MERCHANT HOUSE INTERNATIONAL LIMITED
ARBN 065 681 138

Head Office:
10th Floor, E-Trade Plaza
No. 24 Lee Chung Street
Chai Wan
Hong Kong
Tel: (852) 2889 2000
Fax: (852) 2898 9992

Registered Office:
Level 1
31 Cliff Street
Fremantle WA 6160
Australia
Tel: (61 8) 9435 3200
Fax: (61 8) 6444 7408

Postal Address:
PO Box 584
Fremantle WA 6959

21 July 2017

ASX Limited

Electronic lodgement

ASX Code: MHI

DISPATCH OF 2017 ANNUAL REPORT AND NOTICE OF AGM

Attached is a copy of the Merchant House International Limited 2017 Annual Report together with the Notice of Annual General Meeting, Explanatory Memorandum and Proxy Form which have been dispatched to shareholders today.

For and on behalf of the Board
MERCHANT HOUSE INTERNATIONAL LIMITED

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 1, 31 Cliff Street, Fremantle, Perth, Western Australia on Friday, 25 August 2017 at 11.00 am (WST).

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

2017 Accounts

To receive and consider the annual financial report, the Directors' report and the auditors' report for the financial year ended 31 March 2017 and the Directors' declaration on the accounts.

Ordinary Resolution 1: Re-Election of Director – Robert Lincoln Burton

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That Mr Robert Lincoln Burton, a Director, who having been appointed a director since the last AGM, retires in accordance with Clause 89.2 of the Company's Bye-Laws, ASX Listing Rule 14.4 and for all other purposes, and being eligible is re-elected as a Director."

Information about Mr Burton is set out in the Company's 2017 Annual Report.

Ordinary Resolution 2: Re-election of a Director

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That Mr Ian Burton, a Director who retires by rotation in accordance with Clause 90 of the Company's Bye-Laws, ASX Listing Rule 14.4 and for all other purposes, and being eligible and offering himself for re-election, be re-elected as a Director."

Information about Mr Burton is set out in the Company's 2017 Annual Report.

Ordinary Resolution 3: Re-election of a Director

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That Ms Peggy Liao, a Director who retires by rotation in accordance with Clause 90 of the Company's Bye-Laws, ASX Listing Rule 14.4 and for all other purposes, and being eligible and offering herself for re-election, be re-elected as a Director."

Information about Ms Liao is set out in the Company's 2017 Annual Report.

D McArthur

By order of the Board
D M McARTHUR
Company Secretary

Dated: 17 July 2017

ENTITLEMENT TO ATTEND AND VOTE

The Company may specify a time, not more than 48 hours before the Meeting, at which a "snap-shot" of Shareholders will be taken for the purposes of determining Shareholder entitlements to vote at the Annual General Meeting.

The Company's Directors have determined that all Shares of the Company that are quoted on ASX at 5:00pm Wednesday, 23 August 2017 shall, for the purposes of determining voting entitlements at the Annual General Meeting, be taken to be held by the persons registered as holding the Shares at that time.

PROXIES

Please note that:

(a) a member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy;

(b) a proxy need not be a member of the Company; and

(c) a member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

The enclosed Proxy Form provides further details on appointing proxies and lodging Proxy Forms.

CORPORATE REPRESENTATIVE

A Shareholder that is a corporation may appoint an individual to act as its corporate representative to vote at the Meeting in accordance with section 250D of the Corporations Act. Any corporation wishing to appoint an individual to act as its representative at the Meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative. The authority may be sent to the Company and/or Share Registry in advance of the Meeting or handed in at the Meeting when registering as a corporate representative. A 'Certificate of Appointment of Corporate Representative' is enclosed if required.

ENQUIRIES

Shareholders are invited to contact the Company Secretary, David McArthur on +61 8 9435 3200 if they have any queries in respect of the matters set out in this document.

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 Bye-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 2017, together with the declaration of the directors, the directors' 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 (code "MHI").

There is no requirement for Shareholders to approve the Annual Financial Statements.

The Company's auditor will be present at the Annual General Meeting and Shareholders will have the opportunity to ask the auditor questions in relation to the conduct of the audit, the auditor's report, the Company's accounting policies, and the independence of the auditor.

In addition to taking questions at the Meeting, written questions to the Chair about the management of the Company, or to the Company's auditor about:

(a) the preparation and content of the auditor's report;

(b) the conduct of the audit;

(c) accounting policies adopted by the Company in relation to the preparation of the Annual Financial Statements; and

(d) the independence of the auditor in relation to the conduct of the audit,

may be submitted no later than 5 business days before the meeting date to the Company Secretary.

ORDINARY RESOLUTION 1: Re-Election of Director

ASX Listing Rule 14.4 provides that a director elected since the last AGM of the Company must retire and seek re-election at the next AGM of the Company.

Clause 89.2 of the Company's Bye-Laws also requires that any Director appointed since the last AGM retire and seek re-election at the next AGM.

As Mr Robert Burton was appointed to the Board on 8 August 2016, he must accordingly retire and seek re-election. Information about Mr Burton is set out in the Company's 2017 Annual Report.

The Board unanimously supports the re-election of Mr Burton.

ORDINARY RESOLUTIONS 2 AND 3 – Re-election of Directors

ASX Listing Rule 14.4 provides that a director of an entity must not hold office (without re-election) past the third annual general meeting following the director's appointment or 3 years, whichever is longer.

Clause 90 of the Company's Bye-Laws requires that at every Annual General Meeting of the Company one-third of the Directors (rounded up to the nearest whole number) shall retire from office. The Directors to retire are those who have been longest in office since their last election. A Director who retires by rotation under Clause 90 is eligible for re-election.

Mr Ian Burton and Ms Peggy Liao, are the Directors longest in office since their last election, and accordingly both retire by rotation and both seek re-election as a Director.

Information about Mr Burton and Ms Liao is set out in the Company's 2017 Annual Report.

The Board unanimously supports the re-election of Mr Burton and Ms Liao.

GLOSSARY

$ means Australian dollars.

Annual General Meeting or **Meeting** means the meeting convened by this Notice.

ASX means ASX Limited (ACN 008 624 691) or the Australian Securities Exchange, as the context requires.

ASX Listing Rules means the Listing Rules of ASX.

Closely Related Party of a member of the Key Management Personnel means:
(a) a spouse or child of the member;
(b) a child of the member's spouse;
(c) a dependent of the member or the member's spouse;
(d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
(e) a company the member controls; or
(f) a person prescribed by the Corporations Regulations 2001 (Cth) for the purposes of the definition of 'closely related party' in the Corporations Act.

Company means Merchant House International Limited (ARBN 065 681 138)

Directors means the current directors of the Company.

Explanatory Statement means the explanatory statement accompanying the Notice.

Notice or **Notice of Meeting** or **Notice of Annual General Meeting** means this notice of Annual General Meeting including the Explanatory Statement and the Proxy Form.

Resolutions means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of a Share.

WST means Australian Western Standard Time (Perth, Western Australia).

Instructions for Completing 'Appointment of Proxy' Form

1. (**Changes to Proxy Voting**): 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. Section 250R(5) of the Corporations Act came into effect on 28 June 2012 and will affect the Chair's votes on undirected proxies. 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;

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

   (c) the Chair is able to vote undirected proxies in the non-binding vote on the Remuneration Report where the Shareholder provides express authorisation for the Chair to exercise the proxy.

   Further details on these changes are set out below.

2. (**Appointing a Proxy**): A member with two or more votes 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);

   (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;

   (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;

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

   (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,

   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. (**Chair's votes on undirected proxies for Remuneration Reports**): Section 250R(5) of the Corporations Act provides:

   A member of the Key Management Personnel or a Closely Related Party of such a member (the **voter**) may cast a vote on an advisory resolution to adopt a remuneration report as a proxy if the vote is not cast on their behalf and either:

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

(b) 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 the 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.

6. (**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.

7. (**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.

8. (**Voting in person**):

   (a) A Shareholder that is an individual may attend and vote in person at the Meeting. If you wish to attend the Meeting, please bring the attached proxy form to the Meeting to assist in registering your attendance and number of votes. Please arrive 15 minutes prior to the start of the Meeting to facilitate this registration process.

   (b) A Shareholder that is a corporation may appoint an individual to act as its representative to vote at the Meeting in accordance with Section 250D of the Corporations Act. The appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the Certificate is enclosed with this Notice of Meeting

9. (**Return of Proxy Form**): To vote by proxy, please complete and sign the enclosed Proxy Form and return the Proxy Form (and any Power of Attorney under which it is signed):

   (a) In person to Level 1, 31 Cliff Street, Fremantle, WA 6160;

   (b) By mail to PO Box 584, Fremantle, WA, 6959.

   (c) By Facsimile to +61 8 6444 7408;

   (d) By scan and email to davidm@broadwaymgt.com.au

   so that it is received at least 48 hours prior to commencement of the Annual General Meeting.

   Proxy Forms received later than this time will be invalid.

CERTIFICATE OF APPOINTMENT OF CORPORATE REPRESENTATIVE

Shareholder Details

This is to certify that by a resolution of the directors of:

……………………………………………………………………………….…….….………... (***Company***),
Insert name of Shareholder Company

the Company has appointed:

……………………..……………………………………………………………………..………..…,
Insert name of corporate representative

in accordance with the provisions of section 250D of the Corporations Act 2001, to act as the body corporate representative of that Company at the annual general meeting of the members of Merchant House International Limited to be held on Friday, 25 August 2017 commencing at 11.00 am (WST) and at any adjournments of that annual general meeting.

DATED ……………………………………..2017

Please sign here

Executed by the Company)
in accordance with its constituent documents)

....………………..…	....…………………
Signed by authorised representative	Signed by authorised representative
....……...	....…………………
Name of authorised representative (print)	Name of authorised representative (print)
....………..…	......................................…………………….
Position of authorised representative (print)	Position of authorised representative (print)

Instructions for Completion

- Insert name of appointing Shareholder Company and the name or position of the appointee corporate representative (eg “John Smith” or “each director of the Company”).
- Execute the Certificate following the procedure required by your Constitution or other constituent documents.
- Print the name and position (eg director) of each authorised company officer who signs this Certificate on behalf of the Company.
- Insert the date of execution where indicated.
- Prior to the Meeting, send or deliver the Certificate to the registered office of Merchant House International Limited at Level 1, 31 Cliff Street, Fremantle, WA, 6160 or fax the Certificate to the registered office at +61 8 6444 7408.

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 of the Annual General Meeting, 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, 25 August 2017 at Level 1, 31 Cliff St, Fremantle, Perth, Western Australia, and at any adjournment of that meeting.

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 – Re-election of Director – Mr Robert Burton	☐	☐	☐
Resolution 2 – Re-election of Director – Mr Ian Burton	☐	☐	☐
Resolution 3 – Re-election of Director – Ms 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.

If two proxies are being appointed, the proportion of voting rights this prox_ ________ %

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): ______________________________**

MERCHANT HOUSE INTERNATIONAL LIMITED

ARBN 065 681 138

2017

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

Home Textile Operation in China

MERCHANT HOUSE INTERNATIONAL LIMITED

ARBN 065 681 138

ANNUAL REPORT

2017

Contents

Letter from the Chairperson

Overview

FY 2016/17 continued to be a difficult year for the Group. The market has been slower to recover than many anticipated.

The Group has recorded sales of A$72.8 million for FY 2016/17, which shows a decline of 24% compared with last year of A$95.4 million. Consistent with our published profit forecast made in September 2016, the Group, after share of associates' profit of A$2.0 million (2016: A$2.2 million), is basically break-even and recorded a net profit attributable to shareholders of A$0.6 million (2016: A$2.8 million).

Business Review

Home Textile

Cotton price in China was relatively stable during the year, but still remained higher than the southern neighbours of India and Pakistan, as well as the USA. Other material costs had greatly increased, squeezing profit margins in the current year. The central government had launched an aggressive anti-pollution campaign which led to shutting down of hundreds of factories that burned coal, or that did not have proper sewage disposal treatment. This, on the other hand, impacted some of the Group's suppliers with the reduced competition pushing material prices up. Local taxes and levies and compliance costs continued to escalate while the China government exerted tighter controls over environmental protection and safety working standards.

The China textile factory continues to improve its production efficiency and is handling a higher business volume with fewer workers. Continuous automations and system enhancements facilitate further manufacturing effectiveness.

Footwear Trading

Sales for the year had declined as a result of pre-election economic uncertainty in the US, a mild winter in the US which reduced the need for retailers to replenish stock, the shift in consumer buying behaviour in favour of internet retail sales and waning interest in western boot fashions.

Suffering from the strategic decision to cease business with a large US retailer as a result of increasingly concerns about its credit worthiness, the Group's footwear trading business recorded a dramatic drop in both sales and operating profit this year.

Footwear Manufacturing

The footwear manufacturing segment recorded smaller sales and a bigger loss for the year. There has been little improvement in the overall factory management, and the workforce remains at a disappointing level of efficiency.

It has been a challenge for the Group's US footwear factory to get appropriate and stable personnel in place to streamline different functional operations including material sourcing, production planning, technical support and local human resources coordination. Also, the Group had limited experience in working with US-based suppliers and this affected the quality and timely delivery of key equipment, materials and components.

Riding on the decades of footwear experience in China, the Group managed to direct more technical resources and support from China to the US factory and hopefully benefits may be demonstrated in the coming future.

Letter from the Chairperson (Continued)

Outlook

We anticipate that the overall operating environment continues to be challenging going forward. In spite of this, the Group will focus on enhancing its product development; strengthening the technical base and support and persistently increase automation and capital expenditure to improve work flow and productivity.

Competition from other countries like India, Pakistan and Vietnam, is stiff for our home textile business which further adds pressure on our costs and efficiency improvement. Nevertheless, the Group is in an excellent position given it is a leading manufacturing of seasonal kitchen and table linens in China. To maintain this position, the product line will need to be expanded, especially in the area of table top and decorative pillows.

The footwear trading business is expected to remain low. We will rebuild sales by both expanding business with the existing customer base and searching for new customers. The China footwear division will continue to provide support to our US footwear factory in areas of material sourcing, planning, training and pattern development.

Reflecting current political circumstances, interest and demand for US made footwear continue to be strong. The Group strives to improve the footwear manufacturing business performance. Actions have been taken to reinforce labour training, technical and quality assurance and streamline the work flow. Benefitting from the economy of scale, our goal is to double the productivity level in coming year.

Dividend

The Board did not recommend the payment of a dividend for FY 2016/17. The Group needs to retain cash for capital expenditure and business development in future.

Acknowledgements

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

Loretta Lee
Chairperson
28 June 2017

Operating and Financial Review

Financial Results

The Group is engaged in the design, manufacturing and marketing of home textile, seasonal and decorative products and leather shoes with the major market in the United States of America. There is no significant change in the Group's business activities during the financial year ended 31 March 2017.

Revenue of the Group for the year ended 31 March 2017 attributable to home textile, footwear trading and footwear manufacturing was 55.3%, 43.3% and 1.4% (2016: 37.7%, 60.3% and 2.0%) respectively. The decrease in footwear trading revenue was mainly due to the cessation of business with one major customer because of increased credit concern.

Home Textile

Home textile was the best performer during the year among all operating segments of the Group. Sales increased by 12% to A$40.2 million (2016: A$35.9 million). Segment profit was A$1.8 million (A$2.0 million). The segment profit margin for the current year was partly impacted by a write-down of inventories of A$0.3 million (2016: nil) during the year.

Footwear Trading

Sales of the footwear trading business for the year was A$31.7 million (2016: A$58.0 million), down by 45%. Segment profit dropped by 78% to A$0.4 million (2016: A$1.9 million). The Group closely evaluated and monitored the credit risk and decided strategically to cease selling to a major footwear customer during the middle of the year.

Footwear Manufacturing

Sales of footwear manufacturing business in the US for the year was A$1.0 million, compared with A$1.9 million last year. A loss of A$2.9 million (A$2.3 million) was recorded. The increased operating loss was a result of lower-than-expected efficiency in both production and management.

Impairment and write-down

During the year, goodwill attributable to the Group's footwear trading business of A$0.2 million was fully impaired based on uncertain business environment and unsatisfactory results anticipated. Provision for receivables amounted to A$0.3 million (2016: A$0.1 million) and write-down of inventories of A$0.4 million (2016: write-back of A$0.1 million) was recognised.

Liquidity and Financial Resources

As at 31 March 2017, the Group had cash and bank balances totaling A$24.0 million (2016: A$25.5 million) and were denominated substantially in United States dollars. In addition, the Group had banking facilities of A$7.3 million (2016: A$12.1 million), of which A$6.2 million (2016: A$11.0 million) was not utilised.

In view of the strong financial and liquidity position, the Group has sufficient financial resources to meet its commitments and working capital requirements.

Capital Expenditure

During the year, the Group spent A$1.5 million (2016: A$0.4 million) on acquisition of property, plant and equipment, mainly for plant and equipment of the US footwear manufacturing plant.

Exchange Risk

The Group is exposed to exchange rate risk primarily that certain assets and most liabilities are denominated in Renminbi. The Group estimates that the appreciation of Renminbi would reduce the profitability of home textile manufacturing division in China. In the reporting year, the Group's margin was favourably influenced upon the depreciation of Renminbi by 4% approximately.

Directors' Report

The directors of Merchant House International Limited (the "Company") present their report on the Company and the entities it controlled (the "Group") for the year ended 31 March 2017.

1. Board of Directors and Officer

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

Name	Period of Directorship
Executive	
Ms Loretta Bic Hing Lee	Director since 15 July 1994
Independent Non-executive	
Mr Ian James Burton	Director since 15 July 1994
Ms Peggy Zi Yin Liao	Director since 15 July 1994
Ms Xiao Lan Wu	Director since 9 June 2004
Mr Clifford Jay Einstein	Director since 2 August 2007
Mr David John Thomas Bell	Director since 14 August 2007
Mr Robert Lincoln Burton	Director since 10 August 2016

Ms Loretta Bic Hing Lee
Executive Chairperson

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

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

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

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

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

1. Board of Directors and Officer (continued)

Ms Peggy Zi Yin Liao

Independent Non-executive Director

Experience and expertise

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

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

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

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

Other current and former directorships

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

Director's shareholdings

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

Mr Ian James Burton

Independent Non-executive Director

Experience and expertise

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

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

Other current and former directorships

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

Director's shareholdings

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

Ms Xiao Lan Wu

Independent Non-executive Director

Experience and expertise

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

1. Board of Directors and Officer (continued)

Ms Xiao Lan Wu (continued)

Independent Non-executive Director

Other current and former directorships

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

Director's shareholdings

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

Mr Clifford J Einstein

Independent Non-executive Director

Experience and expertise

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

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

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

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

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

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

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

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

Other current and former directorships

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

Director's shareholdings

As at the date of this report, Mr Einstein holds 585,217 ordinary shares of the Company.

1. Board of Directors and Officer (continued)

Mr David John Thomas Bell
Independent Non-executive Director

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

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

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

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

Director's shareholdings
As at the date of this report, Mr Bell holds 55,000 ordinary shares of the Company.

Mr Robert Lincoln Burton
Independent Non-executive Director

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

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

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

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

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

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

Mr David McArthur
Company Secretary

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

2. Directors' meetings

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

Director	Full meetings of Directors	
	No. of meetings attended	No. of meetings held whilst a director
Ms Loretta Bic Hing Lee	2	2
Ms Peggy Zi Yin Liao	2	2
Mr Ian James Burton	2	2
Ms Xiao Lan Wu	-	2
Mr Clifford Jay Einstein	2	2
Mr David James Bell	2	2
Mr Robert Lincoln Burton	1	1

3. Remuneration of Directors and Senior Management

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

4. Share options granted to directors and senior management

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

5. Issued capital

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

6. Indemnification and insurance of officers and auditors

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

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

7. Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 27 to the financial statements.

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

7. Non-audit services (continued)

The directors are of the opinion that the services as disclosed in note 27 to the financial statements do not compromise the external auditor's independence, for the following reasons:

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

8. Independent auditor's report

The independent auditor's report is included on page 61.

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

On behalf of the Directors.

Ian James Burton
Director
Perth, Australia
28 June 2017

Corporate Governance

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

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

1. Board of Directors

(a) Role of the Board and responsibilities

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

The Board evaluates these policies on an ongoing basis.

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

- the establishment of the long-term goals of the Group and strategic plans to achieve those goals;
- monitoring the achievement of these goals;
- the review of management accounts and reports to monitor the progress of the Group;
- the review and adoption of budgets for the financial performance of the Group and monitoring the results on a regular basis to assess performance;
- the review and approval of the annual and interim financial reports;
- nominating and evaluating the external auditor;
- approving all significant business transactions;
- appointing and monitoring senior management;
- all remuneration, development and succession issues;
- ensuring that the Group has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities;
- overseeing the process for making timely and balanced disclosure of all material information that a reasonable person would expect to have a material effect on the price or value of the Company's securities;
- ensuring that the Company has a suitably qualified Company Secretary who shall be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board; and
- ensuring that the Company reports on its measurable objectives in relation to board diversity and assess annually both the objectives and progress in achieving board diversity.

Responsibility for management of the Group's day to day business activities is delegated to the Executive Chairperson who is accountable to the Board.

(b) Board composition and expertise

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

1. Board of Directors (continued)

(b) Board composition and expertise (continued)

The Board currently comprises seven directors, one executive Chairperson and six independent non-executive directors. A letter of appointment is executed with each Director and Senior Executive of the Company setting out the terms of their employment.

The specific skills that the Board collectively bring to the Company include:

- Industrial expertise
- Commercial experience
- Public company experience
- Analytical
- Financial
- Risk management
- Strategic planning and leadership
- Corporate governance
- Communications
- Interpersonal

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

The Board undertakes appropriate checks before appointing a person as a Director or putting forward to shareholders a candidate for election as a Director.

The Board ensures that shareholders are provided with all relevant information for considering the election and re-election of a Director.

(c) Retirement and re-election of directors

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

No Directors shall hold office for a period of three years without seeking re-election.

(d) Independence of directors

The Board has reviewed the position and association of each of the seven directors in office during the year 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.

1. Board of Directors (continued)

(d) Independence of directors (continued)

The Board considers that Ms Peggy Liao, Mr Ian Burton, Mr David Bell, Mr Clifford Einstein, Mr Robert Burton 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 the Company, Ms Loretta Lee, founded the Company and has held the role of Chairperson since the Company was established. Ms Lee is an integral part of the Company and also a major shareholder and due to her detailed knowledge of the business and the specialised skills that she brings to the Company, it is not practical for her role as Chairperson to be carried out by other directors, nor for the roles of Chairperson and Chief Executive Officer to be segregated.

(e) Director education

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

The Board are specifically provided the opportunity to enhance their financial and compliance skills in relation to public companies through external courses.

(f) Independent professional advice

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

(g) Board performance review

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

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

The Board does assess the performance of senior executives on an annual basis. An assessment was carried out during the current financial year.

(h) Conflict of interest

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

(i) Remuneration of directors and senior management

Details of remuneration of the Company's directors and the Group's senior management are disclosed in note 28 to the consolidated financial statements on page 54.

Executive Directors may be remunerated by fixed cash remuneration, performance-based bonus and share-based compensation. No termination payment is agreed other than a reasonable period of notice of termination will be required as detailed in the executive's employment contract.

1. Board of Directors (continued)

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

Non-executive Directors will be remunerated by cash benefits alone (including statutory superannuation) and will not be provided with any benefits for ceasing to be a Director.

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

2. Board committees

Board committees and membership

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

3. Managing business risk

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

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

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

The Board has not established a separate Risk Committee. The Board as a whole assesses and monitors risk management.

The Company does not have an internal audit unit.

The Company assesses its exposure to economic, environmental and social sustainability risks. The Board assesses the possible impact of changes and implements strategies to minimise exposure to these risks.

(a) Internal controls

Procedures are established at the Board and executive management levels that are designed to safeguard the assets and interests of the Company, and to ensure the integrity of reporting. These include accounting and financial reporting and internal control policies and procedures. To ensure these established procedures are being followed, the Directors:

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

3. Managing business risk (continued)

(b) Corporate financial and operational reporting

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

(c) Environmental regulation

The Group has a policy of at least complying, but in most cases exceeding, its environmental performance obligations. The Group has complied with all applicable environmental regulations.

4. Ethical Standards

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

(a) Code of conduct

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

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

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

(b) Trading in Company's securities by directors and employees

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

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

5. Diversity Policy

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

The Board comprises of members possessing different nationalities. They have various experiences, qualifications and educational backgrounds. The Board's composition is represented by both genders on a relative even basis. The Company continues to achieve and maintain diversity on the Board in order to enhance its effectiveness.

The Company is committed to workplace diversity at all levels and recognises the benefits arising from employee and Board diversity. The benefits include a broader pool of high quality employees, improved employee retention, accessing different perspectives and ideas, and benefitting from all available talents.

5. Diversity Policy (continued)

The Group recognises that diversity includes matters of age, disability, ethnicity, marital and family status, religion and culture, sexual orientation and gender identity.

The Group strives to:

- Recruit and manage on the basis of an individual's competence, qualification and skills and performance
- Create a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff
- Appreciate and respect the unique aspects that an individual brings to the workplace
- Where possible and practicable, increase participation and employment opportunities for indigenous people
- Create a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives through improved awareness of the benefits of workplace diversity and successful management of diversity, and at all times recognising that employees may have restrictions placed on them by domestic responsibilities outside the workplace
- Take action to prevent discrimination, harassment, vilification or victimisation;
- Create awareness in all staff of their rights and responsibilities with regards to fairness, equity and respect for all aspects of diversity; and
- Identify and implement programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees, and to offer employees opportunities to reach management levels with the Group.

Pursuant to *Recommendation 1.5* of the Recommendations, the Company discloses the following information as at 31 March 2017:

	2017		2016	
Gender representation	**Women**	**Men**	**Women**	**Men**
Group representation	66%	34%	59%	41%
Board representation	43%	57%	50%	50%
Senior management representation	-	100%	-	100%
Corporate services provider representation	75%	25%	75%	25%

6. Communication with Shareholders

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

- As the Company is a disclosing entity, regular announcements are made to the ASX in accordance with the Company’s disclosure policy, including the interim and annual accounts of the Group;
- The Board ensures the annual report includes relevant information about the operations of the Group during the year, changes in the financial position and details of future developments;
- Any proposed major changes in the Company’s affairs are submitted to a vote of shareholders;
- Shareholders are provided the opportunity to receive communications electronically through the Company’s share registry;
- The Board encourages full participation of shareholders at the AGM to ensure a high level of accountability and identification of the corporate strategies and goals. All shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Company; and
- The external auditor is required to attend the AGMs to answer questions concerning the audit and the content of the auditor’s report.

The Board reviews this policy and ensure its compliance on an ongoing basis.

6. Communication with Shareholders (continued)

Continuous disclosure

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

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

The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairperson, who in consultation with the Board (where practicable) and any other appropriate personnel (including external advisors if deemed appropriate), will consider the information and whether disclosure is required. If disclosure is deemed necessary, an appropriate announcement will be prepared for release to the market as soon as possible.

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

7. ASX Principles Compliance Statement

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

Recommendation 2.1

The Board should establish a nomination committee.

Recommendation 2.5

The chairperson should be an independent director and, in particular, should not be the same person as the CEO of the Company.

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

Recommendation 4.1

The Board should establish an audit committee.

Recommendation 4.2

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

Recommendation 7.1

The Board should establish a risk committee.

7. ASX Principles Compliance Statement (continued)

Recommendation 8.1

The Board should establish a remuneration committee.

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2017

	Note	2017 $'000	2016 $'000
Revenue	3	72,788	95,410
Cost of sales		(62,279)	(84,244)
Gross profit		10,509	11,166
Interest income	3	102	41
Other losses	6	(552)	(116)
Share of profit of associates	24	1,954	2,182
Impairment of assets	7	(229)	(215)
Interest expense		(47)	(40)
Selling, general and administrative expenses	5	(10,548)	(9,811)
Profit before tax		1,189	3,207
Income tax expense	22(a)	(606)	(440)
Profit for the year attributable to owners of the Company		583	2,767
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		108	(930)
Income tax on items that may be reclassified subsequently to profit or loss		-	(1)
Other comprehensive income/(loss) for the year, net of tax		108	(931)
Total comprehensive income for the year attributable to owners of the Company		691	1,836
Earnings per share attributable to owners of the Company			
Basic and diluted (cents per share)	8	0.62	2.94

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

Consolidated Statement of Financial Position as at 31 March 2017

	Note	2017 $'000	2016 $'000
Current assets			
Cash and cash equivalents	17	24,004	25,469
Receivables	9	6,464	9,782
Inventories	10	3,397	3,811
Prepayments		205	334
Total current assets		34,070	39,396
Non-current assets			
Interests in associates	24	11,181	10,781
Property, plant and equipment	11	9,054	9,029
Lease premium for leasehold land	12	1,116	1,223
Deferred tax assets	22(c)	44	44
Goodwill	13	-	229
Total non-current assets		21,395	21,306
Total assets		55,465	60,702
Current liabilities			
Payables	14	6,316	12,096
Bank borrowings	21	1,112	1,109
Current tax payable		173	226
Provision	15	129	313
Total current liabilities		7,730	13,744
Non-current liabilities			
Deferred tax liabilities	22(c)	82	-
Total liabilities		7,812	13,744
Net assets		47,653	46,958
Equity			
Issued capital	19(a)	2,944	2,944
Retained earnings		37,012	36,425
Foreign currency translation reserve	19(b)	7,697	7,589
Total equity		47,653	46,958

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

Consolidated Statement of Changes in Equity for the year ended 31 March 2017

		Attributable to owners of the Company			
	Note	Issued capital $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Total $'000
Balance at 1 April 2015		2,944	34,121	8,520	45,585
Profit for the year		-	2,767	-	2,767
Other comprehensive loss		-	-	(931)	(931)
Total comprehensive income for the year		-	2,767	(931)	1,836
Reversal of unclaimed dividends	18	-	8	-	8
Dividend	18	-	(471)	-	(471)
Balance at 31 March 2016		2,944	36,425	7,589	46,958
Balance at 1 April 2016		2,944	36,425	7,589	46,958
Profit for the year		-	583	-	583
Other comprehensive income		-	-	108	108
Total comprehensive income for the year		-	583	108	691
Reversal of unclaimed dividends	18	-	4	-	4
Balance at 31 March 2017		2,944	37,012	7,697	47,653

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 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from customers		75,642	93,766
Payments to suppliers and employees		(75,855)	(88,480)
Finance costs		(47)	(40)
Income tax paid		(580)	(118)
Net cash (used in)/generated from operating activities	17	(840)	5,128
Cash flows from investing activities			
Interest received		50	41
Proceeds from disposal of property, plant and equipment		2	9
Payments for property, plant and equipment		(1,534)	(404)
Dividend received from an associate		830	1,074
Net cash (used in)/generated from investing activities		(652)	720
Cash flows from financing activity			
Dividends pending forfeiture/(paid)		7	(469)
Net cash generated from/(used in) financing activity		7	(469)
Net (decrease)/increase in cash and cash equivalents		(1,485)	5,379
Cash and cash equivalents at the beginning of the year		25,469	18,950
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		20	1,140
Cash and cash equivalents at the end of the year	17	24,004	25,469

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

Notes to the Consolidated Financial Statements

1. Reporting entity and statement of compliance

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

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

Registered Office	Principal place of business
First Floor, 31 Cliff Street Fremantle Western Australia 6160	10th Floor, E-Trade Plaza 24 Lee Chung Street Chai Wan Hong Kong

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

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

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

The consolidated financial statements have been prepared on a historical cost basis, except share-based payments which are measured at fair value.

The consolidated financial statements were authorised for issue by the Board of Directors on 28 June 2017.

Details of the Group's accounting policies, including changes during the year, are included in note 30 and 31.

The Company is a company of the kind referred to in Australian Securities and Investments Commission "ASIC" Class Order 2016/191, dated 24 March 2016, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The individual financial statements of each Group Entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. The functional currencies of subsidiaries are Hong Kong Dollar (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.

2. Critical accounting estimates and judgements

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

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

(a) Judgements, assumptions and estimation uncertainties

Information about judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 March 2017 are included in the following notes:

(i) Note 9 – Recoverability of receivables
(ii) Note 10 – Valuation of inventories
(iii) Note 11 – Recoverability of property, plant and equipment
(iv) Note 13 – Goodwill
(v) Note 15 – Provision for sales returns and claims

(b) Measurement of fair values

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurable date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for 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.

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.

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

3. Revenue and interest income

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

	2017 $'000	2016 $'000
Revenue from the sale of goods	72,788	95,410
Interest income from bank deposits	102	41
	72,890	95,451

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.

Interest income
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.

4. Segment information

Information about reportable segments

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

The Group currently operates in three distinct segments.

- Home textile
- Footwear trading
- Footwear manufacturing

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

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

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

Unless otherwise stated, all amounts reported to the chief operating decision maker, are determined in accordance with AASB 8 *Operating Segments.*

4. Segment information (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable operating segment as at the end of the year.

	Assets		Liabilities	
	2017 $'000	**2016 $'000**	**2017 $'000**	**2016 $'000**
Home textile	38,368	39,074	4,141	4,929
Footwear trading	2,611	8,391	1,808	7,438
Footwear manufacturing	3,131	1,891	1,662	1,227
Total segment assets and liabilities	44,110	49,356	7,611	13,594
Interests in associates	11,181	10,781	-	-
Corporate and other segment assets/liabilities	174	565	201	150
Total	55,465	60,702	7,812	13,744

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

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

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

4. Segment information (Continued)

Segment revenue and results

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

	Revenue		Segment profit/(loss)	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Home textile	40,234	35,939	1,765	1,971
Footwear trading	31,684	58,035	408	1,882
Footwear manufacturing	1,030	1,896	(2,948)	(2,279)
	72,948	95,870	(775)	1,574
Eliminations	(160)	(460)	412	(239)
	72,788	95,410	(363)	1,335
Share of profits of associates			1,954	2,182
Interest income			102	41
Central administrative expenses and directors' remuneration			(457)	(96)
Interest expense			(47)	(40)
Impairment of an associate			-	(215)
Profit before tax			1,189	3,207

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

Segment profit represents the profit before tax earned by each segment without allocation of central administrative expenses and directors' remuneration, share of profits of associates, impairment losses, interest income 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.

Geographical information

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

	Revenue from external customers		Non-current assets	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
America	71,331	93,079	2,204	1,100
Australia	1,059	1,349	-	229
China/Hong Kong	127	201	7,966	9,152
Others	271	781	-	-
	72,788	95,410	10,170	10,481

4. Segment information (Continued)

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

Non-current assets comprise property, plant and equipment, lease premium for leasehold land and goodwill.

Other segment information

	Home Textile		Footwear Trading		Footwear Manufacturing	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Interests in associates	-	-	11,181	10,781	-	-
Share of net profit/(loss) of associates	-	(111)	1,954	2,293	-	-
Acquisition of segment assets	381	301	7	36	1,146	67
Depreciation and amortisation of segment assets	980	1,162	10	31	139	62

Information about major customers

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

	Attributable to segments		Sales revenue		Percentage of total sales revenue	
	2017	2016	2017 $'000	2016 $'000	2017 %	2016 %
First	Home textile	Home textile	15,971	18,938	21.94	17.27
Second	Home textile	Home textile and Footwear trading	14,021	11,679	19.26	12.24
Third	Footwear Trading and footwear manufacturing	Footwear Trading	10,195	19,972	14.01	20.93
			40,187	50,589	55.21	50.44

5. Selling, general and administrative expenses

Significant expenses for the year are as follows:

	Note	2017 $'000	2016 $'000
Depreciation and amortisation expense			
Depreciation of property, plant and equipment		1,096	1,219
Amortisation of lease premium for leasehold land		33	36
		1,129	1,255
Research and development costs expensed as incurred		496	437
Operating lease rental expense	(a)		
Minimum lease payments		337	317
Employee benefits expense	(b)		
Key management personnel remuneration		1,206	1,237
Wages and salaries		8,009	7,045
Contributions to defined contribution plans		72	82
Movement in liability for long service leave		-	61
Other employee benefits		1,017	647
Total employee benefits expense		10,304	9,072
Less: Amount allocated to cost of sales		(6,072)	(5,277)
Amount allocated to selling, general and administrative expenses		4,232	3,795

(a) Operating lease rental expense

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.

(b) Employee benefit expense

(i) Short-term employee benefits

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

(ii) Share-based payment transactions

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.

5. Selling, general and administrative expenses (Continued)

(b) Employee benefit expense (Continued)

(iii) Retirement benefit costs

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

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

6. Other losses

	2017 $'000	2016 $'000
Net exchange loss on foreign currency transactions	(527)	(177)
Loss on disposal of property, plant and equipment	(63)	(25)
Others	38	86
	(552)	(116)

7. Impairment of assets

	Note	2017 $'000	2016 $'000
Impairment of goodwill	13	229	-
Impairment of an associate		-	215
		229	215

8. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of $583 thousand (2016: $2,767 thousand) and 94,266,496 (2016: 94,266,496) ordinary shares in issue throughout the year.

In both years ended 31 March 2017 and 2016, diluted earnings per share is the same as basic earnings per share due to the absence of dilutive potential ordinary shares during the year.

9. Receivables

	Note	2017 $'000	2016 $'000
Current			
Trade receivables		6,187	9,161
Loan receivable	(a)	340	391
Other receivables		47	54
Interest receivable		52	-
VAT refund receivable	(b)	210	190
Deposits	(c)	67	105
		6,903	9,901
Allowance for doubtful debts		(439)	(119)
		6,464	9,782

(a) As at 31 March 2017, the loan receivable is fully impaired.

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

(c) This represents rental deposit and is non-interest bearing and repayable on demand.

The average credit period on sales of goods and rendering of services is 60 days (2016: 60 days). No interest is charged on trade receivables.

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period 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 $754 thousand (2016: $660 thousand) which are past due for 30 to 90 days 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 (2016: 90 days).

Impairment of 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, either positively or negatively.

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.

9. Receivables (Continued)

Impairment of receivables (Continued)

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade and other receivables 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.

	2017 $'000	2016 $'000
Movements in the allowance for doubtful debts		
Balance at 1 April	119	205
Provision for the year	324	123
Amounts written off as uncollectible	-	(207)
Exchange differences	(4)	(2)
Balance at 31 March	439	119

During the current year, a provision for a doubtful debt amounting to $324 thousand (2016: $123 thousand) was made. In addition to this provision, an allowance for doubtful debts of $nil thousand (2016: $207 thousand) which had been provided in a prior period was formally forgiven and eliminated against the provision previously made.

10. Inventories

	2017 $'000	2016 $'000
Materials	1,192	1,659
Work in progress	952	1,021
Finished goods	1,011	1,131
Goods in transit	242	-
	3,397	3,811

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

The cost of inventories recognised as an expense during the year was $62,279 thousand (2016: $84,244 thousand).

The cost of inventories recognised as an expense includes $391 thousand (2016: write back of $106 thousand) in respect of write-downs to net realisable value.

11. Property, Plant and Equipment

	Buildings $'000	Freehold land $'000	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
Gross carrying amount					
Balance at 1 April 2015	12,097	39	346	12,266	24,748
Additions	-	-	-	404	404
Disposals	-	-	-	(200)	(200)
Exchange differences	(528)	-	1	(437)	(964)
Balance at 31 March 2016	11,569	39	347	12,033	23,988
Additions	262	26	-	1,246	1,534
Disposals	-	-	(95)	(373)	(468)
Exchange differences	(621)	-	3	(518)	(1,136)
Balance at 31 March 2017	11,210	65	255	12,388	23,918
Accumulated depreciation and impairment					
Balance at 1 April 2015	5,476	-	234	8,668	14,378
Disposals	-	-	-	(166)	(166)
Depreciation expense	533	-	94	592	1,219
Exchange differences	(295)	-	(3)	(174)	(472)
Balance at 31 March 2016	5,714	-	325	8,920	14,959
Disposals	-	-	(95)	(308)	(403)
Depreciation expense	527	-	23	546	1,096
Exchange differences	(354)	-	2	(436)	(788)
Balance at 31 March 2017	5,887	-	255	8,722	14,864
Net book value					
As at 31 March 2016	5,855	39	22	3,113	9,029
As at 31 March 2017	5,323	65	-	3,666	9,054

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

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

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

11. Property, Plant and Equipment (Continued)

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

Depreciation is recognised in profit or loss.

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

Buildings	20 to 50 years
Leasehold improvements	3 to 5 years
Plant and equipment	5 to 10 years

Impairment losses charged to profit or loss
No impairment loss in property, plant and equipment is recognised in the current year. The impairment charge recognised in prior years related to certain assets used in the Group's footwear manufacturing reportable segment.

12. 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 at fair value.

	$'000
Gross carrying amount	
Balance at 1 April 2015	1,787
Exchange differences	(89)
Balance at 31 March 2016	1,698
Exchange differences	(104)
Balance at 31 March 2017	1,594
Accumulated amortisation and impairment	
Balance at 1 April 2015	464
Amortisation expense	36
Exchange differences	(25)
Balance at 31 March 2016	475
Amortisation expense	33
Exchange differences	(30)
Balance at 31 March 2017	478
Net book value	
As at 31 March 2016	1,223
As at 31 March 2017	1,116

13. 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.

The goodwill shown on the face of the consolidated statement of financial position is attributable to the footwear trading business of the Group.

	2017 $'000	2016 $'000
Gross carrying amount		
Balance at 1 April to 31 March	959	959
Accumulated impairment		
Balance at 1 April	730	730
Impairment charge	229	-
Balance at 31 March	959	730
Net book value		
Balance at 31 March	-	229

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 Group to estimate the future cash flows expected to arise from the cash-generating unit and an appropriate discount rate in order to calculate the present value.

These calculations use pre-tax cash flow projections based on financial budgets approved by management covering the next 12 months from the balance sheet date. Cash flows from subsequent future years are projected based on zero growth rate. In the year ended 31 March 2016, cash projection was based on financial budgets approved by management covering a five-year period and a discount rate of 10.16% per annum. During the year to 31 March 2017, due to the foreseeable difficult operating environment and unsatisfactory results of the cash generating unit to which goodwill has been allocated, management performed an impairment assessment and full impairment has been made.

14. Payables

	2017 $'000	2016 $'000
Current		
Trade payables	3,699	3,874
Amounts payable to associates	1,623	7,155
Accruals	834	973
Others	160	94
	6,316	12,096

The average credit period on trade purchases is 30 to 60 days (2016: 60 days). The trade payable balances are non-interest bearing. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

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

15. Provision

	Note	2017 $'000	2016 $'000
Sales returns and claims	(a)	129	313
Balance at 1 April		313	115
Additional provisions recognised		115	1,291
Amount utilised or written back		(302)	(1,085)
Exchange differences		3	(8)
Balance at 31 March		129	313

(a) Sales returns and claims represent the return and customers' claim on defective goods. The provision for sales returns and claims represents the present value of the directors' best estimate of the future sacrifice of economic benefits that will be incurred. The estimate amount is made with reference to the historical return and claim proportion.

16. Financial instruments – fair values and risk management

(a) Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying Amounts			Fair Values			
	Current assets						
	Other receivables	Cash and cash equivalents	Total	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2017							
Financial assets not measured at fair value							
Cash and cash equivalents	-	24,004	24,004	-	-	-	-
Trade receivables	6,088	-	6,088	-	6,088	-	6,088
Other loans and receivables	376	-	376	-	376	-	376
	6,464	24,004	30,468	-	6,464	-	6,464
2016							
Financial assets not measured at fair value							
Cash and cash equivalents	-	25,469	25,469	-	-	-	-
Trade receivables	9,042	-	9,042	-	9,042	-	9,042
Other loans and receivables	740	-	740	-	740	-	740
	9,782	25,469	35,251	-	9,782	-	9,782

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

(a) Carrying amounts and fair values (Continued)

	Carrying Amounts			Fair Values			
	Current liabilities						
	Other financial liabilities	Trade and other payables	Total	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2017							
Financial liabilities not measured at fair value							
Bank borrowings	1,112	-	1,112	-	1,112	-	1,112
Trade payables	-	3,699	3,699	-	3,699	-	3,699
Payable to associated entities	-	1,623	1,623	-	1,623	-	1,623
Other payables	-	994	994	-	994	-	994
	1,112	6,316	7,428	-	7,428	-	7,428
2016							
Financial liabilities not measured at fair value							
Bank borrowings	1,109	-	1,109	-	1,109	-	1,109
Trade payables	-	3,874	3,874	-	3,874	-	3,874
Payable to associated entities	-	7,155	7,155	-	7,155	-	7,155
Other payables	-	1,067	1,067	-	1,067	-	1,067
	1,109	12,096	13,205	-	13,205	-	13,205

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.

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

(b) Financial risk management

Risk management framework

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

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

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

- credit risk
- liquidity risk
- market risk

(i) Credit risk

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

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

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

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

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.

At 31 March 2017, the maximum exposure to credit risk for trade and other receivables was as follows:

	Carrying amount	
	2017 $'000	2016 $'000
Trade receivables	6,088	9,042
Other loans and receivables	376	740
	6,464	9,782

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

(b) Financial risk management (Continued)

(ii) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 21 is the total amount of facilities available to the Group to further reduce liquidity risk.

The following tables detail the company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities according to the earliest date of which the Group is required to pay. 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	Over 1 year $'000
2017					
Non-interest bearing	-	5,474	382	203	257
Variable interest rate instruments	3.67	3	7	31	1,112
		5,477	389	234	1,369
2016					
Non-interest bearing	-	10,883	888	242	84
Variable interest rate instruments	2.75	3	5	23	1,108
		10,886	893	265	1,192

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

(b) Financial risk management (Continued)

(ii) Liquidity risk (Continued)

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

	Weighted average effective interest rate %	Less than 1 month $'000	1 to 3 months $'000	3 to 12 Months $'000	Over 1 year $'000
2017					
Non-interest bearing	-	9,041	511	-	227
Variable interest rate instruments	1.16	20,689	20	-	-
		29,730	531	-	227
2016					
Non-interest bearing	-	28,799	48	422	408
Variable interest rate instruments	0.04	5,553	21	-	-
		34,352	69	422	408

(iii) Market risk

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

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

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

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

	Assets		Liabilities	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
US dollar	29,080	33,658	3,374	8,414
HK dollar	777	708	180	176
Chinese Yuan Renminbi	579	744	3,756	4,464

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

(b) Financial risk management (Continued)

(iii) Market risk (Continued)

Currency risk (Continued)
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% (2016: 5%) increase and decrease in the Australian dollar against the relevant foreign currencies and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2016: 5%) change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number indicates an increase in profit or loss where the Australian dollar strengthens against the respective currency.

The purchasing power of the subsidiaries based in China is also linked to the US dollar exchange rate. The following table also shows the Group's sensitivity to a 5% (2016: 5%) increase and decrease in the Chinese Yuan Renminbi against the US dollar.

	Impact on profit & loss	
	2017	**2016**
	$'000	**$'000**
If AUD strengthens by 5% (2016: 5%)		
USD	(1,224)	(1,202)
HKD	(28)	(25)
CNY	151	177
If AUD weakens by 5% (2015: 5%)		
USD	1,353	1,329
HKD	31	28
CNY	(167)	(196)
If USD strengthens by 5% (2016: 5%)		
CNY	116	136
If USD weakens by 5% (2015: 5%)		
CNY	(128)	(150)

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, whenever necessary.

There were no forward foreign currency contracts outstanding as at the reporting date (2016: nil).

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

(b) Financial risk management (Continued)

(iii) Market risk (Continued)

Interest rate risk

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

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

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

	Carrying amount	
	2017	**2016**
	$'000	**$'000**
Variable rate instruments		
Financial assets	20,689	5,574
Financial liabilities	(1,112)	(1,109)
	19,577	4,465

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

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

17. Cash flow information

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in bank deposits.

As at 31 March 2017 and 31 March 2016, cash and cash equivalents represent bank balances and cash.

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

17. Cash flow information (Continued)

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

	2017 $'000	2016 $'000
Profit for the year	583	2,767
Income tax expense for the year	606	440
Depreciation and amortisation of non-current assets	1,129	1,255
Share of profit of associates	(1,954)	(2,182)
Impairment loss recognised on trade receivables	324	81
Foreign exchange loss on translation	527	177
Impairment of an associate	-	215
Impairment of goodwill	229	-
Interest income	(102)	(41)
Loss on disposal of property, plant and equipment	63	25
Impairment/(reversal of impairment) of inventories	391	(106)
Operating cash flow before working capital changes	1,796	2,631
Changes in working capital:		
Decrease/(increase) in receivables	3,228	(1,161)
Decrease/(increase) in inventories	527	(1,629)
(Decrease)/increase in payables	(5,624)	5,200
(Decrease)/increase in provision	(187)	205
Cash (used in) / generated from operations	(260)	5,246
Income tax paid	(580)	(118)
Net cash (used in) / generated from operating activities	(840)	5,128

18. Dividends

	2017 $'000	2016 $'000
Dividends per ordinary share declared in respect of the financial year:		
- Interim nil paid (2016: 0.5¢ paid)	-	471
- Final nil paid (2016: nil)	-	-
	-	471

18. Dividends (Continued)

The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 March 2017 (2016: nil).

Pursuant to Bye-law 147 of the Company's Constitution, any dividend unclaimed after a period of 6 years from the date of declaration of such dividend may be forfeited by board of directors and shall revert to the company. During the year ended 31 March 2017, $4 thousand (2016: $8 thousand) was written back as an unclaimed dividend and $39 thousand (2016: $37 thousand) has been provided for pending forfeiture for unclaimed dividends between 1 and 6 years.

19. Capital and reserves

(a) Issued capital

The Company does not have a limited amount of authorised capital and issued shares do not have a par value. Throughout the years ended 31 March 2017 and 31 March 2016, the number of shares in issue is 94,266,496 and there was no movement in the issued capital of the Company. All issued shares are fully paid.

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

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

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

The Company has no share options outstanding throughout the years ended 31 March 2017 and 31 March 2016.

(b) Nature and purpose of reserves

Translation reserve

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

20. Gearing ratio

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, while maximising the return to stakeholders through the optimisation of debt and equity. There were no changes in the Group's approach to capital management during the year. The Group Entities are not subject to externally imposed capital requirements.

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:

20. Gearing ratio (Continued)

	Note	2017 $'000	2016 $'000
Debt	(a)	1,112	1,109
Cash and cash equivalents		(24,004)	(25,469)
Net cash		(22,892)	(24,360)
Equity	(b)	47,653	46,958
Net debt to equity ratio		N/A	N/A

(a) Debt is as detailed in note 21.
(b) Equity includes all capital and reserves.

21. Financing facilities and bank borrowings

	2017 $'000	2016 $'000
Amounts used	1,112	1,109
Amounts unused	6,180	11,037
	7,292	12,146

The Group's facility is unsecured and covers letters of credit, trust receipt financing, shipping guarantees, revolving loans and foreign exchange forward contract.

As at 31 March 2017, the Group's bank loans were unsecured and repayable within one year and bore interest at prevailing market rates. The total banking facilities available was $7,292 thousand (2016: $12,146 thousand) and $1,112 thousand was utilised (2016: $1,109 thousand). These facilities are reviewed annually.

22. Current income tax and deferred income tax

(a) Amounts recognised in profit or loss

	Note	2017 $'000	2016 $'000
Current tax expense in respect of the current year	(i)	130	642
Current year tax losses not brought to account		349	186
Deferred tax income relating to the origination of temporary differences		82	(29)
Withholding tax of dividend received from associate		83	107
Claim for offshore tax		(98)	(466)
Under provided in prior years		60	-
Income tax expense		606	440

(b) Reconciliation of effective tax charge

	Note	2017 $'000	2016 $'000
Profit before tax		1,189	3,207
Income tax expense calculated at 30%	(ii)	357	962
Effect of different tax rates of the Company and its subsidiaries operating in other jurisdictions	(iii)	354	233
Effect of non-deductible expenses		4	77
Effect of non-assessable revenue		(28)	(16)
Effect of depreciation allowances		37	48
Effect of tax rebates		(7)	(7)
Unused tax losses and tax offsets not recognised as deferred tax assets		430	156
Share of profits of associates		(586)	(654)
Withholding tax of dividend received from associate		83	107
Claim for offshore tax		(98)	(466)
Under provided in prior years		60	-
		606	440

22. Current income tax and deferred income tax (Continued)

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

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

(iii) The Company is taxed in the country of its incorporation, Bermuda. The tax rate in Bermuda is 0% (2016: 0%). The subsidiaries incorporated in Hong Kong are taxed at 16.5% (2016: 16.5%). The subsidiaries incorporated in China are taxed at 25% (2016: 25%). The subsidiaries incorporated in the US are taxed between 6.5% and 40.5% due to differing state and federal tax rates.

(c) Deferred tax balances

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

	Balance at 1 April $'000	Charged to profit or loss $'000	Recognised in other comprehensive income $'000	Balance at 31 March $'000
2017				
Temporary differences				
Receivables	9	-	-	9
Property, plant and equipment	4	8	-	12
Payables	22	2	-	24
Provision	15	(10)	-	5
Exchange difference on a foreign subsidiary	(6)	-	-	(6)
	44	-	-	44
Withholding tax on undistributed earnings of an associate	-	(82)	-	(82)
Tax losses not recognised	1,573	891	-	2,464
2016				
Temporary differences				
Receivables	9	-	-	9
Property, plant and equipment	(15)	19	-	4
Payables	27	(5)	-	22
Provision	(1)	16	-	15
Exchange difference on a foreign subsidiary	(5)	-	(1)	(6)
	15	29	(1)	44
Tax losses not recognised	1,007	566	-	1,573

22. Current income tax and deferred income tax (Continued)

(c) Deferred tax balances (Continued)

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

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

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

23. Subsidiaries

Details of the Group's major subsidiaries as at 31 March 2017 are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group 2017 %	2016 %
Loretta Lee Limited	Home textile	Hong Kong	100	100
Forsan Limited	Footwear trading	Hong Kong	100	100
Grandview Textiles Limited	Home textile	Hong Kong	100	100
Pacific Bridges Enterprises Inc.	Investment holding	USA	100	100
Footwear Industries of Tennessee Inc.	Footwear manufacturing	USA	100	100
Carsan (Shunde) Manufacturing Company Limited	Home textile	China	100	100

(a) Subsidiaries

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

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

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

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

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

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

23. Subsidiaries (Continued)

(a) Subsidiaries (Continued)

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

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

(b) Transactions eliminated on consolidation

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

24. Associates

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

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

Details of each of the Group's significant associates as at 31 March 2017 are as follows:

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2017 %	2016 %
Tianjin Jiahua Footwear Company Limited	Footwear manufacturing	China	30.00	30.00
Tianjin Tianxing Kesheng Leather Products Company Limited	Footwear manufacturing	China	33.79	33.79
Jawa (Jiangsu) Textiles Company Limited	Textile manufacturing and leasing of plant facilities	China	33.33	33.33

The Group's investment in Jawa (Jaingsu) Textiles Company Limited is fully impaired.

24. Associates (Continued)

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

	2017 $'000	2016 $'000
Interests in associates	11,181	10,781
Reconciliation of movement in investments accounted for using the equity method		
Balance at 1 April	10,781	10,455
Provision for impairment of investment	-	(177)
Share of profit for the year	1,954	2,182
Dividend paid	(830)	(1,074)
Exchange differences	(724)	(605)
Balance at 31 March	11,181	10,781

The financial year end date of these associates is 31 December. This was the reporting date established when the associates were incorporated, and a change of reporting date is not permitted in China. For the purpose of applying the equity method of accounting, the financial statements of these associates for the year ended 31 December 2016 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 March 2017.

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.

	2017 Jiahua $'000	2017 Tianxing $'000	2016 Jiahua $'000	2016 Tianxing $'000
Financial position				
Current assets	8,971	41,238	9,753	42,059
Non-current assets	2,147	7,959	2,431	8,450
Current liabilities	(5,107)	(21,445)	(3,865)	(26,075)
Financial performance				
Revenue	32,567	86,106	37,356	103,317
Profit for the year	875	5,007	2,067	4,950
Total comprehensive income for the year	875	5,007	2,067	4,950
Dividends received from an associate during the year	830	-	1,074	-

24. Associates (Continued)

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

	2017 Jiahua $'000	2017 Tianxing $'000	2016 Jiahua $'000	2016 Tianxing $'000
Net assets of the associate	6,011	27,752	8,319	24,434
Proportion of the Group's ownership interest in associate	30.00%	33.79%	30.00%	33.79%
Carrying amount of the interest in associate	1,804	9,377	2,496	8,256

25. Parent entity financial information

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

The accounting policies of the Company, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 31 for a summary of the significant accounting policies relating to the Group.

	2017 $'000	2016 $'000
Financial performance		
(Loss)/profit and total comprehensive (loss)/income for the year	(3,304)	388
Financial position		
Current assets	89	129
Non-current assets	420	3,633
Total assets	509	3,762
Current liabilities	118	150
Non-current liabilities	271	192
Total liabilities	389	342
Total equity of the Company comprising of:		
Share capital	2,944	2,944
(Accumulated losses)/retained earnings	(2,824)	476
Total equity	120	3,420

25. Parent entity financial information (Continued)

During the year, the Group entered into the following related party transactions.

	2017 $'000	2016 $'000
Management fee income from a subsidiary	452	464
Dividend income from a subsidiary	-	481

As at 31 March 2017, the Company has provided guarantees, limited to HK$60 million (2016: HK$60 million), to certain banks to support general banking facilities granted to the Group.

26. Commitments

(a) Operating lease

As at 31 March 2017, the Group had future aggregate minimum lease payments in respect of office equipment and an office premise under non-cancellable operating leases as follows:

	2017 $'000	2016 $'000
Not later than 1 year	335	87
Later than 1 year and not later than 5 years	91	29
	426	116

(b) Capital expenditure

	2017 $'000	2016 $'000
Property, plant and equipment not later than 1 year	58	125

27. Remuneration of auditors

	2017 $	2016 $
Group auditor – Deloitte Touche Tohmatsu		
Audit or review of the financial report of the Company	92,085	87,713
Other auditors		
Audit or review of the financial reports of subsidiaries	27,426	22,631
Other non-audit services – W. M. Sum & Co.	22,950	30,997
	50,376	53,628

28. Related party transactions

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

(a) Key management personnel compensation

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

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

	2017 $'000	2016 $'000
Short-term employee benefits	1,206	1,234
Post-employment benefits	3	3
	1,209	1,237

(b) Transactions with key management personnel

Other transactions, excluding compensation, loans and equity holdings, with key management personnel or their associates during the year are as follows:

	2017 $'000	2016 $'000
Dividend received from the Company	-	282

28. Related party transactions (Continued)

(c) Transactions and balances due with related parties

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

	Transactions		Payables as at 31 March	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Purchases from associates				
Tianjin Jiahua Footwear Company Limited	9,015	15,994	436	1,136
Tianjin Tianxing Kesheng Leather Products Company Limited	20,536	34,070	1,187	6,019
Dividend received from an associate				
Tianjin Jiahua Footwear Company Limited	830	1,074	-	-

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

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

29. Subsequent events

Save as disclosed in these consolidated financial statements, 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.

30. Changes in accounting policies and disclosures

New and revised AASBs affecting amounts reported and / or disclosures 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 April 2016.

(a) *AASB 14 Regulatory Deferral Accounts (for first time adopters)*

(b) AASB 2014-1 A*mendments to Australian Accounting Standards (Part D: Consequential Amendments arising from AASB 14 Regulatory Deferral Accounts*)

(c) AASB 2014-3 *Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations*

(d) AASB 2014-4 *Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation*

(e) AASB 2014-9 *Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements*

30. Changes in accounting policies and disclosures (continued)

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

(f) AASB 2015-1 *Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*

(g) *AASB 2015-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101*

(h) AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*

(i) *AASB 2015-9 Amendments to Australian Accounting Standards - Scope and Application Paragraphs*

(j) AASB 2015-10 *Amendments to Australian Accounting Standards - Effective Date of Amendments to AASB 10 and AASB 128*

(k) AASB 1057 *Application of Australian Accounting Standards*

The adoption of these standards and interpretations did not have a material impact on the Group.

31. Other significant accounting policies

Except for the changes explained in note 30, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) Borrowing costs

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

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

(b) Foreign currency translation

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

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

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

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

31. Other significant accounting policies (continued)

(b) Foreign currency translation (continued)

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

(c) Goods and services tax

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

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

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

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

(d) Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held to maturity financial assets, loans and receivables and available for sale financial assets

(i) Non-derivative financial assets and financial liabilities – recognition and de-recognition

The Group initially recognises loans, receivables and deposits on the date when they are originated. All other financial assets are recognised initially on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets – measurement

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

(iii) Non-derivative financial liabilities - measurement

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

31. Other significant accounting policies (continued)

(d) Financial instruments

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.

(e) 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.

(f) Provision

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.

32. New accounting standards and interpretations not yet adopted

A number of new accounting standards and interpretations that have recently been issued or amended but are not yet mandatory for annual periods beginning after 1 April 2016, have not been applied in preparing these consolidated financial statements. The Group's assessment of the impact of these new or amended accounting standards and interpretations, most relevant to the Group, are set out below.

Reference	Title	Application date of standard	Application date for the Group
		Periods beginning on or after	
AASB 9 AASB 2014-7	Financial Instruments Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)	1 January 2018	1 April 2018
AASB 15 AASB 2014-5	Revenue from Contracts with Customers Amendments to Australian Accounting Standards arising from AASB 15 (not yet fully compiled)	1 January 2018	1 April 2018
AASB 16	Leases	1 January 2019	1 April 2019
AASB 2014-10	Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2018	1 April 2018
AASB 2016-1	Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for unrealised Losses	1 January 2017	1 April 2017
AASB 2016-2	Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107	1 January 2017	1 April 2017

Directors' Declaration

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

(a) the consolidated financial statements and notes thereto:

(i) comply with Australian Accounting Standards (including the Australian Accounting Interpretations); and

(ii) give a true and fair view of the Group's financial position as at 31 March 2017 and of its performance and cash flows for the year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Board of Directors

Ian James Burton
Director

Perth, Australia
28 June 2017

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Tower 2
Brookfield Place
123 St Georges Terrace
Perth WA 6000
Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Merchant House International Limited (the "Entity") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 31 March 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the declaration by the directors as set out on pages 18 to 60.

In our opinion, the accompanying financial report presents fairly, in all material respects, the Group's financial position as at 31 March 2017 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards and the International Financial Reporting Standards.

Basis for Opinion

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

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

Key Audit Matters

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

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Footwear manufacturing segment performance The Group's Footwear manufacturing segment in the United States has sustained losses as a result of difficult operating conditions as disclosed in Note 4 and the Operating and Financial Review section.	
Recoverability of non-current assets As at 31 March 2017, the US Footwear manufacturing segment has A$3.1 million (2016: A$1.9 million) of segment assets, including non-current assets in relation to: • Land and Buildings, and • Plant Machinery. Land and buildings relate to the manufacturing facility which was acquired in 2013. Plant machinery includes various items, with the majority of this asset value relating to items purchased in the current year and therefore at low risk of impairment. Judgement was required in assessing whether the value of the land and buildings acquired in 2013 is at least equal to, if not in excess of, its original purchase price.	Our procedures over the recoverability of non-current assets included, but were not limited to: • Identifying the tangible assets at greatest risk of impairment, • Assessing property market trends in Tennessee, USA to assess the risk of property value decline over the period from 2013 to 2017, • Assessing independent Q1, 2017 industrial market reports for trends in rental rates and capital rates on industrial property located in Tennessee, USA between 2013 and 2017, • Obtaining independent reports indicating the national industrial outlook for the US industrial market including anticipated production growth rates, and • Analysing the information obtained to conclude whether the manufacturing facility could be sold at or above its original purchase price.
Valuation of Inventories As at 31 March 2017, the US Footwear manufacturing segment holds inventories for consumption in its manufacturing process. Judgement is required given the current economic conditions whereby inventories may not be recoverable or not carried at the lower of cost or net realisable value.	Our procedures over the valuation of inventories included, but were not limited to: • Assessing the nature of stock items held at balance sheet date and comparing to current customer order requirements, • Assessing management's process for identifying obsolete stock or items which may not be recoverable, • Confirming management has appropriately applied the company's inventory accounting policies, • Selecting a sample of inventory items to vouch to subsequent sale/use after year end, and • Where there had been no subsequent consumption of samples selected, assessing management's basis for future recoverability and reviewing, if necessary, the inventory valuation adjustment calculation. We also assessed the appropriateness of the related disclosures in notes 10 and 11 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 March 2017, but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Those Charged with Governance.

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

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

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

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

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

D K Andrews
Partner
Chartered Accountants
Perth, 28 June 2017

Shareholder Information

1. Substantial shareholders

The following information is extracted from substantial shareholder notices received by the Company as at 31 May 2017:

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

2. Top twenty shareholders of fully paid ordinary shares as at 31 May 2017

		Number of shares	% of total 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 Bic Hing Lee	6,392,103	6.78
4	JP Morgan Nominees Australia Limited	3,044,339	3.23
5	BNP Parabis Nominees Pty Ltd <IB AU Noms Retailclient DRP>	2,567,356	2.72
6	Mr John Maxwell Bleakie	2,067,394	2.19
7	Mr Yin Sang Tsang	1,674,092	1.78
8	Mrs Lana Kinoshita	1,339,274	1.42
9	Citicorp Nominees Pty Limited	1,274,073	1.35
10	Mr Gerald Francis Pauley & Mr Michael James Pauley <Pauley Super Fund A/C>	1,063,007	1.13
11	Mr Brian Garfield Benger <No 4 A/C>	900,000	0.95
12	Mr Victor Tien Ren Hou	900,000	0.95
13	Mr Raymond Lunney	789,674	0.84
14	Mr Brian Garfield Benger	735,000	0.78
15	Mr Ross George Yannis	698,330	0.74
16	Mr Timothy Bird	664,402	0.70
17	Ms Alice Liu	638,783	0.68
18	Ms Peggy Zi Yin Liao	635,455	0.67
19	National Nominees Limited	542,881	0.58
20	Mr David C Scicluna & Mr Anthony A Scicluna <Sciculuna 1913 Unite A/C>	537,220	0.57
Total		80,337,682	85.21

3. Analysis of individual ordinary shareholdings as at 31 May 2017

Holding	Number of shareholders	% of total shareholders	Number of shares	% of total shares
1 to 1,000	17	5.86	6,828	0.01
1,001 to 5,000	35	12.07	117,753	0.12
5,001 to 10,000	34	11.73	278,088	0.30
10,001 to 100,000	148	51.03	5,349,504	5.67
100,001 and over	56	19.31	88,514,323	93.90
Total	290	100.00	94,266,496	100.00

There were 30 shareholders holding less than a marketable parcel.

4. Voting rights of shareholders

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

Key Dates

Key dates for shareholders' attention are stated below.

Date	Event
31 May 2017	Announcement of preliminary annual results for 2016/17
28 June 2017	Announcement of audited annual results for 2016/17
21 July 2017	Dispatch of 2017 annual report and notice of annual general meeting ("AGM")
23 August 2017	Record date for attendance of AGM
25 August 2017	2017 AGM

Five Year Financial Summary

	For the year ended 31 March				
	2017	2016	2015	2014	2013
	$'000	$'000	$'000	$'000	$'000
Results					
Revenue	72,788	95,410	86,196	84,312	80,884
Gross profit	10,509	11,166	9,066	10,240	10,780
Profit/(loss) before tax	1,189	3,207	(1,966)	11,070	3,686
Profit/(loss) for the year	583	2,767	(1,983)	8,771	3,042
Earnings/(loss) per share (cents)	0.62	2.94	(2.10)	9.31	3.23
Dividend per share (cents)	Nil	0.50	Nil	2.50	1.50

	As at 31 March				
	2017	2016	2015	2014	2013
	$'000	$'000	$'000	$'000	$'000
Assets and liabilities					
Total assets	55,465	60,702	54,068	44,827	33,776
Total liabilities	7,812	13,744	8,483	5,121	5,839
Equity	47,653	46,958	45,585	39,706	27,937

Company Details

Merchant House International Limited

ARBN 065 681 138

Board of Directors

Executive Director

Ms Loretta Bic Hing Lee (Chairperson)

Independent Non-executive Directors

Ms Peggy Zi-Yin Liao

Ms Xiao Lan Wu

Mr Clifford JayEinstein
Mr Ian James Burton
Mr David John Thomas Bell
Mr Robert Lincoln Burton

Company Secretary

Mr David McArthur

Registered Office

First Floor, 31-33 Cliff Street
Fremantle, WA 6160 Australia
Telephone: +61 8 9435 3200
Facsimile: +61 8 6444 7408

Postal Address

PO Box 584
Fremantle, WA 6959 Australia

Head Office

10th Floor, E-trade Plaza
24 Lee Chung Street
Chai Wan, Hong Kong
Telephone: +852 2889 2000
Facsimile: +852 2898 9992

Corporate Website

www.lorettalee.com.hk

Share Registry

Computershare Investor Services Pty Limited

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

Place of Incorporation of Company

Bermuda

Place of Listing

Australian Securities Exchange (“ASX”)

Stock code: MHI

ASX Home Branch: Perth

Auditor

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

Australia

Legal Adviser

Steinepreis Paganin
Level 4, The Read Building
16 Milligan Street
Perth, WA 6000
Australia

Principal Bankers

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

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

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Footwear Manufacturing in America

Merchant House International Limited
ARBN 065 681 138

Head Office
10th Floor, E-trade Plaza
24 Lee Chung Street
Chai Wan, Hong Kong
Telephone 852 2889 2000
Facsimile 852 2898 9992
E-mail mhihk@netvigator.com

Registered Office
1st Floor, 31-33 Cliff Street
Fremantle, WA 6160, Australia
Telephone 61 8 9435 3200
Facsimile 61 8 6444 7408