



MERCHANT HOUSE INTERNATIONAL LIMITED

ARBN 065 681 138

APPENDIX 4D AND INTERIM REPORT

FOR THE HALF-YEAR ENDED

30 SEPTEMBER 2016

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APPENDIX 4D

Reporting period ("current period")
Previous corresponding period

Half-year ended 30 September 2016
Half-year ended 30 September 2015

1 Results for announcement to the market

					\$'000
1.1	Revenue	down	24.60%	to	44,160
1.2	Net profit for the period attributable to owners of the Company	up	62.86%	to	2,482
1.3	Total comprehensive income for the period attributable to owners of the Company	down	53.91%	to	3,002

		Amount per share cents	Franked amount per share cents
1.4	Dividends		
	Final, in respect of year ended 31 March 2016	Nil	Nil
	Interim, in respect of year ending 31 March 2017	Nil	Nil
1.5	Record date for determining entitlement to dividend		N/A
1.6	Brief explanation of figures (if necessary)		

Revenue from operations for the current period dropped mainly because of the loss of certain large customers of the Group's footwear trading business, due to changing customer preferences. During the current period, the Group's profit was affected by production delays of the US footwear factory.

2 Net tangible assets

	Current period cents	Previous corresponding period cents
Net tangible asset backing per ordinary share	52.76	55.03

3 Details of entities over which control has been gained or lost

There was no entity over which control has been gained or lost during the current period.

4 Dividends

Amount per security

		Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
		cents	cents	cents
Final dividend	- paid during current period	Nil	Nil	Nil
	- paid during previous corresponding period	Nil	Nil	Nil
Interim dividend	- declared for current period	Nil	Nil	Nil
	- declared for previous corresponding period	0.5c	Nil	0.5c

Total dividend declared on all securities in respect of the period

	Current period \$'000	Previous corresponding period \$'000
Ordinary securities	Nil	471

5 Dividend reinvestment plans

There was no dividend reinvestment plan in operation during the current period.

6 Details of associates

Name of entity	Percentage of ownership interest held at end of period		Contribution to net profit / (loss)	
	Current period %	Previous corresponding period %	Current period \$'000	Previous corresponding period \$'000
Tianjin Jiahua Footwear Company Limited	30.00%	30.00%	301	230
Tianjin Tianxing Kesheng Leather Products Company Limited	33.79%	33.79%	791	1,188
Jawa (Jiangsu) Textiles Company Limited	33.33%	33.33%	-	(97)
			1,092	1,321

Aggregate share of profits of associates

	Current period \$'000	Previous corresponding period \$'000
Profit before income tax	1,425	1,772
Income tax expense	(333)	(451)
Net profit attributable to owners of the Company	1,092	1,321

7 Accounting standards

The condensed consolidated financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations ("AASBs") adopted by the Australian Accounting Standards Board ("AASB"). The condensed consolidated financial statements also comply with International Financial Reporting Standards adopted by the International Accounting Standards Board.

8 Independent auditor's review

The attached financial statements have been subject to review by the independent auditor.

COMPANY DIRECTORY

DIRECTORS AND COMPANY SECRETARY

Ms Loretta Lee
Chairperson

Mr Ian Burton
Independent Non-executive Director

Ms Xiao Lan Wu
Independent Non-executive Director

Mr Clifford Einstein
Independent Non-executive Director

Ms Peggy Zi-Yin Liao
Independent Non-executive Director

Mr David Bell
Independent Non-executive Director

Mr Robert Burton
Independent Non-executive Director

Mr David McArthur
Company Secretary

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BANKERS

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18/F, Chong Hing Bank Centre
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Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Tower 2, Brookfield Place
123 St Georges Terrace
Perth WA 6000

SOLICITOR

Steinepreis Paganin
Level 4, The Read Buildings
16 Milligan Street
Perth WA 6000

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 11, 172 St Georges Terrace
Perth WA 6000

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SECURITIES EXCHANGE

Australian Securities Exchange ("ASX")
Stock code: MHI

DOMICILE

Hong Kong

PLACE OF INCORPORATION

Bermuda

ASX HOME BRANCH

Perth

CORPORATE WEBSITE

www.lorettalee.com.hk

DIRECTORS' REPORT

The directors of Merchant House International Limited (the "Company") submit herewith the financial report of the Company and its subsidiaries (the "Group") for the half year ended 30 September 2016 and the directors' report as follows:

1. DIRECTORS

The directors of the Company (the "Directors") during the reporting period and up to the date of this report were:

Ms Loretta Lee
Mr Ian Burton
Ms Peggy Zi-Yin Liao
Ms Xiao Lan Wu
Mr Clifford Einstein
Mr David Bell
Mr Robert Burton

Mr Robert Burton was appointed as an independent non-executive director on 10 August 2016. Mr Burton has been an executive with Li & Fung Trading Limited since 2004 and has 30 years of hands-on vendor supply chain management experience across the Asia Pacific region. Mr Burton has been President of the Hong Kong Internet of Things Industry Advisory Council GS1 Hong Kong since 2014.

2. PRINCIPAL ACTIVITIES

The principal activities of the Group are the design, manufacture and marketing of leather boots and shoes and home textile products.

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

3. REVIEW OF OPERATIONS

Group Overview

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's main export market is the United States of America ("USA"), although merchandise is also sold to buyers in Australia, Canada, the United Kingdom and Europe. Customers in the USA include major importers as well as many of the leading retailers.

During the period under review, the footwear trading segment suffered a decline in sales due to the loss of a major customer as mentioned in the previous reporting period, coupled with a decrease in orders due to changing customer preferences and, also management's strategic decision to step-out from one of the major footwear customers, whilst sales of home textile segment remained stable. The productivity of the USA footwear manufacturing plant established a couple of years ago, has underperformed despite the expected operating loss incurred for the period.

Financial Results

The net profit of the Group for the half year ended 30 September 2016, after income tax expense, was \$2,482 thousand (2015: a profit of \$1,524 thousand).

4. SUBSEQUENT EVENTS

Other than the matters disclosed in note 13 of the notes to the condensed 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 these operations, or the state of affairs of the Group in future financial years.

Signed in accordance with a resolution of Directors.

On behalf of the Directors,



I J BURTON
Director

Perth, Western Australia
28 November 2016

Independent Auditor's Review Report to the members of Merchant House International Limited

We have reviewed the accompanying half-year financial report of Merchant House International Limited, which comprises the condensed consolidated statement of financial position as at 30 September 2016, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 10 to 19. The consolidated entity comprises the company (Merchant House International Limited) and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with the Australian Accounting Standards 134 *Interim Financial Reporting*. The directors' responsibility also includes such internal control as the directors' determine is necessary for 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

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not presented fairly, in all material respects, in accordance with the Australian Accounting Standards 134 *Interim Financial Reporting*. As the auditor of Merchant House International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year 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.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of Merchant House International Limited does not present fairly, in all material respects, the consolidated entity's financial position as at 30 September 2016 and its financial performance for the half-year ended on that date in accordance with Australian Accounting Standards 134 *Interim Financial Reporting*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



D K Andrews

Partner

Chartered Accountants

Perth, 28 November 2016

DIRECTORS' DECLARATION

In the opinion of the Directors:

- (a) the condensed consolidated financial statements and notes thereto:
 - (i) give a true and fair view of the consolidated entity's financial position as at 30 September 2016 and of its performance and cash flows for the period then ended; and
 - (ii) compliance with Accounting standards.
- (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 Directors.

On behalf of the Directors,



I J BURTON

Director

Perth, Western Australia
28 November 2016

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2016

	Note	As at	
		30 Sep 2016 \$'000	31 Mar 2016 \$'000
CURRENT ASSETS			
Cash and cash equivalents		17,754	25,469
Trade and other receivables		22,714	9,782
Inventories		5,600	3,811
Prepayments		229	334
TOTAL CURRENT ASSETS		46,297	39,396
NON CURRENT ASSETS			
Interests in associates	10	10,718	10,781
Property, plant and equipment		9,714	9,029
Lease premium for leasehold land		1,171	1,223
Deferred tax assets		41	44
Goodwill		229	229
TOTAL NON CURRENT ASSETS		21,873	21,306
TOTAL ASSETS		68,170	60,702
CURRENT LIABILITIES			
Trade and other payables		16,211	12,096
Bank borrowings	9	1,113	1,109
Current tax payable		562	226
Provisions		321	313
TOTAL CURRENT LIABILITIES		18,207	13,744
NET ASSETS		49,963	46,958
EQUITY			
Issued capital	6	2,944	2,944
Retained earnings		38,910	36,425
Foreign currency translation reserve		8,109	7,589
TOTAL EQUITY		49,963	46,958

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

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 SEPTEMBER 2016**

	Note	Half-year ended	
		30 Sep 2016 \$'000	30 Sep 2015 \$'000
Revenue	2	44,160	58,566
Cost of sales		(37,094)	(52,241)
Gross profit		7,066	6,325
Interest income		24	18
Other losses	7	(205)	(174)
Administration expenses		(4,048)	(4,175)
Finance costs		(24)	(20)
Other expenses	7	(936)	(1,373)
Share of profit of associates	10	1,092	1,321
Profit before tax		2,969	1,922
Income tax expense		(487)	(398)
Profit for the period attributable to owners of the Company		2,482	1,524
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		520	4,989
Other comprehensive income for the period, net of tax		520	4,989
Total comprehensive income for the period attributable to owners of the Company		3,002	6,513
Earnings per share attributable to owners of the Company			
Basic and diluted (cents per share)		2.63	1.62

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 30 SEPTEMBER 2016**

	Attributable to owners of the Company			
	Issued capital \$'000	Retained earnings \$'000	Foreign currency translation reserve \$'000	Total \$'000
Balance at 1 April 2016	2,944	36,425	7,589	46,958
Profit for the period	-	2,482	-	2,482
Exchange differences arising on translation of foreign operations	-	-	520	520
Total comprehensive income for the period	-	2,482	520	3,002
Reversal of unclaimed dividends	-	3	-	3
Balance at 30 September 2016	2,944	38,910	8,109	49,963
Balance at 1 April 2015	2,944	34,121	8,520	45,585
Profit for the period	-	1,524	-	1,524
Exchange differences arising on translation of foreign operations	-	-	4,989	4,989
Total comprehensive income for the period	-	1,524	4,989	6,513
Reversal of unclaimed dividends	-	1	-	1
Balance at 30 September 2015	2,944	35,646	13,509	52,099

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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 SEPTEMBER 2016**

	Note	Half-year ended	
		30 Sep 2016 \$'000	30 Sep 2015 \$'000
Cash flows from operating activities			
Receipts from customers		30,684	42,686
Payments to suppliers and employees		(38,027)	(47,636)
Finance costs paid		(24)	(20)
Income tax paid		(145)	(4)
Net cash used in operating activities		(7,512)	(4,974)
Cash flows from investing activities			
Interest received		24	18
Proceeds from disposal of property, plant and equipment		1	8
Dividend received from associate		830	-
Payment for property, plant and equipment	8	(1,355)	(267)
Net cash used in investing activities		(500)	(241)
Cash flows from financing activity			
Dividend pending forfeiture		-	2
Net cash generated from financing activity		-	2
Net decrease in cash and cash equivalents		(8,012)	(5,213)
Cash and cash equivalents at the beginning of the period		25,469	18,950
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		297	2,376
Cash and cash equivalents at the end of the period		17,754	16,113

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 SEPTEMBER 2016**

1. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The condensed 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 2016 and any public announcements made by the Company during the interim reporting period.

The condensed consolidated interim financial report was approved by the Board of Directors of the Company (the "Board") on 28 November 2016.

Basis of preparation

The condensed 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 2016. These accounting policies are consistent with Australian Accounting Standards and International Financial Reporting Standards.

The Group has adopted all the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current reporting period and the adoption of these did not have a material impact on the financial statements.

2. 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 has three distinct segments within the Group which are reported to the chief operating decision maker to make decisions on resource allocation and to assess performance. These are:

- Home textile
- Footwear manufacturing
- Footwear trading

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

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

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

The accounting policies of the reportable segments are the same as the Group's accounting policies.

2. 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 2016 \$'000	31 Mar 2016 \$'000	30 Sep 2016 \$'000	31 Mar 2016 \$'000
Home textile	43,215	39,074	7,865	4,929
Footwear trading	11,015	8,391	8,941	7,438
Footwear manufacturing	3,128	1,891	1,293	1,227
Total segment assets and liabilities	57,358	49,356	18,099	13,594
Interests in associates	10,718	10,781	-	-
Corporate and other assets/liabilities	94	565	108	150
Total	68,170	60,702	18,207	13,744

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

- all assets are allocated to reportable segments other than deferred tax assets. Goodwill is allocated to the footwear trading segment; and
- all liabilities are allocated to reportable segments other than corporate liabilities and deferred tax liabilities.

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

2. SEGMENT INFORMATION (continued)

Segment revenue and results

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

	Revenue		Segment profit/(loss)	
	Half-year ended		Half-year ended	
	30 Sep 2016 \$'000	30 Sep 2015 \$'000	30 Sep 2016 \$'000	30 Sep 2015 \$'000
Home textile	24,848	22,694	2,788	2,343
Footwear trading	19,259	35,031	556	996
Footwear manufacturing	213	825	(1,093)	(1,071)
	44,320	58,550	2,251	2,268
Eliminations	(160)	16	(36)	(1,114)
Total	44,160	58,566	2,215	1,154
Share of profit of associates			1,092	1,321
Interest income			24	18
Central administrative expenses and directors' remuneration			(338)	(551)
Finance costs			(24)	(20)
Profit before tax			2,969	1,922

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

Segment profit represents the profit before tax earned by each segment without allocation of central administrative expenses and directors' remuneration, share of profit of associates, interest income and finance costs.

3. 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.

4. ACCOUNTING ESTIMATES

The preparation of the interim financial report 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 expense. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial report as at and for the year ended 31 March 2016.

5. DIVIDENDS

During the six months ended 30 September 2016, the Board does not recommend the payment of an interim dividend. An interim dividend of 0.5 cent per fully paid ordinary share, totalling \$471 thousand, was declared and paid in respect of the year ended 31 March 2016.

The Board did not recommend the payment of a final dividend in respect of the year ended 31 March 2016. An interim dividend of 0.5 cent per fully paid ordinary share, totalling \$471 thousand, was declared and paid in respect of the year ended 31 March 2015.

6. ISSUANCES, REPURCHASES AND REPAYMENTS OF EQUITY SECURITIES

Issued capital as at 30 September 2016 amounted to \$2,944 thousand (94,266,496 ordinary shares). There were no movements in the issued capital of the Company in the current and prior interim reporting periods.

7. OTHER EXPENSES AND OTHER LOSSES

Included in other expenses is a provision for the impairment of receivables amounting to \$321 thousand (2015: \$489 thousand) as a result of a failed business opportunity.

Included in other losses is \$221 thousand (2015: \$223 thousand) of foreign exchange losses.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2016 the Group acquired property, plant and equipment with a cost of \$1,355 thousand (2015: \$267 thousand), mainly for production plant and equipment. There was no material disposal of property, plant and equipment during the period.

9. BANK BORROWINGS

As at 30 September 2016, the Group had short-term bank loans amounting to \$1,113 thousand (31 March 2016: \$1,109 thousand). The loans are denominated in United States dollar and bear interest at variable market rates. The bank loans are unsecured and are repayable within one year.

10. INTERESTS IN ASSOCIATES

	As at	
	30 Sep 2016 \$'000	31 Mar 2016 \$'000
Interests in associates	10,718	10,781
Balance at the beginning of the period/year	10,781	10,455
Provision for impairment of investment	-	(177)
Share of profit for the period/year	1,092	2,182
Dividend paid	(841)	(1,118)
Exchange differences	(314)	(561)
Balance at the end of the period/year	10,718	10,781

11. FINANCIAL RISK MANAGEMENT

The Directors have determined that the carrying amounts of the financial assets and financial liabilities recorded in the financial statements approximate their fair values.

The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

12. ADDITIONAL COMPANY INFORMATION

The Company is incorporated in Bermuda and listed on the Australian Securities Exchange. The Group operates in China, Hong Kong, the United States of America and Australia.

13. SUBSEQUENT EVENTS

There has not been any matter or circumstance, occurring subsequent to the end of the reporting period, that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.