



Market Announcement

3 May 2021

Attached for the information of the market is ASX's query letter to Merchant House International Limited (ASX.MHI) dated 28 April 2021 and MHI's response dated 3 May 2021, received by ASX on 3 May 2021.

ASX's enquiries into the matters dealt with in the above correspondence are ongoing.



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ASX ANNOUNCEMENT

3 May 2021

DISPOSAL OF CARSAN (SHUNDE) MANUFACTURING COMPANY LIMITED- ADDITIONAL INFORMATION

Merchant House International Limited (“The Company” or “MHI”) provides the following additional information in relation to the sale of Carsan (Shunde) Manufacturing Co Ltd, a subsidiary of the Company, as announced to the market on 16 April 2021.

The Carsan operation provided the textiles for the operations of Loretta lee Limited, a subsidiary of the Company. For the six months to September 30, 2020 textile sales were \$16.2 million and profits were \$1.8 million. These sales and resulting profit represented the flow through of longer-term lead orders held by the factory. The production through to 30 September 2020 enabled the Company to defer the dramatic impact of a significantly worsening economic situation in China. The full effect of this economic downturn was felt post the 30 September 2020 reporting period, albeit the factors leading to a significant decline were well underway by this time and acknowledged by the Company in its periodic reporting.

The budget for the second six months of operation to 31 March 2021 reflected the textile division in China would have sales of only \$5 million and would make a loss of approximately \$500,000 and would continue to make substantial losses if it continued operations due to changed conditions. Due to the impact of COVID in China, combined with end users deciding to source product outside China (India, Vietnam, Bangladesh), adverse exchange rates in China, wages cost increases and competition from other overseas producers for raw materials, MHI was no longer able to produce textiles profitably in China. The company relied on high turnover, low margin sales to generate profits. These margins have been completely eroded and continuing operations would have incurred ongoing and increasing losses by the Company. For this reason, the decision was made by the Board to cease operations at the factory.

The US textiles operation was still in commissioning phase through 2020 (sales of \$1.6m at a loss of \$2.4 million) as customer orders were sourced and production ramped up. The Company is now focusing on the US textile business in Virginia as its textile producer for sales into the US market by Lorretta Lee Limited. The majority of sales from the Chinese operations were to US customers, and the US has moved to a “pro US product” market, and hence the timing is ideal. The textile division is still ramping up in the US, however was budgeted to make \$5.5 million

revenue to 31 March 2021, essentially due to the “buy American” campaign run in the USA.

It is not possible to state exactly how much the closure of the Chinese operation will affect the Company financially at this time, other than to advise the Company has avoided moving into a period of sustained losses from an uneconomic operation.

The sale of the Carsan assets was always conditional upon the funds being received by MHI in US\$ in its Hong Kong Bank account. This is mainly due to concerns the Board had in relation to the remitting of funds from China to Hong Kong, due to the number of approvals required in China for such a process. MHI was advised that clear funds were received by Hong Kong at 4 pm on 15 April 2021. The company advised the market pre-open on 16 April 2021.

The counterparty is Foshan XiongYing Logistics Co. Ltd, a Chinese company in no way related to MHI or any of its directors or their associates.

The sale consideration was US\$20 million and was partly used to pay outstanding liabilities at Carsan, resulting in net proceeds to the Company of US\$16.2 million (approximately A\$21 million). The funds are held in a Loretta Lee Limited bank account with the Hong Kong and Shanghai Banking Corporation Limited in Hong Kong, with no restrictions on the access or use of funds. This bank account is under the full control of the Company.

Part of the funds will be used for expansion and growth opportunities that are presenting themselves in the USA. The use of the balance of funds has not yet been determined by the Board.

The Company advises that the ASX has also now imposed appendix 4(C) lodgment requirements on the Company.

This release has been approved by Ms Loretta Lee - Chair of the Board

David McArthur
Company Secretary



28 April 2021

Reference: 33489

Mr David McArthur
Company Secretary
Merchant House International Limited

By email

Dear Mr McArthur

Merchant House International Limited ('MHI'): General – Aware Query

ASX refers to the following:

- A. MHI's interim report for the half-year ended 30 September 2020 lodged on the ASX Market Announcements Platform ('MAP') and released on 30 November 2020 ('Interim Report').
- B. In particular, ASX refers to Segment Information contained in the notes to the Consolidated Financial Statements set out at page 14 of the Interim Report, which discloses that:
 - (a) Home Textiles – China contributed \$16,210,000 in revenue for the half-year ended 30 September 2020;
 - (b) Home Textiles – China contributed \$1,873,000 in profit for the half-year ended 30 September 2020;
 - (c) Home Textiles – USA contributed \$1,650,000 in revenue for the half-year ended 30 September 2020; and
 - (d) Home Textiles – USA contributed a loss of \$2,486,000 for the half-year ended 30 September 2020, ('Segment Information').
- C. MHI's announcement entitled "Disposal of Carsan (Shunde) Manufacturing Co. Ltd" lodged on MAP and released at 09:31 AM AEST on 16 April 2021 (the 'Announcement'), disclosing, among other things, that:
 - (a) the Board of MHI has agreed to dispose of Carsan (Shunde) Manufacturing Co Ltd ('Carsan'), being a subsidiary of the MHI group that owns the land and factory dedicated to the production of Home Textiles in China ('Disposal Information');
 - (b) an agreement has been executed with Foshan XiongYing Logistics Co. Ltd ('XiongYing') where by XiongYing acquires Carsan for US\$20,000,000 ('Agreement Information'); and
 - (c) staff terminations and outstanding vendor payments will comprise US\$3,800,000 from the sale proceeds ('Payment Information').
- D. The change in the price of MHI's securities from \$0.047 on Wednesday, 7 April 2021 to an intraday high of \$0.155 on Friday 16 April 2021, representing a 229% increase in MHI's share price.
- E. The significant increase in the volume of MHI's securities traded on Friday, 16 April 2021.
- F. The pause in trading in the securities of MHI released on MAP at 11:57 AM AEST on 16 April 2021 and the trading halt pending the release of an announcement about a clarification of the Announcement released at 12:16 PM AEST that same day.
- G. The suspension from official quotation over the securities of MHI pending the release of an announcement regarding a clarification of the Announcement released on MAP at 10:52 AM AEST on 20 April 2021 and the subsequent extension to the voluntary suspension released on 23 April 2021.

H. Listing Rule 3.1, which requires a listed entity to immediately give ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

I. The definition of "aware" in Chapter 19 of the Listing Rules, which states that:

"an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity" and section 4.4 in Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B "When does an entity become aware of information."

J. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.

"3.1A Listing rule 3.1 does not apply to particular information while each of the following is satisfied in relation to the information:

3.1A.1 One or more of the following applies:

- It would be a breach of a law to disclose the information;*
- The information concerns an incomplete proposal or negotiation;*
- The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
- The information is generated for the internal management purposes of the entity; or*
- The information is a trade secret; and*

3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and

3.1A.3 A reasonable person would not expect the information to be disclosed."

K. ASX's policy position on the concept of "confidentiality", which is detailed in section 5.8 of Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B. In particular, the Guidance Note states that:

"Whether information has the quality of being confidential is a question of fact, not one of the intention or desire of the listed entity. Accordingly, even though an entity may consider information to be confidential and its disclosure to be a breach of confidence, if it is in fact disclosed by those who know it, then it ceases to be confidential information for the purposes of this rule."

Request for information

Having regard to the above, including the Interim Report, the Segment Information, the change in MHI's share price and the Announcement, ASX asks MHI to respond separately to each of the following questions and requests for information:

1. Does MHI consider the following information or any part thereof to be information that a reasonable person would expect to have a material effect on the price or value of its securities? Please respond to each of the following separately:

1.1 The Disposal Information; and

1.2 The Agreement Information,

(collectively, the 'Information').

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2. If the answer to question 1 (or any part thereof) is “no”, please advise the basis for that view.
 3. When did MHI first become aware of the Information referred to in question 1?
 4. If MHI first became aware of the Disposal Information or the Agreement Information before 16 April 2021, did MHI make any announcement prior to 16 April 2021 which disclosed the Information? If so, please provide details. If not, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe MHI was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps MHI took to ensure that the information was released promptly and without delay.
 5. Commenting specifically on the Disposal Information and the Payment Information, does MHI continue to have any home textile operations in China?
 6. Please confirm that MHI is complying with the Listing Rules and, in particular, Listing Rule 3.1.
 7. Please confirm that MHI’s responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of MHI with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **3:00 PM AWST Monday, 3 May 2021**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, MHI’s obligation is to disclose the information ‘immediately’. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require MHI to request a trading halt immediately.

Your response should be sent to me by e-mail at **ListingsCompliancePerth@asx.com.au**. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in MHI’s securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in MHI's securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to MHI's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that MHI's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence between ASX and entity

We reserve the right to release a copy of this letter, your reply and any other related correspondence between us to the market under listing rule 18.7A.

Questions

If you have any questions in relation to the above, please do not hesitate to contact me.

Yours faithfully

Daniel Nicholson
Adviser, Listings Compliance (Perth)