MERCHANT HOUSE INTERNATIONAL LIMITED

ARBN 065 681 138

ANNUAL REPORT

2023

Contents

Chairperson's Report

Dear shareholder,

<u>Market Review</u>

In reviewing Group Business Performance, we find operating results continue to be disappointing for our American factories. The combined Group's sales were $19,463 thousand with a net loss after income tax of $8,223 thousand.

<u>USA</u>

<u>Textiles</u>

American Merchant Inc. ("AMI") reported a net operating loss of $4,191 thousand which included depreciation of $1,872 thousand. The factory has insufficient orders and continues to rely solely on one New York importer. With one buyer only, we are unable to raise prices to reach a break-even position.

The American consumer while valuing the concept of "Made in America" yet is unwilling to pay a premium over an imported product. Additionally, inflation has been running high, causing consumers to be more careful in their household spending. High mortgage interest rates mean fewer new homes are purchased, and consumers are choosing to spend more on travel and entertainment and less on home furnishings.

In presentations to retailers, the buyers consistently remark that our pricing is high versus an imported towel. As we learned from our meetings with Walmart and others, retailers are reluctant to add another manufacturer into their long-established sourcing base, especially given their feeling that a towel woven in America is not greatly different from one from India or Pakistan.

Nevertheless, we will continue our efforts to improve efficiencies to reduce our costs and meet the market price.

<u>Footwear Division</u>

Compared with AMI, the situation at Footwear Industries of Tennessee is entirely different. We are the only manufacturing facility for truly "Made-in-America" work boots. Additionally, American consumers understand and value the quality of our shoes.

We have more orders than we can fill, with repeat business from Walmart as well as a new government program for shoes for the US Postal Service. The latter requires by law that all footwear is entirely made in America, using only American-made materials.

Our factory suffers from poor management and low worker efficiency, which resulted in an operating loss of $5,017 thousand including depreciation of $316 thousand. With a government subsidy of $685 thousand, the net loss was reduced to $4,331 thousand. Unfortunately, the high worker turnover means it is very difficult to manage production thus resulting in several late deliveries.

Loretta Lee

Chairperson

30 June 2023

Operating and Financial Review

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

The Group's principal activities remain the design, manufacture and marketing of leather boots and shoes, and home textiles in the United States of America ("USA"). Products distributed by the Group include work boots, waterproof and safety toe footwear, and towels.

The Group operates in three business segments in two geographical regions:

Operating Segment	Geographical Segment
Footwear Trading	Hong Kong
Footwear Manufacturing	USA
Home Textiles	USA

The footwear trading division generated 63.5% of the Group's revenue, with most of its customers based in the USA. However, this was a 26.82% reduction on the prior year with the division reporting a break-even position. As advised to the market on 26 September 2022, this division sold its investment in associate Tianjin Jiahua Footwear Company Limited ("Jiahua") for RMB 15.45 million ($2,959 thousand) after 10% withholding tax deducted at source. Following the decline of sales to Chinese customers, the Group is focussed on manufacturing its footwear in the USA.

The footwear manufacturing division based in Tennessee has been producing at full capacity and continues to investigate possible solutions to improve product quality and efficiency, in particular sourcing skilled local labour. Sales were on a par to the prior year, however reported a 69.64% increase in its operating loss

The home textiles division has reported a 39.92% increase in sales compared with the prior year, but a 20.47% increase in loss. This was mainly due to ongoing raw material cost increases, labour cost efficiencies and material wastage. Orders despatched during the reporting period has resulted in less dependency on the parent company for funding with the division actively sourcing orders for 2024.

Financial results and condition

The net loss for the financial year ended 31 March 2023 after income tax was $8,223 thousand (2022: net profit of $13,511 thousand). These figures include a gain on the disposal of discontinued operations of $3,170 thousand (2022: $21,785 thousand).

On 31 March 2023, the Group had cash and bank balances totalling $7,493 thousand (2022: $11,184 thousand) that were denominated substantially in United States dollars. In addition, the Group had banking facilities of $88 thousand (2022: $2,422 thousand) of which $nil (2022: $nil thousand) was not utilised. All bank loans of the Group contain repayment clauses and are therefore treated as 'at call'.

The Group has a working capital surplus of $6,113 thousand (2022: $11,308 thousand) and net cash outflows for the year of $5,019 thousand (2022: inflow of $8,844 thousand).

Directors' Report

The Directors present their report with the financial statements of Merchant House International Limited (the "Company") and of the Group, being the Company and its subsidiaries for the year ended 31 March 2023.

Directors

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
Independent Non-executive	
Mr Ian James Burton	Director since 15 July 1994
Ms Peggy Zi Yin Liao	Director from 15 July 1994 to 28 September 2022
Ms Xiao Lan Wu	Director since 9 June 2004
Mr Oliver Hein	Director since 23 November 2018

Information on Directors	Experience, qualifications, and other directorships
Name:	Ms Loretta Bic Hing Lee
Title:	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 directorships:	None
Former directorships:	None
Interests in shares:	61,215,235

Directors (continued)

Information on Directors	Experience, qualifications, and other directorships
Name:	Mr Ian James Burton
Title:	Non-executive Director
Experience and expertise	Ian Burton is a resident of Australia and has over 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 directorships:	None
Former directorships:	None
Interests in shares:	305,500
Name:	Ms Xiao Lan Wu
Title:	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 directorships:	None
Former directorships:	None
Interests in shares:	None
Name:	Mr Oliver Hein
Title:	Independent Non-executive Director
Experience and expertise	Mr Hein is Senior Vice President Global Supply Chain for Phillips-Van Heusen and is based in New York. He has extensive experience in manufacturing in Asia given his previous experience as the Hong Kong Managing Director for the German retailer Oliver. His experience 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.
Other current directorships:	None
Former directorships:	None
Interests in shares:	None

Directors (continued)

Information on Directors	Experience, qualifications, and other directorships
Name:	Ms Peggy Liao
Title:	Independent Non-executive Director – 15 July 1994 to 28 September 2022
Qualifications:	DCL – Oxford University; BA - Smith College, USA
Experience and expertise	Ms Liao is a Hong Kong based attorney with extensive managing partner experience in the legal field. She was appointed by the Hong Kong Chief Executive to serve on several government bodies, including 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 directorships:	None
Former directorships:	None
Interests in shares:	635,455

Company Secretary

Mr David 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.

Directors' meetings

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

Director	Full board	
	Attended	Held
Ms Loretta Bic Hing Lee	2	2
Mr Ian James Burton	1	2
Ms Xiao Lan Wu	-	2
Mr Oliver Hein	2	2
Ms Peggy Zi Yin Liao	1	1

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group that occurred during the year that have not otherwise been disclosed in this report or the Group financial statements.

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.

Share options granted to directors and senior management

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

Issued capital

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

Shareholder's Returns

	2023 $'000	2022 $'000	2021 $'000	2020 $'000	2019 $'000
Revenue	19,463	22,905	18,574	21,882	65,390
Loss before income tax	(11,384)	(8,203)	(7,811)	(17,221)	(2,025)
Net (loss) / profit attributable to equity holders	(8,223)	13,511	(7,726)	(12,817)	(2,504)
(Loss) / earnings per share (cents)	(8.72)	14.33	(8.20)	(13.60)	(2.66)
Dividend per share (cents)	Nil	1.00	Nil	Nil	Nil
Net tangible assets (NTA)	34,452	38,979	25,986	40,767	49,289
NTA Backing (cents)	36.55	41.35	27.57	43.25	52.29

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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.

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 26 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) complies with the generally accepted standards of independence for auditors.

The Directors are of the opinion that the services as disclosed in note 26 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.

Independent auditor's report

The independent auditor's report is included on page 51.

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

On behalf of the Directors.

Ian James Burton

Director

Perth, Australia

30 June 2023

Financial Statements

Consolidated Statement of Profit or Loss
For the year ended 31 March 2023

	Note	2023 $'000	2022 $'000
Revenue	10	19,463	22,905
Cost of sales		(23,245)	(24,668)
Gross loss		(3,782)	(1,763)
Other gains		12	109
Government grants and subsidies		992	951
Finance income		178	11
Gain on disposal of property, plant, and equipment		54	-
Selling and distribution costs		(207)	(335)
Personnel expenses	12	(3,686)	(3,580)
Depreciation	16	(2,314)	(2,065)
Amortisation – right-of-use assets		(122)	(115)
General and administrative expenses	12	(1,947)	(1,377)
Finance costs		(107)	(117)
Provision for expected credit losses	14	(189)	-
Loss on sale of other assets under development		(159)	-
Net foreign exchange (losses) / gains		(107)	78
Loss before income tax expense		**(11,384)**	**(8,203)**
Income tax expense	23	(9)	(71)
Loss for the year from continuing operations		**(11,393)**	**(8,274)**
Profit after income tax expense from discontinued operation	9	3,170	21,785
(Loss) / profit after income tax expense for the year		**(8,223)**	**13,511**

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Consolidated Statement of Other Comprehensive Income
For the year ended 31 March 2023

	Note	2023 $'000	2022 $'000
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		3,464	(4,418)
Derecognition of foreign currency translation reserve		434	4,729
Other comprehensive income for the year, net of tax		3,898	311
Total comprehensive (loss) / income for the year		**(4,325)**	**13,822**
(Loss) / profit for the year is attributable to:			
Continuing operations		(11,393)	(8,274)
Discontinued operations	9	3,170	21,785
		(8,223)	13,511
Comprehensive (loss) / profit for the year is attributable to:			
Continuing operations		(7,929)	(11,279)
Discontinued operations		3,604	25,101
		(4,325)	13,822
(Loss) / profit per share attributable to owners of the Company			
Basic and diluted (cents per share) – continuing operations		(12.08)	(8.78)
Basic and diluted (cents per share) – discontinued operations		3.36	23.11
Basic and diluted (cents per share)	13	(8.72)	14.33

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position
As of 31 March 2023

	Note	2023 $'000	2022 $'000
Assets			
Cash and cash equivalents	19	7,493	11,184
Trade and other receivables	14	1,750	2,640
Inventories	15	2,809	2,597
Prepayments		183	161
		12,235	16,582
Assets held for sale		-	1,929
Total current assets		12,235	18,511
Other assets under development		-	386
Property, plant, and equipment	16	28,450	27,435
Right of use assets		298	86
Deferred tax assets	23	22	33
Total non-current assets		28,770	27,940
Total assets		41,005	46,451
Liabilities			
Trade and other payables	17	5,833	4,736
Borrowings	22	88	2,422
Lease liabilities		192	32
Provisions		9	13
Total current liabilities		6,122	7,203
Lease liabilities		111	56
Deferred tax liabilities	23	-	95
Total non-current liabilities		111	151
Total liabilities		6,233	7,354
Net assets		34,772	39,097

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position (continued)
As of 31 March 2023

	2023 $'000	2022 $'000
Equity		
Issued capital	2,944	2,944
Foreign currency translation reserve	12,342	8,444
Retained earnings	19,486	27,709
Total equity	34,772	39,097

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity
For the year ended 31 March 2023

	Issued capital $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance on 1 April 2021	2,944	8,133	15,134	26,211
Profit for the year	-	-	13,511	13,511
Other comprehensive income	-	311	-	311
Total comprehensive income for the year	-	311	13,511	13,822
Dividends paid	-	-	(943)	(943)
Reversal of unclaimed dividends	-	-	7	7
Balance on 31 March 2022	2,944	8,444	27,709	39,097
Loss for the year	-	-	(8,223)	(8,223)
Other comprehensive income	-	3,898	-	3,898
Total comprehensive loss for the year	-	3,898	(8,223)	(4,325)
Balance on 31 March 2023	**2,944**	**12,342**	**19,486**	**34,772**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows
For the year ended 31 March 2023

	Note	2023 $'000	2022 $'000
Cash flows from operating activities			
Receipts from customers		20,459	25,377
Payments to suppliers and employees		(27,566)	(33,507)
Receipts from government subsidies		64	1,589
Refund of government subsidies		(3)	-
Finance costs paid		(108)	(121)
Income tax received		-	111
Net cash used in operating activities	19(b)	(7,154)	(6,551)
Cash flows from investing activities			
Proceeds from disposal of subsidiaries		-	22,067
Proceeds from disposal of associates		2,766	10
Interest received		163	8
Proceeds from disposal of property, plant, and equipment		117	-
Payments for property, plant, and equipment		(138)	(218)
Payments for other assets under development		-	(268)
Proceeds from sale of other assets under development		263	-
Dividend received from an associate		1,094	716
Proceeds from capital reduction of investment in an associate		551	-
Cash held on disposal of subsidiaries		-	(449)
Net cash from investing activities		4,816	21,866
Cash flows from financing activities			
Repayment of borrowings	22	(2,562)	(5,137)
Proceeds from related party loans	22	144	-
Repayment of related party loans	22	(144)	(269)
Dividends paid		-	(943)
Payments of right of use asset lease liabilities		(119)	(122)
Net cash used in financing activities		(2,681)	(6,471)
Net (decrease) / increase in cash and cash equivalents		(5,019)	8,844
Cash and cash equivalents at the beginning of the year		11,184	1,688
Effects of exchange rate fluctuations on cash held		1,328	652
Cash and cash equivalents at the end of the year	19	7,493	11,184

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements
For the year ended 31 March 2023

1. General Information

The Company is a for-profit, listed public company incorporated in Bermuda, operating in Hong Kong 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

The Group is primarily involved in the design, manufacture and marketing of leather boots and shoes and home textile products in the United States of America ("USA"). Products distributed by the Group include work boots, waterproof, safety to footwear and towels. The Group's major sales market in the USA.

The consolidated financial statements of the Group as at and for the year ended 31 March 2023 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group Entities") and were authorised for issue by the Board of Directors on 30 June 2023. The financial statements are general purpose financial statements which:

- have been prepared in accordance with the Australian Accounting Standards ("AASBs") and other authoritative pronouncements of the Accounting Standards Board ("AASB"). The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- have been prepared on a historical cost basis, except for share-based payments and financial assets which are measured at fair value. The basis of measurement is discussed further in the individual notes;
- are presented in Australian Dollars, being the Company's functional currency;
- adopt all new and revised Australian Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 January 2022; and
- do not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but not yet effective.

2. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and can affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

3. Foreign Currency Translation

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

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchanges rates prevailing on the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial period and exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The functional currencies of subsidiaries are US Dollar (US$) and Hong Kong Dollar (HK$). The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency translation reserve in equity. The foreign currency translation reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

4. Impairment

Non-financial assets

At each reporting date, the Group reviews the carrying amount of its non-financial assets, other than deferred tax assets, to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset exceeds it recoverable amount. Impairment losses are recognised in profit or loss.

5. Going Concern

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

On 31 March 2023, the Group had net assets of $34,772 thousand, a working capital surplus of $6,113 thousand, cash at bank of $7,493 thousand and had net cash outflows from operating activities of $7,154 thousand. During the year ended 31 March 2023, the Group incurred an operating loss of $8,223 thousand.

The ability of the Group to continue to fund its working capital requirements are dependent on the Group achieving profitable operations with positive operating cash flows.

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

5. Going Concern (continued)

The Directors have reasonable grounds to believe that the Group will continue as a going concern due to several initiatives, but not limited to, meeting targets for the USA profitable operations, sale of its associate and if required, loans from the Group's major shareholder.

Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differs from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded assets or liabilities that may be necessary if the Group is unable to continue as a going concern.

6. Accounting judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's 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 to estimates are recognised prospectively. Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment are included in the following notes:

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The most significant estimates and assumptions that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities relate to:

Discontinued operations

Following the Group's decision to discontinue operations in China (refer to the 2022 Annual Report), the 30% investment in Tianjin Jiahua Footwear Company Limited has been classified as discontinued operations.

Allowance of expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for the group. These assumptions include recent sale experience, historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available. The allowance for expected credit losses, as disclosed in note 14, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by considering recent sales experience, ageing of inventories and other factors that affect inventory obsolescence.

6. Accounting judgements and estimates (continued)

Critical accounting estimates and assumptions (continued)

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly due to technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provision in the period in which such determination is made.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is a reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations, comparison of terms and conditions to prevailing market rates, incurrence of significant penalties, existence of significant leasehold improvements, and the costs and disruption to replace the asset. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Group estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security, and economic environment.

6. Accounting judgements and estimates (continued)

Critical accounting estimates and assumptions (continued)

Warranty provision

In determining the level of provision required for warranties the Group has made judgements in respect of the expected performance of the products, the number of customers who will claim under the warranty and how often, and the costs of fulfilling the conditions of the warranty. The provision is based on estimates made from historical warranty data associated with similar products.

7. New or Amended Accounting Standards and Interpretations Adopted

There were no new and revised Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that were considered relevant to the Group's operations and effective for the financial year ended 31 March 2023.

There are no other Australian Accounting Standards that are not yet effective and that are expected to have a material impact on the Group in the current or future financial years.

8. New Accounting Standards and Interpretations not yet Mandatory or Early Adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory have not been early adopted by the Group for the annual reporting period ended 31 March 2023. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

9. Discontinued operations

Accounting Policy

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

Summary

	2023 $'000	**2022 $'000**
Gain on disposal of subsidiaries	-	21,223
Gain on disposal of associates	3,170	31
Share of profit of associate	-	531
Profit after income tax expense on discontinued operations	3,170	21,785

9. Discontinued Operations (continued)

Disposal of associate Tianjin Jiahua Footwear Company Limited ("Jiahua")

As advised to the market on 18 February 2022, associate Tianjin Jiahua Footwear Company Limited ("Jiahua") (30% owned by MHI), ceased operations in the first quarter of 2022 due to the change of business environment in China. On 26 September 2022, the sale of Jiahua was settled, for consideration of RM15,450 thousand ($3,265 thousand) before 10% withholding tax deducted at source. Funds were received on 1 November 2022.

Details of the sale of the associate

	$'000
Consideration	3,265
Value of investment on disposal	(290)
Realisation of cumulative translation adjustments	501
	3,476
Withholding tax deducted at source	(306)
Gain on disposal	**3,170**

Summarised financial information

Summarised financial information in respect of Jiahua for the prior financial year and up to the date of sale is set out below. The summarised financial information below represents 100% of the amounts shown in the associate's financial statements in accordance with AASBs adjusted by the Group for equity accounting purposes.

	2023 **$'000**	**2022** **$'000**
Financial performance		
Revenue	-	19,530
Profit for the period to sale / year	209	1,770
Total comprehensive income for the period to sale / year	209	1,770
Dividends received from associate	1,216	716
Carrying amounts of assets and liabilities disposed		
Current assets	31	6,413
Non-current assets	938	806
Current liabilities	(2)	(788)
Net assets on date of sale / as at 31 March 2023	967	6,431
Proportion of the Group's ownership interest in associate	30%	30%
Carrying amount of the interest in associate	290	1,929

9. Discontinued Operations (continued)

Disposal of associate Tianjin Jiahua Footwear Company Limited ("Jiahua") (continued)

Summarised financial information (continued)

	2023 $'000	2022 $'000
Reconciliation of movement		
Opening balance	1,929	1,325
Share of profit	209	531
Dividend paid	(1,216)	-
Capital reduction	(551)	-
Exchange differences	(81)	73
Value of investment on disposal / 31 March 2023	290	1,929

Group Performance

10. Revenue

Accounting Policy

The Group recognises revenue as follows:

Revenue from contracts with customers
Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group identifies the contract with a customer, identifies the performance obligations in the contract, determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services performed.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method.

Sale of goods
Revenue from the sale of goods is recognised when control over a product or service is transferred to 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.
USA: for both Textiles and Footwear sales, control of goods is transferred when the goods leave the warehouse as per the terms of the agreement for sales are Free on Board.

10. Revenue (continued)

Accounting Policy (continued)

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

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue
Other revenue is recognised when it is received, or when the right to receive payment is established.

	2023 $'000	**2022 $'000**
Revenue from contracts with customers:		
Sale of goods	19,463	22,905
Revenue from continuing operations	**19,463**	**22,905**

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	2023 $'000	**2022 $'000**
Major product lines		
Footwear	15,730	20,237
Home textiles	3,733	2,668
	19,463	22,905
Geographical regions		
USA	19,463	22,905
Timing of revenue recognition		
Goods transferred at a point in time	19,463	22,905

11. Operating segments

Accounting Policy

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Merchant House International Limited.

Identification of reportable operating segments

The Group currently operates in three distinct segments:

- Home textiles
- Footwear trading
- Footwear manufacturing

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

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

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

The CODM reviews profit / (loss) before tax earned by each segment without allocation of central administrative expenses, share of profit / (loss) of associates and impairment of investment in associate.

The information reported to the CODM is monthly.

Intersegment transactions

Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables, and loans

Intersegment loans are initially recognised at the consideration received. Interest is not charged. Intersegment loans are eliminated on consolidation.

Major customers

During the year ended 31 March 2023, approximately $10,723 thousand (2022: $7,524 thousand) of the Group's external revenue was derived from sales to one major USA retailer through the footwear trading operating segment. $2,684 thousand (2022: $1,947 thousand) was derived from sales to a major USA retailer through the Home Textiles operating segment.

11. Operating segments (continued)

Operating segment information

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

	Revenue		Segment profit/(loss)	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Home textiles	3,733	2,668	(4,191)	(3,479)
Footwear trading	12,358	16,887	1	439
Footwear manufacturing and trading	3,372	3,350	(4,331)	(2,553)
	19,463	22,905	(8,521)	(5,593)
Eliminations	-	-	2	-
	19,463	22,905	(8,519)	(5,593)
Finance income			178	11
Finance costs			(107)	(117)
Central administrative expenses			(2,936)	(2,504)
Loss before tax from continuing operations			**(11,384)**	**(8,203)**

	Assets		Liabilities	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Home textiles	28,044	27,332	1,737	3,568
Footwear trading	1,961	1,576	2,481	1,504
Footwear manufacturing and trading	4,289	4,233	1,031	1,374
Total segment assets and liabilities	34,294	33,141	5,249	6,446
Corporate and other segment assets/liabilities	6,711	11,381	984	908
Assets / liabilities held for sale	-	1,929	-	-
Total	**41,005**	**46,451**	**6,233**	**7,354**

For monitoring segment performance and allocating resources between segments:

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

The CODM monitors the cash, receivables, and payables position.

11. Operating segments (continued)

Operating segment information (continued)

	Footwear Trading		Footwear Manufacturing		Home textiles	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Acquisition of segment assets	-	-	196	177	-	41
Transfer from other assets under development	-	-	-	-	-	3,924
Depreciation and amortisation of segment assets	2	3	316	305	-	1,872

Geographical information

	Sales to external customers		Geographical non-current assets	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
USA	19,463	22,905	28,442	27,816

The geographical non-current assets comprise property, plant, and equipment and right of use assets.

12. Expenses

Accounting Policy

Short-term employee benefits
Short-term employee benefits are expensed as the related service is provided. Liabilities for wages and salaries, including non-monetary benefits expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution superannuation expense
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 fully vesting of the contributions, the contributions payable by the Group are reduced by the amount of the forfeited contribution.

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

12. Expenses (continued)

Accounting Policy (continued)

Low value / short-term lease rental expense
Under AASB 16 *Leases*, an entity can 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 leases are expensed on a straight-line basis over the lease term.

Loss before income tax from continuing operations includes the following specific expenses:

	2023 $'000	2022 $'000
Employee benefits expense		
Key management personnel remuneration	1,271	1,206
Wages and salaries	6,230	5,315
Contributions to defined contribution plans	28	35
Termination benefits	84	111
Other employee benefits	1,367	1,219
Total employee benefits expense	8,980	7,886
Less: Amount allocated to cost of sales	(5,294)	(4,306)
Amount allocated to personnel expenses	3,686	3,580
Administrative expense		
Auditors' remuneration	293	213
Legal and consultancy fees	767	418
Insurance	72	58
Travelling	148	89
Low value / short term lease payments	122	102
Others	545	497
	1,947	1,377

13. Loss per share

Accounting Policy

Basic earnings per share
Basic earnings per share is calculated by dividing the profit / (loss) attributable to the owners of Merchant House International Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year

Diluted earnings per shares
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to account for the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

	2023	**2022**
	$’000	**$’000**
Basic and diluted loss per share from continuing operations		
Loss after income tax attributable to the owners of the Company	(11,393)	(8,274)
	Cents	**Cents**
Basic and diluted loss per share	(12.08)	(8.78)
	$’000	**$’000**
Basic and diluted earnings per share from discontinued operations		
Profit after income tax attributable to the owners of the Company	3,170	21,785
	Cents	**Cents**
Basic and diluted earnings per share	3.36	23.11
	$’000	**$’000**
Basic and diluted earnings per share		
(Loss) / profit after income tax attributable to the owners of the Company	(8,223)	13,511
	Cents	**Cents**
Basic and diluted (loss) / earnings per share	(8.72)	14.33
	Number	**Number**
Weighted average number of ordinary shares		
Weighted average number of ordinary shares	94,266,496	94,266,496

In both years ended 31 March 2023 and 2022, diluted earnings per share is the same as basic earnings per share due to the absence of dilutive potential ordinary shares during the year.

Operating assets and liabilities

14. Receivables

Accounting Policy

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

	2023 $'000	2022 $'000
Current		
Trade receivables	1,846	2,558
Interest and other receivables	29	22
Deposits	68	60
	1,943	2,640
Provision for expected credit losses	(193)	-
	1,750	2,640
Movements in expected credit losses		
Opening balance	-	-
Provision for the year	189	-
Exchange differences	4	-
	193	-

The average credit period on sales of goods and rendering of services is 41 days (2022: 60 days). No interest is charged on trade receivables.

Trade receivables disclosed above include amounts due from one customer for which the Group has recognised an expected credit loss of $193 thousand, including amounts not outside normal credit terms.

Included in the Group's trade receivable balance are debtors with a carrying amount of $18 thousand (2022: $78 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 (2022: 30 days).

14. Receivables (continued)

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 no further expected credit loss is required.

15. Inventories

Accounting Policy

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a ‘first in first out’ basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

	2023 $’000	2022 $’000
Materials	1,616	1,075
Work in progress	819	1,052
Finished goods	255	470
Finished goods – seconds	119	-
	2,809	2,597

The cost of inventories recognised as an expense during the year was $23,245 thousand (2022: $24,668 thousand).

16. Property, plant, and equipment

Accounting Policy

Plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on diminishing balance basis to write off the net cost of each item of property, plant, and equipment (excluding land) over their expected useful lives as follows:

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

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant, and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained earnings.

	Buildings $'000	Freehold land $'000	Building improvements $'000	Plant and equipment $'000	Total $'000
Balance on 1 April 2021	4,139	579	5,056	14,930	24,704
Additions	35	-	-	183	218
Transfers from other assets under development	8	-	-	3,916	3,924
Depreciation	(165)	-	(310)	(1,590)	(2,065)
Exchange differences	118	16	147	373	654
Balance on 31 March 2022	4,135	595	4,893	17,812	27,435
Additions	-	-	-	196	196
Disposals	(62)	-	-	-	(62)
Depreciation	(176)	-	(307)	(1,831)	(2,314)
Exchange differences	484	70	572	2,069	3,195
Balance on 31 March 2023	4,381	665	5,158	18,246	28,450

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17. Trade and other payables

Accounting Policy

Trade payables represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to the short-term nature, they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid at the end of the month following date of recognition.

	2023 $'000	2022 $'000
Current		
Trade payables	1,036	786
Amounts payable to associates	2,395	1,420
Accruals	883	302
Deferred government grant where conditions have not been satisfied	1,184	1,910
Others	335	318
	5,833	4,736

The average credit period on trade purchases is 30 to 60 days (2022: 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.

Capital Management

18. Dividends

Accounting Policy

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

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 2023 (2022: nil).

Pursuant to Byelaw 147 of the Company's Constitution, any dividend unclaimed after a period of six 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 2023, $nil (2022: $7 thousand) was written back as an unclaimed dividend and $nil (2022: $nil) has been provided for pending forfeiture for unclaimed dividends between one and six years.

19. Cash and cash equivalents

Accounting Policy

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

(a) Reconciliation of cash recorded in the Statement of Financial Position to Statement of Cash Flow

	2023 $'000	2022 $'000
Cash and Cash Equivalents		
Cash at bank and on hand	1,597	612
Fixed bank deposits with original maturities less than 3 months	5,896	10,572
	7,493	11,184

19. Cash and cash equivalents (continued)

(b) Reconciliation of cash flows from operating activities

	2023 $'000	2022 Restated $'000
Loss for the year	(11,393)	(8,274)
Income tax expense for the year	9	71
Depreciation and amortisation of non-current assets	2,436	2,180
Net exchange gain on foreign currency transactions	-	(78)
Interest income	(178)	(11)
Gain on disposal of property, plant, and equipment	(54)	-
Provision for expected credit losses	189	-
Deferred government grant conditions satisfied	(971)	(951)
Loss on sale of other assets under development	159	-
Debt forgiveness	-	219
Other expenses	-	5
Change in receivables	994	2,394
Change in prepayments	(4)	111
Change in inventories	92	(903)
Change in payables	1,572	(1,370)
Change in interest bearing liabilities	-	(4)
Change in provisions	(5)	(50)
Cash used in continuing operations	(7,154)	(6,661)
Income tax received	-	111
Net cash used in continuing operating activities	(7,154)	(6,550)
Operating profit / (loss) from discontinued operations	3,170	(1)
Net cash used in operating activities	(3,984)	(6,551)

(c) Non-cash investing and financing activities

	2023 $'000	2022 $'000
Additions to the right-of-use assets	(320)	-

19. Cash and cash equivalents (continued)

(d) Changes in liabilities arising from financing activities

	Borrowings $'000	Right-of-use leases $'000	Related party loans $'000	Total $'000
Balance on 1 April 2021	5,629	204	259	6,092
Net cash used in financing activities	(5,137)	(122)	(269)	(5,528)
Foreign exchange	1,930	6	10	1,946
Balance on 31 March 2022	**2,422**	**88**	**-**	**2,510**
Net cash used in financing activities	(2,562)	(119)	-	(2,681)
New leases	-	320	-	320
Foreign exchange	228	14	-	242
Balance on 31 March 2023	**88**	**303**	-	**391**

20. Financial instruments

Accounting Policy

Recognition and derecognition
Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled, or expires.

Classification and initial measurement of financial assets
Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- equity instruments at fair value through other comprehensive income (FVOCI)
- debt instruments at fair value through other comprehensive income (FVOCI).

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

20. Financial instruments (continued)

Accounting Policy (continued)

Classification and initial measurement of financial assets (continued)
The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

Subsequent remeasurement of financial assets

<u>Financial assets at amortised cost</u>

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets to collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised costs using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under AASB 139.

Impairment of financial assets
AASB 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaced AASB 139's 'incurred loss model'.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under AASB 15 and loan commitments that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead, the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Level 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Level 2').
- 'Level 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category whilst 'lifetime expected credit losses' are recognised for the second category. The Group does not have any material expected credit losses.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators, and forward-looking information to calculate the expected credit losses using a provision matrix.

20. Financial instruments (continued)

Accounting Policy (continued)

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are initially measured at amortised cost using the effective interest method except for derivatives and financial liabilities designation at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Derivative financial instruments

Derivative financial instruments are accounted for at fair value through profit or loss (FVTPL)

General objectives, processes, and policies

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.

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.

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.

There has been no change to the way the Group manages market risk from the previous year.

20. Financial instruments (continued)

Market risk (continued)

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 Group is mainly exposed to US dollars (US$) and Chinese Yuan Renminbi (RMB).

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

	Assets		Liabilities	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
US dollar	7,904	12,528	2,671	2,036
AU dollar	1	2	-	-
Chinese Yuan Renminbi	10	9	-	-

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10% (2022: 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 taking into consideration movements over the last 12 months and the spot rate at each reporting date. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the yearend for a 10% (2022: 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.

	Impact on profit & loss	
	2023 $'000	2022 $'000
If AUD strengthens by 10% (2022: 5%)		
US$	350	393
RMB	5	2
If AUD weakens by 10% (2022: 5%)		
US$	(350)	(393)
RMB	(5)	(2)

20. Financial instruments (continued)

Market risk (continued)

Currency risk (continued)

Foreign currency sensitivity analysis (continued)

Fluctuations in foreign currencies during the current financial year compared with the prior year are as follows:

	2023 %	2022 %
US$	(10.58)	(2.74)
RMB	(3.17)	(5.27)

There would be no impact on other equity of the Group.

Interest rate risk

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

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	
	2023 $'000	2022 $'000
Variable rate instruments		
Financial assets	7,122	10,594
Financial liabilities	(88)	(2,422)
	7,034	8,172

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.

20. Financial instruments (continued)

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 several key customers, predominately located and 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.

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 table details the Group's expected contractual maturities for its non-derivative financial liabilities. These have been drawn up based on the undiscounted contractual maturities of the financial liabilities based on the earliest date the Group is required to pay under the terms of the facilities.

The tables below and on the next page include 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.

	Weighted average effective interest rate %	Less than 6 months $'000	6 months to 1 year $'000	Over 1 year $'000
2023				
Trade and other payables	-	4,103	441	1,289
Borrowings (including right-of-use lease liabilities)	4.13	183	98	110
		4,286	539	1,399

20. Financial instruments (continued)

Liquidity risk (continued)

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.

	Weighted average effective interest rate %	Less than 6 months $'000	6 months to 1 year $'000	Over 1 year $'000
2022				
Trade and other payables	-	2,527	758	1,451
Borrowings (including right-of-use lease liabilities)	2.21	328	712	1,470
		2,855	1,470	2,921

Fair value measurement

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy.

The three levels are defined based on the observability of significant inputs to the measurement, as follows:

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

Transfers

There have been no transfers between the levels of the fair value hierarchy during the year ended 31 March 2023.

Not measured at fair value

The group has various financial instruments which are not measured at fair value on a recurring basis in the statement of financial position.

The Directors consider that the carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, and borrowings are a reasonable approximation of their fair values.

The methods and valuation techniques used for the purposes of measuring fair values are unchanged compared to the previous reporting period.

20. Financial instruments (continued)

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.

21. Capital and reserves

Accounting Policy

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares of options are shown in equity as a deduction, net of tax, from the proceeds.

(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 2023 and 31 March 2022, 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.

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 2023 and 31 March 2022.

(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 will be reclassified to profit or loss on the disposal of the subsidiary in China for the year ended 31 March 2023.

22. Borrowings and financing facilities

Accounting Policy

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

	Note	2023 $'000	2022 $'000
Current			
Working capital loans – secured	(i)	88	2,422

	Working capital loans $'000	Term loans $'000	Loans from a director [2] $'000	Total $'000
Balance on 1 April 2021	4,722	907	259	5,888
Interest expense	101	7	-	108
Less repaid [1]	(2,563)	(950)	(269)	(3,782)
Foreign exchange	162	36	10	208
Balance on 31 March 2022	**2,422**	**-**	**-**	**2,422**
Loans and borrowings received	-	-	144	144
Interest expense	99	-	-	99
Less repaid [1]	(2,661)	-	(144)	(2,805)
Foreign exchange	228	-	-	228
Balance on 31 March 2023	**88**	**-**	**-**	**88**

[1] amounts repaid include interest and loan establishment costs
[2] refer to note 27(c) for further details.

1) As at 31 March 2023, there is a working capital loan of $88 thousand or HK$ 461 thousand (2022: $311 thousand or HK$ 1,819 thousand) secured by both the HKSAR Government and director, Ms Loretta Bic Hing Lee, accruing interest at 3.375% per annum, maturing on 9 July 2023.
2) On 3 February 2023, Ms Loretta Bic Hing Lee provided a $144 thousand (US$ 100 thousand) interest-free cash loan to the Group. The loan was repaid on 13 March 2023.

22. Borrowings and financing facilities (continued)

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 contain repayment on demand clauses. Consequently, the bank loans are classified as current liabilities in the statement of financial position.

The banking facilities of the Group were secured by:

- unlimited corporate guarantee provided by certain subsidiaries and the parent entity of the Group, and
- negative pledge on the Bristol property in the United States.

Financing arrangements

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:

	2023 **$'000**	**2022** **$'000**
Amounts used at the reporting date	88	2,422
Amounts unused at the reporting date	-	-
	88	2,422

Income Tax

23. Income tax expense

Accounting Policy

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in as transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits, or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probably that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities, and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses, and assets are recognised net of the amount of, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

23. Income tax expense (continued)

(a) Amounts recognised in profit or loss

	Note	2023 $'000	2022 $'000
Current tax benefit in respect of the current year	(i)	(247)	(343)
Current year tax losses not brought to account		969	415
Deferred tax expense relating to the origination of temporary differences		9	71
Withholding tax of dividend received from associate		125	-
Claim for offshore tax		(722)	(72)
Capital gains tax on disposal proceeds from sale of associate		216	-
Income tax expense		350	71
Income tax expense is attributable to:			
Loss from continuing operations		9	71
Profit from discontinued operations		341	-
		350	71
Numerical reconciliation of income tax expense and tax at the statutory			
Loss before income tax from continuing operations		(11,384)	(8,203)
Profit before income tax from discontinued operations		3,511	-
		(7,873)	(8,203)
Tax at the statutory rate of 30%		(2,362)	(2,461)
Effect of different tax rates of the parent company and its subsidiaries operating in other jurisdictions		2,046	4,045
Effect of non-deductible expenses		103	-
Effect of non-assessable revenue		(25)	(1,768)
Unused tax losses and tax offsets not recognised as deferred tax assets		978	486
Share of profit of associate		-	(159)
Claim for offshore tax		(722)	(72)
Others		(9)	-
Income tax expense on continuing operations		9	71
Income tax expense on discontinued operations		341	-
Income tax expense		350	71

23. Income tax expense (continued)

(a) Amounts recognised in profit or loss (continued)

(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).

(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% (2022: 0%). The subsidiaries incorporated in Hong Kong are taxed at 16.5% (2022: 16.5%). The subsidiaries incorporated in the USA are taxed between 6.5% and 40.5% due to differing state and federal tax rates.

(b) Deferred tax balances

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

	Balance on 1 April $'000	Charged to profit or loss $'000	Recognised in other comprehensive income $'000	Balance on 31 March $'000
2023				
Temporary differences				
Right of use assets and liabilities	(1)	1	-	-
Payables	33	(11)	-	22
Exchange difference on a foreign subsidiary	1	(1)	-	-
	33	(11)	-	22
Withholding tax on undistributed earnings of an associate	(95)	101	(6)	-
Tax losses not recognised (gross)	45,196	11,311	5,339	61,846
2022				
Temporary differences				
Receivables	9	(9)	-	-
Property, plant, and equipment	(9)	9	-	-
Right of use assets and liabilities	-	(1)	-	(1)
Payables	27	6	-	33
Provisions	3	(3)	-	-
Exchange difference on a foreign subsidiary	1	-	-	1
	31	2	-	33
Withholding tax on undistributed earnings of an associate	(21)	(73)	(1)	(95)
Tax losses not recognised (gross)	33,971	10,270	955	45,196

Group Structure

24. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities, and results of the following wholly owned subsidiaries in accordance with the accounting policy described in note 2:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group 2023 %	2022 %
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
American Merchant Inc.	Home textile	USA	100	100

Balances and transactions between the Company and its subsidiaries, which are a related party of the Company, have been eliminated on consolidation.

25. Associates

Accounting Policy

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.

25. Associates (continued)

Details of each of the Group's significant associates on 31 March 2023 are as follows:

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group 2023 %	2022 %
Tianjin Jiahua Footwear Company Limited	Footwear manufacturing	China	-	30.00
Tianjin Tianxing Kesheng Leather Products Company Limited	Footwear manufacturing	China	33.79	33.79

Tianjin Jiahua Footwear Company Limited

As advised to the market on 18 February 2022, associate Tianjin Jiahua Footwear Company Limited ("Jiahua") (30% owned by MHI) ceased operations in the first quarter of 2022 due to the change of business environment in China. On 26 September 2022, the sale of Jiahua was settled, for consideration of RMB 15,450 thousand ($2,959 thousand) after 10% withholding tax deducted at source. Funds were received on 1 November 2022. Refer to note 9.

Tianjin Tianxing Kesheng Leather Products Company Limited

Each year, the Group assesses its investment in Tianxing and as of 31 March 2022, concluded that due to sustained losses and a challenging business outlook, the recoverability of the carrying amount was uncertain. The Group's investment in this associate is fully impaired.

Others

26. Auditors' Remuneration

During the year, the following fees were paid or payable for services provided by BDO Audit (WA) Pty Ltd ("BDO") as the auditor of the parent entity, Merchant House International Limited, by BDO's related network firms and by non-related audit firms:

	2023 $	2022 $
Auditors of the Group - BDO and related network firms		
Audit and review of financial reports		
Group	150,832	172,663
Controlled entities	40,978	-
Total audit and review of financial reports	191,810	172,663
Other services		
Tax compliance services	5,961	-
Total services provided by BDO	**197,771**	**172,663**
Other auditors and their related network firms		
Audit and review of financial reports		
Controlled entities	87,604	40,727
Other non-audit services		
Tax compliance services	8,030	-
Total services provided by other auditors (excluding BDO)	**95,634**	**40,727**

27. Related parties

Accounting Policy

Key management personnel compensation

Directors' remuneration is 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 because of past service provided by the employee and the obligation can be estimated reliably.

27. Related parties(continued)

(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:

	2023 $'000	2022 $'000
Short-term employee benefits	1,271	1,206

(b) Transactions and balances due with related parties

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

	Transactions		Balance on 31 March	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Purchases from associates				
Tianjin Jiahua Footwear Company Limited	-	7,270	-	-
Tianjin Tianxing Kesheng Leather Products Company Limited	11,374	8,420	2,395	1,420
Dividend received from an associate				
Tianjin Jiahua Footwear Company Limited	1,216	716	-	-

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.

(c) Loans from key management personnel

On 3 February 2023, Ms Loretta Bic Hing Lee provided a $144 thousand (US$100 thousand) interest-free cash loan to the Group. The loan was repaid on 13 March 2023.

28. Contingent Liabilities

i) At the end of the reporting period, the Company provided an unlimited guarantee in respect of banking facilities granted to its fellow subsidiaries. No provision for the guarantee has been made as the directors consider that it is not probable a claim will be made against the Company under the guarantee (refer to note 22).

ii) At the end of the reporting period, the Company is involved in a United States court case. A trade debtor had paid US$994,996 to the Company for settlement of sales transactions during the preference period of its bankruptcy procedure. It was held by the court order that the Company is required to return the aforesaid amount together with interest to the plaintiffs. Based on legal advice, management consider it not probable the Company would suffer any material loss and accordingly no provision in respect has been made.

29. Post reporting date events

There have been no matters or circumstances have arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

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 on 31 March 2023 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

30 June 2023

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INDEPENDENT AUDITOR'S REPORT

To the members of Merchant House International Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Merchant House International Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 March 2023, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report presents fairly, in all material respects, the financial position of the Group as at 31 March 2023, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards and International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International 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 International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* that are relevant to our audit of the financial report. 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 related to going concern

We draw attention to Note 5 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

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 of 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.

Revenue recognition

Key audit matter	*How the matter was addressed in our audit*
Revenue is disclosed in Note 10 of the financial report. Revenue is generated from the sale of footwear and home textiles in the United States of America. This area is a key audit matter due to the significance of revenue to the financial report, the high volume of transactions included in revenue and as revenue is one of the key drivers to the Group's performance therefore there is incentive to improve revenue recognised in the year.	Our audit procedures included but were not limited to the following: • Assessing the Group's revenue recognition policy's for compliance with AASB 15 Revenue from Contract with Customers • Performing analytical procedures to understand movements and trends in revenue for comparisons against expectations; • Performing cut-off testing to ensure revenue transactions around year end have been recorded in the correct reporting period; • Agreeing, for a sample of revenue transactions, the amounts recorded by the Group to supporting documentation to confirm the existence and accuracy of the revenue recognised; and • Assessing the adequacy of the relevant disclosures within the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 March 2023, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly 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 Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of a financial report that 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 International 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.

A further description of our responsibilities for the audit of the financial report is located in Appendix 1. This description forms part of our auditor's report.

BDO Audit (WA) Pty Ltd

BDO

Dean Just

Director

Perth, 30 June 2023

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APPENDIX 1 ADDITIONAL INFORMATION ON THE AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

• Identify and assess the risks of material misstatement of the financial statements, 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 Company's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of director's 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 Company'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 statements 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 Company to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the financial statements 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.

Securities Exchange Information

The shareholder information set out below was applicable on 5 June 2023.

1. Distribution of ordinary shares

Range	Top holders	Ordinary shares	% of issued capital
1 to 1,000	23	7,649	0.01
1,001 to 5,000	28	86,163	0.09
5,001 to 10,000	18	141,027	0.15
10,001 to 100,000	119	4,262,032	4.52
100,001 and over	52	89,769,625	95.23
Total	240	94,266,496	100.00

There were 62 shareholders holding less than a marketable parcel.

2. Substantial shareholders

The substantial shareholders are set out below:

Name	Number of shares
BNP Parabis Nominees Pty Ltd <DRP>	60,285,402

3. Voting rights

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll, every member present or by proxy shall have one vote for every share held.

4. Twenty largest shareholders on 5 June 2023

	Number of shares	% of total shares
BNP Parabis Nominees Pty Ltd <LGT Bank AG DRP)	60,285,402	63.953
J P Morgan Nominees Australia Limited	3,222,767	3.42
BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP>	2,482,721	2.63
Mr John Maxwell Bleakie	2,067,394	2.19
Mr Yin Sang Tsang	1,674,092	1.78
Messent Pty Ltd <Messent P/L Super Fund A/C>	1,490,039	1.58
Mrs Lana Kinoshita	1,339,274	1.42
National Nominees Limited	1,253,118	1.33
Mr Timothy Bird	1,244,402	1.32
Mr Brian Garfield Benger <NO 4 A/C>	900,000	0.95
Mr Raymond Lunney	789,674	0.84
Mr Michael James Pauley	735,506	0.78
Mr Ross George Yannis	698,330	0.74
Mr Victor Tien Ren Hou	661,119	0.70
Mr Brian Garfield Benger	650,000	0.69
Ms Alice Liu	638,783	0.68
Miss Peggy Liao	635,455	0.67
Shandora One Pty Ltd <Benger Super Fund A/C>	512,530	0.54
Mr Brian Garfield Benger	471,498	0.50
Mr Boon Chuan Aw <BCAW Family Super Fund A/C>	425,405	0.45

Corporate Directory

Directors

Ms Loretta Bic Hing Lee
Mr Ian James Burton
Ms Xiao Lan Wu
Mr Oliver Hein

Company Secretary

Mr David McArthur

Registered Office

Level 1, 31 Cliff Street
Fremantle WA 6160 Australia

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Principal Office

Unit B & C, 16th Floor, E-trade Plaza
24 Lee Chung Street
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Telephone: +852 2889 2000
Facsimile: +852 6444 7408

Postal Address

PO Box 584
Fremantle WA 6959 Australia

Country of Incorporation of Company

Bermuda

Auditors

BDO Audit (WA) Pty Ltd
Level 9, Yellagonga Tower 2
5 Spring 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 Central
24 Des Voeux Road Central
Hong Kong

Share Registry

Computershare Investor Services Pty Ltd
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

ASX Code

Shares: MHI

Website

www.lorettalee.com.hk