

CORPORATE GOVERNANCE REPORT

STOCK CODE : 9407
COMPANY NAME : PARAGON UNION BERHAD
FINANCIAL YEAR : December 31, 2017

OUTLINE:

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.

SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PURSUANT CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA

Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.1

The board should set the company's strategic aims, ensure that the necessary resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards, and ensure that its obligations to its shareholders and other stakeholders are understood and met.

Application	: Applied
Explanation on application of the practice	<p>(a) The Board retains full and effective control of the Group. Its roles are essentially providing leadership, management oversight, setting strategic direction premised on sustainability and promoting ethical conduct in business dealings. The Board has adopted certain responsibilities for effective discharge of its functions through formalizing its Board Charter.</p> <p>The Board has delegated specific responsibilities to various Board Committees namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee whose functions are within their respective terms of reference approved by the Board. The said terms of reference are periodically reviewed by the Board, as and when necessary and the Board appoints the Chairman and members of each committees. These Committees assist the Board in making informed decisions through in-depth discussions on issues in discharge of the respective committees' terms of reference and responsibilities. The Chairmen of the various committees will report to the Board the outcome of the Committee meetings which will be recorded in the minutes of the Board meeting. The ultimate responsibility for decision making, however, lies with the Board.</p> <p>The salient features of the Board Charter had been uploaded on the Company's website at www.paragon.com.my</p> <p>For certain day-to-day operations, the Board has delegated authorities and powers to Management with the prescribed limits of authority.</p>

	<p>(b) The Audit Committee is authorised by the Board to independently investigate any activity within its Term of Reference and shall have unrestricted access to information to the Group, from the internal and external auditors, management and all employees.</p> <p>(c) The Board through the Nomination Committee is responsible to ensure that there is an effective and orderly process of appointment of new directors. The Nomination Committee has reviewed and assessed the size of the Board, required mix of skills, experience, performance and contribution of Directors.</p> <p>(d) The Board, upon the recommendation of the Remuneration Committee, will determine the remuneration package of each of the Board Members. Individual Director do not participate in the decisions regarding his individual remuneration.</p> <p>(e) The Risk Management Committee review and report to the Audit Committee and Board the risks faced by the Group and the effectiveness of Management’s measures in the identification and assessment of the risks as well as the design management and monitoring of internal controls to mitigate risks.</p>
<p>Explanation for departure :</p>	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>	
<p>Measure :</p>	
<p>Timeframe :</p>	

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.2

A Chairman of the board who is responsible for instilling good corporate governance practices, leadership and effectiveness of the board is appointed.

Application	:	Applied
Explanation on application of the practice	:	<p>The Chairman, Mr. Fung Beng Ee is leading the Board in its collective oversight of management, is responsible for the effective overall functioning of the Board.</p> <p>As one of the pioneer members of the Group, the Chairman is able to provide effective leadership to the Board and guide the vision, strategic direction and business development of the Group, and at the same time be guided by the independent advice and views from the Independent Directors, who offer the necessary checks and balances in the decision making process of the Board.</p> <p>The Chairman, being the Senior Independent Director, is also one of the contact person for reporting any complaints or improper conduct by the Directors, the stakeholders can provide their views to the Senior Independent Director at any point of time.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.3

The positions of Chairman and CEO are held by different individuals.

Application	:	Applied	
Explanation on application of the practice	:	<p>Paragon does not have CEO, however, the positions of Chairman and Executive Director are held by different individuals. The Chairman is responsible for ensuring the integrity and effectiveness of the governance process of the Board, while the Executive Director is responsible for making and implementing operational and corporate decision as well as developing, coordinating and implementing business and corporate strategies.</p> <p>The distinct and separate roles of the Chairman and Executive Director, with a clear division of responsibilities, ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.4

The board is supported by a suitably qualified and competent Company Secretary to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.

Application	:	Applied
Explanation on application of the practice	:	<p>The Company Secretary is a qualified Chartered Secretary (ICSA) and Associate Member of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA).</p> <p>The Company Secretary plays an advisory role to the Board in relation to the Company's Memorandum and Articles of Association, the Board's policies and procedures, and compliance with the relevant regulatory requirements, codes or guidance and legislations. The Company Secretary is suitably qualified, competent and capable of carrying out the duties required and has attended training and seminars conducted by relevant regulatory bodies to keep abreast with the relevant updates on statutory and regulatory requirements and updates on the MMLR of Bursa Securities.</p> <p>The Company Secretary advises the Board on corporate disclosures and compliance with the relevant changes to the laws, rules and regulations, which include amendments on Companies Act, 2016, Malaysian Code on Corporate Governance and Main Market Listing Requirements (MMLTR).</p> <p>The Company Secretary also serves notice to the Directors and Principal Officers to notify them of closed periods for trading in the Company's shares, in accordance with Chapter 14 of the MMLR of Bursa Securities. Deliberations during the Board and Board Committees' meetings were properly minuted and documented by the Company Secretary.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.5

Directors receive meeting materials, which are complete and accurate within a reasonable period prior to the meeting. Upon conclusion of the meeting, the minutes are circulated in a timely manner.

Application	:	Applied
Explanation on application of the practice	:	<p>To facilitate the Directors' time planning, the annual meeting calendar is prepared and tabled to the Board in advance of each new year. The calendar provides Directors with scheduled dates for meetings of the Board and Board Committees as well as Annual General Meeting.</p> <p>Reasonable notice of meetings and the agenda on the business to be conducted at the meetings and meeting material that provided relevant information such as minutes of previous meetings, management reports and financial reports were furnished to the Directors at least seven (7) working days prior to the Board meeting so that each Director had ample time to review the papers to enable informed decision making.</p> <p>The deliberations and decisions at the Board and Board Committee meetings are well documented and minuted. The action to be taken by respective parties will be in the minutes so that the Board can follow up with the respective parties on the status of the matters discussed during the previous meeting.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

There is demarcation of responsibilities between the board, board committees and management.

There is clarity in the authority of the board, its committees and individual directors.

Practice 2.1

The board has a board charter which is periodically reviewed and published on the company's website. The board charter clearly identifies–

- the respective roles and responsibilities of the board, board committees, individual directors and management; and
- issues and decisions reserved for the board.

Application	:	Applied
Explanation on application of the practice	:	<p>In performing its duties, the Board is guided by the Board Charter that sets out amongst others its roles, composition, responsibilities, powers, board committees and board meeting procedures. The key elements of governance principles embedded in the Board Charter regulate the Board's conducts and guide the business strategic initiative of the Group.</p> <p>The Board would regularly review the Board Charter and the Terms of Reference of the Board Committees to ensure they remain consistent with the Board's objective and responsibilities, and relevant standards of corporate governance.</p> <p>The Board Charter is available on the Company's website at www.paragon.com.my</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

Practice 3.1

The board establishes a Code of Conduct and Ethics for the company, and together with management implements its policies and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering.

The Code of Conduct and Ethics is published on the company's website.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board noted the importance of the Code of Ethics and Conduct of the Company that emphasized the Company's commitment to ethical practices and compliance with the applicable laws and regulations which also governs the standards of ethics and good conduct expected from the Directors and employees of the Group.</p> <p>Currently, the Board of Directors adheres to the Code of Ethics for Company Directors issued by the Companies Commission of Malaysia. This Code of Ethics provides good guidance for a standard of ethical behaviour for Directors based on trustworthiness and honest values that are acceptable and to uphold the spirit of responsibility including social responsibility in line with the legislation, regulations and guidelines for administrating a company.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

Practice 3.2

The board establishes, reviews and together with management implements policies and procedures on whistleblowing.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board had established a Whistle-Blowing Policy to enhance corporate governance practices across the Group and to provide Directors, Employees, Shareholders, Vendors or any parties with a business relationship of the Group with an avenue to report suspected wrongdoings that may adversely impact the Group.</p> <p>The aim of this policy is to encourage the reporting of such matters in good faith, with the confidence that the person filing the report, as far as possible, be protected from reprisal, harassment or subsequent discrimination.</p> <p>The Whistle-Blowing Policy is available on the Company's website at www.paragon.com.my</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.1

At least half of the board comprises independent directors. For Large Companies, the board comprises a majority independent directors.

Application	:	Applied	
Explanation on application of the practice	:	The Board currently consists of four (4) members, comprising the Independent Non-Executive Chairman, One (1) Executive Director, One (1) Non-Independent Non-Executive Director and one (1) Independent Non-Executive Director.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.2

The tenure of an independent director does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director.

If the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process.

Application	:	Not applicable - No independent director(s) serving beyond 9 years	
Explanation on application of the practice	:		
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.3 - Step Up

The board has a policy which limits the tenure of its independent directors to nine years.

Application	:	Adopted
Explanation on adoption of the practice	:	The Board has established a policy which limits the tenure of its independent directors to nine (9) years

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.4

Appointment of board and senior management are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender.

Application	:	Applied
Explanation on application of the practice	:	<p>The NC will recommend to the Board on suitable candidates for appointment as Board members, member of Board Committees and Executive Director of the Company based on the following evaluation criteria:</p> <ul style="list-style-type: none"> • skills, knowledge, expertise and experience; • professionalism; • time commitment to effectively discharge his role as a director; • contribution and performance; • character, integrity and competence; • boardroom diversity including gender diversity; and • in the case of candidates for the position of Independent Non-Executive Directors, the NC shall also evaluate the candidates' ability to discharge such responsibilities/functions as are expected from independent non-executive directors. <p>This helps to ensure an appropriate balance between the experience perspectives of the long term directors and new perspectives that bring fresh insights to the Board.</p>
Explanation for departure	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
Measure	:	
Timeframe	:	

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.5

The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	<p>The Board currently has one woman Director on Board, which represent 25% of the total number of board members.</p> <p>The Board acknowledges the call by the Government and MCCG for boards to comprises at least 30% woman on board.</p> <p>The Board is mindful that any gender representation should be in the best interest of the Company. Although the Company has not reached the 30% woman representation target at Board level as require, the Board is putting its effort in getting other suitable women who could meet the objective criteria, merit and with due regard for diversity in skills, experience, age to join the Board.</p> <p>The Board does not have specific policy on diversity policy and measures, However, the issue of diversity is discussed by the Nomination Committee.</p> <p>The Board will take steps towards formalising such policy, targets and measures to reflect the Company's commitment towards gender diversity.</p>	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.6

In identifying candidates for appointment of directors, the board does not solely rely on recommendations from existing board members, management or major shareholders. The board utilises independent sources to identify suitably qualified candidates.

Application	:	Applied
Explanation on application of the practice	:	Appointments of new Directors are undertaken by the Board as a whole after considering the recommendations of the Nomination Committee. Potential candidates may be proposed by any current Board member, shareholder or senior management personnel or by utilising independent sources such as recruitment firms or through industry associations. In considering potential candidates for appointment, the Nomination Committee undertakes a thorough review of the candidate's criteria, amongst others, qualifications, skills, knowledge, expertise, experience, personal attributes and the capability to devote the necessary time and commitment to the role.
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.7

The Nominating Committee is chaired by an Independent Director or the Senior Independent Director.

Application	:	Applied	
Explanation on application of the practice	:	The Nomination Committee comprises exclusively Non-Executive Directors. The current chairman for the Nomination Committee is Mr. Fung Bee Ee, who is the Senior Independent Non-Executive Director.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Stakeholders are able to form an opinion on the overall effectiveness of the board and individual directors.

Practice 5.1

The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director. The board should disclose how the assessment was carried out and its outcome.

For Large Companies, the board engages independent experts periodically to facilitate objective and candid board evaluations.

Application	:	Applied
Explanation on application of the practice	:	The Nomination Committee annually performs an assessment of the effectiveness and performance of the Board, Board Committees and individual Directors, in order to verify that the Board is functioning appropriately as a whole. Each Director completed a detailed questionnaire in the Directors' Performance Evaluation which covered matters relevant to the Board performance, amongst others, contribution to interaction, quality of input, understanding of role and personal developments. An evaluation of each Board Committee was done by assessing the structure, roles and responsibilities, performance of the respective Chairman, as well as Committee's performance against its Terms of Reference. The assessment was internally facilitated, whereby results of the assessments had been compiled, documented and reported to the Board accordingly, as part of the Company's ongoing corporate governance practices.
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

Practice 6.1

The board has in place policies and procedures to determine the remuneration of directors and senior management, which takes into account the demands, complexities and performance of the company as well as skills and experience required. The policies and procedures are periodically reviewed and made available on the company's website.

Application	:	Applied
Explanation on application of the practice	:	<p>On a yearly basis, the Remuneration Committee reviews and recommends to the Board the remuneration packages of the Executive Director, while the remuneration for the Non-Executive Directors was determined by the Board as a whole. In making its recommendation, the Remuneration Committee considers the principles set out in the Board Remuneration Policy. The Policy, which covers remuneration for the Directors and key Senior Management personnel, was established with the objective to guide the Group in attracting, retaining and motivating highly qualified individuals to serve on the Board and key Senior Management team.</p> <p>The Executive Director and key Senior Management are subject to an annual performance process. The individual performance rating serves as a basis to determine their variable compensation payments and thereby rewards individual performance. The Board Remuneration Policy also covers bonus framework for the Executive Director and key Senior Management, which link their appraisal process to specific reward and incentive outcomes. The appraisal process will assess the individual performance against the Key Performance Indicator targets and competency capability in meeting the Group's core values and Leadership and Management Expectations.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

Practice 6.2

The board has a Remuneration Committee to implement its policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of board and senior management.

The Committee has written Terms of Reference which deals with its authority and duties and these Terms are disclosed on the company's website.

Application	:	Applied
Explanation on application of the practice	:	<p>The Remuneration Committee is responsible for evaluating, deliberating and recommending to the Board the compensation and benefits that are fairly guided by market norms and industry practices for the business the company is in.</p> <p>The Remuneration Committee is also responsible for evaluating the Executive Director's remuneration which is linked to the performance of the Executive Director and performance of the Group. Individual Director do not participate in the decisions regarding his individual remuneration.</p> <p>Full details of the functions and duties of the Remuneration Committee are stated in its Term of Reference.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.1

There is detailed disclosure on named basis for the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments.

Application	:	Applied	
Explanation on application of the practice	:	Detail disclosure on named basis for the remuneration of individual directors is in the Company's Annual Report. The remuneration breakdown of individual directors include fees, salary, bonus and other emoluments.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.2

The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	The Company had disclosed the Senior Management's remuneration component in bands width of RM50,000 on position basis.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.3 - Step Up

Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.

Application	:	Not Adopted
Explanation on adoption of the practice	:	

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.
The company's financial statement is a reliable source of information.

Practice 8.1

The Chairman of the Audit Committee is not the Chairman of the board.

Application	:	Applied	
Explanation on application of the practice	:	The Chairman of the Audit Committee is not the Chairman of the Board.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.
The company's financial statement is a reliable source of information.

Practice 8.2

The Audit Committee has a policy that requires a former key audit partner to observe a cooling-off period of at least two years before being appointed as a member of the Audit Committee.

Application	:	Applied	
Explanation on application of the practice	:	In line with the recommended practice 8.2 of the MCCG, the Audit Committee had revised its Terms of Reference to include a clause on a minimum cooling-off period of two (2) years before a former key audit partner can be appointed as a member of the Audit Committee.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

Practice 8.3

The Audit Committee has policies and procedures to assess the suitability, objectivity and independence of the external auditor.

Application	:	Applied	
Explanation on application of the practice	:	The Board, through its Audit Committee maintains a formal and transparent relationship with its External Auditors. The Board had delegated the responsibility to the Audit Committee for making recommendations on the appointment, re-appointment or removal of the External Auditors as well as on their remunerations. The Audit Committee ensured that the External Auditors work closely with the Internal Auditors to enhance the effectiveness of the overall audit process. The Audit Committee assessed the performance and effectiveness of the External Auditors annually, considering amongst others, their qualifications, effectiveness of the audit process, quality of service and their independence.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.
The company's financial statement is a reliable source of information.

Practice 8.4 - Step Up

The Audit Committee should comprise solely of Independent Directors.

Application	:	Not Adopted
Explanation on adoption of the practice	:	The Audit Committee comprises two (2) Independent Non-Executive Directors and One (1) Non-Independent Non-Executive Director. The Chairman of the Audit Committee is not the Chairman of the Board. The Board is still looking for suitable candidate to meet this requirement.

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

Practice 8.5

Collectively, the Audit Committee should possess a wide range of necessary skills to discharge its duties. All members should be financially literate and are able to understand matters under the purview of the Audit Committee including the financial reporting process.

All members of the Audit Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

Application	:	Applied
Explanation on application of the practice	:	<p>The Audit Committee are encouraged to participate in relevant training programmes for continuous professional development and to further enhance their skills and knowledge. The Directors are aware that they shall receive appropriate training which may be required from time to time to keep them abreast with the current developments in the industry as well as new statutory and regulatory developments including changes in accounting standards.</p> <p>The Chairman of the Audit Committee, Mr. Alvin Lau Yoke Keen is a member of MIA, and thus, fulfilling Paragraph 15.09(1)(c) of Main Market Listing Requirements.</p> <p>The Audit Committee Chairman, Mr. Lau Yoke Yeen attended the Corporate Tax Issues for 2017 and 2018 Budget Seminar during the financial year.</p> <p>The other Audit Committee members was briefed on the Companies Act, 2016 and Amendments to Listing Requirements during the financial year end.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice 9.1

The board should establish an effective risk management and internal control framework.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board affirms its overall responsibility for the Group's system of risk management and internal controls and for reviewing its effectiveness, adequacy and integrity. However, in view of the limitations that are inherent in any system of risk management and internal controls, the Board is aware that such system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement, fraud or loss.</p> <p>The Board is assisted by Senior Management in implementing the Board approved policies and procedures to assure that the Group's risk management and internal controls systems are operating adequately and effectively.</p> <p>The Board has formed a Risk Management Committee ("RMC") which will assist the Board on the ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which had been in place for the year under review. This process is regularly reviewed by the Board and is in accordance with the Statement on Risk Management and Internal Control: Guidance for Directors of Public Listed Companies.</p> <p>The Management is responsible for the identification and evaluation of key risks applicable to their areas of business activities on a continuous basis. Risks identified are reported on a timely manner during the periodic management meetings to enable corrective actions to be taken.</p> <p>The Board is supported by the Senior Management in developing, implementing and monitoring sound practices for identifying and managing strategic, financial and operational risks and for providing assurance that risk management and internal control practices with respect to the conduct of business are implemented and adhered to within the Group.</p> <p>The Risk Management Committee meets every quarter to deliberate on the findings and recommendations of the risk assessment and tabled the same to the Board on quarterly basis.</p>

Explanation for departure :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure :		
Timeframe :		

Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice 9.2

The board should disclose the features of its risk management and internal control framework, and the adequacy and effectiveness of this framework.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board acknowledges its overall responsibility to maintain effective governance, risk management and compliance framework. Supported by the Management and internal audit function, the Board ensures the adequacy and effectiveness of the Group's risk management and internal control practices. The Board is responsible to ensure that the Group complies with all applicable provisions of law and regulations and ensures that appropriate risk management systems are in place throughout the Group.</p> <p>The Group relies on the Enterprise Risk Management framework to systematically identify, assess, mitigate and monitor existing and potential risks that are critical to its strategic targets and business plans. The framework encompasses all key areas such as financial, operational and environmental controls, Information Systems, as well as compliance with relevant laws, regulations, rules and guidelines.</p> <p>The Audit Committee assists the Board to oversee and review the effectiveness of the Group's risk management and internal control systems. To facilitate effective monitoring, the Board regularly receives reports from the Management on any business risks related to its business activities that have impacted or likely to impact the Company from achieving of its objectives and strategies.</p> <p>Group's system of internal controls is regularly reviewed for its effectiveness in managing key risks. The internal audit function focuses on areas of priority as determined by the risk assessment of the auditable areas. Where significant weaknesses have been identified, improvement measures are recommended to strengthen controls.</p> <p>The internal audit reports are tabled at Audit Committee meetings for members' review.</p>
Explanation for departure	:	

<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice 9.3 - Step Up

The board establishes a Risk Management Committee, which comprises a majority of independent directors, to oversee the company's risk management framework and policies.

Application	:	Adopted
Explanation on adoption of the practice	:	The Risk Management Committee comprise of majority Independent Directors, with two (2) Independent Director out of three (3) members.

Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

Practice 10.1

The Audit Committee should ensure that the internal audit function is effective and able to function independently.

Application	:	Applied	
Explanation on application of the practice	:	The Group’s internal audit function is carried out by an outsourced internal audit firm which is independent of the activities the Internal Auditors audit. The Board, through the Audit Committee conducts annual review on the effectiveness of the internal audit function including assessing the quality of audit review and ensuring that the Internal Auditors have sufficient knowledge and experience to perform their role effectively.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

Practice 10.2

The board should disclose–

- whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
- the number of resources in the internal audit department;
- name and qualification of the person responsible for internal audit; and
- whether the internal audit function is carried out in accordance with a recognised framework.

Application	:	Applied
Explanation on application of the practice	:	<p>The Group's internal audit function is carried out by an outsourced internal audit firm, namely, insight Advisory Services Sdn. Bhd. who is independent of the activities the Internal Auditors audit. The Head of the Internal Auditors is a member of Institute of Internal Auditors Malaysia and is competent to conduct the internal audit activities according to the standards and code of ethics set by the body.</p> <p>The Internal auditors are free from any relationships or conflicts of interest, which could impair their objective and independence.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

Practice 11.1

The board ensures there is effective, transparent and regular communication with its stakeholders.

Application	:	Applied
Explanation on application of the practice	:	<p>The Company strives to promote a better understanding of the Group through investor relation activities. Apart from general meetings, the Company has in place the following initiatives to facilitate effective communication with its shareholders:</p> <ul style="list-style-type: none">(a) the Annual Report, which contains information such as Management Discussion and Analysis, financial statements, and information on the Audit Committee, Corporate Governance, Sustainability and Corporate Social Responsibility, and Risk Management and Internal Control;(b) various announcements made to Bursa Securities, which include timely release of financial results on a quarterly basis. Concurrent with these releases, the Company posts all announcements on its website;(c) regular dialogues with analysts and fund managers representing individual and institutional shareholders;(d) attending to shareholders' and investors' emails and phone enquiries; and(e) the Company's website at www.paragon.com.my under Investor Relations section, which houses Board Charter, annual reports, quarterly report announcements and other corporate information on Paragon. The website also provides Investor Relations contact for shareholders to direct their queries or concerns to.
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

Practice 11.2

Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	The Company would consider adopting integrated reporting based on globally recognised framework in the near future.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.1

Notice for an Annual General Meeting should be given to the shareholders at least 28 days prior to the meeting.

Application	:	Applied	
Explanation on application of the practice	:	The Company dispatches the notice of its Annual General Meeting (AGM) to the shareholders at least 28 days before the AGM. The additional time given to shareholders allows them to make the necessary arrangements to attend and participate in person.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.2

All directors attend General Meetings. The Chair of the Audit, Nominating, Risk Management and other committees provide meaningful response to questions addressed to them.

Application	:	Applied	
Explanation on application of the practice	:	All Directors attend the Company's Annual General Meeting. The Chairman of the Board Committees are present on stage to provide response if there are any questions addressed to them.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.3

Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate–

- including voting in absentia; and
- remote shareholders’ participation at General Meetings.

Application	:	Applied	
Explanation on application of the practice	:	<p>The Annual General Meeting is held at a location in the city area and accessible via public transport.</p> <p>Moving forward, the Company will consider leveraging on technology to facilitate greater shareholders’ participation in general meeting.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

**SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PURSUANT
CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA**

Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.

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