



MERCHANT HOUSE
INTERNATIONAL LIMITED
ARBN 065 681 138

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20 July 2020

Sean Maloney
Adviser, Listings Compliance (Perth)
ASX Compliance Pty Ltd
Level 40, Central Park
152-158 St George's Terrace Perth WA 6000

Dear Sir,

RESPONSE TO "AWARE QUERY AND FINANCIAL CONDITION"

Please see below the responses by the Board of Directors of Merchant House International Limited to your questions dated 17 July 2020.

1. No.
2. The asset impaired is an investment in an associate entity (an entity domiciled in China which MHI has a minority interest and is not able to control decision making processes). During the current difficult time in China due to US trade tariff concerns and COVID-19, the asset is making losses, and as such the impairment of the asset does not impact on the operational profitability of the company in any way. Following the impairment, the company has approximately A\$69 million in assets, and as such the impairment is not considered material to the balance sheet assets.
3. MHI first became aware of the possibility of an impairment when the matter was raised by the auditor during the finalisation of the financial statements in the last week of June, just prior to the required ASX lodgement date. Throughout the entire audit the issue had not been flagged as a concern and the Company had performed an internal impairment analysis on the assets. It was only raised immediately prior to the final accounts being due to be signed off in late June. The matter was flagged at this time, however was not fully resolved until immediately prior to lodgement of the accounts on July 16.
4. The Company became aware that it would not be in a position to lodge its accounts on time whilst the auditor assessed the potential size of the impairment in the final week prior to lodgement, and as such the Company requested a voluntary suspension of its shares as it would not be lodging its accounts on time, providing an explanation for the delay in the request. The matter has taken over two weeks to be resolved between the Board and the auditor. At the time of the suspension, the Board did not have any idea as to the size of the impairment. We note that prior to the suspension on July 1, a total of 13,125 shares traded on June 18 and 10,000 shares traded on June 9. No shares were traded between the completion of the audit and the date the potential impairment was raised by the auditor.
5. The Company debt is for the investment into the USA for significant factories for both the footwear and textile divisions of the Company (as detailed in full in the Annual Report). The textile factory has only recently commenced operations and the future income from the operation of both factories in the USA will be used to reduce the debt. It is pointed out the Company has positive net assets of A\$42.3m. A detailed rationale for the Company's confidence it is a Going Concern is contained in note 1 to the financial report on page 25.



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6. Yes. The Company has continuing operations in China and the USA, has significant investments commencing operation in the USA and has substantial positive net assets and cash in the bank. The loss for the current year is primarily due to the impairment and the fact the two major investments in the USA are in start-up phases and as such are not yet generating the targeted full revenue streams.
7. N/A
8. MHI can confirm that it is in compliance with all Listing Rules, in particular LR 3.1.
9. The responses to these questions have been approved by the Board of MHI.

If there are any queries, please do not hesitate to contact me.

Yours faithfully

MERCHANT HOUSE INTERNATIONAL LIMITED

David McArthur
Company Secretary



17 July 2020

Reference: 20588

Mr David McArthur
Company Secretary
Merchant House International Limited

By email: davidm@broadwaymgmt.com.au

Dear Mr McArthur

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

ASX refers to the following:

- A. MHI's audited full year accounts for the year ended 31 March 2020 lodged with ASX Market Announcements Platform and released on 16 July 2020 ('Full Year Accounts').
- B. MHI's announcement entitled "Changes from Preliminary Final Report - Appendix 4E" lodged on the ASX Market Announcements Platform on 16 July 2020 ('Relevant Date') ('Announcement'), disclosing, among other things, that:
 - (i) as at 31 March 2020, MHI undertook an impairment assessment on its investment in Tianxing and concluded that due to sustained losses and a challenging business outlook, the recoverability of the carrying amount was uncertain; and
 - (ii) an impairment charge of \$5.34 million has been recognised in the Full Year Accounts, (together 'Impairment Information').
- C. The Independent Auditor's Report attached to the Full Year Accounts ('Auditor's Report') contains an emphasis of matter which notes that material uncertainty exists that may cast significant doubt on MHI's ability to continue as a going concern.
- D. Listing Rule 12.2 which states:

12.2 An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.
- E. Listing Rule 3.1, which requires a listed entity to immediately give ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.
- F. The definition of "aware" in Chapter 19 of the Listing Rules, which states that:

"an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity" and section 4.4 in Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B "When does an entity become aware of information."
- G. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.

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

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

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

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

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

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

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

Request for information

Having regard to the above, ASX asks MHI to respond separately to each of the following questions and requests for information:

1. Does MHI consider the Impairment Information, or any part thereof to be information that a reasonable person would expect to have a material effect on the price or value of its securities?
2. If the answer to question 1 is “no”, please advise the basis for that view.
3. When did MHI first become aware of the Impairment Information or any part thereof?
4. If MHI first became aware of the Impairment Information or any part thereof before the Relevant Date, did MHI make any announcement prior to the relevant date which disclosed the information? If so, please provide details. If not, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe MHI was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps MHI took to ensure that the information was released promptly and without delay.
5. Given the Auditor’s Report contains an emphasis of matter which notes that material uncertainty exists that may cast significant doubt on MHI’s ability to continue as a going concern, and that MHI has cash and cash equivalents of approximately \$5,292,000 and total current liabilities of approximately \$26,511,000 as at 31 March 2020, on what basis do the directors consider that MHI is a going concern.
6. Does MHI consider that the financial condition of MHI is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.
7. If the answer to questions 6 is “No”, please explain what steps MHI has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.2.
8. Please confirm that MHI is complying with the Listing Rules and, in particular, Listing Rule 3.1.

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9. Please confirm that MHI's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of MHI with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **4:00 PM AWST Tuesday, 21 July 2020**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, MHI's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require MHI to request a trading halt immediately.

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

Listing Rules 3.1 and 3.1A

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

Release of correspondence between ASX and entity

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

Questions

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

Yours sincerely

Sean Maloney
Adviser, Listings Compliance (Perth)