MERCHANT HOUSE INTERNATIONAL LIMITED

ARBN 065 681 138

APPENDIX 4D AND INTERIM REPORT

FOR THE HALF-YEAR ENDED

30 SEPTEMBER 2020

Contents

Appendix 4D

Reporting period (current period)	Half-year ended 30 September 2020
Previous corresponding period	Half-year ended 30 September 2019

Results for announcement to the market

Results performance	Current period $'000	Corresponding period $'000	Change %
Revenue	23,646	42,673	-44.59
(Loss) / Profit before tax	(2,108)	2,391	-188.16
Net (loss) / profit attributable to owners of the Company	(2,400)	1,972	-221.70
Basic (loss) / earnings per share (cents per share)	(2.55)	2.09	-222.01

Dividends	Current period		Corresponding period	
	Amount per share cents	Franked amount per share cents	Amount per share cents	Franked amount per share cents
Final dividend in respect of year ended 31 March 2020 (2019)	Nil	Nil	Nil	Nil
Interim dividend in respect of year ending 31 March 2021 (2020)	Nil	Nil	Nil	Nil

Net tangible assets	30 September 2020	31 March 2020
Net tangible assets per ordinary share (cents)	35.85	43.22

During the current period, due to the world wide COVID-19 Crisis, which forced all our retail customers to cancel or cut back orders, the Group saw a large drop in sales and reports a $2.4 million loss after tax for the first half of the year.

Accounting standards

The financial information provided in Appendix 4D is based on the half-year consolidated financial statements attached. The consolidated financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations ("AASBs") adopted by the Australian Accounting Standards Board ("AASB"). The consolidated financial statements also comply with International Financial Reporting Standards adopted by the International Accounting Standards Board.

Independent auditor's review

The half-year consolidated financial report has been independently reviewed. The financial report is not subject to a qualified independent review report.

Directors' Report

The directors of Merchant House International Limited (the "Company") present their report on the Company and the entities it controlled (the "Group") for the half year ended 30 September 2020.

Directors

The Directors of the Company (the "Directors") during or since the end of the reporting period are:

Ms Loretta Bic Hing Lee
Mr Robert Lincoln Burton (*resigned on 15 May 2020*)
Mr Ian James Burton
Ms Peggy Zi Yin Liao
Ms Xiao Lan Wu
Mr Clifford Jay Einstein (*resigned on 2 April 2020*)
Mr Oliver Hein

Principal activities

The principal activities of the Group are the design, manufacture and marketing of leather boots and shoes and home textile products in China and the United States of America ("USA"). Products distributed by the Group include work boots, waterproof and safety toe footwear, towels, oven mitts, pot and utensil holders, placemats, table runners, aprons, napkins, decorative pillows, tree skirts. The Group's major sales market is USA.

During the reporting period, there was no significant change in the nature of these activities.

Review of operations

The Group has more than 30 years' experience in sourcing, producing and selling consumer products with an emphasis on footwear and home textile products. The Group is headquartered in Hong Kong and is listed on the Australian Securities Exchange ("ASX"). Where practical, the Group adheres to ASX best practices in relation to corporate governance. As a manufacturing group, there are also stringent practices in place to reduce overall risk from operational activities.

The Group is engaged in the design, manufacturing and marketing of home textile, seasonal and decorative products, and leather shoes with the major market in the United States of America. There is no significant change in the Group's business activities during the first half of the year.

In China, this has been the most difficult year in our history with total sales declining by 48%. Both textile and shoes reported reduced orders. Largely this was due to the worldwide COVID-19 Crisis, which forced all our retail customer to cancel or cut back orders. The Group is endeavouring to manage the situation with tighter controls on purchasing and production.

The Group's return to American initiatives is proving to be the right direction for the business, although there are still many challenges being faced. Home textile factory has not progressed as anticipated. For the footwear manufacturing segment, the Group's customer base continues to expand. However, the first six months of the fiscal year still delivered a loss for this segment.

Subsequent events

Other than the matters disclosed in note 17 of the notes to the consolidated financial statements, there have been no matters or circumstances that have arisen since the end of the reporting period that have affected or may affect, significantly, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Dividends

No final dividend was proposed or paid during the reporting period in respect of the year ended 31 March 2020 (2019: Nil).

No interim dividend was declared for the year ending 31 March 2021 (2020: Nil).

Signed in accordance with a resolution of Directors.

On behalf of the Directors,

Ian James Burton
Director

Perth, Australia
30 November 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half year ended 30 September 2020

	Note	Half-year ended 30 Sep 2020 $'000	30 Sep 2019 $'000
Revenue	4	23,646	42,673
Cost of sales		(20,543)	(35,097)
Gross profit		3,103	7,576
Other gains	5	68	394
Selling and distribution costs		(620)	(1,075)
Depreciation and amortisation	6	(1,527)	(804)
Employee benefits expense	6	(2,457)	(3,419)
General and administrative expenses	6	(966)	(1,534)
Results from operating activities		(2,399)	1,138
Interest income		28	102
Interest expense		(182)	(42)
		(154)	60
Share of profit of associates		445	1,193
(Loss) / profit before tax		(2,108)	2,391
Income tax expense		(292)	(419)
(Loss) / profit for the period attributable to owners of the Company		(2,400)	1,972
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		(4,827)	1,562
Income tax relating to components of other comprehensive income		-	2
Other comprehensive (loss) / income for the period, net of tax		(4,827)	1,564
Total comprehensive (loss) / income for the period attributable to owners of the Company		(7,227)	3,536
(Loss) / earnings per share attributable to owners of the Company			
Basic and diluted (cents per share)		(2.55)	2.09

The financial statements are to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position
As at 30 September 2020

	Note	As at 30 Sep 2020 $'000	 31 Mar 2020 $'000
Current assets			
Cash and cash equivalents		1,965	5,292
Pledged fixed deposits	8	2,290	4,291
Receivables		11,898	5,466
Inventories		4,071	3,388
Current tax assets		12	244
Prepayments		205	290
Total current assets		20,441	18,971
Non-current assets			
Other assets under development	9	5,083	5,811
Interests in associates		1,855	2,986
Property, plant and equipment	10	30,955	37,123
Right of use assets	11	1,295	1,574
Deferred tax assets		26	28
Pledged fixed deposits	8	1,141	2,658
Total non-current assets		40,355	50,180
Total assets		60,796	69,151
Current liabilities			
Payables		12,762	7,203
Bank borrowings	12	12,520	19,001
Lease liabilities	13	184	216
Provision		127	91
Total current liabilities		25,593	26,511
Non-current liabilities			
Lease liabilities	13	36	145
Deferred tax liabilities		51	154
Total non-current liabilities		87	299
Total liabilities		25,680	26,810
Net assets		35,116	42,341

The financial statements are to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position
As at 30 September 2020 (continued)

	Note	30 Sep 2020 $'000	31 Mar 2020 $'000
		As at	
Equity			
Issued capital	15	2,944	2,944
Retained earnings		20,460	22,858
Foreign currency translation reserve		11,712	16,539
Total equity		35,116	42,341

The financial statements are to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity for the half year ended 30 September 2020

	Attributable to owners of the Company			
	Issued capital $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Total $'000
Balance as of 1 April 2020	2,944	22,858	16,539	42,341
Loss for the period	-	(2,400)	-	(2,400)
Other comprehensive loss	-	-	(4,827)	(4,827)
Total comprehensive loss for the period	-	(2,400)	(4,827)	(7,227)
Reversal of unclaimed dividends	-	2	-	2
Balance as of 30 September 2020	2,944	20,460	11,712	35,116
Balance as of 1 April 2019	2,944	35,666	10,679	49,289
Prior period adjustment	-	(3)	-	(3)
Profit for the period	-	1,972	-	1,972
Other comprehensive income	-	-	1,564	1,564
Total comprehensive income for the period	-	1,969	1,564	3,533
Reversal of unclaimed dividends	-	2	-	2
Balance as of 30 September 2019	2,944	37,637	12,243	52,824

The financial statements are to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows
for the half year ended 30 September 2020

	Note	Half-year ended 30 Sep 2020 $'000	 30 Sep 2019 $'000
Cash flows from operating activities			
Receipts from customers		16,237	28,872
Payments to suppliers and employees		(19,484)	(34,246)
Receipts from government subsidies		1,298	300
Repayment of government subsidies		(52)	-
Interest paid		(191)	(42)
Income tax paid		(171)	(85)
Net cash used in operating activities		(2,363)	(5,201)
Cash flows from investing activities			
Interest received		31	113
Proceeds from disposal of property, plant and equipment		-	2
Payments for property, plant and equipment	10	(139)	(341)
Dividend received from associate		1,263	1,142
Payments for other assets under development	9	(89)	(4,702)
Net cash generated from / (used in) investing activities		1,066	(3,786)
Cash flows from financing activities			
Proceeds from bank borrowings		3,304	16,026
Repayment of bank borrowings		(7,285)	(14,944)
Payments of right of use asset lease liabilities		(96)	(122)
Decrease in pledged deposit		2,650	5,591
Net cash (used in) / generated from financing activities		(1,427)	6,551
Net decrease in cash and cash equivalents		(2,724)	(2,436)
Cash and cash equivalents at the beginning of the period		5,292	5,410
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(603)	468
Cash and cash equivalents at the end of the period		1,965	3,442

The financial statements are to be read in conjunction with the notes to the financial statements.

Notes to the Consolidated Financial Statements for the half year ended 30 September 2020

1. General Information

Merchant House International Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the manufacturing and distribution of footwear and home textile products in China, Hong Kong and the United States of America ("USA").

The Company is incorporated in Bermuda and listed on The Australian Securities Exchange. The addresses of its registered office and its principal place of business are as follows:

Head office	Unit B & C, 16th Floor, E-trade Plaza, 24 Lee Chung Street, Chai Wan, Hong Kong
Registered office	1st Floor, 31 Cliff Street, Fremantle, Western Australia, 6160

Going concern

The consolidated financial statements have been prepared on the going concern basis which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The Group incurred a loss before tax during the period of $2.11 million (2019: $2.39 million profit) and as at that date, the Group had a net current asset deficiency of $5.15 million (31 March 2020: $7.54 million).

The Group's primary banking facilities contain clauses that do not afford the Group an unconditional right to defer settlement of outstanding amounts beyond 12 months from the end of the financial reporting period. Consequently, $12.52 million of bank loans are classified as current liabilities in the interim report as the facilities are repayable on demand, despite the outstanding amounts being scheduled for repayment over a period of one to three years.

Following the outbreak of COVID-19, the Group has worked closely with its customers and suppliers in managing its customer orders and production schedules. Over the last few months, the Group has experienced a reduction in customer orders and received requests for payment extensions due to the impact of COVID-19 on the US economy.

The Group has reacted quickly to preserve cash during this time by reducing overheads and production costs where possible.

The ability of the Group to continue as a going concern is dependent on the following matters to continue to fund its operational and marketing activities:

- The ongoing support of the Group's financiers in not exercising the right to call on outstanding loan amounts over the forecast period.
- The Group making its scheduled debt repayments over the forecast period, or alternatively, successfully renegotiating alternative arrangements with its financiers.
- The Group realising its forecasted level of sales and cash receipts over the forecast period.
- The Group realising cost saving initiatives and managing its production costs and corporate overheads in line with its cash flow forecasts.
- The US footwear manufacturing segment achieving production and sales in-line with recent forecasts, and
- The US home textile segment increasing its production and sales to achieve forecasted revenue and cash flows.

These conditions indicate a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Group has prepared a cash flow forecast for the period to 30 November 2021, which demonstrated the Group has adequate cash flows to prepare these financial statements on a going concern basis.

1. General Information (continued)

Going concern (continued)

Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the interim financial statements. The interim financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Group not continue as a going concern. If the Group is unable to achieve successful outcomes in relation to the above matters, there is a material uncertainty whether the Group will be able to continue as a going concern and therefore whether it will be able to realise its assets and extinguish its liabilities in the normal course of business.

2. Significant Accounting Policies

Statement of compliance

The consolidated interim financial report is a General Purpose, Financial Report which has been prepared in accordance with AASB 134 “Interim Financial Reporting” and is in compliance with International Accounting Standard 34 “Interim Financial Reporting”. It does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 31 March 2020 and any public announcements made by the Company during the interim reporting period.

The consolidated interim financial report was approved by the Board of Directors of the Company (the “Board”) on 30 November 2020.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments, where applicable. Cost is based on the fair value of the consideration given in exchange for assets. All amounts are presented in Australian dollars, rounded to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company’s annual financial report for the year ended 31 March 2020, other than government grants as disclosed below.

Government grants
Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

These accounting policies are consistent with Australian Accounting Standards and International Financial Reporting Standards.

Application of new and revised accounting standards

Standards and interpretations applicable to 30 September 2020

For the half-year ended 30 September 2020, the Directors have reviewed all new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the half-year reporting periods beginning on or after 1 January 2020.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Group and therefore no material change is necessary to Group accounting policies.

2. Significant Accounting Policies (Continued)

Standards and Interpretations in issue not yet adopted

The Directors have also reviewed all the new and revised Standards and Interpretations in issue not yet adopted that are relevant to the Group and effective for the half-year reporting periods beginning on or after 1 January 2021.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations in issue not yet adopted on the Group and therefore no material change is necessary to Group accounting policies.

3. Accounting Estimates

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to operational activities and geographic regions in which the Group operates. The continued impact of COVID-19 on customer demand, operations and the broader economy, present significant uncertainty for the Group's businesses. With retail customers cancelling or reducing their orders, this has had a significant impact upon the financial statements, however, management is actively monitoring changes to customer expectations and demand.

Other than as disclosed above, significant judgements made by management in applying the Group's accounting policies, and key sources of estimation uncertainty, were the same as those that were applied to the annual report as at and for the year ended 31 March 2020.

4. Segment Information

AASB 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operation decision maker in order to allocate resources to the segment and to assess its performance.

The Group currently operates in four distinct segments:

- Home textile – China
- Home textile – USA
- Footwear trading
- Footwear manufacturing

The home textile segment manufactures and sells home textile products to both local and overseas customers.

The footwear trading segment is engaged in the export trading of work boots and safety shoes to overseas customers.

The footwear manufacturing segment manufactures work boots and safety shoes in the USA and sells directly to domestic customers.

Unless otherwise stated, all amounts reported to the chief operating decision maker are determined in accordance with AASB 8 *Operating Segments*.

4. Segment Information (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable operating segment as at the end of the reporting period.

	Assets		Liabilities	
	30 Sep 2020 $'000	31 Mar 2020 $'000	30 Sep 2020 $'000	31 Mar 2020 $'000
Home textile – China	22,866	25,663	14,853	12,048
Home textile – USA	30,708	35,830	7,077	12,181
Footwear trading	2,149	424	1,954	492
Footwear manufacturing	3,153	4,184	1,631	1,811
Total segment assets and liabilities	58,876	66,101	25,515	26,532
Interests in associates	1,855	2,986	-	-
Corporate and other segment assets and liabilities	65	64	165	278
Total	60,796	69,151	25,680	26,810

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than deferred tax assets; and
- all liabilities are allocated to reportable segments other than corporate liabilities and deferred tax liabilities.

The chief operating decision maker monitors the cash, receivables and payables positions. This is the information that the chief operating decision maker receives and reviews to make decisions.

4. Segment Information (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable operating segment for the period under review.

	Revenue		Segment profit/(loss)	
	Half-year ended		Half-year ended	
	30 Sep 2020 $'000	30 Sep 2019 $'000	30 Sep 2020 $'000	30 Sep 2019 $'000
Home textile – China	16,210	27,935	1,873	2,820
Home textile – USA	1,650	-	(2,486)	(595)
Footwear trading	5,585	12,174	14	425
Footwear manufacturing	209	2,564	(693)	(1,907)
	23,654	42,673	(1,292)	743
Eliminations	(8)	-	77	200
Total	23,646	42,673	(1,215)	943
Share of profit of associates			445	1,193
Net exchange (loss)/gain on foreign currency transactions of parent company			(1,270)	403
Central administrative expenses and directors' remuneration			(68)	(148)
(Loss) / profit before tax			(2,108)	2,391

The elimination figure reported in the table above represents intercompany revenues and expenses which have been eliminated on consolidation.

Segment profit / (loss) represents the profit / (loss) before tax earned by each segment without allocation of central administrative expenses and directors' remuneration, share of profit of associates and net exchange (loss) / gain on foreign currency transactions of the parent company. These are the measures reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

5. Other (losses) / gains

	Half-year ended	
	30 Sep 2020 $'000	30 Sep 2019 $'000
Net exchange (loss) / gain on foreign currency transactions	(845)	114
Loss on disposal of property, plant and equipment	-	(34)
Other income from government subsidies	888	300
Others	25	14
	68	394

6. General and administrative expenses

Significant expenses for the period are as follows:

	Half-year ended 30 Sep 2020 $'000	Half-year ended 30 Sep 2019 $'000
Depreciation and amortisation expenses		
Depreciation of property, plant and equipment	1,417	660
Amortisation of right of use assets	110	144
	1,527	804
Employee benefits expense		
Total employee benefits expense	5,645	8,210
Less: Amount allocated to cost of sales	(3,188)	(4,791)
Amount allocated to employee benefits expenses	2,457	3,419
Other expenses		
Auditors' remuneration *	140	92
Legal and consultancy fees	228	294
Insurance	52	95
Travelling	44	175
Low value / short term lease payments	23	27
Bank charges	30	35
Others	449	816
	966	1,534
*** Auditors' remuneration**		
BDO Audit (WA) Pty Ltd		
Audit and other assurance services		
Audit and review of financial reports	65	-
Total remuneration of BDO Audit (WA) Pty Ltd	**65**	**-**
Non-BDO audit firms		
Audit and other assurance services		
Audit and review of financial reports	75	92
Total remuneration of non-BDO audit firms	**75**	**92**
TOTAL REMUNERATION OF AUDIT FIRMS	**140**	**92**

7. Results for the Period

Seasonality of operations

The operating results of the Group are significantly affected by seasonal fluctuations. This is particularly due to increased consumer demand in the USA for home textile products between June and October for Harvest, Halloween and Christmas. There is less seasonality fluctuation in the footwear business.

During the period under review, the Group's revenue was $23.65 million, 44.59% lower than last year and the loss before tax was $2.11 million (six months to September 2019: profit of $2.39 million), due to the COVID-19 pandemic which forced our retail customers to cancel or cut back orders.

8. Pledged fixed deposits

As at 30 September 2020, there was US$2.45 million (equivalent to A$3.43 million) (31 March 2020: US$4.27 million equivalent to A$6.95 million) in restricted bank deposits and these were pledged as collateral for the Group's banking facilities detailed in note 12. The fixed deposits carried fixed interest rates ranging from 0.13% to 0.20% per annum (31 March 2020: 1.30% to 1.58% per annum). The deposits are released back to the Group following satisfactory repayment of loan amounts under the financier's loan repayment schedule.

	As at	
	30 Sep 2020 $'000	**31 Mar 2020 $'000**
Classified as:		
- Current assets	2,290	4,291
- Non-current assets	1,141	2,658
	3,431	6,949

9. Other Assets under Development

	As at	
	30 Sep 2020 $'000	**31 Mar 2020 $'000**
Movements		
Opening balance	5,811	16,558
Additions	89	7,956
Transfers to property, plant and equipment	-	(19,837)
Items recognised in profit or loss	-	(43)
Exchange differences	(817)	1,177
Closing balance	5,083	5,811

10. Property, Plant and Equipment

	Buildings $'000	Freehold land $'000	Building Improvements $'000	Plant and equipment $'000	Total $'000
Net book value on 1 April 2020	9,541	725	6,640	20,217	37,123
Additions	-	-	103	36	139
Disposals	-	-	-	-	-
Depreciation	(393)	-	(185)	(839)	(1,417)
Exchange differences	(1,181)	(102)	(926)	(2,681)	(4,890)
Net book value on 30 September 2020	7,967	623	5,632	16,733	30,955
Net book value on 1 April 2019	8,041	627	466	2,808	11,942
Additions	272	-	1,227	1,845	3,344
Transfers from other assets under Development	927	-	4,434	14,476	19,837
Disposals	-	-	(8)	(38)	(46)
Depreciation	(750)	-	(161)	(943)	(1,854)
Exchange differences	1,051	98	682	2,069	3,900
Net book value on 31 March 2020	9,541	725	6,640	20,217	37,123

11. Right of Use Assets

	Lease premium for leasehold land $'000	Buildings $'000	Plant and equipment $'000	Total $'000
Net book value on 1 April 2020	1,235	246	93	1,574
Additions	-	-	2	2
Disposals	-	-	-	-
Amortisation	(17)	(77)	(16)	(110)
Exchange differences	(128)	(30)	(13)	(171)
Net book value on 30 September 2020	1,090	139	66	1,295
Net book value on 1 April 2019	1,163	123	4	1,290
Additions	-	302	108	410
Amortisation	(35)	(211)	(28)	(274)
Exchange differences	107	32	9	148
Net book value on 31 March 2020	1,235	246	93	1,574

12. Bank Borrowings

	Note	As at 30 Sep 2020 $'000	31 Mar 2020 $'000
Working capital loans – secured	a	5,867	9,772
Export loans – secured	b	1,751	1,628
Term loan - secured	c	4,902	7,601
		12,520	19,001
Classified as:			
- Current liabilities	d	12,520	19,001

(a) As of 30 September 2020, the Group had two categories of short-term working capital loans:

(i) The $5.18 million loans (31 March 2020: $9.77 million) are denominated in US$3.70 million (31 March 2020: US$6.00 million) and bore interest at LIBOR+2% per annum. Loans are secured by the Group's assets in the United States and negative pledge of the Bristol property in the United States. The loans are repayable on demand.

(ii) The $0.68 million loan (31 March 2020: $nil) is denominated in HK$3.79 million (31 March 2020: HK$ nil) and bore interest at HSBC's Hong Kong Best Lending Rate less 2.25% per annum. The loan is secured by a Director, Ms Loretta Bic Hing Lee, and the Hong Kong Government. The loan is repayable on demand.

(b) As of 30 September 2020, the Group had short-term export loans to the amount of $1.75 million (31 March 2020: 1.63 million). The loan was denominated in US$1.25 million and borne interest at LIBOR+2% per annum and was repayable on demand. The proceeds from the loans have been used to meet short-term expenditure needs.

(c) As of 30 September 2020, the Group had a term loan amounting to $4.90 million (31 March 2020: $7.60 million). The loans are denominated in US$3.5 million (31 March 2020: US$4.67 million) and bore interest at LIBOR+1% per annum. The proceeds were used to finance the capital expenditure of the new factory in Virginia, USA. They were secured by pledged fixed deposit of US$2.45 million (equivalent to $3.43 million) (31 March 2020: $6.95 million) as disclosed in note 8.

(d) The Group's primary banking facilities contain clauses that do not afford the Group an unconditional right to defer settlement of outstanding amounts beyond 12 months from the end of the financial year. All bank loans of the Group contain repayment on demand clauses. Consequently, A$12.52 million of bank loans (31 March 2020: A$19.00 million) are classified as current liabilities in the statement of financial position.

(e) The banking facilities of the Group were secured by:

- pledged fixed deposits of US$2.45 million (31 March 2020: US$4.27 million) at reporting date.
- unlimited corporate guarantee provided by certain subsidiaries and the parent entity of the Group at reporting date.
- the negative pledge of the Bristol property in the United States, and
- the personal guarantee of Director Ms Loretta Bic Hing Lee, for Hong Kong working capital loan.

12. Bank Borrowings (continued)

(f) The following table shows the total amount of facilities available to the Group:

	As at 30 Sep 2020 $'000	As at 31 Mar 2020 $'000
Amounts used	12,520	19,001
Amounts unused	1,905	2,625
	14,425	21,626

13. Lease Liabilities

	Note	As at 30 Sep 2020 $'000	As at 31 Mar 2020 $'000
Opening balance		361	130
Additions		2	410
Repayments	a	(102)	(234)
Interest expense		6	11
Exchange differences		(47)	44
Closing Balance		220	361
Classified as:			
- Current liabilities		184	216
- Non-current liabilities		36	145
		220	361

(a) Repayments of the lease liabilities are inclusive of effective interest rate calculated under the requirements of AASB 116 and therefore differ from the amount disclosed in the Consolidated Statement of Cash Flows by this amount.

14. Commitments and Contingencies

	As at 30 Sep 2020 $'000	As at 31 Mar 2020 $'000
Capital expenditure commitments		
Property, plant and equipment not later than 1 year	1	2

15. Issuances, Repurchases and Repayments of Equity Securities

Issued capital as of 30 September 2020 amounted to $2.94 million (94,266,496 ordinary shares). There were no movements in the issued capital of the Company in the current and prior interim reporting periods.

16. Dividends

During the half year ended 30 September 2020, the Board does not recommend the payment of an interim dividend. No dividend was declared and paid in respect of the year ended 31 March 2020.

17. Subsequent Events

The impact of the Coronavirus (COVID-19) pandemic is ongoing, and the Group continues to work closely with its customers and suppliers in managing its customer orders and production schedules particularly within the US economy.

Other than the above there have been no matters or circumstances that have arisen since the end of the interim period that have significantly affected, or may significantly affect, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial periods.

Directors' Declaration

In the opinion of the Directors:

(a) The attached consolidated financial statements and notes thereto:

  (i) comply with Australian Accounting Standards (including the Australian Accounting Interpretations);

  (ii) give a true and fair view of the Group's financial position as of 30 September 2020 and of its performance and cash flows for the half year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors.

On behalf of the Board of Directors,

Ian James Burton
Director

Perth, Australia
30 November 2020

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Merchant House International Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Merchant House International Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 September 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the accompanying half-year financial report of the Group does not present fairly, in all material respects, the financial position of the Group as at 30 September 2020, and of its financial performance and its cash flows for the half-year ended on that date, in accordance with AASB 134 *Interim Financial Reporting*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty relating to going concern

We draw attention to Note 1 in the half-year financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Responsibility of the directors for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with AASB 134 *Interim Financial Reporting* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor’s responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the half-year financial report does not present fairly, in all material respects, the financial position of the Company as at 30 September 2020 and of its financial performance and its cash flows for the half-year ended on that date, accordance with AASB 134 *Interim Financial Reporting*.

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BDO Audit (WA) Pty Ltd

BDO

Dean Just

Director

Perth, 30 November 2020