

Guidelines on Corporate Governance for Listed Companies

Collaboration between
the LAO SECURITIES COMMISSION and
International Finance Corporation (IFC)



In Partnership with



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Foreword

Recognizing the importance of the stock market as an effective channel to attract capital to the economy, the Lao Government made it a priority to help more companies list on the Lao Securities Exchange in its 2016-2025 Strategic Plan. Established in 2010, the exchange now has 11 listed companies with a total market capitalization of US\$847 million, representing 4.54 percent of the country's GDP. The fundraising through the exchange is expected to reach 15-18 percent of the country's GDP by 2025.

Like the rest of the world, the Covid-19 outbreak has intensified Lao PDR's macroeconomic vulnerabilities. Our country urgently needs to accelerate our economic integration with the other nine members of the Association of Southeast Asian Nations (ASEAN) Economic Community, which aims to facilitate the free flow of goods and services. We also need to strengthen cooperation with the other signatories of the newly created Regional Comprehensive Economic Partnership (RCEP), the world's largest trading bloc comprising ASEAN nations, China, Japan, South Korea, Australia and New Zealand and covering nearly a third of the global economy.

An important element to boost the success of such regional economic integration involves the alignment of market standards and practices. For Lao PDR, developing an efficient and transparent stock market will improve investor confidence and enable more companies to seek public listings, which in turn will fuel the country's economic growth.

The Lao Securities Commission Office and the Lao Securities Exchange have an obligation to maintain public confidence in the securities market. We recognize the urgent need for Lao companies to improve their competitiveness by bringing their corporate governance practices in line with regional and international standards. To help them achieve this goal, we have revamped laws and regulations, organized training programs and workshops, produced publications, and dispatched delegations to gather international experience in corporate governance.

While these efforts have achieved positive results, the path of aligning with international corporate governance standards remains challenging in Lao PDR. Hence, we have worked with the International Finance Corporation (IFC) and the World Bank to develop the first "Guidelines on Corporate Governance for Listed Companies." This partnership is kindly supported by the Swiss State Secretariat for Economic Affairs (SECO) and the Government of Japan.

The Guidelines offer guidance to listed companies on international best practices, but they have also been adjusted to the practical realities of the Lao capital market. We hope that Lao companies will make good use of the Guidelines to improve their governance practices. The ultimate goal is to promote investor confidence and grow the Lao stock market, which will contribute to the sustainable development of the national economy.

Saysamone Chanthachack
Director General of the Lao Securities Commission Office

Foreword

Good corporate governance improves a company's performance, creates a favorable investment climate, and contributes to the sustainable development of the capital market as well as the private sector. As a global investor, IFC has witnessed first-hand the benefits of good corporate governance in our portfolio companies and the economies in which we work.

Adopting sound corporate governance practices helps companies enhance management and board efficiency, leading to improved decision-making and reduced operational risks. Studies show that fund managers tend to invest more in companies with better governance systems, including a well-run board and independent auditors. Companies with higher environmental, social and governance scores also enjoy lower costs of capital in both developed and emerging markets.

These are all clear reasons why good governance is essential to the development of a robust capital market and the long-term economic prosperity of Lao PDR.

The country, whose GDP stood at around \$18 billion in 2019, stands to reap great economic benefits as a member of the Association of Southeast Asian Nations (ASEAN) and as part of the free trade agreement, the Regional Comprehensive Economic Partnership. It marks one of the biggest trade deals in history that could potentially add \$200 billion annually to the global economy by 2030.

Although Lao PDR has been undertaking important reforms to transition to a market economy since 1986, the development gap between the country and more developed ASEAN nations remains considerable. Many Lao companies have yet to adopt best corporate governance practices, including the use of transparent accounting systems and full public disclosure of material information on their businesses. As a result, Lao companies still face many difficulties accessing finance.

To help bridge the gap, the International Finance Corporation, IFC, was delighted to collaborate with the Lao Securities Commission Office and develop the "Guidelines on Corporate Governance for Listed Companies." This effort was supported by the Swiss State Secretariat for Economic Affairs (SECO) and the government of Japan.

The guidelines are an important milestone for Lao PDR and provide important guidance for Lao companies seeking to bring their governance practices in line with international standards. This will help ensure Lao companies are aligned with their ASEAN and international peers and remain competitive for long-term growth. The guidelines will also assist the Lao Securities Commission Office and policymakers in further enhancing the country's corporate governance regulatory framework.

I encourage the boards of directors of all Lao companies to use the guidelines as a roadmap for improving their corporate governance standards and practices. This will ensure the success and sustainable development of their companies, to the benefit of the country and its people.

Kyle Kelhofer
IFC Senior Manager for Vietnam, Cambodia, and Lao PDR

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The Lao People’s Democratic Republic “Guidelines on Corporate Governance for Listed Companies” has been developed by the Lao Securities Commission Office with technical support from IFC and the World Bank.

The project’s working team comprises:

From the Lao Securities Commission Office, the development of the Guidelines on Corporate Governance for Listed Companies is led by Mrs. Saysamone Chanthachack, Secretary General of the Lao Securities Commission Office with the support from the Corporate Governance Task Team of the Lao Securities Commission Office.

The Lao PDR Corporate Governance Program is led by IFC Lao PDR Corporate Governance Lead Leyal Savas, with support from IFC Corporate Governance Officer Anar Aliyev and World Bank Senior Financial Sector Specialist Alexander Berg.

Finally, we would like to extend our sincere thanks to the Swiss State Secretariat for Economic Affairs (SECO) and the Government of Japan for their kind partnership and support for this project.

Introduction

The Corporate Governance Guidelines for Listed Companies (hereinafter referred to as the Guidelines) are intended to raise the corporate governance standards of listed companies (“the company” or “companies”) in Lao People’s Democratic Republic (Lao PDR) to bring them in line with regional and global standards based on the latest G20/OECD¹ Principles of Corporate Governance and the Association of Southeast Asian Nations’ (ASEAN) Corporate Governance Scorecard. The Guidelines provide practical guidance for shareholders, boards of directors, senior management and heads of different functions of listed companies to ensure their efficiency, order, transparency and fairness as well as enhance the exercising of their roles, rights and duties with high levels of responsibility and integrity.

The Guidelines have set a transition period of three years after its official promulgation, meaning companies can apply them on a voluntary basis during this period. Companies that are ready can implement the Guidelines immediately. Following the transition period, companies shall apply the Guidelines under the “comply or explain” approach, meaning that if companies cannot comply with the Guidelines, they must explain any non-compliance and the respective reasoning in their annual reports. The provisions of these Guidelines shall apply to all listed companies on a “comply or explain” basis, except when an element of the Guidelines is already enshrined in law. In the latter case, the law/regulation must be fully applied and complied with.

The corporate governance reporting pertaining to these Guidelines shall be presented in a separate corporate governance report within the company’s annual report and shall be disclosed on its website.

The Guidelines comprise the Principles, Recommendations and Requirements on corporate governance. The Principles and Recommendations form the high-level statements of corporate governance best practices and are applicable to all types of enterprises. The provisions are objective criteria based on specific features of corporate governance best practices for companies.

The Guidelines set the corporate governance principles, recommendations and provisions but do not prescribe a “one-size-fits-all” framework for companies, allowing Boards some flexibility in establishing their corporate governance arrangements. Larger companies and financial institutions will be expected to follow most of the Guidelines’ provisions. Smaller companies may decide that the costs of some provisions outweigh the benefits or are less relevant in their case. Hence, in practice, companies must consider the proportionality when applying each provision of the Guidelines.

1 G20/OECD: G20/Organisation for Economic Co-operation and Development.

PART 1.

SHAREHOLDER RIGHTS AND THE EQUAL TREATMENT OF SHAREHOLDERS

Shareholders have ownership rights and the right to vote on important decisions. They are entitled to dividends from company profits among other benefits as provided by applicable laws and regulations. In addition, they shall assume any potential risks associated with the operation of their companies. Shareholders play a fundamental role in establishing and managing companies proactively for sustainable growth.

Investors could potentially decide to invest more in the financial instruments of a company if they think the company values the protection of shareholders' rights and interests. Such an outlook will encourage investors to trust the company to use its assets to maximize benefits for itself and shareholders, allowing them to receive better returns from their investments (dividends or capital gain).

Companies should encourage shareholders to take ownership of their rights by providing information regarding the procedures and methods of exercising those rights so that shareholders can clearly rely on them. However, shareholders are not allowed to take part in the daily management of companies. They may take part in other aspects of their companies, such as participating in and commenting and voting on issues raised during shareholders' meetings and appointing knowledgeable personnel to be Board members.

PRINCIPLE 1.

ESTABLISHING A FRAMEWORK FOR THE EFFECTIVE EXERCISE OF SHAREHOLDER RIGHTS

The company should establish a framework for shareholders to freely exercise their rights and treat all shareholders fairly and equitably.

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Recommendation 1.1: The Board should research, establish and disclose policies on shareholder protection and should oversee and monitor the implementation thereof.
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Requirements:

- 1.1.1 The Board should propose to the shareholders' meetings to approve and disclose detailed policies on shareholders' rights and associated requirements as well as prescribe procedures for preparing, conducting and voting in the shareholders' meetings. The shareholders of the company shall have the following basic rights to:

- 1) Participate and vote at the shareholders' meetings.
 - 2) Receive dividends.
 - 3) Access, examine and reproduce any records related to operations, financial positions and other information of the company in connection with shareholders' rights and duties.
 - 4) Nominate candidates to the Board of Directors.
- 1.1.2 Shareholders should vote on fundamental corporate changes such as: (1) amendments to the company charter; (2) capital increases or decreases; and (3) specific transactions such as the sale, purchase or transfer of assets for a value equivalent to or higher than 50% of the company's total assets.
- 1.1.3 The company charter should provide for a preemptive right of shareholders to purchase newly issued shares pro rata to their shareholding. The share purchase price for shareholders in such a case should not be less favorable than that proposed to third parties.
- 1.1.4 The Board should adopt a clear and transparent policy on the dividend distribution and payment process. Shareholders should be given full information on the conditions of dividends distribution and payout procedures; there should be no hindrance for shareholders in obtaining their dividends.
- 1.1.5 The Board shall disclose the dividend policy in the company's annual report and via its website.

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Recommendation 1.2: The Board should encourage shareholders' engagement by organizing effective shareholder meetings.

Requirements:

- 1.2.1 The Board should send the notice of annual and extraordinary shareholders' meetings with sufficient and relevant information at least 21 days in advance of the meetings.
- 1.2.2 Each shareholder should receive advance notification, an agenda as well as accurate, objective, and timely information for making informed decisions about issues to be decided at shareholders' meetings. The Board should provide shareholders with comprehensive information regarding the experience and background of candidates for Board of Directors' membership, including the age, academic qualifications and other relevant experience, such as directorships in other listed/non-listed companies.
- 1.2.3 The Board should determine the policy on shareholders' meetings subject to approval at the meetings. The policy should provide a fair and effective procedure for adding items to the agenda of shareholders' meetings (timeframe for adding

and process for considering and proposing the agenda to shareholders' meetings) and procedures for the nomination of Board members.

- 1.2.4 Shareholders owning individually or collectively at least 10% of the company's voting shares should be provided with a right to request, to the Board or managing director, the convening of a shareholders' meeting and indicate the purpose thereof.
- 1.2.5 Shareholders owning individually or collectively at least 5% of the company's voting shares should be provided with a right to include additional items to the shareholders' meeting agenda. Shareholders owning less than 5% of the company's voting shares should be provided with the opportunity to propose additional items to the shareholders' meeting agenda for consideration.
- 1.2.6 Shareholders owning individually or collectively at least 5% of the company's voting shares should be provided with a right to nominate candidates to the Board of Directors.
- 1.2.7 The Board should ensure shareholders are able to vote in absentia via written documents and to express their opinion upon items included in the shareholders' meeting agenda. The rules of absentee voting should be defined in the company policy on shareholders' meetings.
- 1.2.8 Board members, senior management and the chief internal auditor, chief accounting officer, chief financial officer and external auditor should attend shareholders' meetings to answer questions asked by shareholders.
- 1.2.9 The company should disclose voting results within one day after a shareholders' meeting. Voting results should include a breakdown of the approving and dissenting votes on matters raised during the meeting.
- 1.2.10 The minutes of the annual and extraordinary shareholders' meetings should be available on the company website within 14 business days after a meeting. It should be made after disclosure via the Lao Securities Exchange's system. In addition to the regulatory requirements, the minutes should include the following: (1) voting procedures; (2) if the opportunity was given to shareholders to ask questions, as well as a record of the questions and answers received; (3) matters discussed and resolutions reached; (4) voting results for each agenda item; (5) a list of directors, officers and shareholders who attended the meeting; and (6) dissenting opinions on any agenda item considered significant in the discussion process.

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Recommendation 1.3: The Board should ensure that Related Party Transactions (RPTs) are negotiated at market terms and conditions. The Board should adopt a policy on RPTs, which should specify the company's procedures to identify, review, disclose and manage such transactions.

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Requirements:

- 1.3.1 The Board should adopt a RPT policy in line with the Lao Securities Commission's decision on RPTs.
- 1.3.2 The RPT policy should define RPTs and related individuals and entities according to international definitions, particularly the definition provided in the International Accounting Standards (IAS 24).
- 1.3.3 Board members, senior management, chief internal auditor, chief accounting officer, chief financial officer and shareholders with 5% or more of total voting shares should disclose details of their conflict of interest to the Board or company officer assigned for such task, who should update the related information at least once a year.
- 1.3.4 Board and management members should avoid engaging in activities that may cause conflicts of interest and where a conflict of interest arises, immediately disclose it to the Board or assigned company officer.
- 1.3.5 Related parties, including Board directors involved in the transaction, should not participate in any discussions on whether or not to approve the RPT, decision-making regarding the transaction or engage in the transaction after a decision.
- 1.3.6 The Related Party Transactions Committee (RPT Committee) shall review RPTs that meet the company, Board or shareholder approval threshold and provide opinions on these transactions.
- 1.3.7 The Board should regularly review and update RPT policy as appropriate.
- 1.3.8 The company should disclose its RPT policy through its company website.
- 1.3.9 The company should disclose details of RPTs, such as names, relationships, features, transaction values as well as details of conflicts of interest that occurred during the year in its annual report.

Related individuals and entities:

According to IAS 24, a related party is an individual or entity that is related to the company that is preparing its financial statements (reporting entity) [IAS 24.9].

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - 1) has control or joint control over the reporting entity.
 - 2) has significant influence over the reporting entity.
 - 3) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - 1) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - 2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - 3) Both entities are joint ventures of the same third party.
 - 4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - 5) The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - 6) The entity is controlled or jointly controlled by a person identified in (a) of recommendation 1.3.
 - 7) A person identified in (a) (1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - 8) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

RPT policy should cover the following issues:

- Definition of related individuals or entities
- Types of RPTs
- RPT approval thresholds
- Procedures for determining reviewing, disclosing and conducting RPTs
- Risk level of each transaction and composite risk thereof
- Procedures for approving and disclosing RPTs
- Mechanism for requesting, appealing or declaring on an offence
- Compensation and measures against offenders of RPT policy

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Recommendation 1.4: The Board should establish and oversee the implementation of the company’s RPT policy.
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Requirements:

- 1.4.1 The Board should approve specific transactions of the company, such as the purchase, sale or transfer of assets at a value 15% or higher of the company’s total assets in the latest financial year, or lower than such threshold as set forth in the company’s charter.
- 1.4.2 The shareholders’ meeting should approve specific transactions of the company, such as the purchase, sale or transfer of assets at a value 50% or higher of the company’s total assets in the latest financial year, or lower than such threshold as set forth in the company’s charter.
- 1.4.3 The Board should approve the investment and commencement of a project not implemented before with an estimated cost of the year-one operation 1% or higher of the company’s revenues in the latest financial year.
- 1.4.4 The Board should approve the cessation or suspension of an operation with a value 1% or higher of the company’s total expenditures in the latest financial year.

PART 2.

MANAGEMENT OF RELATIONSHIP WITH STAKEHOLDERS

The company's operations always connect to society in general, especially market participants/stakeholders, by contractual relations and through voluntary commitments under applicable laws and regulations. The company should give importance to and enhance its relationship with stakeholders in security exchanges, such as by providing services with integrity, prudence and quality. In addition, the company should manage its relationship with key stakeholders of its business, such as employees, creditors, clients, suppliers and local communities. These stakeholders should be able to communicate and be redressed for any violation of their rights.

PRINCIPLE 2: BUILDING EFFECTIVE STAKEHOLDER ENGAGEMENT

The company should protect the rights and interests of all stakeholders, especially employees, creditors, clients, suppliers, local communities and the general public. The Board, in making decisions, should take into consideration the interests of stakeholders and weigh the impact(s) of such decisions on all stakeholders. The Board should ensure the company's operation complies with domestic and international environmental and social standards.

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Recommendation 2.1: The Board of Directors should ensure the company has an adequate policy and mechanism in place to protect and encourage the engagement of stakeholders.
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Requirements:

- 2.1.1 The Board should adopt a stakeholder policy that clearly sets out categories and details specifically for each group of stakeholders, such as employees, creditors, clients, suppliers and local communities.
- 2.1.2 The Board should ensure the company protects the rights and interests of stakeholders as required by applicable laws and regulations or contracts. The Board should closely coordinate with stakeholders and prescribe for such relationships with stakeholders in the company's rules of ethics.
- 2.1.3 The Board should adopt a policy on employees and related projects with priority to safety, welfare and personnel development to enable proactive contributions from employees in achieving company targets and participating in company management work.
- 2.1.4 The Board should ensure the company adopts and strictly implements policies

against fraud and bribery. The policies should be embedded in the company's rules of ethics.

2.1.5 The Board should ensure that company policies regarding the environment and society are part of the requirements for its contractors.

The Board should consider and adopt the following policies that cover:

- Customers' welfare
- Supplier/contractor selection procedures
- Environmental protection and promotion of sustainable development
- Interactions with communities in which it operates
- Company's fight against fraud and bribery
- Safeguarding of creditors' rights and interests
- Safety and welfare for its employees
- Training and development programs for its employees

.....
Recommendation 2.2: The Board should ensure and oversee appropriate communication between the company and its stakeholders.
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Requirements:

2.2.1 The Board should establish and oversee a communication mechanism for employees and stakeholders, including the channels of questionnaires, comments, petitions or whistleblowing to the company.

2.2.2 The Board should set up a transparent and publicly accessible communication mechanism in the company for receiving and recording communication with stakeholders, assessment of issues raised and formulating responses and recording them (if any).

PART 3.

DISCLOSURE AND TRANSPARENCY

Complete, accurate and timely disclosure is important for shareholders, targeted investors, supervisors and stakeholders. Complete and accurate disclosure will enable investors to assess and monitor the company's management and ensure the accountability of management to the company and shareholders. Optimal and transparent disclosure also helps protect the rights of shareholders and supports investors to make better investment decisions. Disclosed information is useful for creditors, suppliers, clients and employees of the company to adjust their relationships in response to company changes. In addition, company disclosure and transparency reflects the accountability of the company toward its shareholders and builds trust for investors. Good policy on disclosure also helps reduce company costs.

PRINCIPLE 3: STRENGTHENING CORPORATE DISCLOSURE AND FINANCIAL REPORTING

The company shall disclose material financial and non-financial information in a manner consistent with legal requirements and best practices.

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Recommendation 3.1: The Board should oversee a system for disclosure that ensures equal access to information for shareholders, investors and other stakeholders and does not foster the abuse of internal information or insider trading.
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Requirements:

- 3.1.1 The Board should adopt a clear, accurate and comprehensive policy for disclosure of financial and non-financial information for quarterly, semi-annual and annual reporting.
- 3.1.2 The Board should ensure the information disclosure policy is implemented and should oversee the disclosure of information comply with applicable laws and regulations.
- 3.1.3 The company should disclose the direct and indirect ownership of 5% or more of its shares at least once a year and should disclose any change thereof.
- 3.1.4 The company should set up and maintain a company website.
- 3.1.5 The Board should adopt a policy requiring all Board members, senior management including chief internal auditor, chief accounting officer and chief financial officer

to disclose/report to the company any dealings in the company's shares within three working days to avoid insider trading and breach of confidentiality on material information.

- 3.1.6 The Board should ensure the company discloses updated information regarding the organizational structure and management of the company via its website and annual report. The company should disclose its governance policy and its charter in compliance with the Guidelines.
- 3.1.7 The company should disclose all compensations related to Board members and senior management, including chief internal auditor, chief accounting officer and chief financial officer, in its annual report.
- 3.1.8 The Board should ensure the company determines the material economic, environmental and social impacts in line with internationally accepted standards in the company's annual report.
- 3.1.9 The Board should allow investors and investment analysts to inquire and justify topics of interest through open meetings or other forums as prescribed by the Board.
- 3.1.10 The Board should appoint a dedicated investor relations officer to coordinate communication and interactions with shareholders and investors.

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Recommendation 3.2: The Board should ensure the complete and accurate financial statements of the company.
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Requirements:

- 3.2.1 The Board should ensure that financial statements of the company are prepared in a complete and accurate manner that is in compliance with the International Financial Reporting Standards (IFRS). The audit committee should oversee and monitor the implementation of financial reporting to be in line with IFRS by providing training for accounting staff, developing an accounting policy and building an appropriate financial reporting structure.
- 3.2.2 The Board should appoint an audit firm to audit company financial statements and determine the remuneration based on considerations by the audit committee. Financial statements should be audited according to the International Standards on Auditing.
- 3.2.3 The audit firm should rotate the assigned partner every five years. In the meantime, the audit committee should assess the credibility and independence of the audit firm regularly as well as oversee its work and the efficiency of the audit process.
- 3.2.4 The company should disclose the relevant remuneration of the audit firm within one year. The remuneration for the audit firm for other non-audit services should not exceed that for the audit service.

PART 4.

ROLES AND RESPONSIBILITIES OF THE BOARD

The Board's efficiency, competence and integrity are important for good corporate governance. The Board should perform its duty to protect the rights and interests of the company and shareholders by laying out corporate strategy, management and oversight, especially on financial activities. The Board oversees the company's operation through monitoring the implementation of corporate strategy, planning for corporate activities and exercising control over management. The roles and responsibilities of the Board are important for strengthening and sustaining the company in the long run as well as contributing to the development of the capital market in Lao PDR.

PRINCIPLE 4.

SELECTING AND APPOINTING AN EFFECTIVE BOARD

An efficient and competent Board with integrity should oversee the company to ensure its long-term success and build sustainability for the company, shareholders and stakeholders.

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Recommendation 4.1: The Board should be composed of directors with collective diversity and working knowledge, experience or expertise relevant to the company's sector.
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Requirements:

- 4.1.1 The Board should adopt a broad skills matrix such as knowledge, competence, experience, gender and age among other aspects related to the company's operation to set qualification requirements for selecting potential nominees for Board seats; the requirements should also serve as a benchmark for evaluating Board performance.
- 4.1.2 The Board should select and recommend Board nominees to the shareholders' meetings for appointment upon consideration by the nomination committee. The nomination committee should develop a formal Board nomination process, while the Board should disclose its process for appointing new directors and its criteria for selecting new directors.
- 4.1.3 There should be at least one non-executive director who has prior work experience in the sector in which the company operates.

- 4.1.4 There should be at least one non-executive director who has experience in the analysis and assessment of environmental and social risks.
- 4.1.5 The Board should develop and disclose a policy on Board diversity, especially regarding the knowledge, competence, experience, gender and age of Board members, among other aspects related to the company's operation.
- 4.1.6 At least one Board member should be a female director.
- 4.1.7 The company should disclose each director's age, gender, qualifications, experience, share ownership, years of service as a director and directorships in other companies in its annual report and via its website.

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Recommendation 4.2: The Board should be able to exercise objective and independent judgment to effectively fulfill its responsibilities and treat all shareholders equally.
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Requirements:

- 4.2.1 At least one-third of Board members should be independent.
- 4.2.2 An independent director should serve for a maximum cumulative term of eight years. After this term, the independent director may continue to qualify for nomination and election as a non-independent director.
- 4.2.3 The chairman of the Board should be an independent director. The Board should designate a lead director among the independent directors if the Board chairman is not independent. The lead director has the following main responsibilities:
- Chair Board meetings in the absence of the Board chairman.
 - Act as an intermediary between the chairman and other directors.
 - Convene and chair meetings of non-executive directors when necessary.
 - Assist the nomination committee in the annual evaluation of chairman performance.
 - Assist the nomination committee in succession planning for Board members and senior management.
 - Assist the remuneration committee in determining the remuneration of Board members.
- 4.2.4 Independent directors should have the right to request and access information relevant to their activities.
- 4.2.5 Independent Board members should regularly meet separately and exchange information, thereby promoting the efficient operation of the Board.
- 4.2.6 The remuneration of independent directors and other non-executive directors should be based on their participation in Board and committee activities. Independent and non-executive directors are prohibited from providing services to the company for a fee or from receiving any additional remuneration in any form from the company, other than remuneration for activities as Board members.

Remuneration for board members includes:

- Annual remuneration
- Meeting per diem
- Remuneration for extra work, such as activities in Board committees
- Remuneration for extra responsibilities, such as acting as Board chairman or chair of Board committee

Board members may be compensated for travel costs and other expenses associated with company activities.

**PRINCIPLE 5.
DEFINING THE ROLES, RESPONSIBILITIES AND ACCOUNTABILITIES OF
THE BOARD**

The Board has roles, responsibilities and accountabilities in determining the direction of company affairs and fostering the company’s prosperity in a manner consistent with its objectives and long-term interests of its shareholders and other stakeholders.

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Recommendation 5.1: The roles, responsibilities and accountabilities of the Board as provided under the law and the company’s policies should be clearly made known to all directors as well as shareholders and other stakeholders.
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Requirements:

- 5.1.1 The Board should have a charter that formalizes and clearly states its roles, responsibilities and accountabilities.
- 5.1.2 The Board charter should be publicly available and posted on the company website.
- 5.1.3 The Board should develop a purpose statement and a vision statement as well as articulate its values so the entire organization understands the company’s strategic direction.
- 5.1.4 The Board should develop and improve the company’s strategy, direction of operation, annual budget plan, risk management policy, business plans and recommendations for major company strategy or work to be approved by the shareholders’ meeting.
- 5.1.5 The Board should select, appoint, motivate and oversee senior management. The appointment, displacement or dismissal of the CEO is agreed by shareholders’ meetings.
- 5.1.6 The Board should develop a succession plan for the directors, senior management

and key officers of the company.

- 5.1.7 The Board should set a management remuneration policy and align remuneration with the longer-term interests of the company and its shareholders.
- 5.1.8 The Board should be responsible for monitoring the company's governance framework, policies, procedures and practices.
- 5.1.9 The Board is responsible for establishing appropriate risk management and control frameworks to ensure the company can fulfill its objectives and seek to continually improve performance.
- 5.1.10 The Board should ensure that shareholders and markets receive all appropriate price-sensitive information about the company on a timely and fair basis.

Succession Planning

The Board should ensure that the company has in place a succession plan for the positions of directors, senior management and key officers upon consideration by the nomination committee. The plan should clearly identify high-potential successor employees within the company. In addition, the nomination committee should review the plan annually to assess employees who are ready or those who will be ready in the next one to three years as well as persons with long-term potential and fit for the relevant position upon consideration by the human resources and personnel function. The plan should serve as the basis for capacity development and training for eligible staff.

The succession plan should be annually reviewed with the following main content:

- Assessment for personnel needs at the management level
- Assessment of strengths and weaknesses of directors, senior management and key officers
- Determination of candidates who are talented, knowledgeable and competent for the position of chairman or chief
- Consideration of the need to outsource the task of finding an external candidate to a recruiter

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Recommendation 5.2: Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the company and all shareholders.
.....

Requirements:

- 5.2.1 Directors should perform their duties according to applicable laws, regulations and company policies in the best interests of the company and all shareholders.
- 5.2.2 Directors should perform their duties with integrity, prudence and a high level of responsibility.

- 5.2.3 Directors should exercise their powers and perform their duties as prescribed by applicable laws, regulations, company policies and other documents. They should not misuse their powers and duties.
- 5.2.4 Directors should actively oversee company activities and engage with respective bodies that have access to information on discussed matters. Directors have a duty to review all relevant documents prior to Board meetings, giving special attention to financial statements and any matters to be discussed.
- 5.2.5 Each Board member should be furnished with sufficient information regarding every important matter requiring Board action in a timely fashion to allow for an informed judgment. Directors should be able to undertake independent research and analysis as well as invite external experts at the expense of the company.
- 5.2.6 Directors should avoid actual and potential conflicts between their personal interests and those of the company. In case of a conflict of interest between the company and the director, the director must not allow personal interests to prevail over those of the company and must never use his/her corporate position to make a personal profit or gain other personal advantage.
- 5.2.7 Board members have a duty to present any business opportunities that are relevant to the company's present or prospective business activities to the Board before pursuing the matter on his/her own behalf or for others.
- 5.2.8 Directors should treat all available company information with strict confidentiality until this information is publicly disclosed.
- 5.2.9 Each director should attend at least 75% of all Board meetings during a year.
- 5.2.10 Director duties should be stipulated in the Board charter and a company may impose these duties on its directors by including relevant provisions in the service agreements with them.

**PRINCIPLE 6:
SELECTING AND APPOINTING BOARD COMMITTEES**

Boards should select and appoint committees to carry out essential company tasks and manage conflicts of interest.

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Recommendation 6.1: The Board should select and appoint a qualified, objective and ethical audit committee.

Requirements:

- 6.1.1 The Board should select and appoint an audit committee composed of at least three qualified non-executive directors, half of whom (including the chairman) should be independent.

- 6.1.2 At least one of the independent directors, especially the chair of audit committee, should have accounting expertise, qualifications or experience.
- 6.1.3 The Board should adopt an audit committee charter, which should be made publicly available via the company website.
- 6.1.4 The Board should determine the powers, duties, personnel structure and working methods of the audit committee in the audit committee charter, which serves as the benchmark of practice and the basis for assessing the committee's performance.
- 6.1.5 The audit committee should have the following main powers and duties:
- 1) Recommend to the Board for approval on the appointment of external auditors, oversee their relationship with the company and assess their performance.
 - 2) Recommend the internal budget, annual audit plan and internal audit's organizational structure to the Board for approval. Regularly monitor, inspect and review reports from the internal audit function.
 - 3) Review financial statements, procedures and systems of internal control over financial reporting.
 - 4) Oversee, monitor and inspect internal compliance with the Guidelines on conduct and policies on conflicts of interest, related party transactions and other policies related to company activities.

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Recommendation 6.2: The Board should select and appoint a qualified and objective risk management committee to ensure appropriate risk management in relation to company activities.
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Requirements:

- 6.2.1 The Board should select and appoint a risk management committee composed of at least three qualified non-executive directors, half of whom (including the chairman) should be independent.
- 6.2.2 The Board should adopt a risk management committee charter made publicly available via the company website.
- 6.2.3 The Board should determine the powers, duties, personnel structure and working method of the risk management committee in this charter to serve as the benchmark of practice and the basis for assessing the committee's performance.
- 6.2.4 The risk management committee should have the following main powers and duties:
- 1) Recommend the company's risk management policy to the Board for approval.
 - 2) Oversee, monitor and inspect the implementation of the company's risk management policy.

- 3) Review and recommend the company's risk appetite and risk management strategy to the Board for approval.
- 4) Recommend the scope of powers of senior management and heads of functions involving risks to the Board for approval.
- 5) Consider risks associated with the company's activities.
- 6) Monitor and inspect risk management functions to ensure that the mechanism and tools in place are appropriate for the level of company risk management and are capable of complying with minimum risk management required by applicable laws and regulations.
- 7) Develop a continuous training plan to upgrade company directors' knowledge and capacity on risk management.

6.2.8 Companies with asset values and turnover less than the ceiling established by applicable regulations may appoint an audit committee to also perform the duties of the risk management committee.

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Recommendation 6.3: The Board should select and appoint a nomination committee.

Requirements:

- 6.3.1 The Board should select and appoint a nomination committee to be composed of at least three qualified non-executive directors, half of whom (including the chairman) should be independent.
- 6.3.2 The Board should adopt a nomination committee charter made publicly available via company's website.
- 6.3.3 The Board should determine the powers, duties, personnel structure and working method of the nomination committee in this charter to serve as the benchmark of practice and the basis for assessing the committee's performance.
- 6.3.4 The nomination committee should have the following main powers and duties:
 - 1) Determine the nomination process and criteria for the company's directors, senior management and other positions.
 - 2) Make recommendations to the Board concerning committee appointments.
 - 3) Recommend succession policies to the Board for approval and oversee, monitor and inspect the implementation of such policies.
 - 4) Coordinate with relevant parties to regularly review the performance of the Board and its committees.
 - 5) Develop a continuous training plan to upgrade the knowledge and capacity of company directors.

6.3.6 Consider and recommend corporate governance rules to the Board for approval and oversee, monitor, inspect and regularly review the implementation of the rules.

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Recommendation 6.4: The Board should select and appoint a remuneration committee.
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Requirements:

- 6.4.1 The Board should select and appoint a remuneration committee composed of at least three qualified non-executive directors, half of whom (including the chairman) should be independent.
- 6.4.2 The Board should adopt a remuneration committee charter made publicly available via the company website.
- 6.4.3 The Board should determine the powers, duties, personnel structure and working method of the remuneration committee in this charter to serve as the benchmark of practice and basis for assessing the committee’s performance.
- 6.4.4 The remuneration committee should have the following main powers and duties:
 - 1) Develop, oversee and inspect the implementation of remuneration rules for directors, senior management and other positions in the company.
 - 2) Oversee and inspect the company’s overall HR policies, especially for staff selection, management, training and career development.
- 6.4.5 Companies with asset values and turnover less than the ceiling established by applicable regulations may appoint the nomination committee to perform the duties of the remuneration committee.

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Recommendation 6.5: The Board should select and appoint a Related Party Transaction committee.
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Requirements:

- 6.5.1 The Board should select and appoint an RPT committee composed of at least three qualified non-executive directors, half of whom (including the chairman) should be independent.
- 6.5.2 The Board should adopt an RPT committee charter made publicly available via the company website.
- 6.5.3 The Board should determine the powers, duties, personnel structure and working methods of the RPT committee in this charter.
- 6.5.4 The RPT committee should have the following main powers and duties:

- 1) Evaluate all material RPTs to ensure they are taken on market terms and make recommendations to the Board in considering such RPTs.
- 2) Regularly report to the Board the status and aggregate exposures to each related party and the total amount of exposures to all related parties.
- 3) Ensure the company promptly discloses information on RPTs to the Lao Securities Commission Office and the public as required by regulations.

**PRINCIPLE 7:
STRENGTHENING BOARD EFFICIENCY**

The Board should strengthen its effectiveness by establishing clear and effective procedures as well as ensuring strong ethics and a high level of responsibility in performing its duties. The Board should assess its performance and ensure that directors continue to improve their skills and knowledge to carry out their duties.

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Recommendation 7.1: To improve the efficiency of its meetings, the Board should have clear and effective working procedures.

Requirements:

- 7.1.1 The Board should meet at least four times a year to allow for more in-depth discussions on strategic topics.
- 7.1.2 Before the start of the year, the Board should adopt an Annual Board Plan, which should outline the tentative schedule of meetings and key topics to be addressed over the course of the year. The plan should be reviewed by the nomination committee.
- 7.1.3 The company should require a minimum quorum of at least two-thirds of directors for Board decisions.
- 7.1.4 Any Board meeting materials, such as meeting agenda, prior minutes, management reports and other relevant documents, should be distributed to Board members at least seven business days before Board meetings. The materials should be action-oriented and concise to allow members to grasp key issues for informed decisions.
- 7.1.5 The directors should be offered the opportunity to comment on the draft agenda or propose meeting agenda items.
- 7.1.6 The corporate secretary should document formal minutes of each Board meeting and circulate them to all members for review and approval within 10 working days of the meeting.

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Recommendation 7.2: The Board should conduct an annual assessment of its performance to strengthen its effectiveness.
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Requirements:

- 7.2.1 The Board should conduct an annual self-assessment and assessments for its individual members and Board committees.
- 7.2.2 The nomination committee of the Board should develop the criteria and process to assess the performance of the Board, individual directors and committees.
- 7.2.3 The nomination committee should oversee the process of annual Board performance assessment, submit written reports on the results to the Board and suggest improvements, if any.
- 7.2.4 The Board should disclose the criteria and process to assess the performance of the Board, individual directors and committees in the company's annual report.

Board Assessment

The Board should conduct an annual assessment of itself, its individual members and Board committees. The nomination committee and Board chairman should consider engaging external experts to assist in the assessment process if the need arises.

The assessment should have the following mechanism and tools:

- Detailed guidelines on assessment process
- Closed questionnaire for Board members
- Data collection and analysis by the nomination committee
- Board recommendations and discussions regarding the improvement plan to address problems and shortcomings

The Board assessment should give special attention to the following issues:

- Composition of the Board (knowledge, competence, experience, gender, age and independence)
- Organizational structure of the Board and committees
- Working procedures of the Board
- Performance of duties by Board members

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Recommendation 7.3: The Board should adopt an ethics and conflicts of interest policy and ensure Board members apply high ethical standards.
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Requirements:

- 7.3.1 The Board should adopt rules on ethics and conflicts of interest for its members, management and company employees.
- 7.3.2 The rules should set clear limits on the pursuit of private interests, including dealings in company shares by Board members, management and company employees.
- 7.3.3 The Board should ensure the rules are disseminated to Board members, management and company employees and formally incorporated into the onboarding process for new hires.
- 7.3.4 The Board should ensure the efficient implementation and monitoring of compliance with the rules.
- 7.3.5 The Board should disclose and make the rules available to the public through the company website.

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Recommendation 7.4: The Board should ensure its members have sufficient knowledge on the company and the responsibilities of directors. The Board should ensure its members engage in continuous learning to strengthen Board effectiveness.
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Requirements:

- 7.4.1 The Board charter should require formal orientation programs for new directors as well as an ongoing director education program.
- 7.4.2 The Board chairman should oversee and be responsible for implementation of orientation and ongoing training programs.
- 7.4.3 The nomination committee should oversee the development of continuous professional development programs to ensure Board members remain current with legal, business, governance or finance developments as identified in the annual Board evaluation.
- 7.4.4 The Board should disclose its training program and a list of training sessions in the company's annual report.

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Recommendation 7.5: The Board should appoint a corporate secretary to assist the Board in implementing its duties.
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Requirements:

- 7.5.1 The corporate secretary shall be selected, appointed and dismissed by the Board of directors.
- 7.5.2 The corporate secretary should have legal, accounting, governance or compliance experience.
- 7.5.3 The corporate secretary should keep abreast of the latest developments on law and best practices of corporate governance as well as attend regular training sessions on corporate governance.
- 7.5.4 The corporate secretary should assist the Board and its committees in exercising their duties and provide support on corporate governance matters. The Board should devise and approve a corporate secretary policy to stipulate this position’s scope of authority, rights and responsibilities, and other related issues.

**PRINCIPLE 8:
ESTABLISHING EFFECTIVE INTERNAL CONTROL SYSTEM AND RISK
MANAGEMENT FRAMEWORKS**

The Board should establish sound risk management and internal control frameworks that ensure the company can fulfill its objectives toward sustainable business development.

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Recommendation 8.1: The Board should ensure the development of a reliable internal control system to guarantee that the company achieves its performance targets.
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Requirements:

- 8.1.1 The Board, with assistance from the audit committee, should periodically review the effectiveness of the internal control framework.
- 8.1.2 The company should establish an independent internal audit function to assist the Board in ensuring the effectiveness of internal controls. The Board should approve internal control rules specifying the powers, duties, responsibilities, working procedures and other related matters.
- 8.1.3 The internal audit function should report to the chief internal auditor and the Board’s audit committee. The chief internal auditor should be the head of a department, division or unit of the company but not from the senior management team. The chief internal auditor should be selected, appointed and dismissed by

the audit committee.

- 8.1.4 The internal audit function should be established in line with the criteria, conditions and requirements of applicable standards and regulations.
- 8.1.5 The company should have an audit firm review its internal control system regularly.
- 8.1.6 The company should have a compliance function to ensure the company complies with applicable laws and regulations as well as its internal rules. The compliance function should monitor and inspect the activities of the company and its employees to ensure compliance and regularly report to management and the Board.
- 8.1.7 The Board should establish and oversee the request, petition and whistleblowing mechanisms by allowing employees and external stakeholders to freely communicate their concerns about illegal or unethical practices.

Request, Petition or Whistleblowing

The company should have in place rules regarding the request, petition and whistleblowing mechanisms to prevent fraud, conflicts of interest, insider trading or other illegal acts. Employees, individuals or entities should be able to make a request or petition to management, the public or relevant authorities or become a whistleblower regarding illegal or unethical practices. These mechanisms can be established in various forms, such as setting up procedures for employees, individuals or entities to file a request or petition about any wrongdoing or to whistle-blow anonymously (through a hotline or anonymous email) to a relevant company unit or staff, such as the audit committee or chief internal auditor.

Rules on the request, petition or whistleblowing mechanisms should include the following main content:

- Procedures for reporting wrongdoing
- Procedures for responding and examining the incident in case of receiving a request, petition or whistleblowing complaint
- Procedures for maintaining confidentiality regarding the information provided by the person making the request, petition or whistleblowing and ensuring their protection

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Recommendation 8.2: The Board is responsible for overseeing the risk management framework to ensure all risks, including those arising from essential internal and external operations as well as financial and legal compliance, are evaluated and managed.
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Requirements:

- 8.2.1 The Board should continuously discuss company strategy and business operational risks as well as its assessments of the internal risk management system and internal control system, including any material change to such systems. The Board should ensure sufficient time to discuss the company’s risk management strategy at Board meetings, encompassing environmental and social risks, various operations and returns on such operations.
- 8.2.2 The Board should set the company’s risk appetite.
- 8.2.3 The Board should ensure all business risks are regularly identified, measured, evaluated, monitored and reported by management.
- 8.2.4 The Board should develop and disseminate risk management rules clearly specifying the system and risks to the company. Such a system should be based on the “three lines of defense approach” as follows:
- 1) First line of defense includes heads of units, divisions, departments and management of the company.
 - 2) Second line of defense includes the risk management function and the risk management committee.
 - 3) Third line of defense includes the internal audit function and the audit committee.
- 8.2.4 The company should appoint a chief risk officer to direct the company’s risk management function. This officer should report directly to the risk management committee.
- 8.2.5 The chief risk officer should have the powers, duties and responsibilities in implementing risk management rules to develop a risk management strategy. The chief risk officer’s main duties are as follows:
- 1) Ensure that risk assignment is accurate, complete and timely.
 - 2) Ensure that effective risk management measures are in place.
 - 3) Recommend to the Board, the risk management committee and management regarding technical matters in relation to risk management.

Vientiane Capital dated April 24, 2019
Director General of the Lao Securities Commission Office

Saysamone Chanthachack



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