



MERCHANT HOUSE
INTERNATIONAL LIMITED
ARBN 065 681 138

Head Office:
Unit B & C, 16th Floor
E-Trade Plaza
No. 24 Lee Chung Street
Chai Wan
Hong Kong
Tel: (852) 2889 2000
Fax: (852) 2898 9992

Registered Office:
First Floor,
31 Cliff Street
Fremantle WA 6160
Australia
Tel: (61 8) 9435 3200
Postal Address:
PO Box 584
Fremantle WA 6959
Australia

4 May 2021

Daniel Nicholson
Adviser- Listings Compliance (Perth)
ASX Limited
152-158 St Georges Tce
PERTH WA 6000

Dear Sir,

Reference is made to the "Aware Query" received on 3 May 2021.

The following are the responses to your queries:

1.No.

2. The annual report for the year ended 31 March 2020 and the half yearly report for the half year ended 30 September 2020 made multiple references to the dramatically worsening trading position in China. Most informed readers would be aware of the significantly worsening position in China, particularly post COVID breaking out in China.

The MHI group had a loss of A\$12.817 million to 31 March 2020. The Chinese textile business made A\$980,000 in FY 2020. For the half year ended 30 September 2020 Chinese textiles made \$1.8 million profit, however in rapidly worsening conditions, with much of the profit being the wash through of existing orders that were not renewed. The operating loss for the second 6 months to March 2021 from the textiles operations in China has not yet been determined as the accounts are still being finalized, however a loss of approximately A\$ 500,000 is expected. The closure of the factory has not had a significant impact on the profitability of the group, and in fact has averted a worsening loss position for the group had the operations continued. The closure was one month before financial year end, with the impact to be reflected in the 31 March 2021 accounts.

The fact shareholders should have been aware of the situation in China and more particularly the companies operations in China is evidenced by a number of comments in the annual and half year accounts.

The 31 March 2020 annual reports stated:

" The trade war between America and China appears no closer to being resolved, and this has created uncertainty, causing customers of the group to plan their exit strategy from China."

" This puts additional pressure on the group's Chinese factories. The group investment in the USA manufacturing has proven to be the right decision".

In relation to textiles operations in China, it was stated- “ Rising manufacturing costs continue to push customers to move their business elsewhere. Trade tensions with the US have resulted in the imposition of punitive duties for Chinese product which has added to this trend.”

In future plans it stated- “ In China, the group faces a very unstable market situation. *The textile business in China is in decline and management does not expect this trend can be reversed in the foreseeable future.* The combination of US-China trade tensions and the politicizing of the pandemic will only increase US domestic sourcing of product outside China. Both US factories have raised their visibility with potential customers and management feel that both are well positioned to benefit from demand returns.”

The 30 September 2020 half yearly accounts stated:

“During the period (6 months) to 30 September 2020, due to Covid, all our retail customers were forced to cancel or cut back orders. *In China, this has been the most difficult year in the companies history with sales declining 48%. Retail customers cancelling or reducing orders has had a significant impact on the financial results.* The groups move to US facilities is proving to be the right decision for the business.”

3. The board has been aware of the worsening situation in Chinese operations since March 2020 and onward. The boards decision to finally close the factory was made on 26 February 2021, and Loretta Lee Limited was advised on that date. This decision was made based on the fact the position in China was not improving (in fact getting worse).

4. MHI did not make any announcement prior to 16 April 2021 which disclosed the China Manufacturing Closure Information. This was not separately disclosed for the reasons stated in 2 above.

5. The company can confirm it is complying with the Listing Rules and, in particular, Listing Rule 3.1

6. The response to these queries has been approved by Ms Loretta Lee, chair of the company.

David McArthur
Company Secretary



3 May 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 extensions to the voluntary suspension released on 23 April 2021 and 30 April 2021.

H. ASX's query letter dated 28 April 2021 and MHI's response dated 3 May 2021, lodged on MAP and released at 11.03 AM AEST on 3 May 2021 ("First Query Response").

I. MHI's announcement titled "Disposal of Carsan – Additional Information" lodged on MAP and released at 11.03 AM AEST on 3 May 2021, disclosing, among other things in relation to the manufacturing operations conducted by Carsan 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."

("China Manufacturing Closure Information").

J. 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.

K. 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."

L. 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."

M. 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, the Announcement, the First Query Response and the Additional Announcement, ASX asks MHI to respond separately to each of the following questions and requests for information:

1. Does MHI consider the China Manufacturing Closure Information to be information that a reasonable person would expect to have a material effect on the price or value of its securities?
2. If the answer to question 1 is "no", please advise the basis for that view, and in answering this question, please comment specifically on the Segment Information.
3. When did MHI first become aware of the China Manufacturing Closure Information? In responding to this question, please specifically advise the date the Board decided to cease operations at the factory in China.
4. If MHI first became aware of the China Manufacturing Information before 16 April 2021, did MHI make any announcement prior to 16 April 2021 which disclosed the China Manufacturing Closure 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. Please confirm that MHI is complying with the Listing Rules and, in particular, Listing Rule 3.1.
6. 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 **11:00 AM AWST Thursday, 6 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)