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ASX ANNOUNCEMENT

3 May 2021

DISPOSAL OF CARSAN (SHUNDE) MANUFACTURING COMPANY LIMITED- ADDITIONAL INFORMATION

Merchant House International Limited (“The Company” or “MHI”) provides the following additional information in relation to the sale of Carsan (Shunde) Manufacturing Co Ltd, a subsidiary of the Company, as announced to the market on 16 April 2021.

The Carsan operation provided the textiles for the operations of Loretta lee Limited, a subsidiary of the Company. For the six months to September 30, 2020 textile sales were \$16.2 million and profits were \$1.8 million. These sales and resulting profit represented the flow through of longer-term lead orders held by the factory. The production through to 30 September 2020 enabled the Company to defer the dramatic impact of a significantly worsening economic situation in China. The full effect of this economic downturn was felt post the 30 September 2020 reporting period, albeit the factors leading to a significant decline were well underway by this time and acknowledged by the Company in its periodic reporting.

The budget for the second six months of operation to 31 March 2021 reflected the textile division in China would have sales of only \$5 million and would make a loss of approximately \$500,000 and would continue to make substantial losses if it continued operations due to changed conditions. Due to the impact of COVID in China, combined with end users deciding to source product outside China (India, Vietnam, Bangladesh), adverse exchange rates in China, wages cost increases and competition from other overseas producers for raw materials, MHI was no longer able to produce textiles profitably in China. The company relied on high turnover, low margin sales to generate profits. These margins have been completely eroded and continuing operations would have incurred ongoing and increasing losses by the Company. For this reason, the decision was made by the Board to cease operations at the factory.

The US textiles operation was still in commissioning phase through 2020 (sales of \$1.6m at a loss of \$2.4 million) as customer orders were sourced and production ramped up. The Company is now focusing on the US textile business in Virginia as its textile producer for sales into the US market by Lorretta Lee Limited. The majority of sales from the Chinese operations were to US customers, and the US has moved to a “pro US product” market, and hence the timing is ideal. The textile division is still ramping up in the US, however was budgeted to make \$5.5 million

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revenue to 31 March 2021, essentially due to the “buy American” campaign run in the USA.

It is not possible to state exactly how much the closure of the Chinese operation will affect the Company financially at this time, other than to advise the Company has avoided moving into a period of sustained losses from an uneconomic operation.

The sale of the Carsan assets was always conditional upon the funds being received by MHI in US\$ in its Hong Kong Bank account. This is mainly due to concerns the Board had in relation to the remitting of funds from China to Hong Kong, due to the number of approvals required in China for such a process. MHI was advised that clear funds were received by Hong Kong at 4 pm on 15 April 2021. The company advised the market pre-open on 16 April 2021.

The counterparty is Foshan XiongYing Logistics Co. Ltd, a Chinese company in no way related to MHI or any of its directors or their associates.

The sale consideration was US\$20 million and was partly used to pay outstanding liabilities at Carsan, resulting in net proceeds to the Company of US\$16.2 million (approximately A\$21 million). The funds are held in a Loretta lee Limited bank account with the Hong Kong and Shanghai banking Corporation Limited in Hong Kong, with no restrictions on the access or use of funds. This bank account is under the full control of the Company.

Part of the funds will be used for expansion and growth opportunities that are presenting themselves in the USA. The use of the balance of funds has not yet been determined by the Board.

The Company advises that the ASX has also now imposed appendix 4(C) lodgment requirements on the Company.

This release has been approved by Ms Loretta Lee - Chair of the Board

David McArthur
Company Secretary

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