

Corporate Governance

The Board of Directors (**the Board**) of Merchant House International Limited (**the Company**) is responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the Australia Securities Exchange (**ASX**) Corporate Governance Principles and Recommendations (*Fourth Edition*), unless otherwise stated.

As required under ASX Listing Rule 4.10.3, the Group makes the following disclosures in relation to each of the Recommendations.

1. Board of Directors

(a) Role of the Board and responsibilities

The primary role of the Board is to oversee and approve the Group's strategic direction, to oversee the Group's management and business activities and to report to shareholders. The roles and responsibilities of the Board are formalised in written policies.

The Board evaluates these policies on an ongoing basis.

In addition to matters required by law to be approved by the Board, the responsibilities include, but are not limited to:

- the establishment of the long-term goals of the Group and strategic plans to achieve those goals;
- monitoring the achievement of these goals;
- the review of management accounts and reports to monitor the progress of the Group;
- the review and adoption of budgets for the financial performance of the Group and monitoring the results on a regular basis to assess performance;
- the review and approval of the annual and interim financial reports;
- nominating and evaluating the external auditor;
- approving all significant business transactions;
- appointing and monitoring senior management;
- all remuneration, development and succession issues;
- ensuring that the Group has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities;
- overseeing the process for making timely and balanced disclosure of all material information that a reasonable person would expect to have a material effect on the price or value of the Company's securities;
- ensuring that the Company has a suitably qualified Company Secretary who shall be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board; and
- ensuring that the Company reports on its measurable objectives in relation to board diversity and assess annually both the objectives and progress in achieving board diversity.

Responsibility for management of the Group's day to day business activities is delegated to the Executive Chairperson who is accountable to the Board.

(b) Board composition and expertise

The names of the Directors of the Company in office at the date of this statement are set out in the Directors' Report contained within the 2022 Annual Report. The Directors' Report also contains details of each Director's skill, experience and education. The Board seeks to ensure it consists of directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Group's business with excellence.

1. Board of Directors (continued)

(b) Board composition and expertise (continued)

The Board currently comprises five directors, one executive Chairperson, and four independent non-executive directors. A letter of appointment is executed with each Director and Senior Executive of the Company setting out the terms of their employment.

The specific skills that the Board collectively bring to the Company include:

- Industrial expertise
- Commercial experience
- Public company experience
- Analytical
- Financial
- Risk management
- Strategic planning and leadership
- Corporate governance
- Communications
- Interpersonal

The Board reviews its composition as required to ensure that the Board has the appropriate mix of commercial and financial skills, technical expertise, industry experience, and diversity (including, but not limited to gender and age) in its membership. The Board is primarily responsible for identifying potential new directors, however has the option to use an external consulting firm to identify and approach possible new candidates for directorship. When a vacancy exists, or where it is considered that the Board would benefit from the services of a new director with particular skills, candidates with the appropriate experience, expertise and diversity are considered. Each incumbent director is given the opportunity to meet with each candidate on a one to one basis. The full Board then appoints the most suitable candidate who must stand for election at the next annual general meeting (**AGM**) of shareholders.

The Board undertakes appropriate checks before appointing a person as a Director or putting forward to shareholders a candidate for election as a Director.

The Board ensures that shareholders are provided with all relevant information for considering the election and re-election of a Director.

(c) Retirement and re-election of directors

The Constitution of the Company requires one-third of directors (or the number nearest one third, rounded up), other than the Managing Director, to retire from office at each AGM. Directors who have been appointed by the Board after the last AGM are required to retire from office at the next AGM and are not taken into account in determining the number of directors to retire at that AGM. Retiring directors are eligible for re-election by shareholders.

No Directors shall hold office for a period of three years without seeking re-election.

(d) Independence of directors

The Board has reviewed the position and association of each of the five directors in office during the year and considers that four directors are independent. In considering whether a director is independent, the Board has regard to the independence criteria in ASX Corporate Governance Principles and Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of the other directors, as appropriate. A director is considered to be independent where they receive no material financial or contractual benefits with the company over and above their director's fee and entitlements.

1. Board of Directors (continued)

(d) Independence of directors (continued)

The Board considers that Ms Peggy Liao, Mr Ian Burton, Ms Xiao Lan Wu and Mr Oliver Hein meet the criteria in Principle 2. They have no material business or contractual relationship with the Company, other than as a Director, and no conflicts of interest which could interfere with the exercise of independent judgement. Accordingly, they are considered to be independent.

The Chairperson of the Company, Ms Loretta Lee, founded the Company and has held the role of Chairperson since the Company was established. Ms Lee is an integral part of the Company and also a major shareholder and due to her detailed knowledge of the business and the specialised skills that she brings to the Company, it is not practical for her role as Chairperson to be carried out by other directors, nor for the roles of Chairperson and Chief Executive Officer to be segregated.

(e) Verification of periodic reports

Periodic reports are provided on a minimum of a quarterly basis for the Company via the submission of quarterly activities reports and quarterly cash flow reports as requested by the ASX, in the form of an Appendix 4C. Activities reports are prepared by management and circulated to the full Board for review and comment to ensure accuracy with the Directors' knowledge and understanding of operations during the quarter. Financial data is prepared and sent to the Board for review against the Directors' knowledge and understanding of operations for each quarter before approval for release to the market. No other periodic reports are currently prepared.

(f) Director education

All new Directors complete an induction process. The non-executive directors are given every opportunity to gain a better understanding of the business, the industry, and the environment within which the Group operates, and are given access to continuing education opportunities to update and enhance their skills and knowledge.

The Board are specifically provided the opportunity to enhance their financial and compliance skills in relation to public companies through external courses.

(g) Independent professional advice

Each Director has the right of access to all relevant Company information and to the Company's executives and, subject to prior approval of the Chairperson, each director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

(h) Board performance review

There is no formal appraisal system in place for Board performance on a director-by-director basis. The performance of all Directors is assessed through review by the Board as a whole of a Director's attendance at, and involvement in, Board meetings, their performance and other matters identified by the Board or other Directors. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a Director's performance.

The Company has not conducted a formal performance evaluation of the individual members of the Board during the reporting year. However, the Board conducts a review of the performance of the Company against budgeted targets and strategic objectives on an ongoing basis.

The Board does assess the performance of senior executives on an annual basis. An assessment was carried out during the current financial year.

(i) Conflict of interest

Directors must keep the Board advised of any interest that could potentially conflict with those of the Company.

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1. Board of Directors (continued)

(j) Remuneration of Directors and senior management

Details of remuneration of the Company's Directors and the Group's senior management are disclosed in note 27 to the Annual Report on page 53.

Executive Directors may be remunerated by fixed cash remuneration, performance-based bonus and share-based compensation. No termination payment is agreed other than a reasonable period of notice of termination will be required as detailed in the executive's employment contract.

Non-executive Directors will be remunerated by cash benefits alone (including statutory superannuation) and will not be provided with any benefits for ceasing to be a Director.

As Merchant House International Limited is a foreign company registered in Bermuda, it is not required to comply with the *Corporations Act 2001*. As such, a remuneration report is not shown.

2. Board committees

Board committees and membership

The functions to be performed by sub-committees under the ASX Corporate Governance Principles and Recommendations (being the Audit, Risk, Remuneration and Nomination Committees) are currently being performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee of the Board. However, meetings are held throughout the year between the Company Secretary, Mr David McArthur, the Board and/or Board members as appropriate and the Company's auditors to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

As the Board comprises the members that would perform the duties of each of the committees under the Corporate Governance Recommendations, it has assessed the requirements for the committees and has determined the Board can perform the requisite function a sub-committee would perform for each of recommendations 2.1, 4.1, 7.1 and 8.1. This is also identified in the Board Charter that the full Board will perform the functions of the sub-committees until the Company reaches a level of operations that would show need for separate sub-committees.

3. Managing business risk

The Board believes that risk management and compliance are fundamental to sound management and that oversight of such matters is an important responsibility of the Board. The Group maintains policies and practices designed to identify and manage significant business risks, including:

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Company's business plan;
- corporate strategy guidelines and procedures to review and approve the Company's strategic plans; and
- insurance and risk management programmes which are reviewed by the Board.

The Board reviews these systems and the effectiveness of their implementation annually and considers the management of risk at its meetings. The Company's risk profile is reviewed annually and was reviewed during the financial year. The Board may consult with the Company's external auditors on external risk matters or other appropriately qualified external consultants on risk generally, as required.

The Board has not established a separate Risk Committee. The Board as a whole assesses and monitors risk management.

The Company does not have an internal audit unit.

The Company assesses its exposure to economic, environmental and social sustainability risks. The Board assesses the possible impact of changes and implements strategies to minimise exposure to these risks. The Board does not consider that the Company currently has any material exposure to environmental or social risks.

3. Managing business risk (continued)

(a) Internal controls

Procedures are established at the Board and executive management levels that are designed to safeguard the assets and interests of the Company, and to ensure the integrity of reporting. These include accounting and financial reporting and internal control policies and procedures. To ensure these established procedures are being followed, the Directors:

- ensure appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with the Board's requirements; and
- conduct a detailed review of published accounts.

(b) Corporate financial and operational reporting

The Board receives monthly management reports for the financial condition and operational results of the Group. The Company is not required to comply with the Corporations Act 2001 as it is a foreign company registered in Bermuda.

(c) Environmental regulation

The Group has a policy of at least complying, but in most cases exceeding, its environmental performance obligations. The Group has complied with all applicable environmental regulations.

4. Ethical Standards

All directors and executives are expected to act with the utmost integrity and objectivity, striving at all times to enhance the performance and reputation of the Company and its controlled entities.

(a) Code of conduct

In pursuit of the highest ethical standards, the Company has adopted a Code of Conduct which establishes the standards of behaviour required of directors and employees in the conduct of the Company's affairs. This Code is provided to all directors and employees. The Board monitors implementation of this Code and unethical behaviour will be duly reported to the Chairperson.

The Code of Conduct is based on respect for the law, and acting accordingly, dealing with conflicts of interest appropriately, using the consolidated entity's assets responsibly and in the best interests of the Company, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

The Group has advised each director, manager and employee that they must comply with the Group's Ethical Standards.

(b) Trading in Company's securities by Directors and Employees

The Board has adopted a policy in relation to dealings in the securities of the Company which applies to all directors and employees. Under the policy, directors are prohibited from short term or "active" trading in the Company's securities and directors and employees are prohibited from dealing in the Company's securities whilst in possession of price sensitive information. The Chairperson must also be notified of any proposed transaction.

This policy is provided to all directors and employees. Compliance with such policy is reviewed on an ongoing basis in accordance with the Company's risk management systems.

(c) Whistleblower Policy

The Group has in place a Whistleblower policy, a copy of which is provided to all Group officers, employees and contractors to encourage all parties to report conduct that they reasonably believe may be misconduct or an improper state of affairs or circumstances. The policy provides a framework for individuals to be able to report matters in a confidential manner without fear of punishment, disciplinary action or retaliation. A copy is available on the Company's website.

4. Ethical Standards (continued)

(d) Anti-Bribery Policy

The Group has in place an Anti-Bribery policy, a copy of which is provided to all Group officers, employees and contractors to emphasize and reiterate the zero-tolerance stance toward Bribery and Corruption and the Group's commitment to acting professionally, fairly and with integrity in all its business dealings and relationships.

5. Diversity Policy

The Company has a diversity policy which provides a written framework and objectives for achieving a work environment that values and utilises the contributions to employees' backgrounds, experiences, and perspectives, irrespective of gender, age, ethnicity and cultural background. The Board is responsible for developing, where possible, measurable objectives and strategies to support the framework and objectives of the diversity policy. The Board is responsible for monitoring the progress of the measurable objectives through various monitoring, evaluation and reporting processes.

The Board comprises of members possessing different nationalities. They have various experiences, qualifications and educational backgrounds. The Board's composition is represented by both genders on a relative even basis. The Company continues to achieve and maintain diversity on the Board in order to enhance its effectiveness.

The Company is committed to workplace diversity at all levels and recognises the benefits arising from employee and Board diversity. The benefits include a broader pool of high quality employees, improved employee retention, accessing different perspectives and ideas, and benefitting from all available talents.

The Group recognises that diversity includes matters of age, disability, ethnicity, marital and family status, religion and culture, sexual orientation and gender identity.

The Group strives to:

- Recruit and manage on the basis of an individual's competence, qualification and skills and performance
- Create a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff
- Appreciate and respect the unique aspects that an individual brings to the workplace
- Where possible and practicable, increase participation and employment opportunities for indigenous people
- Create a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives through improved awareness of the benefits of workplace diversity and successful management of diversity, and at all times recognising that employees may have restrictions placed on them by domestic responsibilities outside the workplace
- Take action to prevent discrimination, harassment, vilification or victimisation;
- Create awareness in all staff of their rights and responsibilities with regards to fairness, equity and respect for all aspects of diversity; and
- Identify and implement programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees, and to offer employees opportunities to reach management levels with the Group.

The Group set and achieved the following measurable objectives for FY 2022:

- To achieve and sustain a minimum representation on the Board of Directors of at least 30% of each gender; and
- To achieve and sustain a minimum representation across the Group of at least 30% of each gender.

Senior management comprises two members of staff that have been employed by the business in excess of 5 years each. As such, the Company has not set an objective relating to senior management representation due to the low turnover of this position.

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CORPORATE GOVERNANCE STATEMENT

5. Diversity Policy (continued)

Pursuant to *Recommendation 1.5* of the Recommendations, the Company discloses the following Group information as at 31 March 2022:

Gender representation	2022		2021	
	Women	Men	Women	Men
Group representation	59%	41%	56%	44%
Board representation	60%	40%	60%	40%
Senior management representation	-	100%	-	100%
Corporate services provider representation	60%	40%	60%	40%

6. Communication with Shareholders

The Board aims to ensure that shareholders are kept fully informed of all major developments of the Company. Information is communicated to shareholders as follows:

- As the Company is a disclosing entity, regular announcements are made to the ASX in accordance with the Company's disclosure policy, including the interim and annual accounts of the Group;
- The Board ensures the annual report includes relevant information about the operations of the Group during the year, changes in the financial position and details of future developments;
- Any proposed major changes in the Company's affairs are submitted to a vote of shareholders;
- Shareholders are provided the opportunity to receive communications electronically through the Company's share registry;
- The Board encourages full participation of shareholders at the AGM to ensure a high level of accountability and identification of the corporate strategies and goals. All shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Company;
- All substantive resolutions at meetings of Shareholders are decided via poll rather than on a show of hands; and
- The external auditor is required to attend the AGMs to answer questions concerning the audit and the content of the auditor's report.

The Board reviews this policy and ensure its compliance on an ongoing basis.

Continuous disclosure

The Company has in place a continuous disclosure policy, a copy of which is provided to all officers and employees of the Group who may from time to time be in the possession of undisclosed information that may be sensitive to the price or value of the Company's securities.

The continuous disclosure policy aims to ensure timely compliance with the Company's continuous disclosure obligations under the ASX Listing Rules and ensures officers and employees of the Group understand these obligations.

The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairperson, who in consultation with the Board (where practicable) and any other appropriate personnel (including external advisors if deemed appropriate), will consider the information and whether disclosure is required. If disclosure is deemed necessary, an appropriate announcement will be prepared for release to the market as soon as possible.

At least once in every 12-month period, the Board will review the Company's compliance with this continuous disclosure policy and update it from time to time, if necessary.

7. ASX Principles Compliance Statement

Pursuant to the ASX Listing Rules, the Company advises that it does not comply with the following Corporate Governance Principles and Recommendations, issued by the ASX Corporate Governance Council. Reasons for the Company's non-compliance are detailed below.

Recommendation 2.5

The chairperson should be an independent director and, in particular, should not be the same person as the CEO of the Company.

The Chairperson of the Company is Ms Loretta Lee. Ms Lee founded the Group and has held the role of Chairperson since the Company's inception. Ms Lee is an integral part of the Company and also a major shareholder. Because of her detailed knowledge of the business and the specialised skills that she brings to the Company, it is more practical for Ms Lee to carry out both roles as the Chairperson and Chief Executive Officer.