS did not wish to disclose specific information on labour and employee remuneration such as payslips, and thus the status could not be defined clearly. The issues established in this year's report only regard safety practices. The following needs to be rectified: emergency exit lights should be installed correctly, emergency instructions in the cafeteria should be posted, compressed gas cylinders need to be secured properly, handrails for kitchen staircase should be installed and external suppliers and service suppliers should be informed of the school's safety requirements. Due to the minimal CSR impacts identified during the assessment, the overall CSR compliance of Vietnam Australia International School is "high".

## **VMG Media - telecom and IT services**

In general, VMG Media is in compliance with the local regulations and has maintained a good Social and Environmental Management System. The company has properly addressed the single non-compliance finding in the report of 2012 regarding a policy for the seasonal workers. The CSR audit of 2013 established one outstanding issue that needs to be rectified: an exit sign and emergency light should be installed at exit doors on all floors of the company. Due to the minimal CSR impacts identified during the assessment, the overall CSR compliance of VMG Media is "high".

## **AA Corporation - design and furniture production**

AA Corporation is facing the most challenges in relation to CSR issues. The company has a very positive attitude towards incorporating CSR in their business and their commitment is relatively high compared to other companies in the same industry. Various issues pointed out in the assessment of 2012 has already been rectified. However, there are still some non-compliances, both new and previous, that will be addressed. These include to conduct a periodic meeting between the safety committee and the management team, to ensure proper training for the workers, to install proper safety guards, to lower the noise levels and the temperature in the factory, to reduce the amount of overtime and ensure proper handling of chemicals and hazardous materials. Due to the issues with potentially significant CSR impacts identified during the assessment, the overall CSR compliance of AA Corporation is "medium".

A CSR overview of the portfolio is shown in the table below:

Company name	Sector	CSR issues of main focus by Maj Invest	Level of CSR compliance
Golden Gate	Restaurant chains	Update of labour contracts for seasonal workers. A few OHS issues need to be addressed.	 High
Vietnam Australia International School	Education	A few OHS issues will be addressed.	 High
VMG Media	Telecom and IT services	Installation of exit signs and emergency lights.	 High
AA Corporation	Design and furniture production	Continuing the improvement of OHS management in accordance with the Action Plan.	 Medium

## Conclusion

CSR management and implementation is a moving target where companies on an ongoing basis have to revise their policies and action plans in accordance with national and international standards. The Fund is committed to work with the portfolio companies on a long-term basis to improve their CSR performance but it is also important to acknowledge that immediate changes can be difficult to achieve in frontier markets where CSR is a relatively new concept.

As the audits demonstrated, the four portfolio companies are all keen on implementing the CSR approach in their business. They welcome the suggestions presented by the DECO and the Fund and in most cases they rapidly rectify the non-compliance findings.

As part of the due diligence process, the companies are rated according to their level of CSR compliance in relation to relevant international standards and Vietnamese regulations. The table above shows a rating of the companies on CSR issues at the time of the CSR audit. As the table indicates three out of four companies are rated "high" and one company is rated "medium". As such, the CSR compliance of the companies of 2013 is considered satisfactory.

In 2014, Maj Invest will continue to work with the companies to implement relevant measures to improve their CSR policies in accordance with the recommendations provided by the DECO.

If you require any further information about the Fund's CSR policy and implementation, please contact us.

Copenhagen, 29 April 2014



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# Appendix 1 - Excerpts from Yearly CSR Reports

## GOLDEN GATE TRADE & SERVICE JSC

The following excerpt is based on the review conducted by the Danish Economic and Commercial Office of the Danish Embassy in Vietnam.

### Short summary

Golden Gate Trade & Service JSC is a joint stock company established in November 2005. The branch office of Golden Gate Trade & Service JSC was established in 2008 in Ho Chi Minh City under the Business License No: 0102721191-001, amended in October 25, 2012. The main business activities of Golden Gate Trade & Service JSC include food and catering services with more than 55 restaurants in Hanoi, Ho Chi Minh City, Dong Nai Province, Binh Duong Province and Dalat City.



There are 1,200 employees currently working with Golden Gate Trade & Service JSC, including 660 seasonal employees (55% of total workforce).

### Legal reference

The purpose of this assessment was to evaluate the status of the company within occupational health and safety (OHS), environment, labour practices and business ethics and to detect any critical deviations from the CSR guidelines of IFU/LD Invest Vietnam and the Vietnamese legal requirements.

The main results from this review are:

### Commitment

The CSR commitment of Golden Gate Trade & Service JSC was noted positive, the management was cooperative during the whole assessment process and committed to remedy all non-conformity findings raised by the assessors.

### Management system

This assessment is the second CSR audit done by the Danish Embassy's CSR team. Furthermore, Golden Gate has also been assessed on a regular basis by the local authorities on health and safety as well as environmental and labour issues. Therefore, the company generally has updated policies and regulations relating to labour, health, safety and environmental practices.

### Labour management

#### Working hours

The workweek consists of 6 days. A work day consists of 8 working hours and a 60 minutes lunch break. The work plan is scheduled into three main shifts: first shift from 8:00 am to 4:00 pm, the second shift from 10:00 am to 6:00 pm and the third shift from 2:00 pm to 22:00 pm. All employees are entitled to take one day off every 7 days, but this is not limited to Sundays. The office employees work from 8:00 am to 5:00 pm from Monday to Friday and half a day on Saturdays with a 60 minutes lunch break.

### Wages and benefits

1) Wage is calculated on a daily rate basis and transferred to the employees' bank accounts on the 5th of the following month. Currently, the monthly net wage paid to the permanent and seasonal employee ranges from VND 2,659,000 to VND 5,205,900 (USD 133 to 260). These incomes also include other monthly benefits such as a meal allowance and bonus, which is higher than the minimum wage set by Decree No. 103/2012/ND-CP dated 4 December 2012, i.e. VND 2,350,000 (USD 117) per month.

2) The meal allowance constitutes VND 520,000 (USD 26) per month. Employees are entitled to bonus based on revenue.

3) It is also noted from the document reviews and management interviews that most of the findings raised by the CSR team relating to wages and benefits from the previous assessment dated 26 November 2012 have been fulfilled by the management.

### **Labour contracts**

The types of labour contracts include a one-year term contract and an indefinite term contract applicable for permanent employees as well as contracts of 1 to 3 month terms applied for the seasonal employees.

In accordance with Point 3, Article 22 of the Vietnamese Labour Code No: 10/2012/QH13 dated 18 June 2012 it is prohibited to conclude casual labour contracts or regular labour contracts with terms below 12 months to do regular work for 12 months and above, except for temporary replacement of employees doing military service, taking maternity leave, suffering from illness or occupational accidents or taking other temporary leave.

However, due to the specific characteristics of the food service industry 55% of the company workforce consists of seasonal employees with a short term labour contract of 1 to 3 months. In addition, the majority of these seasonal employees are university students and work as part time employees in order to support their expenses. Therefore, they prefer to sign a seasonal contract with Golden Gate instead of committing with a long term contract. The salary of the seasonal employees is based on the daily rate which ranges from VND 92,000 to VND 442,000 (USD 5 to 22) (the minimum wage set by law is VND 90,384/USD 5 per day).

### **Employee turnover rate**

The company manages the employee turnover rate on a monthly basis. The rate varies between the different departments such as back office, the distribution center and operating staff. Due to the characteristic of the company's business, the employee turnover rate in the distribution center and operating staff is quite fluctuated compared to that of the back office group. The average employee turnover rate for the distribution group and the operating group in the first ten months of 2013 were around 5.3% and 9.7%, respectively. However, the company confirms that it does not experience shortage of staff during the year.

### **Freedom of association**

A Trade Union was formed on 2 December 2010 and the Collective Bargaining Agreement (CBA) was renewed on 1 May 2013.

### **Occupational health and safety (OHS) management**

Based on the document review and management interview, Golden Gate has a basic standard of OHS management in place. As the company has undergone several inspections by the local authorities in regard to OHS management,

it was found in compliance with the local regulations.

### **Environmental management**

According to document reviews the company has performed an environmental inspection on 15 October 2013. The Environmental Inspection Report No: 20-10/13-13/KQ done by Bach Viet Environmental Laboratory Testing Center is available for verification. The results of the report concluded that the company meets the Vietnamese standards.

### **Wastewater**

There are two types of wastewaters:

- Domestic wastewater is separated from rain water and all is discharged into the public sewage system.
- Wastewater from toilets is collected in septic tanks for pre-treatment before being discharged into the common sewage.

### **Conclusion**

In general, according to the shared information by management and several document reviews, the company has an updated management system in terms of labour, environment and health and safety practices. 4 out of 5 non-conformities raised in the CSR assessment on 26 November 2012 have been fulfilled including:

- Finalizing the salary scale and having it approved by the local labour department.
- Establishing a collective labour agreement.
- Revising the annual leave policy.
- Establishing labour rights including: a child labour policy, a discrimination policy and an abuse/harassment policy.

Overall Golden Gate has a high level of CSR compliance.

### In need of further improvement:

As required in the previous CSR report the company has included 24% of the social insurance contribution from the employer part in the salary of the seasonal employees. However, the 24% contribution also needs to be stated clearly in the labour contract of the seasonal employees.

Within occupational health and safety management the following is recommended based on the 2013 assessment:

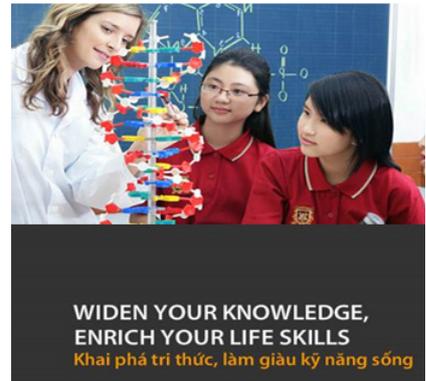
- Each facility should be provided with an evacuation map.
- Fire extinguishers should be mounted.
- Installation of emergency exit lighting above the exit door and keep the exit door clear of obstruction.
- Safety instruction is to be posted on the gas cylinder safety valve to instruct people on how to cut off the valve in case of emergency.

## VIETNAM AUSTRALIA INTERNATIONAL SCHOOL - VAS

The following excerpt is based on the review conducted by the Danish Economic and Commercial Office of the Danish Embassy in Vietnam.

### Short summary

The Vietnam Australia International School located at 594, 3 thang 2 Street, District 10, HCMC was established in 2006 under Business Registration No: 0303548370 dated 27 July 2011. The VAS facility undergoing the CSR assessment is the largest facility of VAS and currently has 2,100 students enrolled from preschool to high school.



A total of 992 employees are currently working for VAS. 10% of these employees are expatriates of different nationalities (US, UK, Australia, Canada and New Zealand).

VAS is an English language education centre for local students and consists of 8 campuses located in different districts of Ho Chi Minh City. In total 4,261 students are enrolled.

### Legal reference

The purpose of this assessment was to evaluate the status of the company on labour practices, business ethics and occupational health and safety (OHS) as well as to detect any critical non-compliance with the CSR guidelines of IFU/LD Invest Vietnam and the Vietnamese legal requirements. Additionally, the World Bank OHSAS was applied as a reference in relation to emergency exits.

The main results from this review are:

### Commitment

According to the information provided by the management, VAS has not undergone any direct CSR assessment previously except for the one carried out by the DECO in 2012. The management of VAS did not wish to disclose specific information related to salaries and benefits to any third party, as this information is considered private and confidential. The assessment team was therefore not granted access to this information. VAS, however, provided general documents about their human resource practice, labour practice, company regulation, salary scales, time attendant records, work permits of foreign employees etc. Therefore, the input for this report is based solely on information provided by the management of VAS.

### Management system

VAS has regularly been audited by the local authorities on health and safety as well as environmental and labour issues to ensure that the company is in compliance with the laws and regulations of Vietnam. As a result VAS is in compliance with most of the local regulations.

### Labour management

#### Working hours

The workweek consists of 6 days of 8 hours per day and a 90 minutes lunch break from 12:00 pm to 1:30 pm. The work day is scheduled into two shifts: from 6:00 am to 2:00 pm and 2:00 pm to 10:00 pm. The office employees work from 7:30 am to 5:30 pm. Saturdays end at 12:00 pm for office staff and 5:00 pm for operation staff. For every 7 days the employees are entitled to take one day off. In case of the need of overtime, according to VAS policy a maxi-

mum of 4 hours per day (from 5:00 pm to 9:00 pm) is allowed and all overtime work must be approved by top management prior to being executed.

#### Wages and benefits

1) Wages are calculated on a monthly rate basis and transferred to the employees' bank accounts at the end of each month. Currently, the minimum monthly wage paid to the permanent employees (after a probation period) is VND 2,515,000 (USD 126), which is higher than the regulatory minimum salary.

2) Overtime rate is paid at the rate of 150% for weekdays, 200% for overtime on Sundays and 300% for public holidays.

3) Benefits include a monthly meal allowance, telephone allowance, work achievement incentive, transportation allowance, professional allowance and medical care and accident insurance.

4) Particular for expatriate employees: VAS signs labour contracts directly with expatriate employees. The company is responsible for the expatriate's work permit and resident card.

5) Based on the most recent Social Insurance Notification issued by the Social Insurance Department of HCMC dated 10 October 2013 a total of 718 employees are covered with social insurance, health insurance and unemployment insurance until September 2013.

#### **Labour contracts**

Different types of labour contracts are applied:

- A labour contract for permanent employees in terms of one year, three years and indefinite.
- A labour contract for probation employees ranging from 1 to 2 months, depending on the nature of the job.

#### **Employee turnover rate**

The employee turnover rate until October 2013 was approximately 3%. This is more or less equal to the rate of the same period of 2012. This low staff turnover rate is a result of workshops and teacher training as well as good cooperation between the management and staff, both local and expatriate employees.

#### **Freedom of association**

The Trade Union of 2012 to 2015 is chaired by Mrs. Le Thi Duyen Ha based on the Decision: 349/QD/ToC dated 17 October 2012. A Collective Bargaining Agreement was also established and reviewed on 30 May 2011 by the Department of Labour, Invalids and Social Affairs of HCMC.

#### **Anti-corruption issues**

VAS does not have a particular policy on anti-corruption, but the company has strict procedures on selecting suppliers and contractors. Additionally, suppliers are requested to sign a commitment on business ethics, before VAS enters into a contract.

#### **Occupational health and safety (OHS) management**

The CSR assessment was conducted at one of the largest VAS campuses. This is a compound of 9 blocks located in

a residential area of HCMC. The compound consists of class room facilities, kindergarten facilities, a music room, a library, a multimedia room, a first aid room, a cafeteria as well as office facilities. The general observation established that the facilities were in good condition and with green spaces. The perimeter of the facilities was well protected by fences and security guards. Traffic signs were posted around the facilities and fire equipment was provided in a strategic location easy to access. Furthermore, a playground and a swimming pool are available for the students to use. The staircases were protected with handrails and classrooms were found well illuminated, clean and tidy. The cafeteria had good hygiene conditions.

Based on the management information, all suppliers' backgrounds have been screened before delivering service to the campus such as food hygiene certificate, emergency first aid center, maintenance subcontractor etc.

### **Environmental management**

The company has integrated a number of environmental protection activities into the daily operation of the facility. This includes teaching students and office staff to turn off the lights when leaving an area as well as installing a certified local waste collector to handle all types of waste.

Based on the management interviews some CSR activities have been performed such as conducting events at the school and other activities to educate the students on how to integrate the CSR activities such as a water saving program, reducing the use of plastic cups, the segregation of waste etc.

### **Conclusion**

In general, based on the information from the management VAS has already undergone several social audits performed by the local authorities. VAS is therefore in compliance with most of the local regulations. However, due to the limited information regarding labour and employee remuneration shared by the company, the status of VAS' CSR program in this perspective could not be defined clearly. Accordingly, there is no updated action plan in regard to labour practice. Overall, the level of CSR compliance of VAS is high.

The following identified issues need to be remedied:

- A review of the emergency exit lights in the cafeteria and post instructions for easily identifying directions to the assembly point in case of an emergency.
- Secure compressed gas cylinders at all times.
- Provide both side handrails for staircase in the back of the kitchen.
- Train external suppliers on safety requirements when entering the facility.
- Make sure that all service providers follow the safety requirements when operating on the campuses of VAS.

## VMG MEDIA JSC

The following excerpt is based on the review conducted by the Danish Economic and Commercial Office of the Danish Embassy in Vietnam.

### Short summary

VMG Media JSC was established in 2006 under the Business License No: 0101883619. The company is located at 8th Floor, Vien Dong Building, No.36 Hoang Cau Street, Dong Da District, Hanoi, Vietnam. VMG provides various types of services and products related to digital content.

At present, there are 270 employees working at the company. Seasonal employees are employed according to necessity.



### Legal reference

The purpose of this report is to compare the actual conditions of the company with the CSR guidelines of IFU/LD Invest Vietnam and the Vietnamese legal requirements in order to detect critical non-compliances. The CSR commitment of VMG was noted positive. The management showed a cooperative attitude during the whole assessment process and committed to remedy all non-compliance issues raised from this assessment.

The main results of this review are:

### Commitment

All required documents have been obtained and kept by VMG. Company regulations and policies are communicated to all employees during orientation training. In addition, a policy for seasonal employees has been in effect since 1 March 2013 to guarantee all legal benefits to these employees.

### Labour management

#### Working hours

The normal workweek is from Monday to Saturday. The working hours are from 8:30 am to 5:30 pm, including a 90 minutes lunch break from 12:00 to 1:30. Employees are entitled to one day off per week. A finger print reading system and manual time attendance sheets are used to record the working hours of the employees. Peak production season is from October to January. Employees are remunerated on a monthly-rate basis. The wage is transferred directly to the employees' bank accounts at the end of each month. Time records of the past 12 months (from November 2012 to October 2013) were provided for reviewing. Overtime functions on a voluntary basis and needs to be informed in advance to employees.

#### Wages and benefits

Employees are entitled to at least 12 days of annual leave and paid holidays as required by local laws. In addition hereto, there are 11 national holidays which employees automatically are entitled to. Thus, the employees at VMG have 23 holidays per year. This is in accordance with International Labour Organisation standards. Furthermore, additional annual leave is granted to entitled employees for every 5 years working for the company. The wage level table has been updated and approved by the local labour authority on 13 December 2012. The minimum wage is VND 2,514,500/month (USD 126), which is higher than the required minimum wage of VND 2,350,000/month (USD 118). Employees are compensated on a monthly-rate basis. At the beginning of employment, the employee is to pass a 2-months probation period. During the probation period, the employee receives 85% of the basis wage as

stipulated by local laws. The wage is transferred directly to the employees' bank accounts at the end of each month.

During the assessment, payroll records of the past 12 months (from November 2012 to October 2013) were provided for reviewing. The company paid its contribution of social insurance to 247 entitled employees up to September 2013. For seasonal employees, the company's contribution of social insurance is paid directly to their salary as allowed by local laws. Ten payroll records were randomly selected for review. Various types of allowances are provided to employees, including a transportation allowance, a meal allowance and a full attendance bonus.

A staff turnover rate of 10% was attributed equally to two reasons: the employees either found better opportunities and left, or the company terminated contracts with employees who performed under expectation.

#### **Child labour**

In accordance with the company's recruitment and selection policy, only employees from the age of 18 and above are allowed to work for VMG Media. Applicants are required to submit an age verification document (copy of birth certificate, ID card, certified resume) to HR staff during the recruitment process. Interview with these applicants is carried out by HR staff before any employment decision is made. During the assessment, ten personnel files were randomly selected for review. Copies of age verification documents were well kept in the files for reference.

#### **Forced labour**

Employees are voluntarily working for the company. The labour contract is signed between the employer and the employee in the beginning of the employment. Each party keeps a copy of the contract for reference. Employees can terminate the labour contract at any time with an advance notice ranging from 30 days to 45 days.

#### **Discrimination**

There was no practice of discrimination observed during the audit. Employees are recruited based on their competencies and company requirements. Employees' remuneration levels are based on their working position, knowledge and skills.

#### **Free association**

The Trade Union of the company was reformed on 22 August 2013 with 14 representatives from various departments. The Collective Bargaining Agreement was registered with the local labour authority on 7 October 2011. Trade Union activities are promoted by the management and employees are encouraged to participate in these activities. No discrimination practice against Trade Union members was observed.

#### **Disciplinary practices**

Disciplinary practices are well-defined in the regulations and fully complies with the local labour laws. The disciplinary actions include verbal warning, written warning, transferring to new job position and dismissal, which is fully in compliance with the local labour laws. During the assessment, practice of monetary fine or mental/physical punishment was not observed in the company.

#### **Women's rights**

A list of female employees who are pregnant and nursing children has been kept. They are entitled to a one-hour paid break as stipulated by local labour laws.

### **Health and safety (OHS) management**

The Environmental Health & Safety Committee has been re-established on 7 August 2013 with 25 representatives from all departments. The EHS Committee is responsible for monitoring health and safety issues in the company. There are two first-aid boxes and the company shares a clinic room in the building. An annual health check is provided to all employees.

The last health check was provided on 2 May 2013. Purified drinking water is available, and the water was tested for drinking by local authority on 21 October 2013. The company sent its employees to join a firefighting training organised by the local police on 7 January 2013. There is one pantry on each floor of the company. A smoke detector system is installed and fire extinguishers and fire alarm buttons are placed throughout the working areas for use in case of an emergency.

### **Environmental requirements**

The working areas of the company are kept clean and tidy, and trash bins are placed around the premises. The working environment of the company is inspected annually. The last inspection was conducted on 17 October 2013 by local authorities with acceptable results.

### **Communication and record keeping**

Employees are informed of the company regulations as well as remuneration and benefits at the beginning of employment. All documents and records related to the social compliance status of the company are kept by the HR department. The documents and records were provided for review during the assessment.

However, regarding potential CSR impact on the company related to suppliers, i.e. the products and services sold online, the company has displayed product information on the webpage. Furthermore, VMG Media ensures that contracts with suppliers appropriately address the responsibilities of suppliers in order to be able to supply the products advertised. Additionally, the center for copyright in the company takes care of ensuring product origin and authentication as well as copyright.

### **Monitoring and compliance**

The HR department is responsible for monitoring the social compliance status of the company. Laws and regulations are updated by the manager/supervisor of each department. The company policies and procedures are revised to reflect these changes accordingly. The management team has a good understanding of labour regulations, the environment and occupational health and safety (OHS) practices.

### **Conclusion**

In general, VMG has maintained a good Social and Environmental Management System and is in compliance with the local regulations. The company has properly addressed one non-compliance finding in the review of 2012. Overall, VMG Media demonstrates a high level of CSR compliance.

One non-compliance issue was identified during this year's assessment:

- No exit sign and emergency light installed at all four working floors of the company.

It is recommended that exit signs and emergency lights are installed at exit doors in all four floors of the company.

## AA CORPORATION

The following excerpt is based on the review conducted by the Danish Economic and Commercial Office of the Danish Embassy in Vietnam.

### Short summary

AA Corporation was established in 1991 and is located at Binh Tien 2, Duc Hoa Ha, Duc Hoa District, Long An Province, Vietnam, 35 km from Ho Chi Minh City. The company specialises in manufacturing furniture primarily for 5 and 6 star hotels. Currently there are 1,233 production workers and 182 office employees working in the company. The factory consists of 11 production blocks including a warehouse, offices, clinic facility and a cafeteria. Food for employees is provided by an external food service caterer.



According to the management, the current markets are the Middle East (15%), US (20%), EU (15%), Asia Pacific (30%) and others (20%). According to the management, the only previous assessment of the company is the CSR assessment performed by the Danish Embassy in October 2012.

The company representatives seemed well prepared for the meeting and the required documentation was available. The premises appeared relatively clean and tidy and the company showed a very positive and helpful attitude. Most importantly the factory was willing to share all matters during the review process.

### Legal reference

The purpose of the assessment was to evaluate the improvements within the areas of occupational health and safety (OHS), environment, labour practices and business ethics observed during the assessment carried out in 2012. The actual conditions of the company are compared to the CSR guidelines of IFU/LD Invest Vietnam, the Vietnamese legal requirements and the international standards in order to detect critical non-compliance issues. More specifically, the World Bank EHS Guidelines were used as a reference in relation to emergency procedures and equipment.

The two main questions to be answered via this assessment were:

- 1) Has AA Corporation taken any recommended action to be in compliance with the Vietnamese Labour Code and Environment law according to the recommendations and solutions proposed in the previous CSR assessment report?
- 2) Has AA Corporation improved its policies, training systems and working conditions in terms of labour practice, environment, occupational safety and health in order to be in compliance with international standards as proposed in the previous CSR assessment report?

The main results from this review are:

### Commitment

The CSR commitment of AA Corporation is regarded as relatively high compared to other companies in the same industry in Vietnam even though there is still room for improvement.

### Labour management

The legal frame is the Labour Code No: 10/2012/QH2013 of Vietnam which has been applied since 1 May 2013. This labour code guides the implementation of labour regulations and an OHS program for the employers and employees. Several changes have been made in benefit of the workers, e.g. prolonging the maternity leave to six months and establishing a limit on overtime of 40 hours pr. month. However, it was found that there is still an excessive amount of overtime and work on Sundays is frequently carried out.

### Wages and benefits

The production workers sign a labour contract with a monthly rate ranging from VND 2,210,000 (during in the probation period) to VND 2,480,000 (USD 111 to 124). The net income including pay for overtime and other monthly allowances (after deduction of mandatory insurance) ranges from VND 3,291,685 to VND 7,994,607 (USD 165 to 400). The calculation of the daily rate is between VND 126,603 and VND 307,485 (USD 7 and 15) with an average of VND 203,892 (USD 10). This exceeds the local minimum wage of VND 80,769 per day (USD 4) (minimum wage applicable for zone 2). Workers' wages are paid in cash the 7th of every month.

All of the mandatory insurances such as social insurance, health insurance and enemployment insurance are paid accordingly to law.

Other monthly benefits include:

- 1) Transportation allowance (VND 200,000/USD 10) for both office employees and workers who do not use the company's cars for daily transportation to the factory.
- 2) Hazardous allowance (VND 104,000/USD 5) for every worker.
- 3) Attendance allowance (VND 184,000/USD 9) for all workers in case of no more than one day of absence per month.
- 4) Housing allowance (VND 100,000/USD 5) is applied for all workers.

### Environment

According to the management interview and document review, AA Corporation has undergone at least two environmental inspections per year carried out by the local environmental department. Therefore, the company has gradually created a clear organisational environmental responsibility.

Documentation records proved that the company has conducted the CO<sub>2</sub>-emission check at the boiler stack and the most recent measurement was in September 2013 carried out by the Centre of Environment Monitoring and Technology Services (CEMTES), in which the levels of NO<sub>x</sub>, SO<sub>2</sub>, CO, and O<sub>2</sub> were below the limit set by QCVN 19:2009/BTNMT. The wastewater discharge met the QCVN 40:2011/BTNMT.

Documentation records from the Health Centre of Long An Province dated October 2013 showed that in some working areas of the company the temperature, lighting and dust levels did not meet the standards regulated in Decision No. 3733/2002/QĐ-BYT issued by the Vietnamese Ministry of Health. More specifically:

- 14 out of 38 samples taken of the temperature in the workplace exceeded the Vietnamese standard ranging from 0.2 to 0.8 degrees Celsius.
- 2 out of 38 of the test samples of lighting in the factory were lower than the standards: only 106 and 222 lux/

500 lux. 4 out of 10 samples of the dust measurement exceeded the limit allowed: 11.90mg/m<sup>3</sup>; 10,28 mg/m<sup>3</sup>; 16,52 mg/m<sup>3</sup> and 8,14mg/m<sup>3</sup> (VN standard: 6 mg/m<sup>3</sup>); 4 out of 38 samples of noise measurement exceeded the allowed limit of 85.3 to 92.1 dbA. During the factory tour it was noticed that the workers were wearing earplugs accordingly.

#### Chemical exposure

Isobutyl Acetate: 3 out of 6 samples exceeded the PEL: 1,900mg/m<sup>3</sup>; 712 mg/m<sup>3</sup> and 950,2mg/m<sup>3</sup> ( TWA: 700mg/m<sup>3</sup>) Butyl Acetate: 1 out 3 samples exceeded the PEL: 950,2 mg/m<sup>3</sup> (TWA: 500 & STEL: 700 mg/m<sup>3</sup>).

Xylen: 2 out of 7 samples exceeded the PEL:108 and 173 mg/m<sup>3</sup> (based on TWA: 100 mg/m<sup>3</sup> & STEL: 300 mg/m<sup>3</sup>).

Benzen: 6 out of 6 samples exceeded the PEL: from 6.3mg/m<sup>3</sup> to 23,9 (based on TWA: 5 & STEL: 15 mg/m<sup>3</sup>).

It was noted from the factory tour that most of the workers working with chemicals were wearing carbon masks. Some of the workers working with a higher level of chemical exposure used respiratory devices. According to the management, in early 2013 the factory started to replace organic substance with water-based chemicals. However, due to the requirements of a number of customers certain finished products still use chemicals with organic compounds.

#### **Anti-corruption policy**

The company has an anti-corruption policy and takes a clear stand against corruption.

#### **Occupational health and safety (OHS) management**

A new Safety Committee was re-elected on 19 July 2011 and is managed by Mrs. Mai Huong, HR and Administrative Manager with a total of 40 OHS members. On the factory tour, it was observed that AA Corporation has improved their safety conditions in the workplace. This included installing guardrails for the elevated surface of the mezzanine storage area, providing safety guards for table saw machines, modifying the tubi machines by engineering control to prevent hand injury and labelling the operation switch button in local language.

However, beside these positive observations, the company still needs to improve the OHS program, mostly within chemical, machinery and electrical safety.

#### **Policies and documents**

The company could present most of the relevant documentation needed during the assessment.

#### **Conclusion**

Among the positive observations, the following can be pointed out:

Most of the production appeared clean and tidy. Additionally, an introduction to SAP and ISO 9000 was given. Back-rest chairs were provided for the sewing machinists, all fire equipment was found clear of obstruction, the warehouse was fully equipped with fire detector system and a free lunch was provided for all employees.

During the assessment, the management stated that recruitment of qualified workers is a challenge, especially when AA Corporation is working on a project basis. Therefore, the management seeks to create good working con-

ditions for all employees. Overtime is another challenge which the company faces.

From the document review a significant improvement in occupational health and safety management was noted, mostly in safety training and document records. Action has been taken to remedy the non-compliance findings raised by the CSR team in the previous assessment carried out in October 2012. However, numerous non-compliance issues from the previous assessment still need to be addressed. Additionally, new findings were noted during this assessment in regards to chemical safety, machinery safety, electrical safety and fire safety. The overall CSR compliance of AA Corporation is medium.

**CSR Action Plan**

In 2012 a written Action Plan was outlined with a clear indication of what should be done, why, when and by whom. In relation to the newly discovered CSR issues it is recommended that AA Corporation updates this plan.

## Appendix 2 - The Fund's CSR Policy and Guidelines

### CSR Policy and Guidelines for LD Invest Vietnam K/S

#### Introduction to CSR Policy

This CSR Policy and Guidelines is adapted from the CSR Policy and Guidelines of the Investment Fund for Developing Countries (IFU). The purpose is to ensure that the CSR Policy and Guidelines suits the legal structure and investment process of LD Invest Vietnam.

LD Invest Vietnam is committed to supporting the portfolio companies in their work with CSR, and the purpose of these guidelines is to describe the due diligence and monitoring process, to clarify the responsibilities and to introduce the tools available.

The portfolio companies of LD Invest Vietnam shall at any time be in compliance with all legal and regulatory requirements regarding CSR issues of Vietnam. Further, the portfolio companies shall work towards being in compliance with relevant international CSR standards, and these international standards shall be used as benchmarks. The CSR Policy and Guidelines of LD Invest Vietnam is based upon international UN, ILO and OECD conventions, declarations and agreements and relevant international standards such as the guidelines of the World Bank/IFC.

#### Main principles of CSR – issues of concern

The main issues of concern covered by the CSR policy are the following:

- **Human rights:** It is a fundamental value of LD Invest Vietnam to respect the basic human rights, and LD Invest Vietnam will not accept forced or compulsory labour and the use of child labour in activities, which are dangerous to the moral and/or physical well-being and development of the child. LD Invest Vietnam advocates non-discrimination and encourages the portfolio companies to promote gender equality.
- **Labour rights:** Given that independent trade unions are prohibited in Vietnam, LD Invest Vietnam encourages the portfolio companies to seek to establish alternative measures that enable workers to discuss work related issues. Employees should be encouraged to engage in workers' meetings and facilities should be provided for the gatherings. LD Invest Vietnam requires that all employees have reasonable limitation of working hours, periodic holiday, reasonable remuneration and the right to rest.
- **Occupational health and safety (OHS):** Sound OHS procedures include the application of principles of industrial hygiene, substitution of hazardous substances, establishment of work procedures and material safety data sheets and ensuring personal protective equipment.
- **Environment:** LD Invest Vietnam requires that the portfolio companies actively manage their environmental impact, and that they take actions to improve their environmental performance as appropriate. The portfolio companies must support a preventive and precautionary approach to environmental challenges.

- **Climate change:** LD Invest Vietnam encourages the portfolio companies to contribute to climate change mitigation and adaptation. The portfolio companies should give attention to major contributions to climate change and consider appropriate measures to minimise the effect.
- **Anti-corruption:** LD Invest Vietnam does not accept corruption and bribery. The portfolio companies or their representatives should not accept bribes in any form and should not provide improper benefits to customers, agents, contractors, suppliers, employers or government officials.
- **Excluded product areas:** LD Invest Vietnam does not invest in companies that are engaged in business areas related to the production or trade of weapons, hard liquor, tobacco products or activities related to gambling.
- **Community development and society aspects:** LD Invest Vietnam encourages portfolio companies to contribute to the development of the local community within their ability and the scope of their core business and business concept.
- **Animal welfare:** LD Invest Vietnam requires that animals used in food production, for other commercial purposes or for testing are treated properly. LD Invest Vietnam requires that veterinarians and agriculture technicians do efficient controls and inspections.

### Guidelines

To ensure that the operational standards of a portfolio company are set and implemented in accordance with the CSR Policy and Guidelines, the following operational procedures and guidelines are to be applied during the due diligence and monitoring stage.

### Due diligence and Quick Check

#### Content

The level of information required for conducting a satisfactory CSR due diligence depends on the type of target company and its activities. For this purpose an international recognised system of categories which reflects the need for assessment of the potential CSR impacts and risks of the target company has been developed. The CSR characteristics of the actual target company have to be assessed not only based on the category, but also on the Directors' and Board of Managements' CSR capacity and Vietnam's CSR laws and enforcement.

Target companies have to be categorised based on both their environmental and social impacts. The highest impact category will classify the whole company. The internationally recognised category levels A, B or C (respectively high, medium and low impact) as well as the category B+ (determining projects of generally medium impact with some specific higher impact features) result from a series of specific criteria. Further information is available in the document "Guidelines for Categorisation and CSR impact Assessment of Projects financed by IFU/IØ". The document will be forwarded upon request.

Based on the categorisation of the target company it will be decided if the target company needs a full environmental and social assessment, but for most target companies it is expected that the due diligence includes two key components:

- An identification and assessment of the CSR risks and impacts (Quick Check) of the company.
- An evaluation of the commitment and capacity of the target company to manage expected risks and impacts.

#### Responsibility

Maj Invest Vietnam shall conduct or facilitate the CSR due diligence of the target company on behalf of LD Invest Vietnam. Maj Invest Vietnam must review and accept the assessment of the target company before signing an Investment/Share Purchase Agreement or similar.

#### Process

Maj Invest Vietnam will initiate the due diligence process and ensure that the CSR due diligence is conducted parallel with other relevant due diligences of the target company.

#### Time frame

The CSR due diligence must be conducted before the final investment decision is made by the Investment Committee of LD Invest Vietnam.

### **CSR Action Plan**

#### Content

Based on the CSR due diligence, as a minimum consisting of a Quick Check and an evaluation of the commitment and capacity of the target company to manage CSR risks, a CSR Action Plan must be developed in case of deviations from the set standard. The requirements and guidelines for the CSR Action Plan are described in the CSR Policy of the target company based on the IFU Action Plan Guidelines.

#### Responsibility

It is the responsibility of Maj Invest Vietnam to assist the target company in developing a realistic CSR Action Plan that mitigates the identified risks and impacts within an acceptable time frame. Maj Invest Vietnam must approve the CSR Action Plan before investing.

#### Process

The CSR Action Plan is part of the Shareholders' Agreement that shall be signed by all shareholders including LD Invest Vietnam. Additionally, the CSR Action Plan shall be signed by the Board of Management and the Directors of the company.

#### Time frame

The CSR Action Plan is a result of the CSR due diligence and must be developed before the final investment decision is made by the Investment Committee of LD Invest Vietnam.

### **Implementation and reporting**

#### Content

The CSR Policy of the target company must be included in the Shareholders'/Asset Purchase Agreement and if possible in the Articles of Association. Additionally, an annual CSR Status Report shall be prepared by the Directors of the company, describing the current status of relevant CSR issues of the company. The first annual CSR Status Report shall be submitted no later than 15 month after disbursement.

### Responsibility

It rests with the Board of Management and the Directors to actively implement the company CSR Policy. It is the responsibility of the LD Invest Vietnam representative on the Board of Management to actively contribute to the implementation of the agreed CSR Action Plan mitigating CSR risks and impacts. It is the responsibility of the Directors to submit an annual CSR Status Report that shall be approved by the Board of Management.

### Process

On a continuing basis the Board of Management and the Directors of the portfolio companies must implement the CSR policy in accordance with the CSR Action Plan and the Shareholders' Agreement. LD Invest Vietnam's representative on the Board of Management must report to Maj Invest Vietnam regarding significant CSR issues and progress in risk mitigation. The reporting will be based on the minutes from the Board of Management meetings and the annual CSR Status Report that shall be submitted to Maj Invest Vietnam after approval by the Board of Management.

### Time frame

During the entire investment period.

## CSR Appendix to the Shareholders' Agreement

### CSR Policy for [the company]

#### Introduction

CSR is an abbreviation for Corporate Social Responsibility, meaning the responsibility of a company towards society. CSR covers human rights, labour practices, environmental aspects and fighting of corruption, among other things.

The shareholders, the Directors and the Board of Management of [the company] have decided to incorporate CSR in the business policy of the company and the operational activities to bring added value. [The company] considers CSR to be a strategic choice that contributes to:

- Long-term legitimacy for the company.
- Long-term importance for business competitiveness and bottom line.

When [the company] works with CSR, it takes responsibility - openly and ethically - for the impacts of its decisions and activities on society and the environment. [The company] will at any time be in compliance with all Vietnamese legal and regulatory requirements regarding CSR and is committed to work towards being in compliance with relevant international CSR standards.

CSR objectives and activities of [the company] are based on a thorough assessment and broad understanding of the interrelationship between [the company] and local society, taking into account the economic, political, cultural and social contexts and diversity in which it operates.

[The company] is aware that an important strategic element in the work with CSR is the expectations and interests of society towards the company. The norms regarding specific CSR issues and responsible behaviour are changing over time, and the expectations in society are often higher than the legal requirements. Thus [the company] is also aware that some issues might require an effort which is beyond the society's legal requirements in order to achieve acceptance and respect from society.

#### Main principles of CSR – issues of concern

The main issues of concern covered by [the company] are the following:

- **Human rights:** It is a fundamental value of [the company] to respect the basic human rights and we cannot accept forced or compulsory labour and the use of child labour in activities, which are dangerous to the moral or physical well-being and development of the child. [The company] will advocate non-discrimination and encourage promoting gender equality.
- **Labour rights:** Given that independent trade unions are prohibited in Vietnam, the company will seek to establish alternative measures that enable workers to discuss work related issues. Workers will be encouraged to engage in workers' meetings and facilities are provided for the gatherings. All employees will have reasonable limitation of working hours, periodic holiday, reasonable remuneration and the right to rest.

- **Occupational health and safety (OHS):** Sound OHS procedures will be implemented in [the company], including the application of principles of industrial hygiene, substitution of hazardous substances, establishment of work procedures and material safety data sheets and ensuring personal protective equipment.
- **Environment:** [The company] will actively manage its environmental impact, and take actions to improve their environmental performance as appropriate. [The company] will support a preventive and precautionary approach to environmental challenges.
- **Climate change:** [The company] will on a voluntary basis contribute to climate change mitigation and adaptation and will give attention to major contributions to climate change and consider appropriate measures to minimize the effect.
- **Anti-corruption:** [The company] will not accept corruption and bribery, and the company or its representatives will not accept bribes in any form and will not provide improper benefits to customers, agents, contractors, suppliers, employers or to government officials.
- **Community development and society aspects:** [The company] will on a voluntary basis contribute to the development of the local community within its ability and the scope of its core business and business concept.
- **Animal welfare:** If animals that are used in food production, for other commercial purposes or for testing [the company] will treat them properly, and let veterinarians and agriculture technicians conduct efficient controls and inspections.

**Assessment – Quick Check:** [The company] shall at any time be in compliance with all legal and regulatory requirements regarding CSR issues of Vietnam. [The company] shall identify these rules and regulations as well as the enforcement and control systems. Further, [the company] shall work towards being in compliance with relevant international CSR standards in the future, and these international standards shall be used as benchmarks for what the actions should achieve. Relevant international standards such as e.g. guidelines of the World Bank/IFC may be used as a benchmark.

The Quick Check is a questionnaire tool used to determine to what extent [the company] meets the most fundamental requirements regarding significant CSR issues in relation to recognised international standards. [The company] shall use the Quick Check (dated xx and attached as appendix A) to identify CSR-related issues where [the company] has to take further action in order to be in compliance with relevant international CSR standards in the future.

Available tools:

- Quick Check (attached)

Supplementary tools:

- IFC Environmental, Health and Safety (EHS) guidelines.

- IFC Environmental and Social Impact Assessment (ESIA) guidelines.
- Human Rights & Business Project – Vietnam Country Risk Assessment

### **Action Plan**

The purpose of the CSR Action Plan is to support and strengthen the management of CSR issues of [the company] to ensure progress on critical issues identified in the Quick Check and continuous improvements enabling [the company] to move from Vietnamese CSR standards to international standards within a reasonable timeframe. [The company] will describe and quantify potential significant CSR issues identified using the Quick Check and deviations from international standards in a well-defined CSR Action Plan specifying the required actions and the agreed time frame for eliminating the deviations.

The CSR Action Plan (dated xx, attached as appendix B) has been prepared by the Directors and Board of Management, and [the company] will continuously monitor the issues identified in the CSR Action Plan to ensure sufficient control monitoring. The responsibility for compliance with the Action Plan rests with the Board of Management and the Directors of [the company]. Additionally, it rests with the Board of Management and the Directors of [the company] to prepare an annual update of the Quick Check and consequently the Action Plan. The annual update of the Quick Check and CSR Action Plan shall be approved by LD Invest Vietnam.

The CSR Action Plan shall contain appropriate information at a satisfying detail for the Directors to take required decision and follow up measures, and the CSR Action Plan will be on official company paper and signed by Board of Management and the Directors.

The CSR Action Plan may include and pinpoint many different types of activities. The CSR Action Plan may range from a brief description of routine mitigation measures, implementation of new instructions to specific plans for larger technical installation.

### **Follow-up on [the company's] CSR Policy**

The Board of Management and the Directors of [the company] will be responsible for ensuring compliance with the Action Plan. [The company]'s CSR Policy and the CSR Action Plan will be an agenda item at every meeting of the Board of Management. The agenda will ensure that the following is discussed and stated in the minutes of the meetings:

- CSR activities, events and results since last meeting (including e.g. incidents of corruption and facility payments, environmental and work accidents and contributions to climate change mitigations).
- Progress on the CSR Action Plan.
- Compliance with rules and regulations.
- CSR competences and management.
- CSR-related communication and training and external communication to interested parties.

- Monitoring of key CSR issues.

The Board of Management meetings will serve as a forum for discussion and monitoring CSR issues relevant to [the company]. It is the responsibility of the Board of Management to ensure the transparency and accountability of the CSR information provided and to ensure revised follow-up procedures if new issues are identified. During the continual monitoring of [the company] new risks and critical issues might also be detected which may make it necessary to revise the CSR Action Plan for further and subsequent improvements. If required, i.e. if new issues are identified, the Board will revise and update the list of issues using the Quick Check and decide on a revised CSR Action Plan for further improvements.

### **CSR Status Report**

The Directors of [the company] will prepare an annual CSR Status Report for discussion and approval by its Board of Management at the board meeting at which the budget for the next financial year is presented for approval. Subsequent to the approval of the CSR Status Report by the Board of Management it shall be sent to LD Invest Vietnam.

The CSR Status Report will describe:

- CSR activities, events and results during the year, including e.g. incidents of corruption and facility payments, environmental and work accidents and contributions to climate change mitigations.
- Progress on the CSR Action Plan.
- Compliance with rules and regulations.
- CSR competences and management.
- CSR-related communication and training and external communication to interested parties.
- Monitoring of key CSR issues.

The annual CSR Status Report will serve as a tool for monitoring all CSR issues relevant to [the company]. It is the responsibility of the Board of Management to ensure the transparency and accountability of the CSR Status Report and a follow-up procedure, i.e. if new issues are identified.

The first CSR Status Report will be submitted by the Directors to the Board of Management no later than (xx date – which should be no more than 15 months from the date of the first share/asset purchase agreement with LD Invest Vietnam was signed). Thereafter, a CSR Status Report must be submitted by the Directors annually.

### **Reporting to LD Invest Vietnam**

The Board of Management shall report to LD Invest Vietnam based on the minutes from the Board of Management meetings and the yearly CSR Status Amendments to [the company]'s CSR Policy requires the consent of the LD Invest Vietnam.

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