MERCHANT HOUSE INTERNATIONAL LIMITED
ARBN 065 681 138

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Australia

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11 July 2014

ASX Limited

Electronic lodgement

ASX Code: MHI

DISPATCH OF 2014 ANNUAL REPORT AND NOTICE OF AGM

Attached is a copy of the 2014 Annual Report together with the Notice of Annual General Meeting, Explanatory Memorandum and Proxy Form which have been despatched to shareholders today.

D McArthur

David McArthur
Company Secretary

MERCHANT HOUSE INTERNATIONAL LIMITED

ARBN 065 681 138

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Merchant House International Limited will be held at Level 2, 55 Carrington Street, Nedlands, Perth, Western Australia on Friday, 15 August 2014 at 11.00 am (WST).

In order to determine voting entitlements, the register of Shareholders will be closed at 5.00pm (Sydney time) on Wednesday, 13 August 2014.

An Explanatory Memorandum containing information in relation to Resolutions 1 to 3 to be put to the meeting accompanies this Notice.

AGENDA

To consider and, if thought fit, to pass the following resolutions.

ORDINARY BUSINESS

2014 Accounts

To receive and consider the Directors' report and income statement for the year ended 31 March 2014, the balance sheet at that date, the Auditors' report and the Directors' declaration on the accounts.

Non-binding Ordinary Resolution 1: Directors' Remuneration Report

To receive and consider the Directors' Remuneration Report for the year ended 31 March 2014 and, if thought fit, to pass, with or without amendment, the following resolution as a non- binding resolution:

"*That, pursuant to and in accordance with section 250R (2) of the Corporations Act, the Directors' Remuneration Report contained within the Directors' Report for the financial year ended 31 March 2014 be adopted*."

Note 1: the vote on this Resolution is advisory only and does not bind the Directors of the Company.

Note 2: If 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive annual general meetings, Shareholders will be required to vote at the second of those annual general meetings on a resolution (a "spill resolution") that another meeting be held within 90 days at which all of the Company's Directors (other than the Managing Director and CEO) must stand for re-election.

Voting Prohibition Statement:
A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

(a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or

(b) a Closely Related Party of such a member.

However, a person (the voter) described above may cast a vote on this Resolution as a proxy if the vote is not cast on behalf of a person described above and either:

(c) the voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the Resolution; or

(d) the voter is the Chair and the appointment of the Chair as proxy:
   (i) does not specify the way the proxy is to vote on this Resolution; and
   (ii) expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, or if the Company is part of a consolidated entity, for the entity.

Ordinary Resolution 2: Re-election of a Director

That, Mr Ian Burton, who retires by rotation in accordance with By-Law 90 of the Company's By-Laws, and being eligible, be re-elected as a Director.

Information about Mr Burton is set out in the Company's 2014 Annual Report.

Ordinary Resolution 3: Re-election of a Director

That, Ms Peggy Liao, who retires by rotation in accordance with By-Law 90 of the Company's By-Laws, and being eligible, be re-elected as a Director.

Information about Ms Liao is set out in the Company's 2014 Annual Report.

D McArthur

By order of the Board
D M McARTHUR
Company Secretary

Dated: 8 July 2014

MERCHANT HOUSE INTERNATIONAL LIMITED
ARBN 065 681 138

EXPLANATORY MEMORANDUM

This Explanatory Memorandum is intended to provide shareholders with sufficient information to assess the merits of the Resolutions contained in the accompanying Notice of Annual General Meeting (“**Notice**”) of the Company.

The Directors of the Company (“**Directors**”) recommend shareholders read this Explanatory Memorandum in full before making any decision in relation to the resolutions.

The following information should be noted in respect of the various matters contained in the accompanying Notice:

FINANCIAL STATEMENTS AND REPORTS

In accordance with the Company’s By-Laws, the business of the Meeting will include receipt and consideration of the annual financial report of the Company for the financial year ended 31 March 2014, together with the declaration of the directors, the directors’ report, the remuneration report and the auditor’s report.

The Company will not provide a hard copy of the Company’s annual financial report to Shareholders unless specifically requested to do so. The Company’s annual financial report is available on the Company’s ASX platform (for “MHI”).

NON-BINDING ORDINARY RESOLUTION 1: Directors’ Remuneration Report

General
The Corporations Act requires that at a listed company’s annual general meeting, a resolution that the remuneration report be adopted must be put to the shareholders. However, such a resolution is advisory only and does not bind the Directors or the Company.

The Remuneration Report sets out the Company’s remuneration arrangements for the Directors and senior management of the Company. The Remuneration Report is part of the Directors’ report contained in the annual financial report of the Company for the financial year ending 31 March 2014.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the Annual General Meeting.

Voting consequences
Under changes to the Corporations Act which came into effect on 1 July 2011, if at least 25% of the votes cast on a remuneration report resolution are voted against adoption of the remuneration report in two consecutive annual general meetings, the Company will be required to put to Shareholders a resolution proposing the calling of an extraordinary general meeting to consider the appointment of directors of the Company (**Spill Resolution**) at the second annual general meeting.

If more than 50% of shareholders vote in favour of the Spill Resolution, the company must convene the extraordinary general meeting (**Spill Meeting**) within 90 days of the second annual general meeting.

All of the directors of the company who were in office when the directors' report (as included in the Company’s annual financial report for the last financial year) was approved, other than the managing director of the company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting.

Following the Spill Meeting those persons whose election or re-election as directors of the company is approved will be the directors of the company.

At the Company's previous annual general meeting the votes cast against the remuneration report considered at that annual general meeting were less than 25%. Accordingly, the Spill Resolution is not relevant for this Annual General Meeting.

Proxy restrictions
Shareholders appointing a proxy for Resolution 1 should note the following:

(a) If you appoint a member of the Key Management Personnel as your proxy

If you elect to appoint a member of Key Management Personnel whose remuneration details are included in the Remuneration Report, or a Closely Related Party of that member, ***you <u>must</u> direct the proxy how they are to vote***. Undirected proxies granted to these persons will not be included in any vote on Resolution 1.

(b) If you appoint the Chair as your proxy

If you elect to appoint the Chair as your proxy, you ***<u>do not</u>*** need to direct the Chair how you wish them to exercise your vote on Resolution 1, however if you do not direct the Chair how to vote, ***you <u>must</u> tick the acknowledgement on the proxy form to acknowledge that the Chair may exercise their discretion in exercising your proxy even though Resolution 1 is connected directly or indirectly with the remuneration of Key Management Personnel***.

(c) If you appoint any other person as your proxy

You ***<u>do not</u>*** need to direct your proxy how to vote, and you ***<u>do not</u>*** need to tick any further acknowledgement on the proxy form.

ORDINARY RESOLUTIONS 2 AND 3 – Re-election of Directors

By-Law 90 of the Company's By-Laws requires that one third of the directors (rounded up to the nearest whole number) shall retire by rotation each year, and shall seek re-election as a director if they choose to nominate. Mr Ian Burton and Ms Peggy Liao retire by rotation and both seek re-election.

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PROXY FORM

APPOINTMENT OF PROXY
MERCHANT HOUSE INTERNATIONAL LIMITED
ARBN 065 681 138

ANNUAL GENERAL MEETING

I/We ______________________________

Address ______________________________

being a Member of Merchant House International Limited entitled to attend and vote at the Meeting, hereby

Appoint ______________________________

Name of proxy

OR the Chair of the Annual General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, and subject to the relevant laws as the proxy sees fit, at the Annual General Meeting to be held at 11.00 am (WST) on Friday, 15 August 2014 at Level 2, 55 Carrington St, Nedlands, Perth, Western Australia, and at any adjournment thereof.

The Chair intends to vote undirected proxies in favour of all Resolutions in which the Chair is entitled to vote.

Voting on Business of the Annual General Meeting

	FOR	AGAINST	ABSTAIN
Resolution 1 – Adoption of Remuneration Report*	☐	☐	☐
Resolution 2 – Re-election of Director – Ian Burton	☐	☐	☐
Resolution 3 – Re-election of Director – Peggy Liao	☐	☐	☐

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not to be counted in computing the required majority on a poll.

***Important for Resolution 1**

If a member of the Key Management Personnel whose remuneration details are included in the Remuneration Report or Closely Related Party of such a member is your proxy you must direct your proxy how to vote on Resolution 1 unless that person is also the Chair in which case you must, in the absence of a direction how to vote, expressly authorise the Chair to exercise the proxy by marking the box below.

☐ I/we direct the Chair to vote in accordance with his voting intentions on Resolution 1 (except where I/we have indicated a different voting intention above) and acknowledge that the Chair may exercise my/our proxy even though Resolution 1 is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

If you do not mark this box, and you have not directed the Chair how to vote, the Chair will not cast your votes on Resolution 1 and your votes will not be counted in calculating the required majority if a poll is called on Resolution 1.

If two proxies are being appointed, the proportion of voting rights this proxy represents is: ___________%

Signature of Member(s):____ **Date:** _____________________

Individual or Member 1	**Member 2**	**Member 3**
Sole Director/Company Secretary	**Director**	**Director/Company Secretary**

Contact Name: ______________________________ **Contact Ph (daytime):** ____________________________

Instructions for Completing 'Appointment of Proxy' Form

1. (**Changes to Proxy Voting**): New sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this Annual General Meeting. Broadly, the changes mean that:

   (a) if proxy holders vote, they must cast all directed proxies as directed; and

   (b) any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

   Further details on these changes are set out below.

2. (**Appointing a Proxy**): A member entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.

3. (**Proxy vote if appointment specifies way to vote**): Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

   (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and

   (b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and

   (c) if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and

   (d) if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

4. (**Transfer of non-chair proxy to chair in certain circumstances**): Section 250BC of the Corporations Act provides that, if:

   (a) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and

   (b) the appointed proxy is not the chair of the meeting; and

   (c) at the meeting, a poll is duly demanded on the resolution; and

   (d) either of the following applies:

      (i) the proxy is not recorded as attending the meeting;

      (ii) the proxy does not vote on the resolution,

   (e) the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

5. (**Signing Instructions**):

   (a) (**Individual**): Where the holding is in one name, the member must sign.

   (b) (**Joint Holding**): Where the holding is in more than one name, all of the members should sign.

   (c) (**Power of Attorney**): If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

   (d) (**Companies**): Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.

6. (**Attending the Meeting**): Completion of a Proxy Form will not prevent individual members from attending the Annual General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the Annual General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the Annual General Meeting.

7. (**Return of Proxy Form**): To vote by proxy, please complete and sign the enclosed Proxy Form and return by:

   (a) post to PO Box 985, Nedlands WA 6009; or

   (b) facsimile to the Company on facsimile number (+61 8) 9389 8327; or

   (c) email to the Company at davidm@broadwaymgt.com.au,

   so that it is received not less than 48 hours prior to commencement of the Meeting.

   Proxy forms received later than this time will be invalid.

MERCHANT HOUSE INTERNATIONAL LIMITED

ARBN 065 681 138

2014

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2014

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MERCHANT HOUSE INTERNATIONAL LIMITED

ARBN 065 681 138

2014

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2014

COMPANY DIRECTORY

DIRECTORS AND COMPANY SECRETARY:

Loretta Lee
Chairperson

Peggy Zi-Yin Liao
Non-executive Independent Director

Xiao Lan Wu
Non-executive Independent Director

Clifford Einstein
Non-executive Independent Director

Christina Lee
Non-executive Independent Director

Ian Burton
Non-executive Independent Director

David Bell
Non-executive Independent Director

David McArthur
Company Secretary

REGISTERED OFFICE:

Level 2, 55 Carrington Street
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WA 6009

PO Box 985
Nedlands
WA 6909

Telephone: +61 8 9423 3200
Facsimile: +61 8 9389 8327

PRINCIPAL OFFICE:

10th Floor, E-Trade Plaza
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Chai Wan, Hong Kong
Telephone: +852 2889 2000
Facsimile: +852 2898 9992

SHARE REGISTRY:

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000
Telephone: +61 8 9323 2000
Facsimile: +61 8 9323 2033

BANKERS:

ANZ Banking Group Limited
Business Relationship Banking
Level 6, 77 St George's Terrace
Perth WA 6060

AUDITORS:

Deloitte Touche Tohmatsu
Level 14, Woodside Plaza
240 St George's Terrace
Perth WA 6000

SOLICITORS:

Steinepreis Paganin
Level 4, Next Building
16 Milligan Street
Perth WA 6000

ASX HOME BRANCH:

Australian Securities Exchange Limited
2 The Esplanade
Perth WA 6000

SECURITIES EXCHANGE:

Merchant House International Limited shares are listed on the Australian Securities Exchange (ASX) – code MHI

DOMICILE:

Hong Kong

COUNTRY OF INCORPORATION:

Bermuda

Dear Shareholder

PERFORMANCE OVERVIEW

Total sales of Merchant House International Group declined 6% from US$83.4 million (A$80.9 million) to US$78.7 million (A$84.3 million) for the 2014 fiscal year. This decline in sales is largely attributable to our deliberate decision to move away from opening price point merchandise and to upgrade our product lines in both footwear and textiles. The weakening Australian dollar to the US dollar in the 12 months to 31 March 2014 has turned a 6% decline in actual sales recorded in the functional currency of the operating entity, into a 4.2% increase when translated into the functional and presentation currency of the Group.

The Footwear Division had a modest drop in sales of 4% when recorded in the functional currency of the operating entity (6% increase when recorded in the functional currency of the Group) compared to last year. Sales in the Textiles Division, excluding seasonal decoration products, remained stable from a year ago.

The Group's operating profit, excluding an extraordinary gain from disposal of the Hong Kong office, declined approximately 53%, from $3.7 million a year ago to $1.7 million. Our profitability was negatively impacted due to management and cost control problems in our wholly-owned textiles manufacturing plant in China. Management expect this to be a one-time incidence and appropriate measures were taken to rectify the problems.

If the gain on sale of our Ming Pao, Hong Kong office of $9.3 million is included, the Group's operating profit is $11.1 million. A portion of this gain was distributed to shareholders in the first half year dividends.

The Board of Directors resolved to distribute A$0.005 as the final dividend for 2013/2014.

FORECAST

In the next fiscal year, we are projecting the Group's sales of approximately the same as last year. With tightening management control and increase in operational efficiency, we expect the Group's profit would be significantly improved.

OUTLOOK

The official ribbon cutting ceremony of our new manufacturing plant in the United States of America ("USA"), Footwear Industries of Tennessee Inc. ("FIT"), at Knoxville took place on 22 May 2014. We expect that the expansion of our production at this new plant will bring new customers and increased orders in the new fiscal year.

While training the workers has proceeded more slowly than expected, this factory has already sold its initial production and will shortly begin producing new styles of 100% "Made in America" shoes for Sears. As more workers are hired and productivity increases we intend to triple the business in the next two years with the goal of having 25% of our shoes bearing the label "Made in America".

Our FIT experience is leading us to look more closely at the entire landscape of returning to America. Many Chinese companies have chosen to move production to Southeast Asia where cost of labour is lower. However, our strategy remains to move closer to the market thereby offering our customers shorter lead time, more flexibility and better inventory control.

FIT has created a tremendous learning opportunity for us in better understanding the risks and rewards of bringing manufacturing back to the USA. We hope to leverage this knowledge by continuing to create new opportunities for our growth and expansion.

I take this opportunity to thank our shareholders for their trust in us and all our staff and workers for their hard work and continuing efforts in making this a productive year and look forward to the next year.

LORETTA LEE
Chairperson

CORPORATE HISTORY

Merchant House International Limited has more than thirty years' experience in sourcing, producing and selling consumer products with an emphasis on footwear, home textiles, seasonal decorations and gifts. The Group's main export market is the United States of America ("USA"), although merchandise is also sold to buyers in Australia, Canada, the United Kingdom and Europe. Customers in the USA include major importers as well as many of the leading retailers. Ms Loretta Lee, the founder of the group, began her business activities in 1978. She is continuing to successfully apply her philosophies and strategies for expansion to Merchant House International Limited.

PHILOSOPHY

The Group's business strategies are based on the following principles:

- Development of specific, concisely defined product niches. The Group concentrates on merchandise which is not subject to time or fashion obsolescence.
- Diversification and expansion of the product range of each division to complement the core business. The Group is divided into four major operating segments; footwear manufacturing, footwear trading, home textile manufacturing and home textile trading.

CORPORATE STRUCTURE

Merchant House International Limited is incorporated in Bermuda. This allows Merchant House International Limited to be an attractive investment no matter where the investor's reside and ensures that investors will only pay tax in accordance with the requirements of their own country of residence. Merchant House International Limited is listed on the Australian Securities Exchange whilst it has its headquarters in Hong Kong.

FOOTWEAR

The Footwear Division was established in 1980. Our main products are casual and industrial men's leather boots and shoes. In 2003 we diversified into American-style western boots. The Division has entered into joint ventures with two shoe factories and, in recent years, has added production lines to increase capacity to over five million pairs of shoes per year.

The Group manufactures footwear in Tianjin, China close to Beijing. This focus allows us to reduce travelling costs and to centralise control of the operations. A liaison office was opened in Tianjin in 1991 to improve communication with the factories, as well as providing quality control services and technical support.

We have supplied work shoes to the USA for 30 years. We are established suppliers to major discount retail chains like Wal-Mart, Kmart and Sears on a direct basis. In 2007, we were awarded Wal-Mart's "Supplier of the Year" Award for the work shoes category. In addition, we also make safety and non-safety outdoor shoes for a variety of nationally recognised brands.

The Tianxing Kesheng factory is licensed to supply Australian Standards approved safety footwear. Since 1996 we have supplied Hard Yakka safety boots, initially to Yakka Pty Ltd and subsequently to Pacific Brands Inc. The Yakka range includes safety and non-safety styles and is widely available in Australia and New Zealand. We also manufacture industrial footwear on behalf of a number of other distributors in Australia under Original Equipment Manufacturer (OEM) agreements.

In 2013, the Group established a new manufacturing plant in the USA to produce "Made in America" labelled footwear products. The extension of production lines to the USA not only marks a milestone for the Group's footwear manufacturing business, but also broadens its product portfolio and customer base.

HOME TEXTILES

Trading in textiles was the first of the Group's ventures and began in 1978. As a result of switching the focus from trading to manufacturing, the Group now manufactures products ranging from kitchen towel sets to tabletop items to decorative pillows. The Group built the Carsan textile factory in Shunde, China and it has been in full operation since April 2002, providing the Group with a stable base for its production. So far the marketing efforts have been concentrated on the USA; however a broader international customer base is being developed.

In 2003 the decorations and gifts business was merged with kitchen textiles into the Home Textiles Division. The Group now makes most of the orders for decorations and gifts at the Carsan factory in Shunde, China. The home décor collections include seasonal ornaments, tabletop, wall and outdoor decorations for Christmas, Harvest, Halloween, Spring and Easter.

The Group's philosophy is to participate actively in all stages of product development and to co-ordinate and control international marketing.

The Board of Directors of Merchant House International Limited (the Board) is responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of Merchant House International Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the Australian Securities Exchange (ASX) Corporate Governance Council June 2010 amendments to the August 2007 *"Corporate Governance Principles and Recommendations (Second Edition)" ("the Recommendations"),* unless otherwise stated.

As required under ASX Listing Rule 4.10.3, the Group makes the following disclosures in relation to each of the Recommendations.

1. BOARD OF DIRECTORS

(a) Role of the Board and responsibilities

The primary role of the Board is to oversee and approve the Group's strategic direction, to oversee the Group's management and business activities and to report to shareholders. The roles and responsibilities of the Board are formalised in written policies.

The Board evaluates these policies on an ongoing basis.

In addition to matters required by law to be approved by the Board, the responsibilities include, but are not limited to:

- the establishment of the long term goals of the Company and strategic plans to achieve those goals;
- monitoring the achievement of these goals;
- the review of management accounts and reports to monitor the progress of the Company;
- the review and adoption of budgets for the financial performance of the Company and monitoring the results on a regular basis to assess performance;
- the review and approval of the annual and half-year financial reports;
- nominating and monitoring the external auditor;
- approving all significant business transactions;
- appointing and monitoring senior management;
- all remuneration, development and succession issues; and
- ensuring that the Company has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities.

(b) Board composition and expertise

The names of the directors of the Company in office at the date of this statement are set out in the directors' report. The directors' report also contains details of each director's skill, experience and education. The Board seeks to establish a board that consists of directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Company's business with excellence.

The Board currently comprises seven directors - one executive Chairperson and six non-executive independent directors. The one executive director is responsible for the corporate requirements of the Company and also to assist with the promotion and expansion of the Company.

1. BOARD OF DIRECTORS *(continued)*

(b) Board composition and expertise *(continued)*

The Board reviews its composition as required to ensure that the Board has the appropriate mix of commercial and financial skills, technical expertise, industry experience, and diversity (including, but not limited to gender and age) which the Board is looking to achieve in its membership. The Board is primarily responsible for identifying potential new directors, however has the option to use an external consulting firm to identify and approach possible new candidates for directorship. When a vacancy exists, or where it is considered that the Board would benefit from the services of a new director with particular skills, candidates with the appropriate experience, expertise and diversity are considered. Each incumbent director is given the opportunity to meet with each candidate on a one to one basis. The full Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of shareholders.

(c) Retirement and re-election of directors

The Constitution of the Company requires one third of directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board since the last Annual General Meeting are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of directors to retire at that Annual General Meeting. Retiring directors are eligible for re-election by shareholders.

(d) Independence of directors

The Board has reviewed the position and association of each of the seven directors in office at the date of this report and considers that six directors are independent. In considering whether a director is independent, the Board has regard to the independence criteria in ASX Corporate Governance Principles and Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of the other directors, as appropriate. A director is considered to be independent where they receive no material financial or contractual benefits with the company over and above their director's fee and entitlements.

The Board considers that, Ms Christina Lee, Ms Peggy Liao, Mr Ian Burton, Mr David Bell, Mr Clifford Einstein and Ms Xiao Lan Wu meet the criteria in Principle 2. They have no material business or contractual relationship with the Company, other than as a director, and no conflicts of interest which could interfere with the exercise of independent judgement. Accordingly, they are considered to be independent.

The Chairperson of Merchant House International Limited is Ms Loretta Lee. Ms Lee founded the Merchant House International Group, and has held the role of Chairperson since the Company's inception. Ms Lee is an integral part of the Company and also a major shareholder and due to her detailed knowledge of the business and the specialised skills that she brings to the Company, it is not practical for her role as Chairperson to be carried out by an independent director, nor for the roles of Chairperson and Chief Executive Officer to be carried out by different people.

(e) Director education

The non-executive directors are given every opportunity to gain a better understanding of the business, the industry, and the environment within which the Group operates, and are given access to continuing education opportunities to update and enhance their skills and knowledge.

1. BOARD OF DIRECTORS *(continued)*

(f) Independent professional advice

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior approval of the Chairperson, each director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

(g) Board performance review

There is no formal appraisal system in place for Board performance on a director by director basis. The performance of all directors is assessed through review by the Board as a whole of a director's attendance at, and involvement in, Board meetings, their performance and other matters identified by the Board or other directors. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a director's performance.

The Company has not conducted a performance evaluation of the members of the Board during the reporting year. However, the Board conducts a review of the performance of the Company against budgeted targets on an ongoing basis.

(h) Conflict of interest

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

(i) Directors' remuneration

Executive directors may be remunerated by both fixed remuneration and equity performance based remuneration and no termination payments will be agreed other than a reasonable period of notice of termination as detailed in the executive's employment contract.

2. BOARD COMMITTEES

Board committees and membership

The functions to be performed by sub-committees under the ASX Corporate Governance Principles and Recommendations are currently being performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee of the Board. However, meetings are held throughout the year between the Company Secretary, Mr David McArthur, the Board and / or Board members as appropriate and the Company's auditors to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

3. MANAGING BUSINESS RISK

The Board believes that risk management and compliance are fundamental to sound management and that oversight of such matters is an important responsibility of the Board. The Group maintains policies and practices designed to identify and manage significant business risks, including:

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Company's business plan;
- corporate strategy guidelines and procedures to review and approve the Company's strategic plans; and
- insurance and risk management programmes which are reviewed by the Board.

3. MANAGING BUSINESS RISK *(continued)*

The Board reviews these systems and the effectiveness of their implementation annually and considers the management of risk at its meetings. The Company's risk profile is reviewed annually. The Board may consult with the Company's external auditors on external risk matters or other appropriately qualified external consultants on risk generally, as required.

(a) Internal controls

Procedures have been established at the Board and executive management levels that are designed to safeguard the assets and interests of the Company, and to ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures. To achieve this, the executive directors perform the following procedures:

- ensure appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with Board requirements; and
- conduct a detailed review of published accounts.

(b) CEO and CFO assurance on corporate reporting

The Board receives monthly management reports about the financial condition and operational results of the consolidated group. The Company is not required to comply with the Corporations Act 2001 as it is a foreign company registered in Bermuda.

(c) Environmental regulation

The Company has a policy of at least complying, but in most cases exceeding, its environmental performance obligations. No environmental breaches have been notified by any Government agency during the year ended 31 March 2014.

4. ETHICAL STANDARDS

All directors and executives are expected to act with the utmost integrity and objectivity, striving at all times to enhance the performance and reputation of the Company and its controlled entities.

(a) Code of Conduct

In pursuit of the highest ethical standards, the Company has adopted a Code of Conduct which establishes the standards of behaviour required of directors and employees in the conduct of the Company's affairs. This Code is provided to all directors and employees. The Board monitors implementation of this Code. Unethical behaviour is to be reported to the Chairperson as soon as practicable.

The Code of Conduct is based on respect for the law, and acting accordingly, dealing with conflicts of interest appropriately, using the consolidated entity's assets responsibly and in the best interests of the Company, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

The Group has advised each director, manager and employee that they must comply with the Group's Ethical Standards.

(b) Diversity Policy

The Company has recently established a Diversity Policy which provides the written framework and objectives for achieving a work environment that values and utilises the contributions to employees' backgrounds, experiences, and perspectives, irrespective of gender, age, ethnicity and cultural background. The Board is responsible for developing, where possible, measurable objectives and strategies to support the framework and objectives of the Diversity Policy. The Board is responsible for monitoring the progress of the measurable objectives through various monitoring, evaluation and reporting mechanisms.

4. ETHICAL STANDARDS *(continued)*

(b) *Diversity Policy (continued)*

With over 50% of the board and key management personnel represented by female members, the Group continues to achieve the objectives of its diversity policy. Currently, there are no vacant Board or key management personnel positions. Should such a position become vacant, qualified candidates interviewed for any new board appointment or key management personnel position, will include both genders.

Pursuant to *Recommendation 3.3* of the Recommendations, the Company discloses the following information as at the date of this report:

	2014		2013	
Gender representation	**Women**	**Men**	**Women**	**Men**
Group representation	72%	28%	67%	33%
Board representation	57%	43%	57%	43%
Senior management representation	57%	43%	50%	50%
Corporate services provider representation	78%	22%	78%	22%

(c) *Trading in Company securities by directors and employees*

The Board has adopted a policy in relation to dealings in the securities of the Company which applies to all directors and employees. Under the policy, directors are prohibited from short term or "active" trading in the Company's securities and directors and employees are prohibited from dealing in the Company's securities whilst in possession of price sensitive information. The Chairperson must also be notified of any proposed transaction.

This policy is provided to all directors and employees. Compliance with it is reviewed on an ongoing basis in accordance with the Company's risk management systems.

5. COMMUNICATION WITH SHAREHOLDERS

The Board aims to ensure that shareholders are kept informed of all major developments affecting the Company. Information is communicated to shareholders as follows:

- as the Company is a disclosing entity, regular announcements are made to the Australian Securities Exchange in accordance with the Company's continuous disclosure policy, including half-year reviewed accounts, year-end audited accounts and an annual report;
- the Board ensures the annual report includes relevant information about the operations of the Company during the year, changes in the state of affairs and details of future developments;
- any proposed major changes in the Company's affairs are submitted to a vote of shareholders;
- the Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Company's strategies and goals. All shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Company; and
- the external auditor is required to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

The Board reviews this policy and compliance with it on an ongoing basis.

5. COMMUNICATION WITH SHAREHOLDERS *(continued)*

(a) Continuous disclosure

The Company has in place a continuous disclosure policy, a copy of which is provided to all Company officers and employees who may from time to time be in the possession of undisclosed information that may be material to the price or value of the Company's securities.

The continuous disclosure policy aims to ensure timely compliance with the Company's continuous disclosure obligations under the ASX Listing Rules and ensures officers and employees of the Company understand these obligations.

The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairperson, who in consultation with the Board (where practicable) and any other appropriate personnel, will consider the information and whether disclosure is required and prepare an appropriate announcement.

At least once in every 12 month period, the Board will review the Company's compliance with this continuous disclosure policy and update it from time to time, if necessary.

ASX PRINCIPLES COMPLIANCE STATEMENT

Pursuant to the ASX Listing Rules, the Company advises that it does not comply with the following Corporate Governance Principles and Recommendations, issued by the ASX Corporate Governance Council. Reasons for the Company's non-compliance are detailed below.

Recommendation 2.2

The chair should be an independent director.

Recommendation 2.3

The roles of the chair and chief executive officer should not be exercised by the same individual.

The Chairperson of Merchant House International Limited is Ms Loretta Lee. Ms Lee founded the Merchant House International Group, and has held the role of Chairperson since the Company's inception. Ms Lee is an integral part of the Company and also a major shareholder. Because of her detailed knowledge of the business and the specialised skills that she brings to the Company, it is more practical for Ms Lee to carry out both roles as the Chairperson and Chief Executive Officer.

Recommendation 2.4

The Board should establish a nomination committee.

Recommendation 4.1

The Board should establish an audit committee.

Recommendation 4.2

The audit committee should be structured so that it:

- *consists only of non-executive members*
- *consists of a majority of independent directors*
- *is chaired by an independent director, who is not chair of the Board*
- *has at least three members*

ASX PRINCIPLES COMPLIANCE STATEMENT *(continued)*

Recommendation 4.3

The audit committee should have a formal charter.

Recommendation 4.4

Companies should provide the information indicated in the Guide to reporting on principle 4.

The functions to be performed by sub-committees under the ASX Corporate Governance Principles and Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee of the Board. However, meetings are held throughout the year between the Company Secretary, Mr David McArthur, the Board and / or Board members as appropriate and the Company's auditors to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

Recommendation 7.3

The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Board receives monthly management reports about the financial condition and operational results of the consolidated group. The Company is not required to comply with the Corporations Act 2001 as it is a foreign company registered in Bermuda..

Recommendation 8.1

The Board should establish a remuneration committee.

Recommendation 8.2

The remuneration committee should be structured so that it:

- *consists of a majority of independent directors*
- *is chaired by an independent director*
- *has at least three members*

Recommendation 8.4

Companies should provide the information indicated in the Guide to reporting on principle 8

The functions to be performed by sub-committees under the ASX Corporate Governance Principles and Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee of the Board. However, meetings are held throughout the year between the Company Secretary, Mr David McArthur, the Board and / or Board members as appropriate and the Company's auditors to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

The directors of Merchant House International Limited submit herewith the annual financial statements of the Company and its subsidiaries ("the Group") for the financial year ended 31 March 2014. The directors report as follows:

1. INFORMATION ABOUT THE DIRECTORS

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

- Loretta Lee
- Christina Lee
- Peggy Liao
- Ian Burton
- Xiao Lan Wu
- David Bell
- Clifford Einstein

Ms Loretta B H Lee *Chairperson*

Appointed: 15 July 1994

Experience and expertise

Loretta 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. Since that time she has not looked back.

Other current directorships – None

Former directorships in the past three years – None

Interest in shares and options – 50,401,588 ordinary shares

1. INFORMATION ABOUT THE DIRECTORS *(continued)*

Ms Christina N K Lee *Non-executive independent director*

Appointed: 15 July 1994

Experience and expertise

Christina Lee is a well-known figure in Hong Kong's business and social communities, with extensive investments both in the territory and internationally.

Ms Lee is a supporter of many Hong Kong charitable institutions and is a Council Member of Caritas, one of the territory's major charities.

Other current directorships – None

Former directorships in the past three years

Non-executive director	Television Broadcasts Limited	1981 to 3 February 2012
Non-executive director	Sa Sa International Holdings Limited	1997 to 23 August 2012

Interest in shares and options – 1,102,805 ordinary shares

Ms Peggy Zi-Yin Liao *Non-executive independent director*

Appointed: 15 July 1994

Experience and expertise

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

Ms Liao founded her own law firm, Messrs. Fung & Liu, and remained the managing partner for 12 years (1992-2004).

On 1 November 2004, Ms Liao merged the business of Fung & Liu with K. C. Ho & Fong whose headquarters are in Hong Kong but with offices in mainland China. Ms Liao remains active as a senior consultant and expands her practice in the mainland China markets to include cross-bordered litigation, substantial landed-transactions, commercial banking and project finance.

Ms Liao is also active in community services for the Hong Kong Government and sits on a number of educational, professional, and charitable organisations as follows:

- Hong Kong Government's Disciplinary Panel of the Hong Kong Institute of Certified Public Accountants since 2005.
- She is a member of the Court of the City University of Hong Kong since 2006; and served as a Council Member of the City University from 1998-2003.
- Hong Kong Arts Festival's Development Committee.
- The China Oxford Scholarship Fund of the Oxford University.
- Ms Liao is legal adviser to a number of community service organisations including the Hong Kong Federation of Women, Jean Wong School of Ballet and the Tsinform C. Wong Memorial Scholarship.

Ms Liao was elected one of the Ten Outstanding Young Persons in Hong Kong by the Hong Kong Junior Chamber of Commerce in 1995.

Other current directorships – None

Former directorships in the past three years – None

Interest in shares and options – 635,455 ordinary shares

1. INFORMATION ABOUT THE DIRECTORS *(continued)*

Mr Ian J Burton *Non-executive independent director*

Appointed: 15 July 1994

Experience and expertise

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

Mr Burton is a non-executive independent director of Merchant House International Ltd and his 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 in the past three years

Non-executive chairman	Renewable Heat & Power Limited	9 August 2006 to 14 August 2013

Interest in shares and options – 305,500 ordinary shares

Ms Xiao Lan Wu *Non-executive independent director*

Appointed: 9 June 2004

Experience and expertise

Wu Xiao Lan 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 is a non-executive director of Merchant House International Limited and her China experience is of great assistance to the Board and the operations of the Group.

Other current directorships – None

Former directorships in the past three years – None

Interest in shares and options – None

1. INFORMATION ABOUT THE DIRECTORS *(continued)*

Mr Clifford J Einstein *Non-executive independent director*

Appointed: 2 August 2007

Experience and expertise

Clifford Einstein has spent 49 years in the advertising business where he was most recently Chairman of Dailey and Associates, an international advertising agency headquartered in West Hollywood, California.

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

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

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

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

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

Clifford joined the Board of Trustees of the Los Angeles Museum of Contemporary Art in 1985 and is currently Chairman Emeritus of that board. He has been awarded an honorary PhD from Otis College of Art and Design where he also served as a trustee, and most recently was featured in Time magazine as a celebrated art collector.

Clifford has a long history of philanthropic work for several organisations. These include The Jewish Community Foundation, The Discovery Eye Foundation (where he is a board member) and The Rape Foundation, where he was given the Governor's Victim's Service Award. He is currently a board member of Cost Plus World Market.

Other current directorships – None

Former directorships in the past three years

Non-executive director	Cost Plus World Market	6 April 2007 to 29 June 2012

Interest in shares and options – 585,217 ordinary shares

1. INFORMATION ABOUT THE DIRECTORS *(continued)*

Mr David J T Bell *Non-executive independent director*

Appointed: 14 August 2007

Experience and expertise

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

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

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

Other current directorships – None

Former directorships in the past three years – None

Interest in shares and options – 55,000 ordinary shares

All directors held their positions as a director throughout the entire financial year unless otherwise stated.

2. DIRECTORS' SHAREHOLDINGS

The following table sets out each director's relevant interest in shares of the Company at the date of this report:

Director	Ordinary Shares
Ms L Lee	50,401,588
Ms C Lee	1,102,805
Ms P Liao	635,455
Mr I Burton	305,500
Ms X L Wu	Nil
Mr C J Einstein	585,217
Mr D J Bell	55,000

3. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

4. SHARE OPTIONS GRANTED TO DIRECTORS AND SENIOR MANAGEMENT

No share options were granted during or since the end of the financial year.

5. COMPANY SECRETARY

David McArthur is a chartered accountant and was appointed to the position of company secretary in 1987. Mr McArthur has over 30 years' experience in the corporate management of publicly listed companies.

6. PRINCIPAL ACTIVITIES

The Group's principal activities in the course of the financial year were the design, manufacture and marketing of leather boots and shoes, seasonal decorations and gifts, home decoration items and kitchen textiles.

During the financial year there was no significant change in the nature of those activities.

7. OPERATING AND FINANCIAL REVIEW

Summary of material transactions

The financial year ended 31 March 2014 was a time of transition for both footwear and textile divisions as the Group sought to upgrade to higher margin products with a more branded focus in merchandise assortment. Both divisions suffered some temporary loss of business as a result of this transition. This loss of business is a "one off" event and is not expected to affect the long term business of the Group.

The Group's main export market is the United States of America ("USA"), although merchandise is also sold to buyers in Australia, Canada, the United Kingdom and Europe. Customers in the USA include major importers as well as many of the leading retailers. As a result, in April 2013 the Group established a new US manufacturing subsidiary named Footwear Industries of Tennessee Inc. ("FIT"), securing its plans to re-shore the footwear manufacturing division. FIT has acquired premises and will commence a manufacturing operation for the US footwear market in the new financial year.

On 14 June 2013, the Board of Directors executed a sale and purchase agreement for the disposal of its premises and parking space in Chai Wan, Hong Kong. The total consideration for the sale was HK$ 88 million (A$11.9 million) resulting in a gain on sale of HK$68 million (A$9.3 million).

On 15 October 2013, the Group's Hong Kong head office was relocated to 10th Floor, E-Trade Plaza, No. 24 Lee Chung Street, Chai Wan, Hong Kong.

A more detailed review of operations is set out in the Chairperson's Report.

Financial results

The profit for the financial year ended 31 March 2014 attributable to members of Merchant House International Limited after income tax expense, was $8,771 thousand (2013 profit: $3,042 thousand).

$9,337 thousand of the profit is attributable to the gain on disposal of the Ming Pao offices in Hong Kong on 1 November 2013. The funds from the sale of these assets will be earmarked for future growth and development activities.

The profit attributable to shareholders is after a loss of $1,229 thousand following the Group's decision to deregister one of its discontinued operations, China Christmas Collection Limited.

On 31 October 2013, the directors declared an unfranked dividend of 0.5 cent per share for the half year ended 30 September 2013, and a special dividend of 1.5 cents per share. This was paid to the holders of fully paid ordinary shares on 30 January 2014

Shareholder returns	**2014**	**2013**	**2012**	**2011**	**2010**
Net profit attributable to equity holders ($'000)	8,771	3,042	3,564	2,687	4,024
Basic EPS (cents)	9.31	3.23	3.79	2.86	4.30
Net tangible assets (NTA) ($'000)	39,477	27,708	26,091	22,762	23,478
NTA Backing (cents)	41.88	29.44	27.72	24.23	25.04

Net profit amounts for 2010 to 2014 have been calculated in accordance with Australian Accounting Standards (AASBs).

Review of financial condition

During the year the net assets of the Group increased by $11,769 thousand from $27,937 thousand at 31 March 2013 to $39,706 thousand at 31 March 2014. This resulted primarily from the gain on sale of the Chai Wan property and fluctuation in foreign exchange rates.

7. OPERATING AND FINANCIAL REVIEW *(continued)*

Changes in state of affairs

In April 2013 the Group established a new US manufacturing subsidiary named Footwear Industries of Tennessee Inc. (FIT) in Tennessee. FIT is a 100% owned subsidiary of the recently incorporated Pacific Bridges Enterprises Inc. (Delaware, USA). FIT has acquired premises and will commence a manufacturing operation for the US footwear market in the new financial year. The new premises cost US$ 884 thousand (A$ 947 thousand).

On 14 June 2013, the Board of Directors executed a sale and purchase agreement for the disposal of its premises and parking space in Chai Wan, Hong Kong. The total consideration for the sale was HK$ 88 million (A$ 12.16 million). The sale was completed on 1 November 2013 and resulted in a gain of $9,337 thousand.

Effective from 15 October 2013, the Group's Hong Kong head office was relocated to 10th Floor, E-Trade Plaza, No. 24 Lee Chung Street, Chai Wan, Hong Kong.

There was no other significant change in the state of affairs of the Group other than that referred to in the financial statements or notes thereto.

8. SUBSEQUENT EVENTS

Other than the matters disclosed in note 39 of the notes to the consolidated financial statements, there have been no matters or circumstance that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial years.

9. FUTURE DEVELOPMENTS

Other than as disclosed in the Chairperson's Report, there are no other likely developments in the operations of the Group in future financial years that require disclosure in this report.

10. ENVIRONMENTAL REGULATIONS

The Group has complied with all environmental regulations applying to its operations.

11. DIVIDENDS

In respect of the financial year ended 31 March 2014 the directors declared and approved the payment of a final dividend of 0.5 cents per share unfranked on 20 May 2014. An interim dividend of 2.0 cents per share, unfranked, was paid on 31 January 2014.

In respect of the financial year ended 31 March 2013, as detailed in the Directors' Report for that financial year, an interim dividend of 1.0 cent per share unfranked was paid on 24 January 2013. The final dividend of 0.5 cent per share unfranked was paid on 22 August 2013.

12. SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

No shares were under option at any time during or since the end of the financial year.

13. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Company has not, during or since the financial year end, 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.

14. DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held during the year ended 31 March 2014, and the numbers of meetings attended by each director were:

	Full meetings of Directors	
Director	**No. of meetings attended**	**No. of meetings held whilst a director**
Ms L Lee	2	2
Ms C Lee	2	2
Ms P Liao	2	2
Mr I Burton	2	2
Ms X L Wu	-	2
Mr C J Einstein	2	2
Mr D J Bell	2	2

15. 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 37 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 37 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.

16. INDEPENDENT AUDITOR'S REPORT

The independent auditor's report is included after this report.

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

On behalf of the Directors

I J BURTON
Director

Perth, Western Australia
20 June 2014

Deloitte.

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

We have audited the accompanying financial report of Merchant House International Limited, which comprises the statement of financial position as at 31 March 2014, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 24 to 73.

The Directors' Responsibility for the Financial Report

The directors' are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the directors' determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 3, the directors' also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors', as well as evaluating the overall presentation of the financial report.

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

Opinion

In our opinion:

(a) the financial report of Merchant House International Limited presents fairly, in all material respects, the consolidated entity's financial position as at 31 March 2014 and its financial performance for the year then ended in accordance with Australian Accounting Standards; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Smith

Neil Smith
Partner
Chartered Accountants
Perth, 20 June 2014

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) give a true and fair view of the Group's financial position as at 31 March 2014 and of its performance for the financial year ended on that date;

(ii) comply with Australian Accounting Standards (including the Australian Accounting Interpretations); 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 3(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

I J BURTON

Director

Perth, Western Australia

20 June 2014

	Note	2014 $'000	2013 $'000
CURRENT ASSETS			
Cash or cash equivalents	33(a)	15,010	5,419
Trade and other receivables	12	7,299	7,855
Inventories	13	2,230	2,281
Other	20	330	242
TOTAL CURRENT ASSETS		24,869	15,797
NON CURRENT ASSETS			
Investments accounted for using the equity method	15	7,362	6,775
Property, plant and equipment	16	11,243	9,968
Lease premium for leasehold land	17	1,120	1,003
Deferred tax assets	10(c)	4	4
Goodwill	19	229	229
TOTAL NON CURRENT ASSETS		19,958	17,979
TOTAL ASSETS		44,827	33,776
CURRENT LIABILITIES			
Trade and other payables	21	4,966	5,547
Current tax payable	10(b)	49	160
Provisions	23	42	61
TOTAL CURRENT LIABILITIES		5,057	5,768
NON CURRENT LIABILITIES			
Provisions	23	64	71
TOTAL NON CURRENT LIABILITIES		64	71
TOTAL LIABILITIES		5,121	5,839
NET ASSETS		39,706	27,937
EQUITY			
Issued capital	25	2,944	2,913
Reserves	26	218	(5,105)
Retained earnings	27	36,544	30,129
TOTAL EQUITY		39,706	27,937

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2014

	Note	2014 $'000	2013 $'000
Continuing operations			
Revenue	6	84,312	80,884
Cost of sales	13	(74,072)	(70,104)
Gross profit		10,240	10,780
Investment income	6	121	105
Other gains and losses	7	9,434	211
Share of profits of associates	15	788	852
Provision for impairment of investment in an associate	15	(96)	-
Administration expenses		(8,001)	(6,937)
Finance costs		(3)	(11)
Other expenses		(1,413)	(1,314)
Profit before tax	9	11,070	3,686
Income tax expense	10(a)	(1,070)	(644)
Profit for the year from continuing operations		10,000	3,042
Discontinued operations			
Loss on dissolution of a subsidiary	8	(1,229)	-
Profit for the year		8,771	3,042
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss		-	-
Total items that will not be reclassified subsequently to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations profit / (loss)		4,404	(14)
Reversal of foreign currency translation reserve on dissolution of a subsidiary		921	-
Income tax on items that may be reclassified subsequently to profit or loss		(2)	1
Total items that may be reclassified subsequently to profit or loss		5,323	(13)
Other comprehensive income for the year, net of income tax		5,323	(13)
Total comprehensive income for the year		14,094	3,029
Profit for the year attributable to owners of the parent		8,771	3,042
Total comprehensive income attributable to owners of the parent		14,094	3,029
Earnings per share from continuing operations			
Basic and diluted (cents per share)	11	10.62	3.23
Loss per share from discontinued operations			
Basic and diluted (cents per share)	11	(1.31)	-
Earnings per share for profit attributable to owners of the parent			
Basic and diluted (cents per share)	11	9.31	3.23

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

	Note	Issued capital $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Total $'000
		Attributable to owners of the parent			
Balance at 1 April 2012		2,913	28,499	(5,092)	26,320
Profit for the year		-	3,042	-	3,042
Other comprehensive income		-	-	(13)	(13)
Total comprehensive income for the year		-	3,042	(13)	3,029
Dividends	28	-	(1,412)	-	(1,412)
Balance at 31 March 2013		2,913	30,129	(5,105)	27,937
Balance at 1 April 2013		2,913	30,129	(5,105)	27,937
Profit for the year		-	8,771	-	8,771
Reversal of foreign currency translation reserve on dissolution of a subsidiary		-	-	921	921
Other comprehensive income		-	-	4,402	4,402
Total comprehensive income for the year		-	8,771	5,323	14,094
Recognition of share-based payments		31	-	-	31
Dividends	28	-	(2,356)	-	(2,356)
Balance at 31 March 2014		2,944	36,544	218	39,706

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2014

	Note	2014 $'000	2013 $'000
Cash flows from operating activities			
Receipts from customers		85,204	79,967
Payments to suppliers and employees		(82,489)	(78,485)
Interest and other costs of finance paid		(3)	(11)
Income tax paid		(1,203)	(413)
Net cash generated from operating activities	33(c)	1,509	1,058
Cash flows from investing activities			
Interest received		76	65
Proceeds from disposal of property, plant and equipment		12,133	14
Payments for property, plant and equipment		(3,640)	(501)
Dividend received from an associate		1,255	688
Net cash generated from investing activities		9,824	266
Cash flows from financing activities			
Repayment of borrowings		(2,240)	(3,605)
Proceeds from borrowings		2,240	3,605
Dividends paid	28	(2,356)	(1,412)
Net cash used in financing activities		(2,356)	(1,412)
Net increase / (decrease) in cash and cash equivalents		8,977	(88)
Cash and cash equivalents at the beginning of the year		5,419	5,626
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		614	(119)
Cash and cash equivalents at the end of the year	33(a)	15,010	5,419

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

1. GENERAL INFORMATION

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

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

Registered Office	**Principal place of business**
Level 2, 55 Carrington Street	10th Floor, E-Trade Plaza
Nedlands	No.24 Lee Chung Street
Western Australia 6009	Chai Wan
	Hong Kong

The entity's principal activities are the manufacturing and distribution of home textiles and footwear.

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

a) *New and revised AASBs affecting amounts reported and / or disclosed in the financial statements*

During the current year, the Group has applied a number of new and revised AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

(i) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

AASB 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout Australian Accounting Standards. Subject to limited exceptions, AASB 13 is applied when fair value measurements or disclosures are required or permitted by other AASBs. The Group has applied AASB 13 for the first time in the current year and requires prospective application from 1 April 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard to comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by AASB 13 for the 2013 comparative period. Other than the additional disclosures, the application of AASB 13 does not have any material impact on the amounts recognised in the consolidated financial statements.

(ii) AASB 119 Employee Benefits (2011)

In the current year, the Group has applied AASB 119 (as revised in 2011) *Employee Benefits* and the related consequential amendments for the first time.

AASB 119 changes the definition of short-term and long-term employee benefits to clarify the distinction between the two. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The adoption of this standard does not have any material impact on the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS *(continued)*

a) New and revised AASBs affecting amounts reported and / or disclosed in the financial statements *(continued)*

(iii) AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements to AASBs 2009 – 2011 Cycle

The Annual Improvements to AASBs 2009 – 2011 have made a number of amendments to various AASBs. The amendments that are relevant to the Group are the amendments to AASB 101 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when:

- An entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements; and
- The retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position.

The amendments specify that related notes are not required to accompany the third statement of financial position. These changes do not impact the financial statements.

b) New and revised standards on consolidation, joint arrangements, associates and disclosures

In August 2011, a suite of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements,* AASB 12 *Disclosure of Interest in Other Entities*, AASB 127 (as revised in 2011) *Separate Financial Statements* and AASB 128 (as revised in 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards, amendments to AASB 10, AASB 11 and AASB 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Group has applied for the first time AASB 10, AASB 12 and AASB 128 (as revised in 2011) together with the amendments to AASB 10 and AASB 12 regarding the transitional guidance. AASB 11 is not applicable to the Group as it does not have joint arrangements. AASB 127 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

(i) AASB 10 Consolidated Financial Statements

AASB 10 introduces a single control model to determine whether an investee should be consolidated. AASB 10 changes the definition of control such that an investor controls an investee when:

- it has power over an investee,
- it is exposed, or has rights, to variable returns from its involvement with the investee, and
- it has the ability to use its power to affect its returns.

All three of these criteria must be met for an investor to have control over an investee.

The directors of the Group made an assessment at the date of the initial application of AASB 10 (i.e. 1 July 2013) as to whether or not the Group has control over its three 30 – 33.79 per cent ownership interests in accordance with the new definition of control and the related guidance set out in AASB 10. The directors concluded that it does not have control over these interests and there would be no impact to the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS *(continued)*

b) *New and revised standards on consolidation, joint arrangements, associates and disclosures (continued)*

(ii) AASB 12 Disclosure of Interests in Other Entities (2011)

AASB 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. In general, the application of AASB 12 has resulted in more extensive disclosures in the consolidated financial statements (please see notes 14 and 15 for details).

(iii) AASB 128 Investments in Associates and Joint Ventures (2011)

AASB 128 (2011) supersedes AASB 128 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The directors concluded that it does not have control over these interests and there would be no impact to the consolidated financial statements.

(iv) AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments

This standard amends AASB 10 and various Australian Accounting Standards to revise the transition guidance on the initial application of those Standards. This standard also clarifies the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments. The adoption of this amending standard does not have any material impact on the consolidated financial statements.

c) *Standards and Interpretations in issue not yet adopted*

At the date of authorisation of the financial statements, the following Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 31 March 2014:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments' (December 2009), AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9' AASB 9 'Financial Instruments' (December 2010) and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)' AASB 2012-6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures' (part C)	1 January 2017	31 March 2018
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 132)'	1 January 2014	31 March 2015
AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non- Financial Assets'	1 January 2014	31 March 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	31 March 2015
AASB 1031 'Materiality' (2013)	1 January 2014	31 March 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments' (part A & B)	1 January 2014	31 March 2015

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS *(continued)*

c) *Standards and Interpretations in issue not yet adopted* (continued)

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Annual Improvements to IFRSs 2010 – 2012 Cycle	1 July 2014	31 March 2016
Annual Improvements to IFRSs 2011 – 2013 Cycle	1 July 2014	31 March 2016
IFRS 15 'Revenue from Contracts with Customers'	1 July 2017	31 March 2019

The impact of these recently issued or amended standards and interpretations, have not yet been assessed by management.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) *Statement of compliance*

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the directors on 20 June 2014.

For the purpose of preparing the consolidated financial statements, the Group is a for profit entity.

(b) *Basis of preparation*

The consolidated financial statements have been prepared on the basis of historical cost, except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting year, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars ("AUD"), unless otherwise indicated.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurable date. Fair value for measurement and / or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurable date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Company is a company of the kind referred to in Australian Securities and Investments Commission (the ASIC) Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and

any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests have a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Basis of consolidation *(continued)*

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Groups ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounting for as equity transactions. The carrying amounts of the Group's interests and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

- the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified / permitted by applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate.

(d) Investments in associates

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

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

(e) Foreign currency

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

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance date.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Foreign currency *(continued)*

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the year in which they arise except for:

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the consolidated foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into AUD at exchange rates prevailing on the balance date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such exchange differences are recognised in other comprehensive income in the year in which the foreign operation is disposed. On the disposal of a foreign operation, all of the accumulated exchange differences in respect of that operation attributable to the group are reclassified to profit or loss. Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to Australian Accounting Standards are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date. Goodwill arising on acquisitions before the date of transition to Australian Accounting Standards is treated as an AUD denominated asset.

(f) Goods and services tax

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

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

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

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

(g) Revenue

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

Sale of goods

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

Dividend and interest income

Dividend income from investments is recognised when the Group's right to receive payment has been established.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Revenue *(continued)*

Dividend and interest income (continued)

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

Rental income

Rental income from office leases is recognised on a straight line basis over the term of the lease.

(h) Share-based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. The fair value determined at the grant date is recognised as an employee expense on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

(i) Income tax

Current tax

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 year. 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 years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates and interest in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Income tax (continued)

Deferred tax (continued)

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

Current and deferred tax for the year

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

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash-on-hand, cash in banks and investments in money market instruments. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(k) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements. Further information regarding equity accounted investments is detailed in note 3(d).

Other financial assets are classified into the following specified categories: 'financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group's other financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Financial assets *(continued)*

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest income is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Except for available for sale assets, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment, at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(l) Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Property, plant and equipment

Plant and equipment, land and buildings, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net costs or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting year with the effect of any changes recognised on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The following estimated useful lives are used in the calculation of depreciation:

• Buildings	20 – 50 years
• Leasehold improvements	5 years
• Plant and equipment	5 – 10 years
• Equipment under finance lease	5 years
• Leasehold land under finance	50 years

(n) Borrowing costs

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

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

(o) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Leasehold land under finance lease is classified within property, plant and equipment.

Leases of land and buildings

When a lease includes both land and buildings elements, the Group assesses the classification of each element as a finance or an operating lease separately, taking into account the transfer of the risk and rewards of the arrangement.

Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Leased assets *(continued)*

Group as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating leases

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Rental income under operating leases is recognised in accordance with the company's revenue recognition policy.

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

(p) Goodwill

Goodwill acquired in a business combination, representing the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

If the recoverable amount of a cash-generating unit is estimated to be less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the cash generating unit on a pro-rata basis. An impairment loss is recognised immediately in profit or loss.

(q) Impairment of long-lived assets excluding goodwill

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Employee benefits

Short-term and long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Retirement benefit costs

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

(s) Provisions

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

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

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

Onerous contracts

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

Returns

Provision for returns represents the present value of the directors' best estimate of the future sacrifice of economic benefits that will be incurred on the return of defective goods. The provision is based on historical return percentages.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) *Financial instruments issued by the company*

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of:

- the amount of the obligation under the contract, as determined under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'; and
- the amount initially recognised less, where appropriate, cumulative amortisation in accordance with the revenue recognition policies, as described in note 3(g).

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(u) *Seasonality of operations*

The operating results of the Group are significantly affected by seasonal fluctuations. This is particularly due to increased demand by consumers in the USA and Canada for home textile products between June and October for Harvest, Halloween and Christmas.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Refer to note 3 for a discussion of critical judgements in applying the entity's accounting policies, and key sources of estimation uncertainty.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and carrying amounts of assets and liabilities including those related to the valuation of buildings and leasehold land, impairment of goodwill and the provision of goods returned. The estimates and assumptions concerning the future are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The following are the critical judgements and estimates that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Employee Entitlements

Management judgement is applied in determining the following key assumptions used in the calculation of a termination payment for long service at balance date:

- future increases in wages and salaries;
- future on cost rates; and
- experience of employee departures and years of service.

Refer to note 23 for further details on the key management judgements used in the calculation of long service.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Refer to note 19 for further details.

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting year.

Refer to note 3(m) for further details.

Impairment of trade receivables

At each reporting date, the Group evaluates the collectability of trade receivables and records provisions for doubtful debts based on experience including comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of debt collected may differ from the estimated levels of recovery, and could impact operating results positively or negatively.

Refer to note 3(k) for further details.

5. SEGMENT INFORMATION

Products and services from which reportable segments derive their revenues

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

- Home textile manufacturing
- Home textile trading
- Footwear manufacturing
- Footwear trading

The home textiles manufacturing segment manufacture home textile products for sale by the home textiles trading segment.

The home textiles trading segment supply textile products.

The footwear manufacturing segment will manufacture work boots and shoes for sale by the footwear trading segment once the USA factory becomes operational in first quarter of the next financial year.

The footwear trading segment supply work boots and shoes.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable operating segment for the years under review:

	Assets		Liabilities	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Home textile trading	17,195	8,688	222	412
Home textile manufacturing	11,738	11,923	1,594	1,914
Footwear trading	12,595	13,151	2,941	3,389
Footwear manufacturing	3,271	-	232	-
Total segment assets and liabilities	44,799	33,762	4,989	5,715
Corporate and other segment assets / liabilities	28	14	132	124
Total	44,827	33,776	5,121	5,839

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

- all assets are allocated to reportable segments other than goodwill and deferred tax assets. Goodwill is allocated to reportable segments as described in note 19; and
- all liabilities are allocated to reportable segments other than parent entity liabilities and deferred tax liabilities.

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

5. SEGMENT INFORMATION *(continued)*

Segment revenue and results

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

	Revenue		Segment profit / (loss)	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Home textile trading				
External customers	31,737	31,281	2,355	2,821
Intra-segment	12,556	10,362	-	-
Total home textile trading	44,293	41,643	2,355	2,821
Home textile manufacturing				
Inter-segment	25,646	24,466	(2,925)	(1,991)
Total home textile manufacturing	25,646	24,466	(2,925)	(1,991)
Footwear trading				
External customers	52,575	49,603	3,586	3,022
Total footwear trading	52,575	49,603	3,586	3,022
Footwear manufacturing				
External customers	-	-	(405)	-
Total footwear manufacturing	-	-	(405)	-
Eliminations	(38,202)	(34,828)	(1,377)	(731)
Total for continuing operations	84,312	80,884	1,234	3,121
Share of profits of associates			788	852
Provision for impairment of associates			(96)	-
Net gain on sale of fixed assets			9,286	-
Interest income			104	65
Central administration costs and directors' salaries			(243)	(341)
Finance costs			(3)	(11)
Profit before tax (continuing operations)			11,070	3,686

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, share of profits of associates, provision for impairment of associates, investment revenue and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

5. SEGMENT INFORMATION *(continued)*

Revenue from major products and services

The Group's revenues from its major products and services are as follows:

	2014 $'000	2013 $'000
Home textile trading	31,737	31,281
Footwear trading	52,575	49,603
	84,312	80,884

There are no external sales from manufacturing.

Geographical information

The Group's three divisions operate in five principal geographical areas – the USA/South America, Australia, China / Hong Kong, Canada and Europe. The Group's revenue from external customers and information about its segment assets (non-current assets excluding investments in associates and other financial assets) by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
United States of America / South America	80,950	77,930	3,113	-
Australia / New Zealand	1,844	1,028	229	229
China / Hong Kong	-	197	9,250	10,971
Canada	1,284	1,475	-	-
Europe / Eastern Europe	173	254	-	-
Others	61	-	-	-
	84,312	80,884	12,592	11,200

Revenues from external customers are attributed to individual countries based on the invoiced address for the goods.

Other segment information

	Home textiles				Footwear			
	Trading		Manufacturing		Trading		Manufacturing	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Carrying value of investments accounted for using the equity method	290	336	-	-	7,072	6,439	-	-
Share of net profit / (loss) of associated entities	(49)	(38)	-	-	837	890	-	-
Acquisition of segment assets	208	101	300	398	45	2	3,087	-
Depreciation and amortisation of segment assets	95	116	846	829	6	4	-	-

5. SEGMENT INFORMATION *(continued)*

Information about major customers

The Group's Top 4 customers account for 64.21% (2013: 62.06%) of direct sales. The table below shows the split between the two main cash-generating units:

	Percentage of total group external sales		Home textiles trading		Footwear trading	
Top ranking customers	**2014 %**	**2013 %**	**2014 $'000**	**2013 $'000**	**2014 $'000**	**2013 $'000**
First	26.23	26.02	7,425	5,957	14,687	15,088
Second	16.82	15.06	14,185	12,181	-	-
Third	12.36	12.21	-	-	10,419	9,872
Fourth	8.80	8.77	-	-	7,418	7,091
	64.21	62.06	21,610	18,138	32,524	32,051

6. REVENUE AND INVESTMENT INCOME

The following is an analysis of the Group's revenue and investment income for the year from continuing operations.

	Note	2014 $'000	2013 $'000
Continuing operations			
Revenue			
Revenue from the sale of goods		84,312	80,884
		84,312	80,884
Investment income			
Interest income from bank deposits		104	65
Rental income		17	40
		121	105
Total		84,433	80,989

7. OTHER GAINS AND LOSSES

Net exchange gains on foreign currency transactions		-	-
Net gain on disposal of property, plant and equipment	(i)	9,286	2
Others and reversal of prior year provisions, including damage and returns		148	209
		9,434	211

(i) Included in this figure is a gain of $9,337 thousand which relates to the sale of the Group's leasehold land and buildings and leasehold improvements for $12,164 thousand less costs. The provisional agreement was signed on 14 June 2013. The sale was completed when the official agreement was signed on 1 November 2013.

8. DISCONTINUED OPERATIONS

On 21 June 2013, a subsidiary company, China Christmas Collection Limited was deregistered.

	2014 $'000	2013 $'000
Loss on dissolution of subsidiary	(1,229)	-
Basic loss per share (cents)	(1.31)	-

The loss on dissolution of the subsidiary is attributable to a foreign operation which was de-registered in June 2013 and the resulting reversal of the initial investment in the subsidiary and of the foreign currency translation reserve carried forward from prior years.

9. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

Profit for the year from continuing operations has been arrived at after charging / (crediting):

	2014 $'000	2013 $'000
Depreciation and amortisation expense		
Depreciation of non-current assets	918	923
Amortisation of non-current assets	29	26
	947	949
Research and development costs expensed as incurred	312	245
Operating lease rental expenses		
Minimum lease payments	15	11
Employee benefits expense		
Key management personnel remuneration	1,173	1,141
Wages and salaries	4,834	4,698
Contributions to defined contribution plans	37	34
Movement in liability for long service leave	(16)	2
Other employee benefits	318	105
Total employee benefits expense	6,346	5,980

10. INCOME TAXES

(a) Income tax recognised in profit or loss

	Note	2014 $'000	2013 $'000
Tax (benefit) / expense comprises:			
Current tax expense in respect of the current year		847	982
Adjustments recognised in the current year in relation to the current tax of prior years		(3)	(3)
Benefit arising from previously unrecognised tax losses of a prior year that is used to reduce current expense		39	(108)
Deferred tax income relating to the origination of temporary differences		(2)	168
Dividend receivable from associate		207	114
Claim for offshore tax		(598)	-
(Over) / under provided in prior years		580	(509)
		1,070	644
Attributable to:			
- Continuing operations		1,070	644

The prima facie income tax (benefit) / expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	Note	2014 $'000	2013 $'000
Profit from continuing operations		11,070	3,686
Profit from discontinued operations		(1,229)	-
		9,841	3,686
Income tax expense calculated at 30%	(i)	2,952	1,106
Effect of different tax rates of the parent company and its subsidiaries operating in other jurisdictions	(ii)	(970)	(391)
Effect of non-deductible expenses		765	529
Effect of non-assessable revenue		(1,533)	(1)
Effect of depreciation allowances		77	1
Effect of tax rebates		(3)	(3)
Unused tax losses and tax offsets not recognised as deferred tax assets		36	168
Share of profits / (losses) of associated entities		(236)	(256)
Claim for offshore tax		(598)	-
(Over) / under provided in prior years		580	(509)
		1,070	644

Key to the table

(i) 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 year.

(ii) The Company is taxed in the country of its incorporation, Bermuda. The tax rate in Bermuda is 0% (2013: 0%). The subsidiaries incorporated in Hong Kong are taxed at 16.5% (2013: 16.5%). The subsidiaries incorporated in China are taxed at 25% (2013: 25%). The subsidiaries incorporated in the USA are taxed between 6.5% and 40.5% due to differing state and federal tax rates.

10. INCOME TAXES *(continued)*

(b) Current tax assets and liabilities

	2014 $'000	2013 $'000
Current tax assets		
- Tax refund receivable	-	-
Current tax liabilities		
- Income tax payable attributable to subsidiaries	49	160

(c) Deferred tax balances

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

	Opening balance $'000	Charged to income $'000	Recognised in other comprehensive income $'000	Closing balance $'000
2014				
Temporary differences				
Trade and other receivables	9	-	-	9
Property, plant and equipment	(53)	12	-	(41)
Trade and other payables	26	-	-	26
Provisions	22	(10)	-	12
Exchange difference on a foreign subsidiary	(58)	-	(2)	(60)
Tax losses not recognised	58	-	-	58
	4	2	(2)	4
2013				
Temporary differences				
Trade and other receivables	46	(37)	-	9
Property, plant and equipment	(40)	(13)	-	(53)
Trade and other payables	25	1	-	26
Provisions	20	2	-	22
Exchange difference on a foreign subsidiary	(59)	-	1	(58)
Tax losses not recognised	179	(121)	-	58
	171	(168)	1	4

(d) Franking account

The franking account balance as at 31 March 2014 was $Nil (2013: $Nil).

11. EARNINGS PER SHARE

	2014 Cents per Share	2013 Cents per Share
Basic and diluted earnings per share:		
From continuing operations	10.62	3.23
From discontinued operations	(1.31)	-
For profit attributable to owners of the parent	9.31	3.23

	2014 $'000	2013 $'000
The earnings used in the calculation of basic and diluted earnings per share:		
From continuing operations	10,000	3,042
From discontinued operations	(1,229)	-
For profit attributable to owners of the parent	8,771	3,042

	2014 Number	2013 Number
The weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	94,172,018	94,119,126

12. TRADE AND OTHER RECEIVABLES

	Note	2014 $'000	2013 $'000
Current			
Trade receivables		6,074	6,657
Allowance for doubtful debts		(169)	(148)
		5,905	6,509
Other receivables		86	81
Interest receivable		29	-
Bills receivable	(i)	640	86
Deposits	(ii)	246	808
VAT refund receivable	(iii)	122	170
Rent receivables	(iv)	-	2
Amount receivable from associates	(v)	271	199
		7,299	7,855

Terms and conditions of other receivables

(i) The bills receivable are non-interest bearing and payable within 30 days

(ii) The deposits are non-interest bearing and payable on demand

(iii) The VAT refund receivable is non-interest bearing for the export of goods

(iv) The rent receivable is non-interest bearing and payable within 30 days

(v) The amounts receivable from associates are non-interest bearing and payable on demand

The average credit period on sales of goods and rendering of services is 60 days (2013: 60 days). No interest is charged on trade receivables. The Group has recognised an allowance for doubtful debts based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

12. TRADE AND OTHER RECEIVABLES *(continued)*

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting year for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

Included in the Group's trade receivable balance are debtors with a carrying amount of $4 thousand (2013: $nil) which are past due at the reporting date for which the Group has not provided 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 90 days (2013: 90 days).

	2014 $'000	2013 $'000
Ageing of past due but not impaired		
30 - 90 days	4	-
90 - 120 days	-	-
Over 120 days	-	-
Total	4	-
Movements in the allowance for doubtful debts		
Balance at the beginning of the year	148	152
Impairment losses recognised on receivables	-	-
Exchange differences	21	(4)
Balance at the end of the financial year	169	148

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

The ageing of the impaired trade receivables are over 120 days (2013: 120 days).

13. INVENTORIES

	2014 $'000	2013 $'000
Materials	950	991
Work in progress	905	799
Finished goods	375	425
Goods in transit	-	66
	2,230	2,281

The cost of inventories recognised as an expense during the year in respect of continuing operations was $74,072 thousand (2013: $70,104 thousand).

14. SUBSIDIARIES

Details of the Group's material subsidiaries at the end of the reporting year are as follows:

Name of subsidiary	Note	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group 2014 %	2013 %
Loretta Lee Limited	(ii)	Textile trading	Hong Kong	100	100
China Christmas Collections Limited	(iii)	Textile trading	Hong Kong	-	100
Forsan Limited	(ii)	Footwear trading	Hong Kong	100	100
Grandview Textiles Limited	(ii)	Textile trading	Hong Kong	100	100
Merchant House Australia Pty Ltd	(vi)	Dormant	Australia	100	100
Home Affairs Inc.		Dormant	United States	100	100
Pacific Bridges Enterprises Inc (Delaware) USA	(iv)	Corporate	United States	100	100
Footwear Industries of Tennessee Inc.	(v)	Footwear manufacturing	United States	100	-
Carsan (Shunde) Manufacturing Company Limited	(ii)	Textile manufacturing	China	100	100
Carsan Trading Co. Ltd.	(ii)	Textile trading	China	100	100

(i) Merchant House International Limited is the head entity and is incorporated in Bermuda;

(ii) These companies are audited by WM Sum & Co, Hong Kong;

(iii) An application to deregister China Christmas Collections Limited was lodged with the Companies Registry in Hong Kong on 28 January 2013. This subsidiary was de-registered on 21 June 2013;

(iv) Pacific Bridges Enterprises Inc.(Delaware USA), a new USA incorporated company, was established on 27 March 2013;

(v) On 5 April 2013, Footwear Industries of Tennessee Inc., a wholly owned subsidiary of Pacific Bridges Enterprises Inc., was incorporated;

(vi) An application to de-register Merchant House Australia Pty Ltd was lodged with the ASIC on 16 May 2014; and

(vii) All subsidiaries carry on business only in the country of incorporation with the exception of Merchant House International Limited, which carries on business in Australia, China and Hong Kong.

15. ASSOCIATES

Details of each of the Group's material associates at the end of the reporting year are as follows:

Name of associate	Note	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group 2014 %	2013 %
Tianjin Jiahua Footwear Company Limited	(i)	Footwear manufacturer	China	30.00	30.00
Tianjin Tianxing Kesheng Leather Products Company Limited	(ii)	Footwear manufacturer	China	33.79	33.79
Jawa (Jiangsu) Textiles Company Limited	(iii)	Textile manufacturer	China	33.33	33.33

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

15. ASSOCIATES *(continued)*

	2014 $'000	2013 $'000
Investments in associates	7,362	6,775
Reconciliation of movement in investments accounted for using the equity method		
Balance at 1 April	6,775	6,591
Additional investment	-	-
Provision for impairment of investment	(96)	-
Share of profit for the year	788	852
Dividend paid	(1,255)	(688)
Exchange difference	1,150	20
Balance at 31 March	7,362	6,775

(i) The financial year end date of Tianjin Jiahua Footwear Company Limited is 31 December. This was the reporting date established when that company was incorporated, and a change of reporting date is not permitted in China. For the purpose of applying the equity method of accounting, the financial statements of Tianjin Jiahua Footwear Company Limited for the year ended 31 December 2013 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 March 2014.

(ii) The financial year end date of Tianjin Tianxing Kesheng Leather Products Company Limited is 31 December. This was the reporting date established when that company was incorporated, and a change of reporting date is not permitted in China. For the purpose of applying the equity method of accounting, the financial statements of Tianjin Tianxing Kesheng Leather Products Company Limited for the year ended 31 December 2013 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 March 2014.

(iii) The financial year end date of Jawa (Jiangsu) Textiles Company Limited is 31 December. This was the reporting date established when that company was incorporated, and a change of reporting date is not permitted in China. For the purpose of applying the equity method of accounting, the financial statements of Jawa (Jiangsu) Textiles Company Limited for the year ended 31 December 2013 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 March 2014.

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

15. ASSOCIATES *(continued)*

Tianjin Jiahua Footwear Company Limited

	2014 $'000	2013 $'000
Financial position		
Current assets	7,651	10,104
Non-current assets	2,359	2,266
Current liabilities	(2,717)	(3,120)
Financial performance		
Revenue	31,858	26,884
Profit for the year	916	888
Total comprehensive income for the year	916	888
Dividends received from associate during the year	1,259	693

Reconciliation of the above summarised financial information to the carrying amount of the interest in Tianjin Jiahua Footwear Company Limited recognised in the consolidated financial statements:

Net assets of the associate	7,293	9,250
Proportion of the Group's ownership interest in Tianjin Jiahua Footwear Company Limited	30%	30%
Carrying amount of the Group's interest in Tianjin Jiahua Footwear Company Limited	2,188	2,775

Tianjin Tianxing Kesheng Leather Products Company Limited

	2014 $'000	2013 $'000
Financial position		
Current assets	30,261	25,277
Non-current assets	6,441	5,794
Current liabilities	(21,856)	(19,574)
Financial performance		
Revenue	81,496	74,648
Profit for the year	1,663	1,846
Total comprehensive income for the year	1,663	1,846

Reconciliation of the above summarised financial information to the carrying amount of the interest in Tianjin Tianxing Kesheng Leather Products Company Limited recognised in the consolidated financial statements:

Net assets of the associate	14,846	11,497
Proportion of the Group's ownership interest in Tianjin Tianxing Kesheng Leather Products Company Limited	33.79%	33.79%
Carrying amount of the Group's interest in Tianjin Tianxing Kesheng Leather Products Company Limited	5,016	3,885

15. ASSOCIATES *(continued)*

Jawa (Jiangsu) Textiles Company Limited

	2014 $'000	2013 $'000
Financial position		
Current assets	965	712
Non-current assets	895	833
Current liabilities	(814)	(503)
Financial performance		
Revenue	2,240	2,778
Loss for the year	(147)	(115)
Total comprehensive loss for the year	(147)	(115)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Jawa (Jiangsu) Textiles Company Limited recognised in the consolidated financial statements:

Net assets of the associate	1,046	1,042
Proportion of the Group's ownership interest in Jawa (Jiangsu) Textiles Company Limited	33.33%	33.33%
Carrying amount of the Group's interest in Jawa (Jiangsu) Textiles Company Limited	349	347

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings $'000	Freehold Land $'000	Leasehold Improvements $'000	Plant and equipment $'000	Construction in progress $'000	Leasehold land under finance lease $'000	Total $'000
Gross carrying amount							
Balance at 1 April 2012	8,758	-	260	6,399	103	2,674	18,194
Additions	81	-	-	211	209	-	501
Disposals	-	-	-	(107)	-	-	(107)
Transfer between categories	-	-	-	106	(106)	-	-
Net foreign currency exchange differences	26	-	(1)	23	-	(7)	41
Balance at 1 April 2013	8,865	-	259	6,632	206	2,667	18,629
Additions	1,028	29	204	2,368	8	-	3,637
Disposals	(1,334)	-	(208)	(292)	-	(2,980)	(4,814)
Transfer between categories	153	-	-	28	(181)	-	-
Net foreign currency exchange differences	1,264	3	34	974	29	313	2,617
Balance at 31 March 2014	9,976	32	289	9,710	62	-	20,069

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings $'000	Freehold Land $'000	Leasehold Improvements $'000	Plant and equipment $'000	Construction in progress $'000	Leasehold land under finance lease $'000	Total $'000
Accumulated depreciation / amortisation and impairment							
Balance as at 1 April 2012	3,269	-	240	3,430	-	879	7,818
Disposals	-	-	-	(94)	-	-	(94)
Amortisation / depreciation expense	369	-	6	497	-	51	923
Net foreign currency exchange differences	8	-	(1)	10	-	(3)	14
Balance at 1 April 2013	3,646	-	245	3,843	-	927	8,661
Disposals	(493)	-	(194)	(229)	-	(1,050)	(1,966)
Amortisation / depreciation expense	406	-	39	459	-	14	918
Net foreign currency exchange differences	520	-	30	554	-	109	1,213
Balance at 31 March 2014	4,079	-	120	4,627	-	-	8,826
Net book value							
As at 31 March 2013	5,219	-	14	2,789	206	1,740	9,968
As at 31 March 2014	5,897	32	169	5,083	62	-	11,243

17. LEASE PREMIUM FOR LEASEHOLD LAND

The figures below represent consolidated figures for the Group subsidiaries. The payments made in advance held under an operating lease are recognised in the statement of financial position as lease premium for leasehold land and are amortised on a straight-line basis over the period of the lease term.

	Leasehold land at fair value $'000
Gross carrying amount	
Balance at 1 April 2012	1,281
Additions	-
Disposals	-
Net foreign currency exchange differences	5
Balance at 1 April 2013	1,286
Additions	-
Disposals	-
Net foreign currency exchange differences	187
Balance at 31 March 2014	1,473
Accumulated depreciation / amortisation and impairment	
Balance at 1 April 2012	256
Disposals	-
Impairment losses charged to profit	-
Reversals of impairment losses	-
Amortisation / depreciation expense	26
Net foreign currency exchange differences	1
Balance at 1 April 2013	283
Disposals	-
Impairment losses charged to profit	-
Reversals of impairment losses	-
Amortisation / depreciation expense	29
Net foreign currency exchange differences	41
Balance at 31 March 2014	353
Net book value	
As at 31 March 2013	1,003
As at 31 March 2014	1,120

18. ASSETS PLEDGED AS SECURITY

On 12th November 2013, the Hong Kong and Shanghai Banking Corporation Limited discharged its legal charge over the Ming Pao property following the sale of these premises by the Group.

19. GOODWILL

	Note	2014 $'000	2013 $'000
Gross Carrying Amount			
Balance at beginning of financial year		959	959
Balance at end of financial year		959	959
Accumulated impairment losses			
Balance at beginning of financial year		(730)	(730)
Impairment losses for the year	(i)	-	-
Balance at end of financial year		(730)	(730)
Net book value			
At the beginning of the financial year		229	229
At the end of the financial year		229	229

(i) During the financial year, the Group assessed the recoverable amount of goodwill, and determined that it was not impaired (2013: nil impairment).

Allocation of goodwill to cash generating units

After recognition of amortisation and impairment losses, the carrying amount of goodwill was allocated to the following cash generating units:

	2014 $'000	2013 $'000
Footwear trading	229	229
	229	229

Key assumptions

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 10.23% (2013: 9.40%) per annum. Cash flow projections during the budget period for the cash-generating unit are based on prior experience, lower gross margins during the budget period and the consumer price inflation during the budget period. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

20. OTHER ASSETS

	2014 $'000	2013 $'000
Current		
Prepayments	330	242

21. TRADE AND OTHER PAYABLES

	2014 $'000	2013 $'000
Current		
Trade payables	1,645	1,806
Accruals	633	520
Rent deposit received	-	7
Amounts payable to:		
- Associated entities	2,688	3,214
	4,966	5,547

The average credit period on purchases of goods from China and Hong Kong is 60 days (2013: 60 days). No interest is charged on the trade payables for the first 60 days from the date of the invoice. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Credit terms agreed with the associated entities are payable on receipt of funds from the external customer. No interest is payable by the associated entities.

22. BORROWINGS

An amount up to $13,172 thousand (2013: $11,687 thousand) secured by a corporate guarantee is available for letters of credit, trust receipt financing, working capital loan, term loans and shipping guarantees. These facilities are reviewed annually. Three subsidiaries, Loretta Lee Limited, Forsan Limited and Grandview Textiles Limited are jointly and severally liable for this facility. During the year the Group utilised bills of exchange and export loans with varying interest rates all repaid at the balance date.

23. PROVISIONS

	Note	2014 $'000	2013 $'000
Current			
Returns	(ii)	42	61
Non-current			
Employee benefits	(i)	64	71
Returns			
Balance at 1 April		61	32
Additional provisions recognised		140	223
Reductions resulting from reversal of provision		(166)	(194)
Net foreign currency exchange differences		7	-
Balance at 31 March		42	61
Long service payment			
Balance at 1 April		71	70
Additional provisions recognised		-	1
Reductions from reversal of provision		(16)	-
Net foreign currency exchange differences		9	-
Balance at 31 March		64	71

23. PROVISIONS *(continued)*

(i) The non-current provision for employee benefits includes $64 thousand of vested long service payment accrued but not expected to be taken within 12 months (2013: $71 thousand).

(ii) The provision for returns represents the return of defective goods. The provision represents the present value of the directors' best estimate of the future sacrifice of economic benefits that will be incurred. The estimate amount is based on historical return percentages.

24. RETIREMENT BENEFIT PLANS

Defined contribution plans

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

The total expense recognised in profit or loss of $37 thousand (2013: $38 thousand) represents contributions payable to these plans by the Group at rates specified in the rules of the plan.

25. ISSUED CAPITAL

	2014 $'000	2013 $'000
94,266,496 fully paid ordinary shares (2013: 94,119,126)	2,944	2,913

The Company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2014 Number	2013 Number	2014 $'000	2013 $'000
Reconciliation of movement in issued capital				
Balance at beginning of financial year	94,119,126	94,119,126	2,913	2,913
Issue of shares to a senior manager in lieu of bonus (refer to note 31)	147,370	-	31	-
Balance at end of financial year	94,266,496	94,119,126	2,944	2,913

Fully paid ordinary shares carry one vote per share and the right to dividends.

The fair value of shares issued in lieu of bonus was determined by reference to the market rate on the date the shares were issued.

Options

As at the reporting date there were no options outstanding.

26. RESERVES

	2014 $'000	2013 $'000
Foreign currency translation reserve	218	(5,105)
Foreign currency translation reserve		
Balance at beginning of financial year	(5,105)	(5,092)
Reversal of foreign currency translation reserve of deregistered subsidiary	921	-
Translation of financial statement of foreign operations	4,402	(13)
Balance at end of financial year	218	(5,105)

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

27. RETAINED EARNINGS

	Note	2014 $'000	2013 $'000
Retained earnings		36,544	30,129
Balance at beginning of financial year		30,129	28,499
Net profit attributable to members of the parent entity		8,771	3,042
Dividends	28	(2,356)	(1,412)
Balance at end of financial year		36,544	30,129

28. DIVIDENDS

Dividends declared in respect of the financial year:

	2014 $'000	2013 $'000
Recognised amounts (declared and paid)		
Fully paid ordinary shares		
- Interim 2¢ paid (2013:1¢)	1,885	941
- Final 0.5¢ paid (2013:0.5¢)	471	471
	2,356	1,412
Unrecognised amounts (declared post year end and unpaid)		
Fully paid ordinary shares		
- Final of 0.5¢ paid (2013: 0.5¢)	471	471

On 20 May 2014, the directors declared an unfranked final dividend of 0.5 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 31 March 2014, to be paid to shareholders on 29 August 2014. The dividend will be paid to all shareholders on the Register of Members on 22 August 2014. The total estimated dividend to be paid is $471 thousand. This dividend has not been included as a liability in these consolidated financial statements.

The dividends were not franked.

29. FINANCIAL INSTRUMENTS

(a) *Capital risk management*

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

The Group's overall strategy remains unchanged from 2013.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 22, cash and cash equivalents disclosed in note 33(a) and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 25, 26 and 27 respectively.

The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. None of the Group's entities are subject to externally imposed capital requirements. Operating cash flows are used to maintain and expand the group's manufacturing and distribution assets, as well as to make the routine outflows of tax, dividends and repayment of maturing debt. The Group's policy is to use a variety of borrowing facilities, to meet anticipated funding requirements.

Gearing ratio

The Group reviews the capital structure half-yearly and considers the cost of capital and the risks associated with each class of capital as part of this review. The Group will balance its overall capital structure through the payment of dividends, new share issue and buy-backs, where necessary, as well as the issue of new debt or the redemption of existing debt. The gearing ratio at year end was as follows:

	Note	2014 $'000	2013 $'000
Financial assets			
Debt	(i)	-	-
Cash and cash equivalents		(15,010)	(5,419)
Net debt / (cash)		(15,010)	(5,419)
Equity	(ii)	39,706	27,937
Net debt to equity ratio		N/A	N/A

(i) Debt is as detailed in note 22.

(ii) Equity includes all capital and reserves.

(b) *Categories of financial instruments*

	2014	2013
Financial assets		
Cash and cash equivalents	15,010	5,419
Loans and trade receivables	7,299	7,855
Financial liabilities		
Amortised cost		
- Trade and other payables	4,966	5,547

29. FINANCIAL INSTRUMENTS *(continued)*

(c) *Financial risk management objectives*

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.

(d) *Market risk*

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 29(e)) and interest rates (refer note 29(f)). The Group has the ability to enter into foreign exchange forward contracts to manage its exposure to foreign currency risk at the discretion of management.

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

(e) *Foreign currency risk management*

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

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

Carrying amount

	Assets		Liabilities	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**
US dollar	12,100	11,806	3,043	3,374
HK dollar	4,632	83	186	120
Chinese Yuan Renminbi	5,544	1,373	1,604	1,929

Foreign currency sensitivity analysis

The Group is mainly exposed to US dollars (USD) and Chinese Yuan Renminbi (CNY). The following table details the Group's sensitivity to a 5% (2013: 1%) increase and decrease in the Australian dollar against the relevant foreign currencies and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2013: 1%) 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.

29. FINANCIAL INSTRUMENTS *(continued)*

(e) Foreign currency risk management (continued)

Foreign currency sensitivity analysis *(continued)*

The purchasing power of the subsidiary based in China is also linked to the US Dollar exchange rate. The following table also shows the Group's sensitivity to a 2% increase and decrease in the Chinese Yuan Renminbi against the US dollar.

	Impact on profit & loss	
	2014	2013
	$'000	$'000
If AUD strengthens by 12% (2013: 1%)		
USD	(431)	(83)
HKD	(212)	-
CNY	(188)	6
If AUD weakens by 12% (2013: 1%)		
USD	477	85
HKD	234	-
CNY	207	(6)
If USD strengthens by 2% (2013: 5%)		
CNY	(71)	22
If USD weakens by 2% (2013: 5%)		
CNY	74	(25)

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

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency transactions.

The Group has, in the past, entered into contracts to hedge the exchange rate risk arising from the payment of Australian suppliers using US Dollar liquid funds.

There were no forward foreign currency contracts outstanding as at the reporting date (2013: nil).

(f) Interest rate risk management

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

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

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting date and the stipulated change taken place at the beginning of the financial year and held constant throughout the reporting year. A 50 basis point increase or decrease is used when reporting interest rate risk and represents management's assessment of the possible change in interest rates.

29. FINANCIAL INSTRUMENTS *(continued)*

(f) *Interest rate risk management* (continued)

Interest rate sensitivity analysis *(continued)*

At reporting date if interest rates had been 50 basis points higher or lower and all other variables were held constant, there would be no material effect to the Group's net profit and other equity.

	Profit or loss	
	50 bp Increase $'000	50 bp Decrease $'000
31 March 2014		
Variable rate instruments	65	(65)
31 March 2013		
Variable rate instruments	27	(1)

(g) *Credit risk management*

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 only transacts with entities that are rated equivalent of investment grade and above. The Group uses publicly available financial information and its own trading record to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Trade receivables consist of a number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

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

(h) *Liquidity risk management*

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 33(b) is the total amount of facilities available to the Group to further reduce liquidity risk.

29. FINANCIAL INSTRUMENTS *(continued)*

(b) *Liquidity risk management* (continued)

Liquidity and interest risk tables

The following tables detail the company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date of which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	>1 year $'000
31 March **2014**					
Non-interest bearing	-	4,083	838	45	-
Variable interest rate instruments	-	-	-	-	-
		4,083	838	45	-
31 March **2013**					
Non-interest bearing	-	4,538	964	42	3
Variable interest rate instruments	-	-	-	-	-
		4,538	964	42	3

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

	Weighted average effective interest rate %	Less than 1 month $'000	1 to 3 Months $'000	3 to 12 months $'000	>1 year $'000
31 March **2014**					
Non-interest bearing	-	6,211	2,840	-	162
Variable interest rate instruments	0.99	7,151	5,965	-	-
		13,362	8,805	-	162
31 March **2013**					
Non-interest bearing	-	4,978	2,354	511	95
Variable interest rate instruments	0.02	5,336	-	-	-
		10,314	2,354	511	95

29. FINANCIAL INSTRUMENTS *(continued)*

(i) Fair value of financial instruments

The directors consider that the carrying amounts of the financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair values.

	Fair value hierarchy as at 31 March 2014			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Loans and receivables:				
- trade and other receivables	-	7,299	-	7,299
Financial liabilities				
Financial liabilities held at amortised cost:				
- trade and other payables	-	4,966	-	4,966

The fair value of other financial assets and financial liabilities included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

30. KEY MANAGEMENT PERSONNEL COMPENSATION

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

The aggregate compensation made to directors and other members of key management personnel of the Group and the company is set out below:

	2014 $'000	2013 $'000
Short-term employee benefits	1,140,109	1,137,177
Post-employment benefits	2,419	3,624
Share-based payments	30,947	-
	1,173,475	1,140,801

31. SHARE-BASED PAYMENTS

The Group does not recognise a long-term share-based payment scheme. However, at the discretion of the board of directors, key management personnel may be issued Company shares in lieu of bonus payments as an equity-settled share based payment. The number of shares is calculated by converting the dollar value of the bonus at the market share price on the date the bonus is earned, being 21 November 2013. During the current year 147,370 shares (2013: no shares) were issued at a market price of 21 cents (2013: nil cents) totalling $31 thousand (2013: nil).

The value of the shares issued is recognised as employee expenses in the relevant subsidiary and the corresponding amount as an increase in Company equity.

32. RELATED PARTY TRANSACTIONS

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

(a) *Transactions with key management personnel*

Profit for the year includes the following items of expense that resulted from transactions, other than compensation, loans or equity holdings, with key management personnel or their related entities:

	2014 $'000	2013 $'000
Other transactions		
Dividend (paid by the parent company)	1,411	845
	1,411	845

(b) *Trading transactions*

During the year, group entities entered into the following transactions with related parties that are not members of the Group:

Type of transaction	Class of related party	2014 $'000	2013 $'000
Purchase of goods	Associated entities		
	- Tianjin Jiahua Footwear Company Limited	15,549	8,644
	- Tianjin Tianxing Kesheng Leather Products Company Limited	30,531	31,505
	- Jawa (Jiangsu) Textiles Company Limited	1,602	1,874

All transactions were under normal terms and conditions.

The following balances were outstanding at the end of the reporting year:

		2014 $'000	2013 $'000
Current receivables	Associated entities		
	- Tianjin Jiahua Footwear Company Limited	104	92
	- Tianjin Tianxing Kesheng Leather Products Company Limited	-	-
	- Jawa (Jiangsu) Textiles Company Limited	166	107
Current payables	Associated entities		
	- Tianjin Jiahua Footwear Company Limited	682	981
	- Tianjin Tianxing Kesheng Leather Products Company Limited	2,006	2,233
	- Jawa (Jiangsu) Textiles Company Limited	-	-

Sales of goods to related parties were made at the Group's usual list prices. Purchases were made at market price discounted to reflect the quantity of goods purchased and the relationships between the parties.

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 or prior years for bad or doubtful debts in respect of the amounts owed by related parties.

33. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year, as shown in the statement of cash flows, is reconciled to the related items in the statement of financial position as follows:

(a) *Reconciliation of cash and cash equivalents*

	2014 $'000	2013 $'000
Cash at bank	15,010	5,419
	15,010	5,419

(b) *Financing facilities*

	2014 $'000	2013 $'000
Secured bank facilities reviewed annually		
Amounts used	-	-
Amounts unused	13,172	11,687
	13,172	11,687

The Group has access to financing facilities at the reporting date as indicated above. The facility is secured by a corporate guarantee and is available for letters of credit, trust receipt financing, working capital loans, term loans and shipping guarantees. Refer to note 22 for more details.

(c) *Reconciliation of profit for the year to net cash flows from operating activities*

	2014 $'000	2013 $'000
Profit for the year	8,771	3,042
Depreciation and amortisation of non-current assets	947	949
Share of associates' profit	(788)	(852)
Bad debts	(2)	-
Foreign exchange (gain) / loss on translation	181	73
Loss on disposal of investment in a subsidiary	1,229	-
Provision for impairment of investment in an associate	96	-
Finance income	(104)	(65)
Gain on disposal of property, plant and equipment	(9,286)	(2)
Share-based payments	-	-
Reversal of provisions	-	(10)
Returns and damage	-	(31)
Income tax expense	1,070	644
	2,114	3,748

33. CASH AND CASH EQUIVALENTS *(continued)*

(c) *Reconciliation of profit for the year to net cash flows from operating activities* (continued)

	2014 $'000	2013 $'000
Change in net assets and liabilities, net of effects from acquisitions and disposal of businesses:		
(Increase) / decrease in assets:		
- Trade and other receivables	1,693	(1,876)
- Inventories	284	(187)
Increase / (decrease) in liabilities:		
- Trade and other payables	(1,337)	(275)
- Provisions	(42)	61
	2,712	1,471
Income taxes paid	(1,203)	(413)
Net cash from operating activities	1,509	1,058

34. OPERATING LEASE ARRANGEMENTS

Operating leases

Leasing arrangements

Operating leases relate to photocopiers under non-cancellable leases.

Non-cancellable operating lease commitments

	2014 $'000	2013 $'000
Not later than 1 year	218	12
Later than 1 year and not later than 5 years	286	32
	504	44

Non-cancellable operating lease receivables

Office rent income is receivable as follows:

No longer than 1 year	-	25
Longer than 1 year and not longer than 5 years	-	-
	-	25

35. COMMITMENTS FOR EXPENDITURE

	2014 $'000	2013 $'000
Capital expenditure commitments		
Property, plant and equipment not longer than 1 year	264	46
Property, plant and equipment greater than 1 year but within 5 years	41	-
	305	46

36. CONTINGENCIES

A subsidiary of the Group is in negotiations with the Tax Authority of the People's Republic of China regarding the imposition of taxes based on revenues despite this subsidiary generating tax losses.

The liability cannot be reliably determined and, at this stage, is dependent on the completion of a government tax authority review.

37. REMUNERATION OF AUDITORS

	Note	2014 $'000	2013 $'000
Auditor of the parent entity			
Audit or review of the financial report		124,706	115,300
		124,706	115,300
Other auditors			
Audit or review of the financial report		23,777	20,697
Other non-audit services	(i)	27,922	24,251
		51,699	44,948

(i) Report to the auditor of the parent entity and tax consultancy

The auditor of Merchant House International Limited is Deloitte Touche Tohmatsu.

38. ADDITIONAL COMPANY INFORMATION

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

39. SUBSEQUENT EVENTS

On 20 May 2014, the Board of Directors approved the distribution of a 0.5 cent per share dividend to be paid to shareholders on 29 August 2014.

On 22 May 2014, the new manufacturing plant in Tennessee, USA was officially opened.

On 22 May 2014, an application to deregister a dormant subsidiary, Merchant House Australia Pty Ltd, was lodged with the Australian Securities and Investments Commission (ASIC).

Other than the above, there has not been any matter or circumstance, occurring subsequent to 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.

40. PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 3 for a summary of the significant accounting policies relating to the Group.

	2014 $'000	2013 $'000
Financial performance		
Profit for the year from continuing operations	2,087	1,071
Loss on dissolution of subsidiary	(310)	-
Profit for the year	1,777	1,071
Other comprehensive income	-	-
Total comprehensive income	1,777	1,071
Financial position		
Current assets	21	10
Non-current assets	4,365	4,915
Total assets	4,386	4,925
Current liabilities	133	124
Non-current liabilities	-	-
Total liabilities	133	124
Total equity of the parent entity comprising of:		
Share capital	2,944	2,913
Retained earnings	1,309	1,888
Total equity	4,253	4,801

		2014 $'000	2013 $'000
Related party transactions between the parent entity and related parties			
Type of transaction	*Class of related party*		
Management fee income	Subsidiaries	365	330
Dividend income	Subsidiaries	2,356	1,412
Guarantees entered into by the parent entity in relation to the debts of its subsidiaries			
Guarantee provided under the deed of cross guarantee (i)		8,365	7,420

(i) Merchant House International Limited has entered into a HK$ 60 million deed of cross guarantee in September 2008 with three of its wholly owned subsidiaries, Loretta Lee Limited, Forsan Limited and Grandview Textiles Limited.

41. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorised for issue on 20 June 2014.

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below.

1. SHAREHOLDER INFORMATION

(a) *Distribution of fully paid ordinary shares at 31 May 2014*

Category	Number of Shareholders	Shares held
1 - 1,000	14	5,030
1,0001 - 5,000	37	119,086
5,001 - 10,000	40	341,591
10,001 - 100,000	172	6,538,867
100,001 and over	68	87,261,922
	331	94,266,496

(b) *Marketable Parcel*

The number of shareholders holding less than a marketable parcel of ordinary shares is 29.

(c) *Voting rights*

Ordinary shares

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

(d) *Substantial shareholders*

The number of shares held by substantial shareholders and their associates are set out below:

Name	Ordinary shares Number of Shares
Supreme Luck Enterprises Inc.	43,060,652
Fubon Nominees (Hong Kong) Limited	10,813,647
Ms Loretta Lee	6,392,103

(e) *Shareholders*

The twenty largest shareholders hold 80.49% of the total issued ordinary shares in the Company as at 31 May 2014.

2. TOP TWENTY SHAREHOLDERS AS AT 31 MAY 2014

		Ordinary shares	
		Number of Shares	Percentage of issued shares
1	Supreme Luck Enterprises Inc	43,060,652	45.68
2	Fubon Nominees (Hong Kong) Limited	10,813,647	11.47
3	Ms Loretta Lee	6,392,103	6.78
4	Mr Yin Sang Tsang	1,674,092	1.78
5	Mr John Maxwell Bleakie	1,567,394	1.66
6	Mrs Lana Kinoshita	1,339,274	1.42
7	Mr Gerald Francis Pauley & Mr Michael James Pauley <Pauley Super Fund A/C>	1,151,975	1.22
8	Mr Milton Yannis	1,135,860	1.20
9	Mrs Christina Lee	1,102,805	1.17
10	Mr Victor Tien Ren Hou	1,000,000	1.06
11	Mr Brian Garfield Benger <No.4 A/C>	900,000	0.95
12	Mr Raymond Lunney	789,674	0.84
13	Mr Brian Garfield Benger	748,200	0.79
14	Mr Ross George Yannis	698,330	0.74
15	Ms Alice Liu	638,783	0.68
16	Miss Peggy Liao	635,455	0.67
17	Mr Gerald Francis Pauley	594,708	0.63
18	Shandora One Pty Ltd <Benger Super Fund A/C>	579,920	0.62
19	Mr Gregory Douglas Pease <GD & AP Pease Family A/C>	550,000	0.58
20	ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian>	518,001	0.55
		75,890,873	80.49

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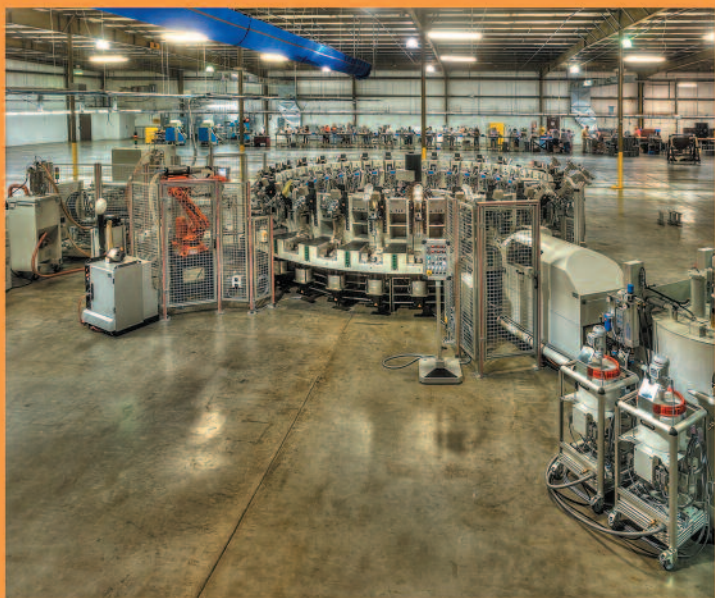

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