

CORPORATE GOVERNANCE REPORT

STOCK CODE : 5006
COMPANY NAME : Stella Holdings Berhad (formerly known as Merge Energy Bhd.)
FINANCIAL YEAR : March 31, 2020

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 PERSUANT 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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board plays a key role in the governance process through its review and approval of the Group's direction and strategy, monitoring of business performance and review of the adequacy and integrity of the Group's internal control system. The Board believes that commitment to its fiduciary duties and responsibilities is critical to its goal of driving long term shareholders' value.</p> <p>The Board is also entrusted with the responsibility of exercising reasonable care of the Group's resources in enhancing the shareholders' long-term value while taking into account of other stakeholders.</p> <p>The Board assumes the following principal responsibilities in discharging its fiduciary and leadership functions:-</p> <ul style="list-style-type: none">• Reviewing and adopting the strategic plan for the Group• Overseeing the conduct of the Group's business to determine whether the business is being properly managed.• Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks• Reviewing the adequacy of the Group's management information and internal control systems• Reviewing and approving the financial results: quarterly and annually• Ensuring the Company adheres to high standards of ethics and corporate behavior <p>The Board is also mindful of the importance of building a sustainable business and therefore, takes into consideration its environmental, social and government impact when developing the corporate strategy of the Group.</p> |

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| | <p>To enable the Board to discharge its duties effectively whilst enhancing business and operational efficacy, the Board delegates certain responsibilities to the following Committees, namely:</p> <ul style="list-style-type: none"> • Audit Committee; • Nomination Committee; • Remuneration Committee; • Risk Management Committee; • Executive Committee; and • Sustainability Committee <p>The Board also has an effective working partnership with the Management in establishing the strategic direction. The Management is responsible for supporting and assisting the Group Chief Executive Officer in implementing and running the Group’s day to day business.</p> <p>Our stakeholders are informed of the Group’s performance through public releases of the relevant information that are available at the Company corporate website at www.stella-holdings.com.my</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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | <p>Dato' Hj Mohamad Haslah bin Mohamad Amin is the Executive Chairman of the Board who provides strong leadership and is responsible for ensuring the adequacy and effectiveness of the Board's governance process.</p> <p>The roles and responsibilities of the Chairman of the Board have been clearly specified in Paragraph 7 of the Board Charter, which is available on the Company's website at www.stella-holdings.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

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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The roles of the Chairman and Group CEO are separately held with each having distinct authority and responsibilities. The Board realize the importance in the separation of roles and responsibilities of the Chairman and the Group CEO as this will ensure that there is a balance of power and authority, such that there is no excessive concentration of power in the Chairman or the Group CEO.</p> <p>The Chairman provides strong leadership and is responsible for ensuring the adequacy and effectiveness of the Board's governance process, while the Group CEO is responsible for the effective running the Group's operations and implementation of the Board's policies and decisions.</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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The Company Secretary of Stella, who is qualified and experience, provide advises to the Board on regulatory requirements and corporate governance matters to ensure that the Boards discharge their duties and responsibilities effectively.</p> <p>She attends all Board meetings and ensures that accurate and adequate records of the proceedings of the Board meetings and decisions made are properly recorded.</p> <p>All Directors have access to the advice and services of the Company Secretary and Senior Management.</p> <p>The Board is also regularly updated from time to time by the Company Secretary on updates as well as any amendments issued by Bursa Securities, Securities Commission, Companies Commission of Malaysia and other relevant regulatory authorities.</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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Directors have full and unrestricted access to all information pertaining to the Group's business and affair to enable them to discharge their duties. The management is responsible for furnishing the Board with timely and accurate information that may assist the Board to facilitate informed decision making.</p> <p>Board meetings for the ensuing financial year are scheduled in advance before the end of each financial year to enable the Directors to plan ahead and fit the year's Board meetings into their respective schedules. Prior to the meetings of the Board and the Board Committees, detailed board papers, which include agenda and reports relevant to the issues of meeting, will be forwarded to all Directors in advance, normally 5 to 7 days prior to the meeting, to enhance the quality of decisions recommended at the Board meetings. Any additional information requested by Directors is also readily available.</p> <p>The Board also note the decisions and salient issues deliberated by Board Committees through the updates by the respective Chairman of the Committees or the minutes of these Committees. The Board receives and reviews recommendations made by the Board Committees and grants approval, when required.</p> <p>All Directors have access to the advice and services of the Company Secretary and Senior Management. In the furtherance of its duties, the Board is also authorised to obtained independent professional advice on specific matters, if necessary, at the Company's expense to enable the Board to discharge its functions in the decision-making process.</p> <p>The Board ensure that the minutes of meetings are properly recorded to accurately reflect the proceedings of the meeting and decision made.</p> |
| Explanation for departure | : | |
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Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.

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| 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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The Company has established a Board Charter to promote high standards of corporate governance. The Board Charter is designed to provide guidance and clarity for Directors and management with regard to the role of the Board and its committees and also identified issues and decisions reserved for the Board.</p> <p>A copy of the Board Charter is made available at the Company's website www.stella-holdings.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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The Board adopts and observes the Code of Ethics for Company Directors established by the Companies Commission of Malaysia, as the Board is fully supportive of the principles of the said Code of Ethics and finds it suitable for the Company to uphold the same principles.</p> <p>A copy of the Code of Ethics for Company Directors is made available at the Company's website www.stella-holdings.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 3.2

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

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| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The Board has established and adopted a Whistleblowing Policy to set out the mechanism and framework for employees or any parties to report any concerns they may have regarding any suspected and/or known misconduct and wrongdoing in the workplace.</p> <p>A copy of the Whistleblowing policy is made available at the Company's website www.stella-holdings.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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | The Board consists of seven (7) members as at the date of this report, comprising the Executive Chairman, an Executive Director, a Non-Independent Non-Executive Director and four (4) Independent Non-Executive Directors. | |
| Explanation for departure | : | | |
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| <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.

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| Application | : | Not applicable - No independent director(s) serving beyond 9 years | |
| Explanation on application of the practice | : | The tenure of all the four (4) independent directors of the Company did not exceed the cumulative term limit of nine years. | |
| 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.

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| Application | : | Not Adopted |
| Explanation on adoption of the practice | : | |

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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board comprising members from wide range of professionalism, business and financial background, all of which provide the Group with a wealth of expertise, experiences and networks to draw upon.</p> <p>The Board's overriding objective in any new appointment is to select a suitable candidate with a view to achieving a high-performing Board. Appointments to the Board are based on merit, in the context of character, skills, experience and competency the Board as a whole requires to be effective.</p> <p>The Board aims to have an appropriate level of diversity in the Boardroom to reflect the nature of the Company's operation and to support the achievement of the Company's objectives.</p> <p>The Board supports the representation of women in the composition of the Board and currently has one (1) women Directors on the Board.</p> <p>The identification and appointment of new Directors undergo a process led by the Nomination Committee which reviews the required mix of skills, experience and other qualities of the Directors to ensure that the Board is functioning effectively and efficiently. The Board makes the final decision on the appointment of new Directors prior to release of announcements of the appointment to Bursa Malaysia.</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 4.5

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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | The Board supports the representation of women in the composition of the Board and currently has one (1) women Directors on the Board. The Board has disclosed the Company's policies on gender diversity in the Annual Report. | |
| 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 4.6

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.

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| Application | : | Departure | |
| Explanation on application of the practice | : | | |
| Explanation for departure | : | The identification and appointment of new Directors undergo a process led by the Nomination Committee which reviews the required mix of skills, experience and other qualities of the Directors to ensure that the Board is functioning effectively and efficiently. | |
| | | Currently, the identification for appointment of directors is largely based on recommendation from existing Directors, senior management and major shareholders. | |
| | | In line with the recommendation of the Malaysian Code on Corporate Governance, other than relying on the recommendation from the existing Board members, management and/or major shareholders, the Board will also explore independent sources to identify suitable qualified candidates, where necessary. | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | Please explain the measure(s) the company has taken or intend to take to adopt the practice. | |
| Timeframe | : | Choose an item. | |

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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The Nomination Committee comprises of three (3) members, all being Independent Directors.</p> <p>The Nomination Committee is chaired by Dato' Kamarulzaman bin Jamil who is also designated as the Senior Independent Director.</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 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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>On annual Board evaluation, the Nomination Committee and the Board had reviewed and assessed the following during the financial year:-</p> <ul style="list-style-type: none">• The effectiveness of the Board and Board Committees• The mix of skill, experience and contribution of each individual Director• The independence of the Independent Directors <p>The criteria on the evaluation of the effectiveness of the Board related to, amongst others, the appropriate composition and committees in correspondence to the Board's oversight duties, the right mix of skills and experience to optimize performance and strategy, clear definition of roles and responsibilities of the Board and individual Director.</p> <p>The criteria on the evaluation of the effectiveness of Board Committees related to, amongst others, whether the Board Committees have the right composition, sufficient knowledge on financial and related laws and regulations, whether the Board Committee properly discharges their responsibilities and provides appropriate report and recommendations to the Board.</p> <p>Based on the evaluation carried out, the Nomination Committee and the Board concluded that overall the Board's size is conducive for effective discussion and decision making and are satisfied that it has an appropriate balance of expertise, skill and attributes among the Director including relevant core competencies.</p> <p>During the financial year under review, the Independent Non-Executive Directors did a self-evaluation of their independence based on the criteria of independence of the Bursa Malaysia Listing Requirements and the Nomination Committee and the Board had reviewed and assessed the results of the said self-evaluation and concluded that the Independent Directors have met the criteria of independence based on the Listing Requirement.</p> |

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| Explanation for departure : | | |
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| <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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Company has in place a remuneration policy and procedures which sets out the criteria to be used in recommending the remuneration package for Directors and senior management to ensure that the Directors and senior management are adequately remunerated for the services they render.</p> <p>A copy of the remuneration policy and procedures is available for viewing at the Company's website www.stella-holdings.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 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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board has established a Remuneration Committee which comprises of three (3) members, of which majority are independent directors.</p> <p>The responsibilities of the Remuneration Committee are:</p> <ul style="list-style-type: none">• to recommend to the Board, the remuneration of each Director in all its form, with the respective Directors abstain from deliberating their own remuneration; and• to establish and review the remuneration packages of each individual Executive Director such that the levels of remuneration are sufficient to attract and retain the Directors needed to run the Group successfully. <p>The Terms of Reference of the Remuneration Committee is disclosed on the Company's website at www.stella-holdings.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

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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | Details of the Directors' remuneration paid or payable to the Directors of the Company for the financial year ended 31 March 2020 on named basis are disclosed in the Corporate Governance Overview Statement. The remuneration breakdown of individual directors includes salary, bonus, fees, allowances and benefits in-kind. | |
| Explanation for departure | : | | |
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| <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.

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| Application | : | Departure | |
| Explanation on application of the practice | : | | |
| Explanation for departure | : | The remuneration of the top five senior management of the Group are not disclosed on a named basis in the bands of RM50,000 due to confidentiality and sensitivity of each remuneration package. | |
| | | The aggregate remuneration of the key senior management of the Group for the financial year ended 31 March 2020 has been included in the Audited Financial Statement. | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | Please explain the measure(s) the company has taken or intend to take to adopt the practice. | |
| Timeframe | : | Choose an item. | |

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.

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| 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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | The Chairman of the Audit Committee, Encik Shahrizam bin A Shukor, is not the Chairman of the Board. | |
| Explanation for departure | : | | |
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| <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.

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| Application | : | Departure | |
| Explanation on application of the practice | : | | |
| Explanation for departure | : | None of the Audit Committee members at present or in the past were former key audit partners of the Company's external auditors. | |
| | | It is not a practice of the Board to appoint any former key audit partners as member of the Audit Committee. | |
| | | If the need arise in future to consider former key audit partners as member of the Audit Committee, the Audit Committee will incorporate a policy which requires a former key audit partner to observe a cooling-off period of at least two (2) years before he can be appointed as a Audit Committee member. | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | Please explain the measure(s) the company has taken or intend to take to adopt the practice. | |
| Timeframe | : | Choose an item. | |

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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | During the financial year under review, the Audit Committee has carried out an assessment on the performance of the external auditors for the financial year covering areas such as calibre, performance, audit team, audit scope and planning, independence and objectivity, audit communications as well as audit fees prior to submission to the Board for their approval. | |
| Explanation for departure | : | | |
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| <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.

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| Application | : | Adopted |
| Explanation on adoption of the practice | : | All the Audit Committee members are independent directors |

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 | : | All members of the Audit Committee have the necessary skills to discharge their duties and are able to understand matters under the purview of the Audit Committee. The qualification and experience of the individual Audit Committee members are disclosed in the Profile of Board of Directors in the Annual Report. The Audit Committee members will undertake relevant training/seminars from time to time to keep abreast with current developments in the market place as well as the current changes in laws and regulatory requirements. The Audit Committee is also regularly updated during the Audit Committee meeting by the External Auditors on the current changes to the accounting and audit standards and policies. |
| 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.

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|--------------------------------------------------------------------------------------------------------------------------------------|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| Application | : | Applied | |
| Explanation on application of the practice | : | The Board had established an effective risk management and internal control framework as set out in the Statement on Risk Management and Internal Control in the Annual Report 2020 of the Company. | |
| 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.

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|--------------------------------------------------------------------------------------------------------------------------------------|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board discloses the features of its risk management and internal control framework, and the adequacy and effectiveness of the framework in the Statement on Risk Management and Internal Control in the Annual Report 2020 of the Company.</p> <p>The Board acknowledges its overall responsibility of the Group's system of internal control as well as risk management to safeguard shareholders' investment and the Group's assets. The effectiveness of the Group's internal control is reviewed by the Audit Committee during its quarterly meetings. This review covers the financial, operational and compliance controls as well as the process for the identification, evaluation and management of the significant risks faced by the Group.</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 | : | <p>The Board has established a Risk Management Committee, which comprises of three (3) members who are independent directors.</p> <p>The Risk Management Committee assist the Board in overseeing the risk management process within the Group.</p> |

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.

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|--------------------------------------------------------------------------------------------------------------------------------------|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The Board has established an Internal Audit Department which assists the Audit Committee in the discharge of its duties and responsibilities.</p> <p>The internal audit function is effective and able to function independently. The Internal Auditor reports directly and functionally to the Audit Committee. The internal audit function and activities are set out in the Statement on Risk Management and Internal Control and Audit Committee Report in the Annual Report 2020.</p> <p>The Internal Auditor is invited to attend the Audit Committee meetings to facilitate the deliberation of audit reports. The Audit Committee Chairman will then report on any pertinent issues that need to be brought to the attention of the Board.</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 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 Internal Audit Department comprises of two (2) staff with relevant qualification and experience who reports directly and functionally to the Audit Committee and ultimately to the Board. Administratively the Internal Auditor reports to the Group Chief Executive Officer of the Company.</p> <p>The Head Internal Auditor, En. Mohd Syahir Bin Jalani holds a Bachelor’s Degree with Honours in Accounting from University Tenaga Nasional (UNITEN). He is also an associate member of The Institute of Internal Auditors Malaysia. The Internal Auditor is free from any relationships or conflict of interests, which could impair the objectivity and independence in performing his duties.</p> <p>The internal audits are governed by its Audit Charter which was approved by the Audit Committee. The internal audit function is carried out in accordance with the International Professional Practice Framework (IPPF).</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 Board believes in clear communication with the Company's shareholders and other stakeholders. The Board continuously ensures that it maintains a high level of disclosure and communication with its shareholders through various practicable channels. The annual reports and the announcements made quarterly and otherwise, are the primary modes of communication to report on the Group's business, activities and financial performance to its shareholders. In addition to various announcements made during the year, the timely release of financial results on a quarterly basis provides shareholders with an overview of the Group's performance and operations.</p> <p>Stella's website at www.stella-holdings.com.my also provides an avenue for shareholders and members of the public to assess information pertaining to the Group, which is being updated regularly.</p> <p>The general meetings are opportunities to meet shareholders, to encourage them to interact and participate in getting to know the Company's and the Group's progress and/or performance better.</p> <p>The Board has also established corporate disclosure policies and procedures to enable accurate and timely disclosures to the regulators, shareholders and stakeholders</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 11.2

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 | : | Not applicable as the Company is not a Large Company as defined by the Malaysian Code on Corporate Governance 2017. | |
| | | Not applicable | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | Please explain the measure(s) the company has taken or intend to take to adopt the practice. | |
| Timeframe | : | Choose an item. | |
| | | | |

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 | : | <p>At least 28 days prior to the Annual General Meeting (AGM), the Annual Report together with the Notice of AGM will be sent to the shareholders, to allow shareholders additional time to go through the Annual Report and make the necessary attendance and voting arrangements.</p> <p>Each item of special business included in the notice of the AGM will be accompanied by a full explanation of the effects of a proposed resolution to facilitate full understanding and evaluation of the issues involved.</p> <p>Details of the Notices of AGM of the Company:-</p> <table border="1"><thead><tr><th></th><th>Date of issue Notice of AGM</th><th>Date of AGM</th><th>No. of days before AGM</th></tr></thead><tbody><tr><td>Annual Report 2018</td><td>27 July 2018</td><td>6 September 2018</td><td>40 days</td></tr><tr><td>Annual Report 2019</td><td>26 July 2019</td><td>19 September 2019</td><td>53 days</td></tr><tr><td>Annual Report 2020</td><td>26 August 2020</td><td>29 September 2020</td><td>33 days</td></tr></tbody></table> | | Date of issue Notice of AGM | Date of AGM | No. of days before AGM | Annual Report 2018 | 27 July 2018 | 6 September 2018 | 40 days | Annual Report 2019 | 26 July 2019 | 19 September 2019 | 53 days | Annual Report 2020 | 26 August 2020 | 29 September 2020 | 33 days |
| | Date of issue Notice of AGM | Date of AGM | No. of days before AGM | | | | | | | | | | | | | | | |
| Annual Report 2018 | 27 July 2018 | 6 September 2018 | 40 days | | | | | | | | | | | | | | | |
| Annual Report 2019 | 26 July 2019 | 19 September 2019 | 53 days | | | | | | | | | | | | | | | |
| Annual Report 2020 | 26 August 2020 | 29 September 2020 | 33 days | | | | | | | | | | | | | | | |
| 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 | : | Departure |
| Explanation on application of the practice | : | |
| Explanation for departure | : | <p>All the directors except for Dato' Lee Tian Hock attended the Company AGM held on 19 September 2019.</p> <p>During the AGM, the Chairman presents the financial performance of the Group. Shareholders are given the opportunity to seek and clarify any pertinent and relevant issues raised in the meeting in relation to the operations and performance of the Group and to exchange views with the Board.</p> <p>The external auditors are also present at the AGM to provide their professional and independent clarification on issues and concerns raised by the shareholders.</p> |
| | | Please provide an alternative practice and explain how the alternative practice meets the intended outcome. |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | Please explain the measure(s) the company has taken or intend to take to adopt the practice. |
| Timeframe | : | Choose an item. |

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 | : | Departure |
| Explanation on application of the practice | : | |
| Explanation for departure | : | <p>The number of shareholders of the Company is not large for it to leverage on technology to facilitate shareholders voting in absentia.</p> <p>The location of the general meetings have always been held in the Klang Valley at locations which are accessible by public transport and not in remote location.</p> <p>The upcoming 23rd AGM on 29 September 2020 will be held at Stella Board Room, Bandar Pinggiran Subang, Seksyen U5, Shah Alam, which is accessible by public transport and the MRT.</p> <p>Shareholders entitled to attend and vote at the general meetings are entitled to appoint any person(s) as their proxies to attend and vote in his stead.</p> |
| <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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