MERCHANT HOUSE INTERNATIONAL LIMITED
ARBN 065 681 138

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28 July 2020

ASX Limited

ASX Code: MHI

DISPATCH OF 2020 ANNUAL REPORT

Attached is a copy of the Merchant House International Limited 2020 Annual Report which has been dispatched to shareholders.

For and on behalf of the Board
MERCHANT HOUSE INTERNATIONAL LIMITED

David McArthur
Company Secretary

MERCHANT HOUSE INTERNATIONAL LIMITED

ARBN 065 681 138

2020

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

Contents

Letter from the Chairperson

Market Review

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

This puts additional pressure on the Group's Chinese factories to improve efficiencies, and equally important to innovate with their designs, and their use of new materials.

The Group's investment in U.S. manufacturing, while continuing to be a challenge, has proven to be the right decision.

Business Review

The Group recorded sales of A$63.43 million for FY2019/20, which showed a decrease of 3.00% compared with the previous year of A$65.39 million. Net loss before tax for the Group was A$12.53 million, compared with a net loss before tax of A$2.03 million for FY2018/19.

Home Textile - China

Textile sales were A$41.55 million (2019: A$42.22 million). Net profit was A$0.98 million (2019: net profit A$1.29 million). Rising manufacturing costs in China continue to push customers to move their business elsewhere. Trade tensions between the US and China, which have resulted in the imposition of punitive duties on China goods, have added impetus to this trend. Our customers have requested the Group to bear a portion of the additional increase in duties, however, our China operation has managed to offset this through improvement in efficiency and tight cost control.

Home Textile - USA

Textile sales were A$0.62 million (2019: Nil). Net loss was A$3.88 million (2019: net loss A$0.54 million). The commencement of the USA home textile operation was delayed by a period of eight months due to the slow ramp up from initial commencement of the production.

Footwear Trading

Sales for the fiscal year were A$17.89 million (2019: A$22.15 million). Net profit was A$0.28 million (2019: net profit A$0.48 million).

Sales fell as customers continued to move business away from China. This trend was given greater urgency by the escalating US-China trade dispute, which saw the US raise duties on China-made goods by stages through 2019.

Footwear Manufacturing

Loss for FY 2019/20 was A$3.55 million (2019: net loss A$3.46 million), with sales of A$3.99 million (2019: A$1.48 million). The loss is comparable with the previous year. There is still room for improvement in production quality, efficiency and overall factory management.

Letter from the Chairperson (Continued)

Future Plans

In China, the Group faces a very unstable market situation currently. Both the footwear and textile businesses in China are in decline and management does not expect that this trend can be reversed in the foreseeable future. The arrival of the COVID-19 pandemic, meanwhile, has caused significant market contraction which threatens the viability of our China export businesses. We expect profit from China for the coming year to be reduced, in spite of wide ranging cost cutting and restructuring.

Despite the current problems, management believe that the Group's best prospects for the future lie with the US manufacturing business. The Group continues to be committed to establishing a manufacturing base in the US for both shoes and now textiles.

The combination of US-China trade tensions and the politicization of the pandemic will increase interest in domestic sourcing. Although the Group faces disruption to the market caused by the virus, both factories have raised their visibility among potential customers and management feel that both are well positioned to benefit as demand returns.

Dividend

The Board did not recommend the payment of a dividend for FY 2019/20. The Group needs to retain cash to develop business in U.S. in future.

Acknowledgements

On behalf of the Board, I would like to express our heartfelt gratitude to all customers, business partners and shareholders for their support. I would also like to thank our employees for their dedication and relentless contribution to the Group in the past year.

Loretta Lee
Chairperson
16 July 2020

Operating and Financial Review

Financial Results

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 financial year ended 31 March 2020.

Revenue of the Group for the year ended 31 March 2020 attributable to home textile in China, home textile in USA, footwear trading and footwear manufacturing was 65.50%, 0.97%, 27.24%, and 6.29% (2019: 64.56%, 0%, 33.17% and 2.27%) respectively.

Home Textile - China

Sales remained comparable with last year at A$41.55 million (2019: A$42.22 million). The segment recorded a profit of A$0.98 million (2019: profit A$1.29 million). Our customers requested the Group to share the additional increase in US import duties. In general, the Group contributed 3%-5% of the 15% tariff, however, our China operation manage to offset this through improvement in efficiency and tight cost control.

Home Textile - USA

Sales were A$0.62 million (2019: Nil). The segment recorded a loss of A$3.88 million (2019: loss A$0.54 million). The loss was caused by delays in the operation and the slow ramp up of the production.

Footwear Trading

Sales of the footwear trading business for the year was A$17.89 million (2019: A$22.15 million), down by 19.23%. Segment profit decreased by 41.67% to A$0.28 million (2019: A$0.48 million).

Footwear Manufacturing

Sales of footwear manufacturing business in the US for the year was A$3.99 million, compared with A$1.48 million last year. A loss of A$3.55 million (2019: loss A$3.46 million) was recorded. The operating loss was comparable with the previous year. The efficiency in both production and management showed improvement.

Impairment and write-down

At year end, provision for investment in an associate amount to A$5.34 million was made toward one of the Group's associate, Tianjin Tianxing Kesheng Leather Products Company Limited, due to continuous loss of the company.

Liquidity and Financial Resources

As at 31 March 2020, the Group had cash and bank balances totaling A$5.29 million (2019: A$5.41 million) that were denominated substantially in United States dollars. In addition, the Group had banking facilities of A$21.63 million (2019: A$24.77 million), of which A$2.63 million (2019: A$11.10 million) was not utilised. All bank loans of the Group as at 31 March 2020 and 31 March 2019 contain repayment on demand clauses and are therefore treated as 'at call'. A pledged fixed deposit has been provided by the Group at 31 March 2020 amounting to A$6.95 million (2019: A$11.13 million) as a security to the bank loan (2019: A$11.13 million). Please refer to note 22 of the financial statements for details of the bank borrowing.

On 29 June 2020, the Group's US textile manufacturing segment repaid US$2.00 million of its working capital loan facility. Also, the Group has renegotiated the US textile manufacturing segment's US$3.00 million loan with a 5 year repayment schedule, by equal instalment, payable quarterly, however this loan remains 'at call' at the banks discretion.

Operating and Financial Review (Continued)

Capital Expenditure

During the year, the Group spent A$3.34 million (2019: A$0.99 million) on acquisition of property, plant and equipment and A$7.96 million (2019: A$12.86 million) on other assets under development, mainly for plant and equipment of the Group's US wholly-owned subsidiary, American Merchant Inc.

Exchange Risk

The Group is exposed to exchange rate risk primarily that certain assets and liabilities are denominated in Renminbi and USD. Stronger performance of USD exchange rates against AUD and Renminbi resulted a favourable outcome to the Group results including closing balances at the reporting date.

Subsequent Events

The outbreak of COVID-19 and the subsequent quarantine measures imposed by international governments as well as the travel and trade restrictions imposed by many countries in early 2020 have caused disruption to businesses and economic activity. To the extent that this relates to conditions that existed at the reporting date, the Group has adjusted the amounts recognised and reported in the annual report. The Group will continue to monitor the situation and any impact on the business. However, the Group will continue to monitor the situation and any impact on the business.

The measures imposed have had a negative impact on the operations of the Group. The Group's operations are located predominately in China and USA and the Group curtailed its manufacturing facilities in China at the time of the outbreak, due to mandatory government quarantine measures in an effort to contain the spread of the pandemic. The Group also suspended its US footwear manufacturing business and US textile production in April 2020 on account of imposed US government restrictions.

The Group has since resumed all of its manufacturing activities in China and in the US.

As substantially all of the Group's customers are located in the USA, the outbreak of COVID-19 is having a negative impact on these entities, particularly given the increased unemployment rates in the USA and impact of this on the purchases of discretionary retail items. This in turn has negatively affected the first quarter revenue of the Group.

However, the Group has observed some return of demand with sales orders from US textile customers increasing. Management are implementing cost control measures, such as staffing reductions and renegotiation of supplier contracts to minimise the financial impact.

As the situation remains fluid (due to continuing changes in government policy and evolving business and customer reactions thereto) as at the date these financial statements are authorised for issue, the directors of the Company considered that the financial effects of COVID-19 on the Group's consolidated financial statements cannot be reasonably estimated. Nevertheless, the economic effects arising from the COVID-19 outbreak are expected to affect the consolidated results of the Group for the first half and full year 2021.

On 29 June 2020, the Group's US textile manufacturing segment repaid US$2.00 million of its working capital loan facility.

No other matter or circumstance has occurred subsequent to year end 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 entity in subsequent financial years.

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 year ended 31 March 2020.

1. Board of Directors and Officers

The Directors of the Company at any time during or since the end of the financial year are:

Name	Period of Directorship
Executive	
Ms Loretta Bic Hing Lee	Director since 15 July 1994
Mr Robert Lincoln Burton	Resigned on 15 May 2020
Independent Non-executive	
Mr Ian James Burton	Director since 15 July 1994
Ms Peggy Zi Yin Liao	Director since 15 July 1994
Ms Xiao Lan Wu	Director since 9 June 2004
Mr Clifford Jay Einstein	Resigned on 2 April 2020
Mr David John Thomas Bell	Resigned on 16 March 2020
Mr Oliver Hein	Director since 23 November 2018

Ms Loretta Bic Hing Lee
Executive Chairperson

Experience and expertise
Ms Lee is a UK citizen, born in Hong Kong, to a family with long standing links with China. She is a graduate of Lingnan University in Guangzhou.

Ms Lee began her career in market research, working for an international advertising agency as research director. In 1972 she founded TransMarket Research Limited, in partnership with ASI of Los Angeles.

TransMarket grew into one of South East Asia's largest market research organisations. It conducted consumer and industrial research throughout the area for a wide range of major international corporations, including Philip Morris, General Motors, Toyota and IBM. TransMarket was one of the first research companies to conduct market studies in China after the country began to normalise its relations with the outside world. As China continued to open its economy, Ms Lee recognised both the unlimited opportunities and the considerable risks involved in exploiting those opportunities. In 1978 she decided to capitalise on her international experience and explore those business opportunities.

Other current and former directorships
Ms Lee did not hold any directorships in other listed companies in the last three years.

Director's shareholdings
As at the date of this report, Ms Lee has beneficial interest in 50,401,588 ordinary shares of the Company.

1. Board of Directors and Officers (continued)

Mr Robert Lincoln Burton (*Resigned on 15 May 2020*)
Executive Director

Experience and expertise
Mr Burton has over thirty years of hands-on supply management experience across the Asia Pacific region with increasing levels of responsibility while based in Taiwan, Thailand, Shanghai and Hong Kong.

Mr Burton has been an executive with Li & Fung Trading Limited since 2004. At Li & Fung between 2004 to 2013, Mr Burton led a diverse sourcing group that shipped in excess of FOB US$800M from across the Asia Pacific and Indian Subcontinent regions. Mr Burton has been responsible for Li & Fung Vendor Supply Chain (VSC) service since 2014. The VSC groups' mission is to introduce manufacturing excellence programs and work to improve the overall performance across all sectors and geographies of the Li & Fung supply chain. Scope of the position includes over 14,000 vendors and in excess of US$14 billion in sourcing/purchasing activities.

Mr. Burton has been the president of Hong Kong Internet of Things Industry Advisory Council, GS1 Hong Kong since 2014. He was the Chairman of the Board of Governors, Bangkok Patana School from 1997 to 2000.

Mr Burton holds a Bachelor of Science Degree, Economics, from California State Polytechnic University, Pomona, USA, and a Master's Degree in Business Science from Northwestern University in the USA.

Other current and former directorships
Mr Burton did not hold any directorships in other listed companies in the last three years.

Director's shareholdings
As at the date of his resignation, Mr Burton did not hold any ordinary shares of the Company.

Mr Ian James Burton
Independent Non-executive Director

Experience and expertise
Ian Burton is a resident of Australia and has 40 years' experience in many facets of commercial, industrial and mining activities. He was first appointed to the board of a public listed company in 1972 and he has held many directorships of listed companies since that date.

Mr Burton's experience in the successful running, operation and budgeting of large and small public listed companies is of great assistance to the Board.

Other current and former directorships
Mr Burton did not hold any directorships in other listed companies in the last three years.

Director's shareholdings
As at the date of this report, Mr Burton holds 305,500 ordinary shares of the Company.

Ms Peggy Zi Yin Liao
Independent Non-executive Director

Experience and expertise
Ms Liao obtained her BA degree at Smith College in the USA and law degrees at Oxford University. She also holds an MBA from the Kellogg School of Management at the Northwestern University in the USA and the Hong Kong University of Science and Technology (HKUST).

Ms Liao is a Hong Kong-based attorney, investor and listed company director with extensive managing partner experience in the legal field.

1. Board of Directors and Officers (continued)

Ms Peggy Zi Yin Liao (continued)
Independent Non-executive Director

Experience and expertise
Ms Liao is active in public service. She was appointed by the Hong Kong Chief Executive to serve on a number of government bodies. Among others, she has been a member of the Hong Kong government's think-tank, the Central Policy Unit.

Ms Liao's particular interest is in the areas of women and education. She is a trustee of Smith College and the HKUST's Pension Board. She also serves her alma mater at the University of Oxford and sits on the China Oxford Advisory Group with an office in Hong Kong.

Other current and former directorships
Ms Liao did not hold any directorships in other listed companies in the last three years.

Director's shareholdings
As at the date of this report, Ms Liao holds 635,455 ordinary shares of the Company.

Ms Xiao Lan Wu
Independent Non-executive Director

Experience and expertise
Ms Wu graduated from an engineering school in China majoring in Mechanical Engineering. Ms Wu was the General Manager of Beijing Machinery Factory and subsequently promoted to the Deputy General Manager of Beijing Machinery Import and Export Company. Ms Wu was a director of CITIC Shenzhen, PRC. She has taken various civil services in Shenzhen, PRC and has made an outstanding contribution for Shenzhen Municipal Government. She has extensive experience in mechanical engineering, corporate management and public administration. Ms Wu's experience is of great assistance to the Board and the operations of the Group.

Other current and former directorships
Ms Wu did not hold any directorships in other listed companies in the last three years.

Director's shareholdings
As at the date of this report, Ms Wu does not hold any shares of the Company.

Mr Clifford J Einstein (*Resigned on 2 April 2020)*
Independent Non-executive Director

Experience and expertise
Mr Einstein has spent 50 years in the advertising business where he was most recently Chairman of Dailey and Associates, an international advertising agency headquartered in West Hollywood, California.

Over the years Mr Einstein's agency produced memorable campaigns for Honda Motorcycles, The Southern California Ford Dealers, Nestle Foods, Gallo Winery, Unilever, Great Western Savings, Western Airlines, Hunt Wesson, Australian Tourism, Safeway Stores, Weyerhaeuser Forest Products, White Stag Skiwear and Callaway Golf. In 1994 Mr Einstein was named Chairman and CEO of the company. The decade that followed produced great growth and success with billings exceeding US$400 million.

Mr Einstein has been celebrated as one of his industry's more awarded advertising figures, winning several International Broadcasting Awards, Clios, and the AAF award for Best Advertising Campaign in America.

He has been named the Western States Advertising Association's Leader of the Year and more recently, the American Advertising Federation's Leader of the West.

1. Board of Directors and Officers (continued)

Mr Clifford J Einstein (*Resigned on 2 April 2020*) (continued)
Independent Non-executive Director

In 1983 Mr Einstein initiated a furniture import business bringing leading edge design from Italy to Los Angeles. This experience carried him deeply into the international world of art and design and prompted a lifelong desire to collect significant contemporary art.

Art and Antiques Magazine has listed The Einstein Collection as one of America's top 100, and the collection has been profiled in HG, Australian Vogue, Vogue Korea, The New York Times, The Los Angeles Times, HG magazine, Art News magazine, and Art Review.

Mr Einstein joined the Board of Trustees of the Los Angeles Museum of Contemporary Art in 1985 and is currently Chairman Emeritus of that board. He has been awarded an honorary PhD from Otis College of Art and Design where he serves as a trustee.

Mr Einstein has a long history of philanthropic work for several organisations. These include The Jewish Community Foundation, The Discovery Eye Foundation and The Rape Foundation, where he was given the Governor's Victim's Service Award. Mr Einstein obtained his BA degree in English from University of California, Los Angeles.

Other current and former directorships
Mr Einstein did not hold any directorships in other listed companies in the last three years.

Director's shareholdings
As at the date of his resignation, Mr Einstein held 585,217 ordinary shares of the Company.

Mr David John Thomas Bell (R*esigned on 16 March 2020)*
Independent Non-executive Director

Experience and expertise
Mr Bell is a resident of Australia and has almost 50 years' experience in management, administration and corporate communications in Australia and Hong Kong.

Mr Bell resided in Hong Kong between 1967 and the end of 1992 where, for most of that period, he was head of corporate communications for the Swire Group with corporate and media relations responsibility for all key group companies, in particular John Swire & Sons (HK) Ltd, Swire Pacific Ltd and Cathay Pacific Airways Ltd.

Mr Bell now runs a small corporate media relations company in Sydney.

Other current and former directorships
Mr Bell did not hold any directorships in other listed companies in the last three years.

Director's shareholdings
As at the date of his resignation, Mr Bell held 55,000 ordinary shares of the Company.

Mr Oliver Hein
Independent Non-executive Director

Experience and expertise
Mr. Hein was recently appointed as Senior Vice President Global Supply Chain for Phillips-Van Heusen and will be based in New York. He has extensive experience in manufacturing in Asia given his previous position as the Hong Kong Managing Director for the German retailer Oliver. His particular expertise is in supply chain management including accounting, planning, purchasing and production.

Mr. Hein has a business administration degree and has completed Executive Management Programs in Germany, Switzerland and London.

1. Board of Directors and Officers (continued)

Mr Oliver Hein (continued)
Independent Non-executive Director

Other current and former directorships
Mr Hein did not hold any directorships in other listed companies in the last three years.

Director's shareholdings
As at the date of this report, Mr Hein does not hold any shares of the Company.

Mr David McArthur

Company Secretary

Experience and expertise
Mr McArthur is a chartered accountant and was appointed to the position of company secretary in 1999. Mr McArthur has over 30 years' experience in the corporate management of publicly listed companies.

2. Directors' meetings

The number of Board meetings of the Company held and the attendance of Directors during the year were:

Director	Full meetings of Directors	
	No. of meetings attended	No. of meetings held whilst a director
Ms Loretta Bic Hing Lee	2	2
Mr Robert Lincoln Burton	2	2
Mr Ian James Burton	2	2
Ms Peggy Zi Yin Liao	2	2
Ms Xiao Lan Wu	-	2
Mr Clifford Jay Einstein	2	2
Mr David John Thomas Bell	2	2
Mr Oliver Hein	2	2

3. Remuneration of Directors and Senior Management

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

4. Share options granted to directors and senior management

No share options were granted during the year and up to the date of this report.

5. Issued capital

There was no change in the issued capital during the year.

6. Indemnification and insurance of officers and auditors

The Company has not, during the year and up to the date of this report, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate:

- indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer or auditor, including costs and expenses in successfully defending legal proceedings; or
- paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer or auditor for the costs or expenses to defend legal proceedings.

7. Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 28 to the financial statements.

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is in compliance with the generally accepted standards of independence for auditors.

The Directors are of the opinion that the services as disclosed in note 28 to the financial statements do not compromise the external auditor's independence, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

8. Independent auditor's report

The independent auditor's report is included on page 69.

The Directors' report is signed in accordance with a resolution of Directors.

On behalf of the Directors.

Ian James Burton
Director
Perth, Australia
16 July 2020

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 *(Third 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. 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)

As at the date of issuance of this report, the Board 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 eight directors in office during the year and considers that six directors were 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, Mr David Bell, Mr Clifford Einstein, 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) 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.

(f) 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.

(g) 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 performance evaluation of the 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.

(h) Conflict of interest

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

(i) Remuneration of Directors and senior management

Details of remuneration of the Company's Directors and the Group's senior management are disclosed in note 29 to the consolidated financial statements on page 62.

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.

1. Board of Directors (continued)

(i) Remuneration of directors and senior management (continued)

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 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.

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. 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.

(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.

3. Managing business risk (continued)

(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.

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.

5. Diversity Policy (continued)

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.

Pursuant to *Recommendation 1.5* of the Recommendations, the Company discloses the following information as at 31 March 2020:

	2020		2019	
Gender representation	**Women**	**Men**	**Women**	**Men**
Group representation	61%	39%	63%	37%
Board representation	50%	50%	37%	63%
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; 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.

6. Communication with Shareholders (continued)

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 2.1

The Board should establish a nomination committee.

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.

Recommendation 4.1

The Board should establish an audit committee.

Recommendation 4.2

The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

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

Recommendation 7.1

The Board should establish a risk committee.

7. ASX Principles Compliance Statement (continued)

Recommendation 8.1

The Board should establish a remuneration committee.

The functions to be performed by sub-committees under the ASX Corporate Governance Principles and Recommendations are currently 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.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2020

	Note	2020 $'000	2019 $'000
Revenue	3	63,428	65,390
Cost of sales		(55,391)	(54,884)
Gross profit		8,037	10,506
Interest income	3	187	255
Other gains	6	377	184
Share of loss of associates	25	(2,210)	(1,233)
Impairment of investment in associate	25	(5,341)	-
Interest expense		(280)	(70)
Provision for impaired trade receivables	8	-	(370)
Selling and distribution costs		(1,258)	(945)
Depreciation and amortisation	5	(2,128)	(1,246)
Employee benefits expense	5	(6,785)	(5,522)
Other expenses	5	(3,129)	(3,584)
Loss before tax		(12,530)	(2,025)
Income tax expense	23(a)	(287)	(479)
Loss after tax		(12,817)	(2,504)
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		5,860	2,939
Other comprehensive income for the year, net of tax		5,860	2,939
Total comprehensive (loss) / income for the year attributable to owners of the Company		(6,957)	435
Loss per share attributable to owners of the Company			
Basic and diluted (cents per share)	7	(13.60)	(2.66)

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

Consolidated Statement of Financial Position as at 31 March 2020

	Note	2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents	17	5,292	5,410
Pledged fixed deposits	18	4,291	11,129
Receivables	8	5,466	7,376
Inventories	9	3,388	4,588
Current tax assets		244	48
Prepayments		290	230
Total current assets		18,971	28,781
Non-current assets			
Other assets under development	12	5,811	16,558
Interests in associates	25	2,986	10,890
Property, plant and equipment	10	37,123	11,942
Right of use assets	11	1,574	1,163
Deferred tax assets	23(c)	28	56
Pledged fixed deposits	18	2,658	-
Total non-current assets		50,180	40,609
Total assets		69,151	69,390
Current liabilities			
Payables	13	7,203	6,178
Bank borrowings	22	19,001	13,671
Lease liabilities	14	216	-
Provision	15	91	131
Total current liabilities		26,511	19,980
Non-current liabilities			
Lease liabilities	14	145	-
Deferred tax liabilities	23(c)	154	121
Total non-current liabilities		299	121
Total liabilities		26,810	20,101
Net assets		42,341	49,289

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

Consolidated Statement of Financial Position as at 31 March 2020 (continued)

	Note	2020 $'000	2019 $'000
Equity			
Issued capital	20(a)	2,944	2,944
Retained earnings		22,858	35,666
Foreign currency translation reserve	20(b)	16,539	10,679
Total equity		42,341	49,289

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

Consolidated Statement of Changes in Equity for the year ended 31 March 2020

		Attributable to owners of the Company			
	Note	Issued capital $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Total $'000
Balance at 1 April 2018		2,944	38,163	7,740	48,847
Loss for the year		-	(2,504)	-	(2,504)
Exchange differences arising on translation of foreign operations		-	-	2,939	2,939
Total comprehensive (loss) / income for the year		-	(2,504)	2,939	435
Reversal of unclaimed dividends	19	-	7	-	7
Balance at 31 March 2019		2,944	35,666	10,679	49,289
Balance at 1 April 2019		2,944	35,666	10,679	49,289
Prior period adjustment	2	-	(3)	-	(3)
Loss for the year		-	(12,817)	-	(12,817)
Exchange differences arising on translation of foreign operations		-	-	5,860	5,860
Total comprehensive (loss) / income for the year		-	(12,820)	5,860	(6,960)
Reversal of unclaimed dividends	19	-	12	-	12
Balance at 31 March 2020		2,944	22,858	16,539	42,341

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

Consolidated Statement of Cash Flows for the year ended 31 March 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers		66,172	65,164
Payments to suppliers and employees		(64,940)	(65,791)
Receipts from government subsidies		339	-
Finance costs		(339)	(70)
Income tax paid		(400)	(504)
Net cash generated from / (used in) operating activities	17(a)	832	(1,201)
Cash flows from investing activities			
Interest received		195	268
(Payments) / proceeds on disposal of property, plant and equipment		(7)	179
Payments for property, plant and equipment	10	(3,344)	(993)
Payments for other assets under development	12	(7,956)	(12,858)
Dividend received from an associate	25	1,163	-
Net cash used in investing activities		(9,949)	(13,404)
Cash flows from financing activities			
Decrease in pledged certificate of deposit		-	10,843
Decrease / (increase) in pledged fixed deposits		5,427	(10,843)
Proceeds from bank borrowings	17(b)	24,758	14,536
Repayments of bank borrowings	17(b)	(22,002)	(2,452)
Payments of lease liabilities	14	(223)	-
Net cash generated from financing activities		7,960	12,084
Net decrease in cash and cash equivalents		(1,157)	(2,521)
Cash and cash equivalents at the beginning of the year		5,410	7,179
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		1,039	752
Cash and cash equivalents at the end of the year	17	5,292	5,410

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

Notes to the Consolidated Financial Statements

1. Reporting entity and statement of compliance

Merchant House International Limited (the "Company") is a listed public company incorporated in Bermuda and operating in Hong Kong, China and the United States of America ("USA").

The addresses of its registered office and its principal place of business are as follows:

Registered Office	Principal place of business
First Floor, 31 Cliff Street Fremantle Western Australia 6160	Unit B & C, 16th Floor, E-Trade Plaza 24 Lee Chung Street Chai Wan Hong Kong

These consolidated financial statements comprise the Company and its subsidiaries (collectively the "Group" and individually as "Group Entity").

The Group is a for-profit entity and its principal activities are the manufacturing and distribution of home textile and footwear products. The operating results of the Group are significantly affected by seasonal fluctuations. This is particularly due to increased demand by consumers in the USA for home textile products between June and October for Harvest, Halloween and Christmas.

The consolidated financial statements have been prepared in accordance with Australian Accounting Standards ("AASBs") and Interpretations adopted by the Australian Accounting Standards Board ("AASB"), and comply with other requirements of the law. The consolidated financial statements also comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis.

The consolidated financial statements were authorised for issue by the Board of Directors on 16 July 2020.

Details of the Group's accounting policies, including changes during the year, are included in note 31 and 32.

The individual financial statements of each Group Entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. The functional currencies of subsidiaries are Hong Kong Dollar (HK$), Chinese Yuan Renminbi (RMB) and US Dollar (US$). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Comparatives
Presentation of comparatives in the consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and notes to the financial statements have been realigned to conform to the current year presentation. There has been no effect on the loss for the year.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

1. Reporting entity and statement of compliance (continued)

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 year of $12.53 million (2019: $2.03 million loss) and as at that date, the Group had a net current asset deficiency of $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 year. Consequently, $19.00 million of bank loans are classified as current liabilities in the annual financial report as the facilities are repayable on demand, despite the outstanding amounts being scheduled for repayment over a period of 1 to 5 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 as a result of 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 Group has also prepared a cash flow forecast for the period to 31 July 2021 which demonstrated the Group has adequate cash flows to prepare these financial statements on a going concern basis. However, the outcomes in the cash flow forecast are dependent upon the following matters;

- 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, including achieving forecasted sales orders between July and September 2020 - a key buying period ahead of the US holiday season;
- 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.

If the Group is unable to achieve successful outcomes in relation to 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.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

2. Critical accounting estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised prospectively.

(a) Judgements, assumptions and estimation uncertainties

Information about judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 March 2020 are included in the following notes:

(i) Note 1 – Going concern
(ii) Note 9 – Valuation of inventories
(iii) Note 10, 11, 12– Recoverability of property, plant and equipment, right of use assets & assets under development
(iv) Note 15 – Provision for sales returns and claims
(v) Note 25 – Recoverability of equity accounted associates

(b) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurable date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of AASB 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 or value in use in AASB 136.

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Further information about the assumptions made in measuring fair values is included in note 16.

2. Critical accounting estimates and judgements (continued)

(c) Application of new and revised accounting standards

Standards and interpretations applicable to 31 March 2020

For the year ended 31 March 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 reporting periods beginning on or after 1 January 2019.

AASB 16 *Leases* and Interpretation 23 *Uncertainty over Income Tax Treatments* became effective for periods beginning on or after 1 January 2019. Accordingly, the Group applied AASB 16 and Interpretation 23 for the first time to the year ended 31 March 2020. Changes to the Group's accounting policies arising from these standards and interpretations are summarised on the following pages:

AASB 16 *Leases*

AASB 16 replaces AASB 117 *Leases.* AASB 16 eliminates the operating and finance lease classifications for lessees.

AASB 16 is applicable to annual reporting periods beginning on or after 1 January 2019.

Impact on operating leases

AASB 16 changes how the Group accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet. On initial application of AASB 16, for all leases (except as noted below), the Group will:

- Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income; and
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and an interest portion (presented in operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free periods) will be recognised as part of the measurement of the right-of-use assets and lease liabilities, whereas under AASB 117 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under AASB 16, right-of-use assets will be tested for impairment in accordance with AASB 136 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12-months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by AASB 16.

AASB 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by AASB 117.

2. Critical accounting estimates and judgements (continued)

(c) Application of new and revised accounting standards (continued)

The Group has adopted AASB 16 retrospective method with the cumulative effect of initially applying the Standard recognised at the date of initial application, being 1 April 2019.

Application as at 1 April 2019

	$ '000
Operating lease commitments disclosed as at 31 March 2019	132
Incremental borrowing rate as at 1 April 2019	4.15%
Discounted using the incremental borrowing rate at the date of initial application	130
Lease liability recognised as at 1 April 2019	**130**

The recognised right-of-use assets relate to the following types of assets:

	$ '000
Property, plant and equipment leases	4
Building leases	123
Total Right of use Assets as at 1 April 2019	**127**

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 April 2019:

- Right of use assets – increase by $127,000
- Lease liabilities – increase by $130,000
- Retained earnings – decrease by $3,000

Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The election to not apply for the underlying assets with low value;
- The application of short-term recognition exemption to leases with lease term that ends within 12 months at the date of initial application;
- The exclusion of initial direct costs from the measurement of the right-of-use assets at the date of initial application;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2. Critical accounting estimates and judgements (continued)

(c) Application of new and revised accounting standards (continued)

Interpretation 23 Uncertainty over Income Tax Treatments

This interpretation clarifies how to apply the recognition and measurement requirements in AASB 112 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax assets or liabilities applying the requirements of AASB 112 based on taxable profit (or tax loss), unused tax losses, unused tax credits and tax rates determined applying this interpretation.

The Directors have determined that there is no material impact of the application of this Interpretation and, therefore, no change is necessary to Group accounting policies.

Standards and Interpretations in issue not yet adopted
The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted that are relevant to the Group and effective for reporting periods beginning on or after 1 April 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 in issue not yet adopted on the Group and therefore no material change is necessary to the Group's accounting policies.

3. Revenue and interest income

The following is an analysis of the Group's revenue and interest income for the year.

	2020 $'000	2019 $'000
Revenue from contracts with customers:		
Revenue from the sale of goods	63,428	65,390
Income from other sources:		
Interest income from bank deposits	187	255
	63,615	65,645

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods
Revenue is recognised when control over a product or services is transferred to the customers at the amount of promised consideration to which the company is expected to be entitled. Revenue is recognised when the customer has obtained control of the goods and is stated after deduction of any trade discounts.

China: control of goods is transferred when goods are loaded on to the ship for export on FOB basis from China ports; and

USA: control of goods is transferred when goods are packed and ready for dispatch for Textile and ex-factory basis for Footwear.

Interest income
Interest income at amortised cost is accrued on a time basis, by reference to the principal outstanding and at an effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

4. Segment information

Information about reportable segments

The Group has identified its operating segments on the internal reports that are reviewed and used by the Board (chief operating decision maker) in assessing performance and determining the allocation of resources.

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 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.*

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 year.

	Assets		Liabilities	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
Home textile - China	25,663	32,415	12,048	16,216
Home textile - USA	35,830	20,368	12,181	433
Footwear trading	424	2,021	492	2,041
Footwear manufacturing	4,184	3,590	1,811	1,179
Total segment assets and liabilities	66,101	58,394	26,532	19,869
Interests in associates	2,986	10,890	-	-
Corporate and other segment assets/liabilities	64	106	278	232
Total	69,151	69,390	26,810	20,101

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

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

The chief operating decision maker monitors the cash, receivables and payables position. 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 year.

	Revenue		Segment profit/(loss)	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Home textile - China	41,546	42,217	984	1,287
Home textile - USA	617	-	(3,875)	(544)
Footwear trading	17,887	22,152	280	479
Footwear manufacturing	3,989	1,480	(3,551)	(3,462)
	64,039	65,849	(6,162)	(2,240)
Eliminations	(611)	(459)	584	915
	63,428	65,390	(5,578)	(1,325)
Share of loss of associates			(2,210)	(1,233)
Impairment of investment in associate			(5,341)	-
Net exchange gain on foreign currency transactions of parent company			869	776
Central administrative expenses and directors' remuneration			(270)	(243)
Loss before tax			(12,530)	(2,025)

The elimination figure reported in the table above represents intercompany revenue 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 loss of associates, impairment of investment in associate, net exchange gain on foreign currency transactions of parent company. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The performance of the home textile – USA segment is reflective of the start-up nature of this operation, with trial production commencing during December 2019 as the water treatment and dye house projects remained under construction (refer to note 12). The Directors are confident this operation will continue to increase its production rates and sales revenues throughout the next financial year and generate an appropriate return on capital employed.

4. Segment information (Continued)

Geographical information

The Group operates its business mainly in China and USA. During the year, the Group's revenue is mainly derived from USA. The Group's revenue and non-current assets (excluding interests in associates and deferred tax assets) by geographical locations are as follows:

	Revenue from external customers		Non-current assets	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
USA	62,507	64,996	36,998	22,353
Australia	68	66	-	-
China / Hong Kong	53	19	7,510	7,310
Others	800	309	-	-
	63,428	65,390	44,508	29,663

Revenue from external customers is attributed to individual countries where customers are located.

Non-current assets comprise property, plant and equipment, right of use assets and other assets under development.

Other segment information

Footwear	Footwear Trading		Footwear Manufacturing	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Interests in associates	2,986	10,890	-	-
Share of loss of associates	(2,210)	(1,233)	-	-
Impairment of investment in associate	(5,341)	-	-	-
Acquisition of segment assets	2	2	295	296
Depreciation and amortisation of segment assets	11	10	310	257

Home Textiles	China		USA	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Acquisition of segment assets	345	379	2,702	316
Transfer from other assets under development	-	-	19,837	-
Depreciation and amortisation of segment assets	1,199	936	608	43

4. Segment information (Continued)

Information about major customers

Revenue attributable to the Group's top three customers that account for over 10% of total sales during the year is as follows:

	Attributable to segments		Sales revenue		Percentage of total sales revenue	
	2020	2019	2020 $'000	2019 $'000	2020 %	2019 %
First	Home textile - China	Home textile - China	19,971	18,501	31.49	28.29
Second	Home textile - China	Home textile - China	11,878	12,792	18.73	19.56
Third	Footwear trading	Footwear trading and footwear manufacturing	5,283	6,167	8.33	9.43
			37,132	37,460	58.55	57.28

5. Other expenses

Significant expenses for the year are as follows:

	Note	2020 $'000	2019 $'000
Depreciation and amortisation expense			
Depreciation of property, plant and equipment		1,854	1,212
Amortisation of right of use assets		274	34
		2,128	1,246
Employee benefits expense	(b)		
Key management personnel remuneration		2,083	1,890
Wages and salaries		11,453	9,276
Contributions to defined contribution plans		56	79
Other employee benefits		1,685	1,223
Total employee benefits expense		15,277	12,468
Less: Amount allocated to production costs		(8,492)	(6,946)
Amount allocated to Employee benefits expense		6,785	5,522

5. Other expenses (Continued)

Significant expenses for the year are as follows (Continued):

	Note	2020 $'000	2019 $'000
Administrative expense			
Auditors' remuneration		161	155
Legal and consultancy fees		582	690
Insurance		465	309
Travelling		336	368
Low value / short term lease payments	(a)	57	31
Others		1,528	2,031
		3,129	3,584

(a) Low value / short term lease rental expense

Under AASB 16 *Leases*, an entity has the ability to elect not to apply the requirements of AASB 16 for leases that are considered short-term or low value. If an entity elects not to apply these requirements, the lease payments associated with those lease are expensed on a straight-line basis over the lease term.

(b) Employee benefit expense

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Retirement benefit costs

The Group operates defined contribution retirement plans for all qualifying employees. The assets of the plans are held separately from those of the Group in funds under the control of the trustees. Where employees leave the plans prior to full vesting of the contributions, the contributions payable by the Group are reduced by the amount of the forfeited contributions.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

6. Other gains / (losses)

	2020 $'000	2019 $'000
Net exchange gain on foreign currency transactions	347	71
(Loss) / gain on disposal of property, plant and equipment	(51)	12
Other income from government subsidy	34	-
Others	47	101
	377	184

7. Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to owners of the Company of $12.82 million (2019: loss of $2.50 million) and 94,266,496 (2019: 94,266,496) ordinary shares in issue throughout the year.

In both years ended 31 March 2020 and 2019, diluted earnings per share is the same as basic earnings per share due to the absence of dilutive potential ordinary shares during the year.

8. Receivables

	Note	2020 $'000	2019 $'000
Current			
Trade receivables		5,352	7,380
Interest and other receivables		-	19
VAT refund receivable	(a)	44	270
Deposits	(b)	70	88
		5,466	7,757
Expected credit loss		-	(381)
		5,466	7,376

(a) The VAT refund receivable is interest free for the export of goods.

(b) These represent rental and utility deposits and are interest free.

The average credit period on sales of goods and rendering of services is 60 days (2019: 60 days). No interest is charged on trade receivables.

Trade receivables disclosed above include amounts that are past due at the end of the reporting period for which the Group has recognised an expected credit loss. No expected credit loss has been allocated to amounts that are not past due at the end of the reporting period because the historic and expected credit loss on amounts not yet past due is immaterial.

8. Receivables (continued)

Included in the Group's trade receivable balance are debtors with a carrying amount of $920 thousand (2019: $383 thousand) which are outside normal credit terms at the reporting date for which the Group has not provided any impairment as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 30 days (2019: 30 days).

Impairment of receivables

Under AASB 9 *Financial Instruments*, the Group recognises an impairment allowance based upon expected credit loss amounts determined by reference to past default experienced by the Group, combined with an analysis of specific counterparties current financial positions and an analysis of current economic conditions. The Group always accounts for expected credit losses, and any changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the debtor from the date credit was initially granted up to the reporting date, economic factors currently affecting the specific debtor and historical rates of default that have been recorded by the Group. The concentration of credit risk is limited due to the pool of few large customers. Accordingly, the Directors believe that there is no further expected credit loss is required.

	2020 $'000	2019 $'000
Movements in the expected credit loss		
Balance at 1 April	381	-
Provision for the year	-	370
Amounts written off as uncollectible	(396)	-
Exchange differences	15	11
Balance at 31 March	-	381

During the current year, a provision for impaired trade receivables amounting to $nil million (2019: $0.37 million) was made. In addition to this provision, an expected credit loss of $0.39 million (2019: $nil million) which had been provided in a prior period was formally forgiven and eliminated against the provision previously made.

9. Inventories

	2020 $'000	2019 $'000
Materials	1,739	1,783
Work in progress	1,030	835
Finished goods	573	1,915
Goods in transit	46	55
	3,388	4,588

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to each particular class of inventory, with all categories being valued on a first in first out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

The cost of inventories recognised as an expense during the year was $55.39 million (2019: $54.88 million).

The cost of inventories recognised as an expense in the current year includes $0.17 million in respect of write-downs to net realisable value (2019: $0.20 million).

10. Property, plant and equipment

	Buildings $'000	Freehold land $'000	Building improvements $'000	Plant and equipment $'000	Total $'000
Gross carrying amount					
Balance at 1 April 2018	14,125	580	652	12,601	27,958
Additions	169	-	68	756	993
Disposals	(107)	-	-	(431)	(538)
Transfer between categories	3,064	-	-	(3,064)	-
Exchange differences	517	47	55	403	1,022
Balance at 31 March 2019	17,768	627	775	10,265	29,435
Additions	272	-	1,227	1,845	3,344
Transfers from other assets under development (note 12)	927	-	4,434	14,476	19,837
Disposals	-	-	(322)	(366)	(688)
Exchange differences	2,077	98	714	3,098	5,987
Balance at 31 March 2020	21,044	725	6,828	29,318	57,915
Accumulated depreciation and impairment					
Balance at 1 April 2018	6,947	-	255	8,930	16,132
Disposals	(27)	-	-	(344)	(371)
Depreciation expense	688	-	32	492	1,212
Transfer between categories	1,937	-	-	(1,937)	-
Exchange differences	182	-	22	316	520
Balance at 31 March 2019	9,727	-	309	7,457	17,493
Disposals	-	-	(314)	(328)	(642)
Depreciation expense	750	-	161	943	1,854
Exchange differences	1,026	-	32	1,029	2,087
Balance at 31 March 2020	11,503	-	188	9,101	20,792
Net book value					
As at 31 March 2019	8,041	627	466	2,808	11,942
As at 31 March 2020	9,541	725	6,640	20,217	37,123

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

10. Property, plant and equipment (Continued)

Depreciation

Depreciation is calculated to write off the cost of property, plant and equipment less their estimated residual values using the straight-line basis over the estimated useful lives.

Depreciation is recognised in profit or loss.

The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 to 50 years
Building improvements	3 to 30 years
Plant and equipment	2 to 15 years

Impairment losses charged to profit or loss

The Group's material segment assets as disclosed in Note 4 have been assessed for indicators of impairment at reporting date and the impact of the ongoing US / China trade tensions and more recently the impact of COVID-19 have been deemed indicators to determine the recoverable amounts of the segments non-current assets.

The Group has determined recoverable amounts of these assets utilising the requirements of AASB 136 *Impairment of Assets* (AASB136) which states recoverable value is determined to be the higher of fair value less costs of disposal or value in use.

For impairment testing purposes the Home Textile - China segment assets have been assessed under a value in use methodology which uses cash flow projections approved by the directors covering a five-year period with terminal value applied. The results of the value in use calculation support the carrying value of these segment assets. The recoverability of China segment will be monitored considering the Group faces a very unstable market situation currently. Both the footwear and textile businesses in China have demonstrated decline and management is continually assessing this trend and possible impacts on the carrying value of assets in the future.

The Group's Footwear Manufacturing segment has been assessed under fair value less cost of disposal methodology which considered the fair market values of assets within respective asset classes utilising a combination of level 2 and level 3 fair value inputs. No impairment of assets has been recognised in this segment during the year ended 31 March 2020.

The Group's Home Textile – USA segment recently commenced operations and its performance to date is not reflective of expected performance once the factory has fully commissioned and is operating at planned production levels. The Group has considered the recoverability of assets in this segment against the cash flow forecasts expected under the original investment plan against the capital invested and concluded no impairment was required at 31 March 2020.

The recoverability of the Group's US textile segment assets, in particular, is dependent upon a number of factors, including the successful commissioning of remaining assets under development, continued ramp-up of production capacity, the receipt of and delivery into sales orders as forecast, and the realisation of margins and returns as contemplated in the initial investment case.

In the event these steps cannot be achieved, the recoverable amount of these assets may be lower than their current carrying amounts.

11. Right of use assets

	Lease premium for leasehold land $'000	Buildings $'000	Plant and equipment $'000	Total $'000
Net book value at 1 April 2019				
- As previously reported	1,163	-	-	1,163
- Prior period adjustment (Note 2)	-	123	4	127
Additions	-	302	108	410
Disposals	-	-	-	-
Depreciation	(35)	(211)	(28)	(274)
Exchange differences	107	32	9	148
Net book value at 31 March 2020	1,235	246	93	1,574
Net book value at 1 April 2018	1,184	-	-	1,184
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation	(34)	-	-	(34)
Exchange differences	13	-	-	13
Net book value at 31 March 2019	1,163	-	-	1,163

Right of use assets are measured at cost less accumulated amortisation and accumulated impairment losses.

The initial cost of a right of use asset recognised comprises:

- the amount of the initial measurement of the lease liability (refer to note 14);
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of the costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required under the lease.

Right of use assets are amortised on a straight-line basis over the term of the lease.

Short-term leases (leases not in excess of a 12-month period) and low value leases are excluded from the table above and are expensed on a straight-line basis in the statement of profit or loss and other comprehensive income.

The payments made in advance are recognised in the statement of financial position as lease premium for leasehold land and are amortised on a straight-line basis over the period of the lease term.

12. Other assets under development

	2020 $'000	2019 $'000
Movements		
Balance at 1 April	16,558	3,030
Additions	7,956	12,858
Transfers to property, plant and equipment (note 10)	(19,837)	-
Items recognised in profit or loss	(43)	-
Exchange differences	1,177	670
Balance at 31 March	5,811	16,558

During the year, the Group incurred US$5.43 million (equivalent to A$7.96 million) (2019: US$9.38 million (equivalent to A$12.86 million)) for the acquisition of plant and equipment located in Virginia, USA. The other assets under development are expected to be completed before December 2020, and upon completion, transferred to Property, Plant and Equipment.

13. Payables

	2020 $'000	2019 $'000
Current		
Trade payables	5,389	2,711
Amounts payable to associates	348	1,796
Accruals	800	1,365
Deferred government grant which conditions have not been satisfied	338	-
Others	328	306
	7,203	6,178

The average credit period on trade purchases is 30 to 60 days (2019: 30 to 60 days). The trade payable balances are non-interest bearing. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

The balances due to associates are non-interest bearing and repayable according to the agreed trade terms.

14. Lease Liabilities

	Note	2020 $'000	2019 $'000
Opening balance	2	130	-
Additions		410	-
Repayments	(a)	(234)	-
Interest expense		11	-
Exchange differences		44	-
Closing Balance		361	-
Classified as:			
- Current liabilities		216	-
- Non-current liabilities		145	-
		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 Condensed Consolidated Statement of Cash Flows by this amount.

Lease liabilities are measured on commencement of the lease at present value of the leases payments not paid at that date, comprising the following:
- fixed payments, less any lease incentives receivable on those fixed payments;
- variable lease payments that depend on an index or rate;
- amounts expected to be payable by the lessee under a residual value guarantee;
- exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease early, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease payments described above are discounted utilising the incremental borrowing rate at the date of commencement of the lease for the entity the lease is specific to within the group.

15. Provision

	Note	2020 $'000	2019 $'000
Warranty provision	(a)	91	131
Balance at 1 April		131	90
Additional provisions recognised		156	84
Amount utilised or written back		(211)	(51)
Exchange differences		15	8
Balance at 31 March		91	131

(a) The warranty provision represents the estimated obligation to satisfy the return of defective goods by customers. The provision for warranty claims represents the best estimate of the Directors' for the future sacrifice of economic benefits that will be incurred on return of defective goods. The estimated amount has been determined with reference to the historical return rates for claims experienced in relation to defective goods. The Group currently issues a one-year warranty for its goods under current contracts, guaranteeing quality of goods.

16. Financial instruments – fair values and risk management

The Group's activities expose it to a variety of financial risks: credit risk, market risk and liquidity risk.

The Group's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analyses in the case of interest rate and foreign currency risk, and ageing and default analyses for credit risk.

Financial risk management is carried out by the management of the Group under polices approved by the Board of Directors. The policies provide principles for overall risk management, as well as covering specific areas, such as interest rate risk, foreign currency risk, credit risk, and investment of excess liquidity.

(a) Carrying amounts

The financial assets and liabilities of the Group are classified into the following financial instrument categories in the statement of financial position in accordance with AASB 9 *Financial Instruments*:

- Amortised cost

Judgement is required when determining the appropriate classification of the Group's financial instruments.

Principal Financial Instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Cash and cash equivalents (note 17)
- Pledged fixed deposits (note 18)
- Trade receivables (note 8)
- Other loans and receivables (note 8)
- Trade and other payables (note 13)
- Lease liabilities (note 14)
- Bank borrowings (note 22)

16. Financial instruments – fair values and risk management (continued)

(a) Carrying amounts (continued)

Financial Assets

	Amortised cost	
	2020 **$'000**	**2019** **$'000**
Cash and cash equivalents	5,292	5,410
Pledged fixed deposits	6,949	11,129
Trade receivables	5,352	6,999
Other loans and receivables	114	377
Total Financial Assets	17,707	23,915

Financial Liabilities

	Amortised cost	
	2020 **$'000**	**2019** **$'000**
Bank borrowings	19,001	13,671
Trade payables	5,389	2,711
Payables to associates	348	1,796
Other payables	1,466	1,671
Lease liabilities	361	-
Total Financial Liabilities	26,565	19,849

(b) Financial risk management

Risk management framework

The Group's treasury team is focused on monitoring the unpredictability of domestic and international financial markets and monitors and manages the risks relating to the operations of the Group. These financial risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Group's treasury team meets regularly and seeks to minimise the potential adverse effects of these risks, by using suitable financial instruments to manage the exposure to those risks. All Group policies are approved by the directors, and provide written principles on managing foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity to ensure net cash flows are sufficient to support the delivery of the Group's products, whilst protecting the future financial security of the Group.

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

16. Financial instruments – fair values and risk management (continued)

(b) Financial risk management (continued)

(i) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses publicly available financial information, its own trading record and continuous communication to evaluate the credit standing of its customers. The Group's exposure and the credit ratings of its counterparties are regularly monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Trade receivables consist of a number of key customers, predominately located/operating in the United States. Ongoing credit evaluation is performed on the financial position of customers and the associated accounts receivable.

The credit risk on liquid funds is minimal as bank deposits are placed with registered financial institutions which are of good international credit ratings.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained or other security obtained. The Group also reviews the trade receivable balance at each reporting date to ensure that adequate provision for uncollectible receivables is made.

At 31 March 2020, the maximum exposure to credit risk for pledged fixed deposits and trade and other receivables was as follows:

	Carrying amount	
	2020	**2019**
	$'000	**$'000**
Pledged fixed deposits	6,949	11,129
Trade receivables	5,352	6,999
Other loans and receivables	114	377
	12,415	18,505

(ii) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 22 is the total amount of facilities available to the Group to further reduce liquidity risk.

The following tables detail the Company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities according to the earliest date of which the Group is required to pay under the terms of the facilities.

The table includes both interest and principal cash flows but assumes the financier does not exercise its rights to call upon outstanding term loan amounts prior to their scheduled repayment dates.

16. Financial instruments – fair values and risk management (continued)

(b) Financial risk management (continued)

(ii) Liquidity risk (continued)

	Weighted average effective interest rate %	Less than 1 month $'000	1 to 3 months $'000	3 to 12 Months $'000	Over 1 year $'000
2020					
Non-interest bearing	-	3,233	2,224	1,649	97
Finance lease liability	-	18	36	162	145
Variable interest rate instruments* (based on scheduled repayments)	2.70	1,131	3,891	3,667	10,312
		4,382	6,151	5,478	10,554
2019					
Non-interest bearing	-	5,452	461	127	138
Variable interest rate instruments* (based on scheduled repayments)	3.70	3,059	807	2,437	7,367
		8,511	1,268	2,564	7,505

* Represents variable interest rate instruments repayable on demand.

The following table details the Company's and the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company/Group anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month $'000	1 to 3 months $'000	3 to 12 Months $'000	Over 1 year $'000
2020					
Non-interest bearing	-	5,621	857	77	45
Variable interest rate instruments	1.12	3,344	815	-	-
Fixed interest rate instrument	1.30	-	665	1,997	2,658
Fixed interest rate instrument	1.58	-	1,628	-	-
		8,965	3,965	2,074	2,703
2019					
Non-interest bearing	-	8,693	8	17	71
Variable interest rate instruments	1.78	3,997	-	-	-
Fixed interest rate instrument	2.25	11,129	-	-	-
		23,819	8	17	71

16. Financial instruments – fair values and risk management (continued)

(b) Financial risk management (continued)

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into foreign exchange forward contracts, whenever necessary, to manage its exposure to foreign currency risk at the discretion of management.

There has been no change to the manner in which the Group manages market risk from the previous year.

Currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising foreign exchange forward contracts.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Assets		Liabilities	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
US dollar	17,463	23,334	24,048	16,327
HK dollar	93	192	156	351
Chinese Yuan Renminbi	105	352	2,238	3,060

Foreign currency sensitivity analysis

The Group is mainly exposed to US dollars (US$) and Chinese Yuan Renminbi (RMB). The following table details the Group's sensitivity to a 10% (2019: 5%) increase and decrease in the Australian dollar against the relevant foreign currencies and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% (2019: 5%) change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number indicates an increase in profit or loss where the Australian dollar strengthens against the respective currency.

The purchasing power of the subsidiaries based in China is also linked to the US dollar exchange rate. The following table also shows the Group's sensitivity to a 10% (2019: 5%) increase and decrease in the Chinese Yuan Renminbi against the US dollar.

16. Financial instruments – fair values and risk management (continued)

(b) Financial risk management (continued)

(iii) Market risk (continued)

	Impact on profit & loss	
	2020	**2019**
	$'000	**$'000**
If AUD strengthens by 10% (2019: 5%)		
US$	598	(334)
HK$	6	8
RMB	194	129
If AUD weakens by 10% (2019: 5%)		
US$	(732)	369
HK$	(7)	(8)
RMB	(237)	(143)
If USD strengthens by 10% (2019: 5%)		
RMB	119	92
If USD weakens by 10% (2019: 5%)		
RMB	(145)	(101)

Interest rate risk

The Company and the Group are exposed to interest rate risk as Group entities borrow funds at floating interest rates. The Group manages the interest rate risk by maintaining an appropriate mix of floating rate borrowings. All borrowings are reviewed on an annual basis.

The Company and the Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

16. Financial instruments – fair values and risk management (continued)

(b) Financial risk management (continued)

(iii) Market risk (continued)

Exposure to interest rate risk
The interest rate profile of the Group's interest-bearing financial instruments as reported to management of the Group is as follows:

	Carrying amount	
	2020	**2019**
	$'000	**$'000**
Variable rate instruments		
Financial assets	4,158	3,997
Financial liabilities	(19,001)	(13,671)
Fixed rate instruments		
Financial assets	6,949	11,129
	(7,894)	1,455

Fair value sensitivity analysis for fixed rate instruments
The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments
The Group's sensitivity to interest rates during the current year was not material.

17. Cash flow information

For the purposes of the consolidated statement of cash flows, cash and cash equivalents as at 31 March 2020 and 31 March 2019 comprises cash balances and call deposits with maturities three months or less from the acquisition date, that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 16.

	2020	**2019**
	$'000	**$'000**
Cash and Cash Equivalents		
Cash at bank and on hand	1,221	2,628
Fixed bank deposits with original maturities less than 3 months	4,071	2,782
	5,292	5,410

As at 31 March 2020, cash and cash equivalents excluded US$4.27 million (equivalent to $6.95 million) which was a restricted bank deposit which were placed as guarantee deposits for capital expenditure of the new factory in Virginia, USA. Refer to note 18 for more information, the interest rate on restricted bank deposits ranged from 1.30% to 1.58% per annum.

17. Cash flow information (continued)

(a) Reconciliation of loss for the year to cash generated from / (used in) operating activities is as follows:

	2020 $'000	2019 $'000
Loss for the year	(12,817)	(2,505)
Income tax expense for the year	287	479
Depreciation and amortisation of non-current assets	2,128	1,246
Share of loss of associates	2,210	1,233
Impairment loss recognised on trade receivables	-	370
Impairment of investment in associate	5,341	-
Net exchange gain on foreign currency transactions	(347)	(71)
Interest income	(187)	(255)
Loss / (gain) on disposal of property, plant and equipment	51	(12)
Impairment of inventories	172	197
Operating cash (outflow) / inflow before working capital changes	(3,162)	682
Changes in working capital:		
Decrease / (increase) in receivables	2,823	(299)
Decrease / (increase) in inventories	1,406	(1,057)
Increase / (decrease) in payables	221	(56)
(Decrease) / increase in provisions	(56)	33
Cash generated from / (used in) operations	1,232	(697)
Income tax paid	(400)	(504)
Net cash generated from / (used in) operating activities	832	(1,201)

(b) Reconciliation of liabilities arising from cash flows from financing activities is as follows:

	Bank borrowings		Lease liabilities		Total	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Movements						
Balance at 1 April	13,671	1,172	130	-	13,801	1,172
Changes from cash flows:						
Proceeds	24,758	14,536	-	-	24,758	14,536
(Repayments) / (Payments)	(22,002)	(2,452)	(223)	-	(22,225)	(2,452)
Non-cash changes:						
New leases	-	-	410	-	410	-
Effect of changes in foreign exchange rates	2,574	415	44	-	2,618	415
Balance at 31 March	19,001	13,671	361	-	19,362	13,671

18. Pledged fixed deposits

As at 31 March 2020, there was US$4.27 million (equivalent to A$6.95 million) (2019: US$8 million equivalent to A$11.13 million) in restricted bank deposits and these were pledged as collateral for the Group's banking facilities detailed in note 22. The fixed deposits carried fixed interest rates ranging from 1.30% to 1.58% per annum (2019: 2.25% to 2.40% per annum). The deposits are released back to the Group following satisfactory repayment of loan amounts under the financiers loan repayment schedule.

	2020 $'000	2019 $'000
Classified as:		
- Current assets	4,291	11,129
- Non-current assets	2,658	-
	6,949	11,129

19. Dividends

The board of directors of the Company does not recommend the payment of an interim dividend nor a final dividend in respect of the year ended 31 March 2020 (2019: nil).

Pursuant to Bye-law 147 of the Company's Constitution, any dividend unclaimed after a period of 6 years from the date of declaration of such dividend may be forfeited by board of directors and shall revert to the company. During the year ended 31 March 2020, $12 thousand (2019: $7 thousand) was written back as an unclaimed dividend and $9 thousand (2019: $22 thousand) has been provided for pending forfeiture for unclaimed dividends between 1 and 6 years.

20. Capital and reserves

(a) Issued capital

The Company does not have a limited amount of authorised capital and issued shares do not have a par value. Throughout the years ended 31 March 2020 and 31 March 2019, the number of shares in issue is 94,266,496 and there was no movement in the issued capital of the Company. All issued shares are fully paid.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Option holders cannot participate in any new share issues by the Company without exercising their options.

In the event of a winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

The Company has no share options outstanding throughout the years ended 31 March 2020 and 31 March 2019.

20. Capital and reserves (continued)

(b) Nature and purpose of reserves

Translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operations.

21. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

Capital structure comprises issued capital, retained earnings and foreign currency translation reserve. The Group manages capital by regularly monitoring its current and expected liquidity requirements in the short and longer term.

The Group is not subject to any externally imposed capital requirements.

22. Bank borrowings and financing facilities

	Note	2020 $'000	2019 $'000
Working capital loans - secured	(i)	9,772	874
Export loans - secured	(ii)	1,628	-
Term loans - secured	(iii)	7,601	12,797
		19,001	13,671
Classified as:			
- Current liabilities	(iv)	19,001	13,671
		19,001	13,671

(i) As at 31 March 2020, the Group had short-term bank loans amounting to A$9.77 million (2019: A$0.87 million). The loans were US$6.00 million (2019: US$0.62 million) and borne interest at LIBOR+2% per annum. They were secured by pledged fixed deposit of US$1.00 million (equivalent to A$1.63 million). They were also secured by the Group's assets in the United States and negative pledge of the Bristol property in the United States. They are repayable on demand.

(ii) As at 31 March 2020, the Group had short-term export loans to the amount of A$1.63 million. The loans are denominated in US$1.00 million and bear interest at LIBOR+2% per annum and are repayable on demand. The proceeds from the loans have been used to meet short-term expenditure needs and secured by trade receivables under recourse arrangement.

(iii) As at 31 March 2020, the Group had a term loan amounting to A$7.60 million (2019: A$12.80 million). The loans are denominated in US$4.67 million and bear interest at LIBOR+1% per annum and repayable on demand. The proceeds have been used to finance the capital expenditure of the new factory in Virginia, USA. They were secured by pledged fixed deposit of US$3.27 million (equivalent to A$5.32 million) (2019: A$11.12 million) as disclosed in note 18.

22. Bank borrowings and financing facilities (continued)

(iv) 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 as at 31 March 2020 and 31 March 2019 contain repayment on demand clauses. Consequently, A$19.00 million of bank loans (2019: A$13.67 million) are classified as current liabilities in the statement of financial position.

(v) The banking facilities of the Group were secured by as at 31 March 2020 and 31 March 2019 by:

- pledged fixed deposits of US$4.27 million (2019: US$8.00 million) at reporting date as disclosed in note 18;
- unlimited corporate guarantee provided by certain subsidiaries and the parent entity of the Group as at 31 March 2020 and 31 March 2019; and
- the negative pledge of the Bristol property in the United States.

(vi) The Group's banking facilities cover import loan facilities, trust receipt financing, post-shipment seller loans, revolving loans and overdrafts. They are reviewed annually. The following table shows the total amount of facilities available to the Group as at 31 March 2020 and 31 March 2019.

	2020 $'000	2019 $'000
Amounts used	19,001	13,671
Amounts unused	2,625	11,096
	21,626	24,767

23. Current income tax and deferred income tax

(a) Amounts recognised in profit or loss

	Note	2020 $'000	2019 $'000
Current tax (benefit) / expense in respect of the current year	(i)	(125)	11
Current year tax losses not brought to account		485	481
Deferred tax income relating to the origination of temporary differences		55	60
Withholding tax of dividend received from associate		116	-
Claim for offshore tax		(239)	(73)
Under provision in prior year		(5)	-
Income tax expense		287	479

23. Current income tax and deferred income tax (continued)

(a) Amounts recognised in profit or loss

(i) Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(b) Reconciliation of effective tax charge

	Note	2020 $'000	2019 $'000
Loss before tax		(12,530)	(2,025)
Income tax benefit calculated at 30%	(ii)	(3,759)	(608)
Effect of different tax rates of the Company and its subsidiaries operating in other jurisdictions	(iii)	1,300	214
Effect of non-deductible expenses		135	72
Effect of non-assessable revenue		(31)	(5)
Effect of tax rebates		(35)	(32)
Unused tax losses and tax offsets not recognised as deferred tax assets		540	541
Share of loss of associate		663	370
Withholding tax of dividend received from associate		116	-
Impairment of investment in associate		1,602	-
Claim for offshore tax		(239)	(73)
Under provision in prior year		(5)	-
		287	479

(ii) The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared to the previous reporting period.

(iii) The Company is taxed in the country of its incorporation, Bermuda. The tax rate in Bermuda is 0% (2019: 0%). The subsidiaries incorporated in Hong Kong are taxed at 16.5% (2019: 16.5%). The subsidiaries incorporated in China are taxed at 25% (2019: 25%). The subsidiaries incorporated in the US are taxed between 6.5% and 40.5% due to differing state and federal tax rates.

23. Current income tax and deferred income tax (continued)

(c) Deferred tax balances

Deferred tax assets / (liabilities) arise from the following:

	Balance at 1 April $'000	Charged to profit or loss $'000	Recognised in other comprehensive income $'000	Balance at 31 March $'000
2020				
Temporary differences				
Receivables	9	-	-	9
Property, plant and equipment	19	(36)	-	(17)
Payables	26	4	-	30
Provision	6	(1)	-	5
Exchange difference on a foreign subsidiary	(4)	-	5	1
	56	(33)	5	28
Withholding tax on undistributed earnings of an associate	(121)	(21)	(12)	(154)
Tax losses not recognised (gross)	18,382	8,526	2,867	29,775
2019				
Temporary differences				
Receivables	9	-	-	9
Property, plant and equipment	15	4	-	19
Payables	27	(1)	-	26
Provision	5	1	-	6
Exchange difference on a foreign subsidiary	(6)	-	2	(4)
	50	4	2	56
Withholding tax on undistributed earnings of an associate	(56)	(64)	(1)	(121)
Tax losses not recognised (gross)	13,192	4,111	1,079	18,382

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

23. Current income tax and deferred income tax (continued)

(c) Deferred tax balances (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates and interest in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company / Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year
Current and deferred tax is recognised as an expense or income in the statement of profit or loss and other comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

24. Subsidiaries

Details of the Group's major subsidiaries as at 31 March 2020 are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2020 %	2019 %
Loretta Lee Limited	Home textile	Hong Kong	100	100
Forsan Limited	Footwear trading	Hong Kong	100	100
Pacific Bridges Enterprises Inc.	Investment holding	USA	100	100
Footwear Industries of Tennessee Inc.	Footwear Manufacturing	USA	100	100
Carsan (Shunde) Manufacturing Company Limited	Home textile	China	100	100
American Merchant Inc.	Home textile	USA	100	100

24. Subsidiaries (continued)

(a) Subsidiaries

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary;
- De-recognises the carrying amount of any non-controlling interests;
- De-recognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the Company's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(b) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

25. Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Details of each of the Group's significant associates as at 31 March 2020 are as follows:

Name of associate	**Principal activity**	**Place of incorporation and operation**	**Proportion of ownership interest and voting power held by the Group**	
			2020 %	**2019 %**
Tianjin Jiahua Footwear Company Limited	Footwear manufacturing	China	30.00	30.00
Tianjin Tianxing Kesheng Leather Products Company Limited	Footwear manufacturing	China	33.79	33.79
Jawa (Jiangsu) Textiles Company Limited	Textile manufacturing and leasing of plant facilities	China	33.33	33.33

The Group's investment in Jawa (Jaingsu) Textiles Company Limited and Tianjin Tianxing Kesheng Leather Products Company Limited are fully impaired.

All of the above associates are accounted for using the equity method in these consolidated financial statements.

	2020 $'000	**2019 $'000**
Interests in associates	2,986	10,890
Reconciliation of movement in investments accounted for using the equity method		
Balance at 1 April	10,890	11,892
Share of loss for the year	(2,210)	(1,233)
Impairment of associate	(5,341)	-
Dividend paid	(1,163)	-
Exchange differences	810	231
Balance at 31 March	2,986	10,890

25. Associates (continued)

The financial year end date of these associates is 31 December. This was the reporting date established when the associates were incorporated, and a change of reporting date is not permitted in China. For the purpose of applying the equity method of accounting, the financial results for the 12 month period to 31 March 2020 have been used.

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with AASBs adjusted by the Group for equity accounting purposes.

	2020 Jiahua $'000	2020 Tianxing $'000	2019 Jiahua $'000	2019 Tianxing $'000
Financial position				
Current assets	13,361	29,040	13,218	36,780
Non-current assets	1,836	5,384	2,008	8,569
Current liabilities	(5,243)	(18,618)	(7,089)	(20,346)
Financial performance				
Revenue	29,109	46,689	34,469	76,361
Profit / (loss) for the year	4,696	(10,711)	2,344	(5,730)
Total comprehensive income / (loss) for the year	4,696	(10,711)	2,344	(5,730)
Dividends received from an associate during the year	1,163	-	-	-

During the period, the Group's Tianxing associate recognised asset write-downs totalling $9.67 million following a review of the recoverability of certain inventory and fixed asset items.

Reconciliation of the above summarised financial information to the carrying amount of the interest in associates recognised in the consolidated financial statements:

	2020 Jiahua $'000	2020 Tianxing $'000	2019 Jiahua $'000	2019 Tianxing $'000
Net assets of the associate	9,954	15,806	8,137	25,003
Proportion of the Group's ownership interest in associate	30.00%	33.79%	30.00%	33.79%
Carrying amount of the interest in associate	2,986	5,341	2,441	8,449
Impairment of investment in associate	-	(5,341)	-	-
Net carrying amount of the interest in associate	2,986	-	2,441	8,449

As at 31 March 2020, the Group undertook an impairment assessment on its investment in Tianxing and concluded that due to sustained losses and challenging business outlook, the recoverability of the carrying amount was uncertain. Consequently, an impairment charge of $5.34 million has been recognised in the financial report.

26. Parent entity financial information

The parent company, Merchant House International Limited, was incorporated in Bermuda.

The accounting policies of the Company, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 32 for a summary of the significant accounting policies relating to the Group.

	2020 $'000	2019 $'000
Financial performance		
(Loss) / profit and total comprehensive (loss) / income for the year	(1,181)	540
Financial position		
Current assets	34	28
Non-current assets	2,362	3,536
Total assets	2,396	3,564
Current liabilities	124	111
Non-current liabilities	-	-
Total liabilities	124	111
Total equity of the Company comprising of:		
Share capital	2,944	2,944
(Accumulated losses) / retained earnings	(672)	509
Total equity	2,272	3,453

Non-current assets include amounts due from subsidiaries where the recoverability is dependent upon the future performance of these entities, or alternatively, realisation of value upon sale. A provision for expected credit loss of $1.78 million has been recognised against these receivables as at 31 March 2020.

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed in Note 29.

26. Parent entity financial information (continued)

As at 31 March 2020, the Company has provided guarantees, limited to HK$60 million and US$10 million (2019: HK$60 million and US$10 million), to certain bank to support general banking facilities granted to the Group.

The Company has a policy of lending funds to its wholly owned subsidiaries ensuring their continued operations. The subsidiaries are continually monitored and should there be any risk that they are unable to repay the debt appropriate steps will be taken to remedy this situation.

27. Commitments

(a) Low value and short term leases

As at 31 March 2020, the Group had future aggregate minimum lease payments in respect of office equipment and an office premise under non-cancellable short term and low value leases as follows:

	2020 $'000	2019 $'000
Not later than 1 year	-	132

(b) Capital expenditure

	2020 $'000	2019 $'000
Property, plant and equipment not later than 1 year	2	3,244

28. Remuneration of auditors

	2020 $	2019 $
Group auditor – Deloitte Touche Tohmatsu		
Audit or review of the financial report of the Company	110,000	103,000
Other non-audit services	-	-
Other auditors – W.M. Sum & Co.		
Audit or review of the financial reports of subsidiaries and associates	51,031	51,677
Other non-audit services	-	-
	51,031	51,677

29. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(a) Key management personnel compensation

Compensation paid to directors is paid by the Company and one of its subsidiaries.

The aggregate compensation paid to key management personnel of the Group during the year is as follows:

	2020 $'000	2019 $'000
Short-term employee benefits	1,901	1,891
Termination benefits	182	-
Post-employment benefits	3	6
	2,086	1,897

(b) Transactions and balances due with related parties

The Group entered into the following related party transactions during the year:

	Transactions		Payables as at 31 March	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Purchases from associates				
Tianjin Jiahua Footwear Company Limited	9,842	12,082	339	966
Tianjin Tianxing Kesheng Leather Products Company Limited	6,127	7,770	9	830
Dividend received from an associate				
Tianjin Jiahua Footwear Company Limited	1,163	-	-	-

Purchases from related parties were transacted at normal trading terms and conditions agreed mutually.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current year for bad or doubtful debts in respect of the amounts owed by related parties.

30. Post reporting date events

The outbreak of COVID-19 and the subsequent quarantine measures imposed by international governments as well as the travel and trade restrictions imposed by many countries in early 2020 have caused disruption to businesses and economic activity. To the extent that this relates to conditions that existed at the reporting date, the Group has adjusted the amounts recognised and reported in the annual report. The Group will continue to monitor the situation and any impact on the business. However, the Group will continue to monitor the situation and any impact on the business.

The measures imposed have had a negative impact on the operations of the Group. The Group's operations are located predominately in China and USA and the Group curtailed its manufacturing facilities in China at the time of the outbreak, due to mandatory government quarantine measures in an effort to contain the spread of the pandemic. The Group also suspended its US footwear manufacturing business and US textile production in April 2020 on account of imposed US government restrictions.

The Group has since resumed all of its manufacturing activities in China and in the US.

As substantially all of the Group's customers are located in the USA, the outbreak of COVID-19 is having a negative impact on these entities, particularly given the increased unemployment rates in the USA and impact of this on the purchases of discretionary retail items. This in turn has negatively affected the first quarter revenue of the Group.

However, the Group has observed some return of demand with sales orders from US textile customers increasing. Management are implementing cost control measures, such as staffing reductions and renegotiation of supplier contracts to minimise the financial impact.

As the situation remains fluid (due to continuing changes in government policy and evolving business and customer reactions thereto) as at the date these financial statements are authorised for issue, the directors of the Company considered that the financial effects of COVID-19 on the Group's consolidated financial statements cannot be reasonably estimated. Nevertheless, the economic effects arising from the COVID-19 outbreak are expected to affect the consolidated results of the Group for the first half and full year 2021.

On 29 June 2020, the Group's US textile manufacturing segment repaid US$2.00 million of its working capital loan facility.

No other matter or circumstance has occurred subsequent to year end 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 entity in subsequent financial years.

31. Changes in accounting policies and disclosures

New and amended accounting standards and Interpretations issue and effective

The Group has adopted all of the relevant new, revised, or amended Accounting Standards and interpretations issued by the AASB that are mandatory for the current reporting period. The fundamental impacts upon the Group have been detailed in note 2.

32. Other significant accounting policies

Except for the changes explained in note 31, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(b) Foreign currency translation

The financial report is presented in Australian dollars, which is Merchant House International Limited's presentation currency.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the year in which they arise unless the exchange differences on monetary items of receivables from or payables to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the consolidated foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such exchange differences are recognised in other comprehensive income in the period in which the foreign operation is disposed. On the disposal of a foreign operation, all of the accumulated exchange differences in respect of that operation attributable to the group are reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to Australian Accounting Standards are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date. Goodwill arising on acquisitions before the date of transition to Australian Accounting Standards is treated as an Australian-dollar denominated asset.

32. Other significant accounting policies (continued)

(c) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the relevant taxation authority, the GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority is classified within operating cash flows.

(d) Impairment of long-lived assets

At each reporting date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

(e) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

An onerous contract is considered to exist where the Group has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised and measured as a provision.

33. New accounting standards and interpretations not yet adopted

A number of new accounting standards and interpretations that have recently been issued or amended, but were not yet mandatory for annual periods beginning after 1 April 2019, have not been applied in preparing these consolidated financial statements. The Group's assessment of the impact of these new or amended accounting standards and interpretations, most relevant to the Group, are set out below.

Reference	Title	Summary	Application date of standard	Application date for the Group
			Periods beginning on or after	
Conceptual Framework AASB 2019-1	*Conceptual Framework for Financial Reporting Amendments to Australian Accounting Standards – Reference to the Conceptual Framework*	The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows: - Chapter 1 – The objective of financial reporting - Chapter 2 – Qualitative characteristics of useful financial information - Chapter 3 – Financial statements and the reporting entity - Chapter 4 – The elements of financial statements - Chapter 5 – Recognition and derecognition - Chapter 6 – Measurement - Chapter 7 – Presentation and disclosure - Chapter 8 – Concepts of capital and capital maintenance AASB 2019-1 has also been issued, which sets out the amendments to other pronouncements for references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of accounting standards in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying AASB 3 and developing accounting policies for regulatory account balances using AASB 108, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the Framework for the Preparation and Presentation of Financial Statements (July 2004), and not the definitions in the revised Conceptual Framework.	1 January 2020	1 April 2020
AASB 2018-6	*Amendments to Australian Accounting Standards – Definition of a Business*	The Standard amends the definition of a business in AASB 3 Business Combinations. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.	1 January 2020	1 April 2020

33. New accounting standards and interpretations not yet adopted (continued)

Reference	Title	Summary	Application date of standard	Application date for the Group
			Periods beginning on or after	
AASB 2018-7	*Amendments to Australian Accounting Standards – Definition of Material*	This Standard amends AASB 101 Presentation of Financial Statements and AAS 108 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.	1 January 2020	1 April 2020
AASB 2019-3	*Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*	These amendments were issued in response to the effects of Interbank Offered Rates reform on financial reporting and provide mandatory temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.	1 January 2020	1 April 2020
AASB 2019-5	*Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*	This Standard amends AASB 1054 by adding a disclosure requirement for an entity intending to comply with IFRS Standards to disclose the information specified in paragraphs 30 and 31 of AASB 108 on the potential effect of an IFRS Standard that has not yet been issued by the AASB so that such entity complying with Australian Accounting Standards can assert compliance with IFRS Standards.	1 January 2020	1 April 2020
AASB 2014-10	*Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture	1 January 2022	1 April 2022

For all standards issued but not yet effective, the Group is yet to finalise its formal assessment, so the impact is as yet unknown.

Directors' Declaration

1 In the opinion of the Directors of Merchant House International Limited (the "Company"):

(a) the consolidated financial statements and notes thereto:

- (i) comply with Australian Accounting Standards (including the Australian Accounting Interpretations); and
- (ii) give a true and fair view of the Group's financial position as at 31 March 2020 and of its performance and cash flows for the 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.

2 The Directors draw attention to note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

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

On behalf of the Board of Directors

Ian James Burton
Director

Perth, Australia
16 July 2020

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Perth WA 6000
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Independent Auditor's Report to the members of Merchant House International Limited

Opinion

We have audited the financial report of Merchant House International Limited (the "Entity") and its subsidiaries (the "Group") which comprises the statement of financial position as at 31 March 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the declaration by the directors.

In our opinion, the accompanying financial report presents fairly, in all material respects, the Group's financial position as at 31 March 2020 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards and the International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Relating to Going Concern

We draw attention to Note 1 in the annual financial report, which indicates that the Group incurred a net loss before tax of $12.5 million for the year ended 31 March 2020 and as at that date, its current liabilities exceeded its current assets by $7.5 million. As stated in Note 1, these conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our procedures in relation to going concern included, but were not limited to:

- inquiring of management and the directors in relation to events and conditions that may impact the assessment on the Group's ability to continue as a going concern, including the impact of COVID-19;
- challenging the assumptions contained in management's cash flow forecast in relation to the Group's ability to continue as a going concern;
- reviewing correspondence with the Group's financiers to understand the current status and key contractual clauses in relation to the Group's banking facilities; and
- assessing the adequacy of the disclosures related to going concern in Note 1.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material Uncertainty Related to Going Concern'* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td>
Recoverability of the US footwear and US textile manufacturing segment assets

The Group's footwear manufacturing segment in the United States has sustained losses as a result of difficult trading conditions as disclosed in Note 4.

In addition, the Group's textile manufacturing segment in the United States experienced delays in commissioning due to additional capital works requirements and commenced manufacturing during December 2019.

At the end of the financial year, on account of government-imposed restrictions associated with the outbreak of COVID-19 in the United States, activities at both manufacturing facilities were suspended.

Recoverability of non-current assets
As at 31 March 2020, the two US manufacturing segments have A$37.0m of non-current assets, including non-current assets in relation to:
Land and Buildings;
Assets under development; and
Plant Machinery.
Land and buildings relate to the respective manufacturing facilities in Jefferson City, Tennessee and Bristol, Virginia as well as a residential apartment block in Jefferson City.

Plant machinery includes various production related items, with a significant portion of this asset value relating to items purchased during the current and previous reporting period.

Judgement was required in assessing the recoverable value of non-current assets in the US manufacturing segments.
</td><td>
Our procedures included, but were not limited to:

Identifying the tangible assets at greatest risk of impairment which included considering whether any individual assets required impairment having regard to the nature, age and condition of the machinery portfolio;
Researching observable selling prices for certain footwear machinery items in second-hand markets to inform a recoverable value for these items;
Researching recent market selling prices in the Jefferson City area to inform fair market values of the land and building assets in the US footwear segment;
Evaluating the information obtained to conclude whether the land and buildings in the US footwear segment could be sold at or above their carrying amounts;
Assessing the impact of delays to the production ramp-up in the US textile manufacturing segment having regard to the initial investment case and expected cash flows to support whether an indicator of impairment existed at balance date; and
Assessing whether other indicators existed to suggest an impairment of the US textile manufacturing segment was required at balance date.

We also assessed the appropriateness of the disclosures in the Notes to the financial statements.
</td></tr>
<tr><td>
Recoverability of equity accounted associates

The Group holds investments totalling $3.0 million in two equity accounted associates as disclosed in Note 25.

The outlook and prospects of footwear manufacturing entities in China is uncertain as a result of ongoing US/China trade tensions, increased competition in this industry and the economic effects of COVID-19.

Judgement was required in assessing the recoverability of the investment in associates, with focus on associates with sustained losses
</td><td>
Our procedures included, but were not limited to;

Assessing non-current assets recorded by the associates for indicators of impairment at 31 March 2020 and the impairment expense recognised in the current year;
Reviewing the valuation of other assets recorded by the associates, including inventory at balance date and the impairment expense recognised in the current year;
Assessing the risk of asset impairment of the Group's net investment in associate entities at balance date;

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</table>

over both the current and previous financial years.	• Assessing the present value of the estimated future cash flows to be generated by the associates and the proceeds from ultimate disposal of the investments and comparing these against the carrying value of the net investment; and • Evaluating the appropriateness of the adjustments to the carrying amounts of associates and the impairment expense recognised in the current year. We also assessed the appropriateness of the disclosures in the Notes to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 March 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Entity are responsible for the preparation of the financial report in accordance with Australian Accounting Standards and the International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

D K Andrews
Partner
Chartered Accountants
Perth, 16 July 2020

Shareholder Information

1. Substantial shareholders

The following information is extracted from substantial shareholder notices received by the Company as at 15 July 2020:

Name	Number of ordinary shares
HSBC Custody Nominees (Australia) Limited <EuroClear Bank SA NV A/C)	43,060,652
HSBC Custody Nominees (Australia) Limited	17,331,699

2. Top twenty shareholders of fully paid ordinary shares as at 15 July 2020

		Number of shares	% of total shares
1	HSBC Custody Nominees (Australia) Limited <EuroClear Bank SA NV A/C)	43,060,652	45.68
2	HSBC Custody Nominees (Australia) Limited	17,331,699	18.39
3	BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP>	3,558,718	3.78
4	J P Morgan Nominees Australia Limited	3,174,846	3.37
5	Mr John Maxwell Bleakie	2,067,394	2.19
6	Mr Yin Sang Tsang	1,674,092	1.78
7	Messent Pty Ltd <Messent P/L Super Fund A/C>	1,490,039	1.58
8	Mrs Lana Kinoshita	1,339,274	1.42
9	National Nominees Limited	1,096,107	1.16
10	Mr Brian Garfield Benger	1,000,000	1.05
11	Mr Brian Garfield Benger <NO 4 A/C>	900,000	0.95
12	Mr Raymond Lunney	789,674	0.84
13	Mr Victor Tien Ren Hou	761,119	0.81
14	Mr Timothy Bird	744,402	0.79
15	Mr Gerald Francis Pauley + Mr Michael James Pauley <Pauley Super Fund A/C>	734,351	0.78
16	Mr Ross George Yannis	698,330	0.74
17	Ms Alice Liu	638,783	0.68
18	Miss Peggy Liao	635,455	0.67
19	Mr David C Scicluna & Mr Anthony A Scicluna <Scicluna 1913 Unit A/c>	592,483	0.63
20	AGO Pty Ltd <Superannuation Fund A/C>	528,185	0.56
Total		**82,815,603**	**87.85**

3. Analysis of individual ordinary shareholdings as at 15 July 2020

Holding	Number of shareholders	% of total shareholders	Number of shares	% of total shares
1 to 1,000	20	8.62	7,223	0.01
1,001 to 5,000	25	10.78	73,484	0.08
5,001 to 10,000	15	6.47	115,207	0.12
10,001 to 100,000	122	52.58	4,176,597	4.43
100,001 and over	50	21.55	89,893,985	95.36
Total	232	100.00	94,266,496	100.00

There were 60 shareholders holding less than a marketable parcel.

4. Voting rights of shareholders

There are no restrictions on voting rights attached to the ordinary shares of the Company. On a show of hands every member present in person shall have one vote and upon a poll, every member present or by proxy shall have one vote for every share held.

Key Dates

Key dates for shareholders' attention are stated below.

Date	Event
16 July 2020	Announcement of audited annual results for 2019/20
3 August 2020	Dispatch of 2020 annual report and notice of Annual General Meeting ("AGM")
30 August 2020	Record date for attendance of AGM
31 August 2020	2020 AGM

Five Year Financial Summary

	For the year ended 31 March				
	2020	2019	2018	2017	2016
	$'000	$'000	$'000	$'000	$'000
Results					
Revenue	63,428	65,390	63,521	72,788	95,410
Gross profit	8,037	10,506	9,934	10,509	11,166
(Loss) / profit before tax	(12,530)	(2,025)	1,154	1,189	3,207
(Loss) / profit after tax	(12,817)	(2,504)	611	583	2,767
(Loss) / earnings per share (cents)	(13.60)	(2.66)	0.65	0.62	2.94
Dividend per share (cents)	Nil	Nil	Nil	Nil	0.50

	As at 31 March				
	2020	2019	2018	2017	2016
	$'000	$'000	$'000	$'000	$'000
Assets and liabilities					
Total assets	69,151	69,390	56,125	55,465	60,702
Total liabilities	26,810	20,101	7,278	7,812	13,744
Equity	42,341	49,289	48,847	47,653	46,958

Company Details

Merchant House International Limited

ARBN 065 681 138

Board of Directors

Executive Director

Ms Loretta Bic Hing Lee (Chairperson)

Independent Non-executive Directors

Mr Ian James Burton
Ms Peggy Zi-Yin Liao
Ms Xiao Lan Wu
Mr Oliver Hein

Company Secretary

Mr David McArthur

Registered Office

First Floor, 31 Cliff Street
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Telephone: +61 8 9435 3200
Facsimile: +61 8 6444 7408

Postal Address

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Fremantle, WA 6959 Australia

Head Office

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24 Lee Chung Street
Chai Wan, Hong Kong
Telephone: +852 2889 2000
Facsimile: +852 2898 9992

Corporate Website

www.lorettalee.com.hk

Share Registry

Computershare Investor Services Pty Limited

Level 11, 172 St Georges Terrace
Perth, WA 6000 Australia
Telephone: +61 8 9323 2000
Facsimile: +61 8 9323 2033
Website: www.computershare.com.au

Place of Incorporation of Company

Bermuda

Place of Listing

Australian Securities Exchange (“ASX”)

Stock code: MHI

ASX Home Branch: Perth

Auditor

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

Australia

Legal Adviser

Steinepreis Paganin
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16 Milligan Street
Perth, WA 6000
Australia

Principal Bankers

The Hongkong and Shanghai Banking Corporation
Level 10, HSBC Main Building
1 Queen’s Road Central
Hong Kong

Chong Hing Bank Limited
18th Floor, Chong Hing Bank Centre
24 Des Voeux Road Central
Hong Kong

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