MERCHANT HOUSE INTERNATIONAL LIMITED
ARBN 065 681 138

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Fax: (852) 2898 9992

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Nedlands WA 6009
Australia

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PO Box 985
Nedlands WA 6909

31 July 2013

ASX Limited

Electronic lodgement

ASX Code: MHI

DESPATCH OF 2013 ANNUAL REPORT AND NOTICE OF AGM

Attached is a copy of the 2013 Annual Report together with the Notice of Annual General Meeting, Proxy Form and Explanatory Memorandum which have been despatched to shareholders today.

D McArthur

David McArthur
Company Secretary

MERCHANT HOUSE INTERNATIONAL LIMITED
ARBN 065 681 138

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Merchant House International Limited will be held at Level 2, 55 Carrington Street, Nedlands, Perth, Western Australia on Friday, 30 August 2013 at 10.00 am (WST).

In order to determine voting entitlements, the register of Shareholders will be closed at 5.00pm (Sydney time) on Wednesday, 28 August 2013.

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

2013 Accounts

To receive and consider the Directors' report and income statement for the year ended 31 March 2013, the balance sheet at that date, the Auditors' report and the Directors' declaration on the accounts.

Non-binding Ordinary Resolution 1: Directors' Remuneration Report

To receive and consider the Directors' Remuneration Report for the year ended 31 March 2013 and, if thought fit, to pass, with or without amendment, the following resolution as a non- binding resolution:

"*That, pursuant to and in accordance with section 250R (2) of the Corporations Act, the Directors' Remuneration Report contained within the Directors' Report for the financial year ended 31 March 2013 be adopted*."

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

Voting Prohibition Statement:

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

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

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

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

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

(d) the voter is the Chair and the appointment of the Chair as proxy:

(i) does not specify the way the proxy is to vote on this Resolution; and

(ii) expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, or if the Company is part of a consolidated entity, for the entity.

Ordinary Resolution 2: Re-election of a Director

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

Information about Mr Einstein is set out in the Company's 2013 Annual Report.

Ordinary Resolution 3: Re-election of a Director

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

Information about Mr Bell is set out in the Company's 2013 Annual Report.

D McArthur

By order of the Board
D M McARTHUR
Company Secretary

Dated: 26 July 2013

MERCHANT HOUSE INTERNATIONAL LIMITED
ARBN 065 681 138

EXPLANATORY MEMORANDUM

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

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

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

FINANCIAL STATEMENTS AND REPORTS

In accordance with the Company's By-Laws, the business of the Meeting will include receipt and consideration of the annual financial report of the Company for the financial year ended 31 March 2013, together with the declaration of the directors, the directors' report, the remuneration report and the auditor's report.

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

NON-BINDING ORDINARY RESOLUTION 1: Directors' Remuneration Report

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

The Remuneration Report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The Remuneration Report is part of the Directors' report contained in the annual financial report of the Company for the financial year ending 31 March 2013.

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

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

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

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

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

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

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

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

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

(b) If you appoint the Chair as your proxy

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

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

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

ORDINARY RESOLUTIONS 2 and 3 – Re-election of Directors

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

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PROXY FORM

APPOINTMENT OF PROXY
MERCHANT HOUSE INTERNATIONAL LIMITED
ARBN 065 681 138

ANNUAL GENERAL MEETING

I/We

Address

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

Appoint

Name of proxy

OR the Chair of the Annual General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, and subject to the relevant laws as the proxy sees fit, at the Annual General Meeting to be held at 10.00 am (WST) on Friday, 30 August 2013 at Level 2, 55 Carrington St, Nedlands, Perth, Western Australia, and at any adjournment thereof.

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

Voting on Business of the Annual General Meeting

	FOR	AGAINST	ABSTAIN
Resolution 1 – Adoption of Remuneration Report*	☐	☐	☐
Resolution 2 – Re-election of Director – Clifford Einstein	☐	☐	☐
Resolution 3 – Re-election of Director – David Bell	☐	☐	☐

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

***Important for Resolution 1**

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

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

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

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

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

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

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

Instructions for Completing 'Appointment of Proxy' Form

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

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

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

   Further details on these changes are set out below.

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

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

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

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

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

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

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

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

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

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

   (d) either of the following applies:

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

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

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

5. (**Signing Instructions**):

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

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

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

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

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

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

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

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

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

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

   Proxy forms received later than this time will be invalid.

MERCHANT HOUSE INTERNATIONAL LIMITED

ARBN 065 681 138

2013

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2013

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MERCHANT HOUSE INTERNATIONAL LIMITED

ARBN 065 681 138

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ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2013

COMPANY DIRECTORY

DIRECTORS AND COMPANY SECRETARY:

Loretta Lee
Chairperson

Peggy Zi-Yin Liao
Non-executive Independent Director

Xiao Lan Wu
Non-executive Independent Director

Clifford Einstein
Non-executive Independent Director

Christina Lee
Non-executive Independent Director

Ian Burton
Non-executive Independent Director

David Bell
Non-executive Independent Director

David McArthur
Company Secretary

REGISTERED OFFICE:

Level 2, 55 Carrington Street
Nedlands
WA 6009

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Nedlands
WA 6909

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

PRINCIPAL OFFICE:

1807 – 1812 Ming Pao Industrial Centre
Block B, 18 Ka Yip Street
Chai Wan, Hong Kong
Telephone: +852 2889 2000
Facsimile: +852 2898 9992

SHARE REGISTRY:

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

BANKERS:

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

AUDITORS:

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

SOLICITORS:

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

ASX HOME BRANCH:

Australian Securities Exchange Limited
2 The Esplanade
Perth WA 6000

SECURITIES EXCHANGE:

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

DOMICILE:

Hong Kong

COUNTRY OF INCORPORATION:

Bermuda

Dear Shareholder

We feel fortunate to be able to report we have exceeded our forecast, and total sales have increased 9.6% in both shoes and textiles versus one year ago.

Despite these positive results, manufacturing in China is becoming increasingly difficult. We face continuing cost pressures on raw materials, labour and currency appreciation whilst at the same time, our customers will not accept price increases on their products.

The Chinese government is committed to raising the standard of living of their people, and new minimum wage mandates went into effect on 1st May 2013. Wages in Tianjin increased 14% and in Guangzhou an additional 19%. These increments are designed to stimulate domestic consumption, and reduce the previous emphasis on an export driven economy.

At the same time, the government is encouraging labour intensive manufacturers to move inland where land and labour costs are lower. This goes hand in hand with China's "urbanisation" objectives, where smaller townships are being pushed toward expansion and industrialisation to become regional cities.

Increasingly, China is no longer the low cost producer in Asia. Production is moving south to Pakistan, Vietnam, Indonesia and Cambodia. This cycle has repeated itself for years beginning in Japan, then South Korea and now China. It means we need to continue to upgrade our products to survive, and we have had some success in this regard. Our shoe orders now include a much greater percentage of branded goods as well as textiles.

Our major market remains the United States of America, where consumers continue to be cautious in their spending. While the housing market is rebounding, consumer spending is flat overall, and price sensitivity remains a critical component in decision making.

The Board of Directors has decided to distribute A $0.005 as the final dividend for 2012/2013.

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

LORETTA LEE
Chairperson

CORPORATE HISTORY

Merchant House International Limited has more than thirty years' experience in sourcing, producing and selling consumer products with an emphasis on footwear, home textiles, seasonal decorations and gifts. The Group's main export market is the United States of America, although merchandise is also sold to buyers in Australia, Canada, the United Kingdom and Europe. Customers in the United States of America (USA) include major importers as well as many of the leading retailers.

Ms Loretta Lee, the founder of the Group, began her business activities in 1978. She is continuing to successfully apply her philosophies and strategies for expansion to Merchant House International Limited.

PHILOSOPHY

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

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

CORPORATE STRUCTURE

Merchant House International Limited is incorporated in Bermuda. This allows Merchant House International Limited to be an attractive investment no matter where the investors reside and ensures that investors will only pay tax in accordance with the requirements of their own country of residence. Merchant House International Limited is listed on the Australian Securities Exchange but its Head Office is situated in its own premises in Hong Kong.

FOOTWEAR

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

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

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

FOOTWEAR *(continued)*

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

HOME TEXTILES

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

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

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

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

As required under ASX Listing Rule 4.10.3, the Group makes the following disclosures in relation to each of the Recommendations. A checklist, cross referencing the ASX Principles to the relevant section of this Statement, the Remuneration Report or Financial Report, follows these disclosures.

1. BOARD OF DIRECTORS

(a) Role of the Board and responsibilities

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

The Board evaluates these policies on an ongoing basis.

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

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

(b) Board composition and expertise

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

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

1. BOARD OF DIRECTORS *(continued)*

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

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

(c) *Retirement and re-election of directors*

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

(d) *Independence of directors*

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

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

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

(e) *Director education*

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

1. BOARD OF DIRECTORS *(continued)*

(f) Independent professional advice

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

(g) Board Performance Review

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

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

(h) Conflict of Interest

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

(i) Directors' remuneration

Details of the Company's remuneration policies are included in note 30 of the financial accounts.

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

2. BOARD COMMITTEES

Board committees and membership

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

3. MANAGING BUSINESS RISK

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

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

3. MANAGING BUSINESS RISK *(continued)*

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

(a) Internal controls

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

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

(b) CEO and CFO assurance on corporate reporting

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

(c) Environmental regulation

The Company has a policy of at least complying, but in most cases exceeding, its environmental performance obligations. No environmental breaches have been notified by any Government agency during the year ended 31 March 2013.

4. ETHICAL STANDARDS

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

(a) Code of Conduct

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

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

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

(b) Diversity Policy

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

4. ETHICAL STANDARDS *(continued)*

(b) Diversity Policy (continued)

Diversity Policy. The Board is responsible for monitoring the progress of the measurable objectives through various monitoring, evaluation and reporting mechanisms.

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

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

	2013		2012	
Gender representation	**Women**	**Men**	**Women**	**Men**
Group representation	67%	33%	68%	32%
Board representation	57%	43%	57%	43%
Senior management representation	50%	50%	50%	50%
Corporate services provider representation	78%	22%	78%	22%

(c) Trading in Company securities by directors and employees

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

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

5. COMMUNICATION WITH SHAREHOLDERS

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

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

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

5. COMMUNICATION WITH SHAREHOLDERS *(continued)*

(a) Continuous Disclosure

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

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

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

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

ASX PRINCIPLES COMPLIANCE STATEMENT

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

Recommendation 2.2

The chair should be an independent director.

Recommendation 2.3

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

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

Recommendation 2.4

The Board should establish a nomination committee.

Recommendation 4.1

The Board should establish an audit committee.

Recommendation 4.2

The audit committee should be structured so that it:

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

ASX PRINCIPLES COMPLIANCE STATEMENT *(continued)*

Recommendation 4.3

The audit committee should have a formal charter.

Recommendation 4.4

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

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

Recommendation 7.3

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

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

Recommendation 8.1

The Board should establish a remuneration committee.

Recommendation 8.2

The remuneration committee should be structured so that it:

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

Recommendation 8.4

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

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

The directors of Merchant House International Limited submit herewith the annual financial statements of the Company and its subsidiaries ("the Group") for the financial year ended 31 March 2013. The directors report as follows:

1. INFORMATION ABOUT THE DIRECTORS AND SENIOR MANAGEMENT

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

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

Ms Loretta B H Lee *Chairperson*

Appointed: 15 July 1994

Experience and expertise

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

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

TransMarket grew into one of South East Asia's largest market research organisations. It conducted consumer and industrial research throughout the area for a wide range of major international corporations, including Philip Morris, General Motors, Toyota and IBM. TransMarket was one of the first research companies to conduct market studies in China after the country began to normalise its relations with the outside world. As China continued to open its economy Ms Lee recognised both the unlimited opportunities and the considerable risks involved in exploiting those opportunities. In 1978 she decided to capitalise on her international experience and explore those business opportunities. Since that time she has not looked back.

Other current directorships – None

Former directorships in the past three years – None

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

1. INFORMATION ABOUT THE DIRECTORS AND SENIOR MANAGEMENT *(continued)*

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

Appointed: 15 July 1994

Experience and expertise

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

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

Other current directorships – None

Former directorships in the past three years

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

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

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

Appointed: 15 July 1994

Experience and expertise

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

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

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

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

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

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

Other current directorships – None

Former directorships in the past three years – None

Interest in shares and options – 635,455 ordinary shares

1. INFORMATION ABOUT THE DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Mr Ian J Burton *Non-executive independent director*

Appointed: 15 July 1994

Experience and expertise

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

Mr Burton is a non-executive independent director of Merchant House International Ltd and his experience in the successful running, operation and budgeting of large and small public listed companies is of great assistance to the Board.

Other current directorships

Non-executive chairman	Renewable Heat & Power Limited	Appointed 9 August 2006

Former directorships in the past three years – None

Interest in shares and options – 305,500 ordinary shares

Ms Xiao Lan Wu *Non-executive independent director*

Appointed: 9 June 2004

Experience and expertise

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

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

Other current directorships – None

Former directorships in the past three years – None

Interest in shares and options – None

1. INFORMATION ABOUT THE DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Mr Clifford J Einstein *Non-executive independent director*

Appointed: 2 August 2007

Experience and expertise

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

Over the years his agency produced memorable campaigns for Honda Motorcycles, The Southern California Ford Dealers, Nestle Foods, Gallo Winery, Unilever, Great Western Savings, Western Airlines, Hunt Wesson, Australian Tourism, Safeway Stores, Weyerhaeuser Forest Products, White Stag Skiwear and Callaway Golf. In 1994 Clifford was named Chairman and CEO of the company. The decade that followed produced great growth and success with billings exceeding US$400,000,000.

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

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

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

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

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

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

Other current directorships – None

Former directorships in the past three years

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

Interest in shares and options – 585,217 ordinary shares

1. INFORMATION ABOUT THE DIRECTORS AND SENIOR MANAGEMENT *(continued)*

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

Appointed: 14 August 2007

Experience and expertise

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

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

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

Other current directorships – None

Former directorships in the past three years – None

Interest in shares and options – 55,000 ordinary shares

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

2. DIRECTORS' SHAREHOLDINGS

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

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

3. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

4. SHARE OPTIONS GRANTED TO DIRECTORS AND SENIOR MANAGEMENT

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

5. COMPANY SECRETARY

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

6. PRINCIPAL ACTIVITIES

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

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

7. REVIEW OF OPERATIONS

Shareholder returns	2013	2012	2011	2010	2009
Net profit attributable to equity holders ($'000)	3,042	3,564	2,687	4,024	3,210
Basic EPS (cents)	3.23	3.79	2.86	4.30	3.43
Net tangible assets (NTA) ($'000)	27,708	26,091	22,762	23,478	28,766
NTA Backing (cents)	29.44	27.72	24.23	25.04	30.72

Net profit amounts for 2009 to 2013 have been calculated in accordance with Australian Accounting Standards (AASBs).

The review of operations is set out in the Chairperson's Report.

8. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the financial year the Group established a new US holding company named Pacific Bridges Enterprises Inc. (Delaware USA) (PBE). PBE was incorporated on 27 March 2013. There were no transactions by PBE during the year under audit.

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

9. EVENTS SUBSEQUENT TO REPORTING DATE

In April 2013 the Group established a new US manufacturing subsidiary named Footwear Industries of Tennessee Inc (FIT) in Tennessee. FIT is a 100% owned subsidiary of the recently incorporated Pacific Bridges Enterprises Inc (Delaware USA). FIT will acquire factory premises and install the necessary plant and equipment.

During April 2013 the Company made a capital commitment of $1.6 million (EUR1.1 million) for the purchase of plant and machinery from Germany.

On 14 May 2013, the Board of Directors approved the distribution of a 0.5 cent per share dividend to be paid to shareholders on 23 August 2013.

On 12 June 2013, Footwear Industries of Tennessee Inc entered into an agreement to purchase premises for a consideration of US$ 850,000 (A$ 799,000) if completed by 27 June 2013 or $900,000 (A$ 846,000) if completed after 27 June 2013.

On 17 June 2013, the Board of Directors executed a provisional sale and purchase agreement for the disposal of its premises and parking space in Chai Wan, Hong Kong. The total consideration for the sale is HK$ 88 million (A$11.78 million). A 10% deposit was paid on the execution of the agreement, with the balance of the proceeds due no later than 1 November 2013.

Other than the above, there has not been any matter or circumstance, occurring subsequent to the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

10. FUTURE DEVELOPMENTS

Other than as disclosed in the Chairperson's Report, disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this report.

11. ENVIRONMENTAL REGULATIONS

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

12. DIVIDENDS

In respect of the financial year ended 31 March 2013, the directors declared and approved the payment of a final dividend of 0.5 cent per share unfranked on 14 May 2013. An interim dividend of 1.0 cent per share, unfranked, was paid on 24 January 2013.

In respect of the financial year ended 31 March 2012, as detailed in the Directors' Report for that financial year, an interim dividend of 0.5 cent per share unfranked was paid on 27 January 2012. The final dividend of 0.5 cent per share unfranked was paid on 30 August 2012.

13. SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

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

14. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Company has not, during or since the financial year end, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate:

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

15. DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held during the year ended 31 March 2013, and the numbers of meetings attended by each director were:

	Full meetings of Directors	
Director	**No. of meetings attended**	**No. of meetings held whilst a director**
Ms L Lee	2	2
Ms C Lee	1	2
Ms P Liao	2	2
Mr I Burton	2	2
Ms X L Wu	Nil	2
Mr C J Einstein	2	2
Mr D J Bell	2	2

16. 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 33 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 33 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.

17. INDEPENDENT AUDITOR'S REPORT

The independent auditor's report is on the following page of the annual report.

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

On behalf of the Directors.

I J BURTON

Director

Perth, Western Australia

24 June 2013

Deloitte.

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

We have audited the accompanying financial report of Merchant House International Limited, which comprises the statement of financial position as at 31 March 2013, the statement of profit or loss and other comprehensive income , the statement of cash flows and the statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 25 to 83.

The Responsibility of Directors' for the Financial Report

The directors' are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the directors' determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors' also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors', as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Opinion

In our opinion:

(a) the financial report of Merchant House International Limited presents fairly, in all material respects, the consolidated entity's financial position as at 31 March 2013 and its financial performance for the year then ended in accordance with Australian Accounting Standards; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Smith

Neil Smith
Partner
Chartered Accountants
Perth, 24 June 2013

DIRECTORS' DECLARATION

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

(a) the consolidated financial statements and notes thereto:

(i) give a true and fair view of the Group's financial position as at 31 March 2013 and of its performance for the financial year ended on that date;

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

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

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

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

I J BURTON
Director

Perth, Western Australia
24 June 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2013

	Note	2013 $'000	2012 $'000
CURRENT ASSETS			
Cash or cash equivalents	29(a)	5,419	5,626
Trade and other receivables	10	7,855	6,206
Inventories	11	2,281	1,884
Other	15	242	310
TOTAL CURRENT ASSETS		15,797	14,026
NON CURRENT ASSETS			
Investments accounted for using the equity method	12	6,775	6,591
Property, plant and equipment	13	9,968	10,376
Leasehold land	14	1,003	1,025
Deferred tax assets	9(c)	4	171
Goodwill	17	229	229
TOTAL NON CURRENT ASSETS		17,979	18,392
TOTAL ASSETS		33,776	32,418
CURRENT LIABILITIES			
Trade and other payables	18	5,547	5,897
Current tax payable	9(b)	160	98
Provisions	20	61	32
TOTAL CURRENT LIABILITIES		5,768	6,027
NON CURRENT LIABILITIES			
Provisions	20	71	71
TOTAL NON CURRENT LIABILITIES		71	71
TOTAL LIABILITIES		5,839	6,098
NET ASSETS		27,937	26,320
EQUITY			
Issued capital	21	2,913	2,913
Reserves	22	(5,105)	(5,092)
Retained earnings	23	30,129	28,499
TOTAL EQUITY		27,937	26,320

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

	Note	2013 $'000	2012 $'000
Continuing operations			
Revenue	6	80,884	73,770
Cost of sales	8	(70,104)	(63,684)
Gross profit		10,780	10,086
Other revenues	6	65	60
Other income	6	251	258
Share of profit of associated entities accounted for using the equity method	6	852	476
Administration expenses		(6,937)	(6,642)
Finance costs	7	(11)	(45)
Loss on disposal of investment in associate		-	(103)
Other expenses		(1,314)	(1,481)
Profit before tax	8	3,686	2,609
Income tax benefit / (expense)	9(a)	(644)	955
Profit for the year		3,042	3,564
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Total items that will not be reclassified to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations (loss) / profit		(14)	674
Income tax on items that may be reclassified subsequently to profit or loss		1	2
Total items that may be reclassified subsequently to profit or loss		(13)	676
Other comprehensive income for the period (net of tax)		(13)	676
Total comprehensive income for the period		3,029	4,240
Profit attributable to owners of the parent		3,042	3,564
Total comprehensive income attributable to owners of the parent		3,029	4,240
Earnings per share from continuing operations			
Basic and diluted (cents per share)	24	3.23	3.79

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 2013

		Attributable to owners of the parent			
	Note	**Issued Capital $'000**	**Retained Earnings $'000**	**Foreign Currency Translation Reserve $'000**	**TOTAL $'000**
Balance at 1 April 2011		2,884	25,875	(5,768)	22,991
Profit for the period		-	3,564	-	3,564
Other comprehensive income		-	-	676	676
Total comprehensive income for the period		-	3,564	676	4,240
Recognition of share-based payments	21	29	-	-	29
Dividends	25	-	(940)	-	(940)
Balance at 31 March 2012		2,913	28,499	(5,092)	26,320
Balance at 1 April 2012		2,913	28,499	(5,092)	26,320
Profit for the period		-	3,042	-	3,042
Other comprehensive income		-	-	(13)	(13)
Total comprehensive income for the period		-	3,042	(13)	3,029
Dividends	25	-	(1,412)	-	(1,412)
Balance at 31 March 2013		2,913	30,129	(5,105)	27,937

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 2013

	Note	2013 $'000	2012 $'000
Cash flows from operating activities			
Receipts from customers		79,967	71,994
Payments to suppliers and employees		(78,485)	(66,817)
Interest and other costs of finance paid		(11)	(45)
Income tax paid		(413)	(90)
Net cash provided by operating activities	29(c)	1,058	5,042
Cash flows from investing activities			
Interest received		65	60
Proceeds from disposal of property, plant and equipment		14	35
Payments for property, plant and equipment		(501)	(268)
Dividend received from associate		688	-
Proceeds from sale of investment in associate		-	526
Payments for investment in associate		-	(392)
Net cash provided by / (used) in investing activities		266	(39)
Cash flows from financing activities			
Repayment of borrowings		(3,605)	(13,466)
Proceeds from borrowings		3,605	13,466
Dividends paid		(1,412)	(940)
Net cash used in financing activities		(1,412)	(940)
Net increase / (decrease) in cash and cash equivalents		(88)	4,063
Cash and cash equivalents at the beginning of the period		5,626	1,390
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(119)	173
Cash and cash equivalents at the end of the period	29(a)	5,419	5,626

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

1. GENERAL INFORMATION

Merchant House International Limited (the Company) is a public company listed on the Australian Stock Exchange (trading under the symbol "MHI"), incorporated in Bermuda and operating in Hong Kong, China and the United States of America (USA).

Merchant House International Limited's registered office and its principal place of business are as follows:

Registered Office	**Principal place of business**
Level 2, 55 Carrington Street	1807 - 1812 Ming Pao Industrial Centre
Nedlands	Block B 18 Ka Yip Street
Western Australia 6009	Chai Wan
	Hong Kong

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Statement of compliance*

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations and other requirements of the law. The financial statements include the consolidated financial statements of the Group. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the directors on 24 June 2013.

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

(b) *Basis of preparation*

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments, where applicable. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise indicated.

(c) *Critical accounting judgements and key sources of estimation uncertainty*

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be relevant. Actual results may differ from these estimates.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Adoption of new and revised Accounting Standards

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements.

Amendments to AASB 101 Presentation of transactions recognised in other comprehensive income

From 1 April 2012 the Group applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income.* The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and require the Group to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. These changes are included in the statement of profit or loss and other comprehensive income.

(e) Standards and Interpretations issued not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2012, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(i) AASB 9 Financial Instruments (2010), AASB 9 Financial Instruments (2009)

AASB9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project that may result in limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets and hedge accounting.

AASB 9 (2010 and 2009) is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of AASB 9 (2010) is expected to have an impact on the Group's financial assets, but no impact on the Group's financial liabilities.

(ii) AASB 10 Consolidated Financial Statements, AASB 12 Disclosure of Interests in Other Entities (2011), AASB 128 Investments in Associates and Joint Ventures (2011)

AASB 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. The directors anticipate the adoption of AASB 10 may affect the accounting of the Group's three 30 – 33.79 per cent ownership interests in Tinajin Jiahua Footwear Co Ltd, Tianjin Tianxing Kesheng Leather Products Co Ltd and Jawa (Jiangsu) Textiles Co Ltd. Application of this standard may result in these associates being treated as Group subsidiaries.

AASB 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries and interests in associates in comparison with the existing disclosures. AASB 12 requires the disclosure of information about the nature, risks and financial effects of these interests.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Standards and Interpretations issued not yet effective *(continued)*

(ii) AASB 10 Consolidated Financial Statements, AASB 12 Disclosure of Interests in Other Entities (2011), AASB 128 Investments in Associates and Joint Ventures (2011) (continued)

AASB 128 (2011) supersedes AASB 128 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The directors anticipate the adoption of AASB 128 (2011) may affect the accounting of the Group's three associate companies (see AASB 10 above). Application of this standard may result in these associates being treated as Group subsidiaries.

These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

(iii) AASB 13 Fair Value Measurement

AASB 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout Australian Accounting Standards. Subject to limited exceptions, AASB 13 is applied when fair value measurements or disclosures are required or permitted by other AASBs. The Group is currently reviewing its methodologies in determining fair values. AASB 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

(iv) AASB 119 Employee Benefits (2011)

AASB 119 (2011) changes the definition of short-term and long-term employee benefits to clarify the distinction between the two. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The directors do not anticipate that the amendments to AASB 119 will have a significant effect on the Group's consolidated financial statements. AASB 119 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

(v) Annual Improvements to AASBs 2009 – 2011 Cycle

The Annual Improvements to AASBs 2009 – 2011 Cycle include a number of amendments to various AASBs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to AASBs include:

- amendments to AASB 116 *Property, Plant and Equipment;* and
- amendments to AASB 132 *Financial Instruments: Presentation*

The reported results and position of the Group will not change on adoption of these pronouncements as they do not result in any changes to the Group's existing accounting policies. The Group does not intend to adopt any of these pronouncements before their effective dates.

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

(f) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) (referred to as "the Group" in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Basis of consolidation (continued)

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with AASB 139. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

(g) Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. 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.

(h) Foreign currency

The individual financial statements of each group entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. The functional currencies of subsidiaries are Hong Kong dollars (HKD), Chinese Yuan Renminbi (CNY) and Australian Dollar (AUD). 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 Merchant House International Limited and the presentation currency for the consolidated financial statements.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Foreign currency (continued)

On consolidation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing on the balance 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.

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.

(i) Goods and services tax

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

(i) 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

(ii) 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.

(j) Revenue

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

Sale of goods

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

Rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion of the contract. A fixed amount is charged on a monthly basis for administrative, management, secretarial and accounting services.

Dividend and interest revenue

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

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

Rental income

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) *Share-based payments*

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

(l) *Income tax*

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the 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).

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 period

Current and deferred tax is recognised as an expense or income in the income statement, 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Cash and cash equivalents

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

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

(n) Financial assets

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

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements. Further information regarding equity accounted investments is detailed in note 2(g).

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

Effective interest method

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

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

Loans and receivables

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

Interest income is recognised by applying the effective interest rate.

Impairment of financial assets

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Financial assets (continued)

Impairment of financial assets (continued)

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

Derecognition of financial assets

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

(o) Inventories

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

(p) Property, plant and equipment

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) 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.

(r) Leased assets

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

Leases of land and buildings

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

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

Group as lessee

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

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

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

Operating leases

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) 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.

(t) 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.

(u) Employee benefits

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

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Provisions

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

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

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

Onerous contracts

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

Returns

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

(w) Financial instruments issued by the company

Debt and equity instruments

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

Financial guarantee contract liabilities

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

- the amount of the obligation under the contract, as determined under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'; and
- the amount initially recognised less, where appropriate, cumulative amortisation in accordance with the revenue recognition policies, as described in note 2(j).

Other financial liabilities

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) *Financial instruments issued by the company (continued)*

Derecognition of financial liabilities

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

(x) *Seasonality of operations*

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Employee Entitlements

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

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

Refer to note 20 for further details on the key management judgements used in the calculation of long service.

Impairment of goodwill

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

Refer to note 17 for further details.

Useful lives of property, plant and equipment

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

Refer to note 2(p) for further details.

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

Impairment of trade receivables

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

Refer to note 2(n) for further details.

4. SEGMENT INFORMATION

Products and services from which reportable segments derive their revenues

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

- Home textile manufacturing
- Home textile trading
- Footwear

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

The home textiles trading segment supply seasonal decorations such as Christmas decorations.

The footwear segment supplies work boots.

Segment assets and liabilities

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

	Assets		Liabilities	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Home textile trading	8,688	6,225	412	265
Home textile manufacturing	11,923	14,654	1,914	2,025
Footwear	13,151	11,359	3,389	3,697
Total segment assets and liabilities	33,762	32,238	5,715	5,987
Corporate and other segment assets / liabilities	14	180	124	111
Total	33,776	32,418	5,839	6,098

For the purpose of monitoring segment performance and allocating resources between segments, the chief operating decision maker monitors the cash, receivables and payables position. As disclosed above and in this note is the information that the Chief Decision Maker receives and reviews to make decisions.

Goodwill has been allocated to reportable segments as described in note 17.

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 period under review.

	Revenue		Segment profit / (loss)	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Continuing operations				
Home textile trading				
External customers	31,281	28,316	2,821	1,282
Intra-segment	10,362	10,143	-	-
Total home textile trading	41,643	38,459	2,821	1,282
Home textile manufacturing				
Inter-segment	24,466	22,239	(1,991)	(821)
Total home textile manufacturing	24,466	22,239	(1,991)	(821)
Footwear				
External customers	49,603	45,454	3,022	1,901
Total footwear	49,603	45,454	3,022	1,901
Eliminations	(34,828)	(32,382)	(731)	(168)
	80,884	73,770	3,121	2,194
Central administration and directors' salaries			(341)	(341)
Finance costs			(11)	(45)
Provision for impairment of associates			-	265
Share of profit of associates			852	476
Investment revenue			65	60
Profit before tax			3,686	2,609
Income tax benefit / (expense)			(644)	955
Consolidated segment revenue and profit for the period	80,884	73,770	3,042	3,564

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

Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, provision for impairment of associates, share of profits of associates, investment revenue, finance costs and income tax expense or benefit. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

4. SEGMENT INFORMATION *(continued)*

Major products and services

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

	2013 $'000	2012 $'000
Home textile trading		
Textiles	29,027	26,494
Seasonal products	2,254	1,822
Home textile manufacturing	-	-
Footwear	49,603	45,454
	80,884	73,770

There are no external sales from manufacturing.

Geographical information

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

	Revenue from external customers		Non-current assets	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
United States of America / South America	77,930	70,686	-	-
Australia / New Zealand	1,028	1,851	229	229
China / Hong Kong	197	24	10,971	11,401
Canada	1,475	807	-	-
Europe / Eastern Europe	254	402	-	-
	80,884	73,770	11,200	11,630

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

Other segment information

	Home textiles				Footwear	
	Trading		Manufacturing			
	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Carrying value of investments accounted for using the equity method	336	373	-	-	6,439	6,218
Share of net profit of associated entities	(38)	(85)	-	-	890	561
Acquisition of segment assets	101	15	398	246	2	7
Depreciation and amortisation of segment assets	116	129	829	844	4	4

4. SEGMENT INFORMATION *(continued)*

Information about major customers

The Group's Top 4 customers account for 62.06% (2012: 71.35%) of direct sales. The table below shows the split between the two main cash-generating units:

Top ranking customers	Percentage of total group external sales 2013 %	2012 %	Home textiles Trading 2013 $'000	2012 $'000	Footwear 2013 $'000	2012 $'000
First	26.02	34.19	5,957	6,787	15,088	18,434
Second	15.06	16.19	12,181	11,945	-	-
Third	12.21	10.69	-	2,121	9,872	5,768
Fourth	8.77	10.28	-	-	7,091	7,583
	62.06	71.35	18,138	20,853	32,051	31,785

5. FINANCIAL RISK MANAGEMENT

(a) *Capital risk management*

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

The Group's overall strategy remains unchanged from 2012.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents disclosed in note 29(a) and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 21, 22 and 23 respectively.

The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand the group's manufacturing and distribution assets, as well as to make the routine outflows of tax, dividends and repayment of maturing debt. The Group's policy is to use a variety of borrowing facilities, to meet anticipated funding requirements.

Gearing ratio

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

	Note	2013 $'000	2012 $'000
Financial assets			
Debt	(i)	-	-
Cash and cash equivalents		(5,419)	(5,626)
Net debt / (cash)		(5,419)	(5,626)
Equity	(ii)	27,937	26,320
Net debt to equity ratio		N/A	N/A

(i) Debt is as detailed in note 19.

(ii) Equity includes all capital and reserves.

5. FINANCIAL RISK MANAGEMENT *(continued)*

(b) *Categories of financial instruments*

	2013 $'000	2012 $'000
Financial assets		
Cash and cash equivalents	5,419	5,626
Loans and trade receivables	7,855	6,206
Financial liabilities		
Amortised cost		
- Trade and other payables	5,547	5,897

(c) *Financial risk management objectives*

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

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

(d) *Market risk*

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 5(e)) and interest rates (refer note 5(f)). The Group has the ability to enter into foreign exchange forward contracts to manage its exposure to foreign currency risk at the discretion of management.

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

(e) *Foreign currency risk management*

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

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

Carrying amount	Assets		Liabilities	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
US dollar	11,806	7,769	3,374	3,671
HK dollar	83	128	120	94
Chinese Yuan Renminbi	1,373	3,925	1,929	2,021

5. FINANCIAL RISK MANAGEMENT *(continued)*

(e) Foreign currency risk management *(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 1% (2012: 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 period end for a 1% (2012: 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 subsidiary based in China is also linked to the US Dollar exchange rate. The following table also shows the Group's sensitivity to a 5% increase and decrease in the Chinese Yuan Renminbi against the US dollar.

	Impact on profit & loss	
	2013 $'000	2012 $'000
If AUD strengthens by 1% (2012: 5%)		
USD	(83)	(195)
HKD	-	(2)
CNY	6	(91)
If AUD weakens by 1% (2012: 5%)		
USD	85	216
HKD	-	2
CNY	(6)	100
If USD strengthens by 5% (2012: 5%)		
CNY	22	(94)
If USD weakens by 5% (2012: 5%)		
CNY	(25)	104

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

During the period 1 April 2012 to 31 March 2013 the movements between the Australian dollar and its main foreign currencies were:

	2013 %	2012 %
Strengthened / (Weakened) against the USD by	0.30	0.74
Strengthened / (Weakened) against the HKD by	0.29	0.42
Strengthened / (Weakened) against the CNY by	(0.43)	(2.92)

Forward foreign exchange contracts

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

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

There were no forward foreign currency contracts outstanding as at the reporting date (2012: nil).

5. FINANCIAL RISK MANAGEMENT *(continued)*

(f) Interest rate risk management

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

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

Interest rate sensitivity analysis

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

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

	Profit or loss	
	50 bp Increase $'000	50 bp Decrease $'000
31 March 2013		
Variable rate instruments	27	(1)
31 March 2012		
Variable rate instruments	28	(17)

(g) Credit risk management

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

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

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

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained or other security obtained.

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

5. FINANCIAL RISK MANAGEMENT *(continued)*

(b) *Liquidity risk management*

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 29(b) is the total amount of facilities available to the Group to further reduce liquidity risk.

Liquidity and interest risk tables

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

	Weighted Average Effective Interest Rate %	Less than 1 month $'000	1 to 3 months $'000	3 to 12 Months $'000	>1 year $'000
2013					
Non-interest bearing	-	4,538	964	42	3
Variable interest rate instruments	-	-	-	-	-
		4,538	964	42	3
2012					
Non-interest bearing	-	4,142	1,707	42	6
Variable interest rate instruments	-	-	-	-	-
		4,142	1,707	42	6

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	>1 year $'000
2013					
Non-interest bearing	-	4,978	2,354	511	95
Variable interest rate instruments	0.02	5,336	-	-	-
		10,314	2,354	511	95
2012					
Non-interest bearing	-	4,490	1,718	-	118
Variable interest rate instruments	0.31	2,190	3,316	-	-
		6,680	5,034	-	118

5. FINANCIAL RISK MANAGEMENT *(continued)*

(i) Fair value of financial instruments

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

The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

6. REVENUE AND OTHER INCOME

		2013 $'000	2012 $'000
An analysis of the Group's revenue and other income for the year from continuing operations is as follows:			
Continuing operations			
Revenue from the sale of goods		80,884	73,770
		80,884	73,770
Other revenue			
Interest - other entities		65	60
		65	60
Other income			
Net exchange gains on foreign currency transactions		-	218
Rental income		40	36
Other items	(i)	211	4
		251	258
Other			
Share of profits of associated entities accounted for using the equity method		852	476
		852	476
Total		82,052	74,564

(i) Other items relate to the reversal of provisions made in prior years, including damage and returns.

7. FINANCE COSTS

	2013 $'000	2012 $'000
Interest on bank overdrafts and loans	11	45

8. PROFIT BEFORE TAX

	2013 $'000	2012 $'000
(a) Gains and losses		
Profit for the year has been arrived at after crediting / (charging) the following gains and losses:		
Gain on disposal of property, plant and equipment	2	-
Net foreign exchange gains	-	218
	2	218
Loss on disposal of property, plant and equipment	-	(99)
Net foreign exchange losses	(73)	-
	(73)	(99)
	(71)	119
(b) Expenses		
Profit for the year includes the following expenses:		
Cost of Sales	(70,104)	(63,684)
Gain on sale of inventory	-	48
Loss on disposal of investment in associates	-	(103)
Depreciation of non-current assets	(923)	(952)
Amortisation of non-current assets	(26)	(25)
	(949)	(977)
Research and development costs immediately expensed	245	311
Operating lease rental expenses:		
Minimum lease payments	(11)	(12)
Defined contribution plan	(38)	(29)
Equity-settled share-based payments	-	(29)
Other employee benefits	(5,942)	(5,315)
Employee benefit expense	(5,980)	(5,373)

9. INCOME TAXES

(a) *Income tax recognised in profit or loss*

	Note	2013 $'000	2012 $'000
Tax (benefit) / expense comprises:			
Current tax expense in respect of the current year		982	550
Adjustments recognised in the current year in relation to the current tax of prior years		(3)	-
Benefit arising from previously unrecognised tax losses of a prior period that is used to reduce current expense		(108)	75
Deferred tax income relating to the origination of temporary differences		168	29
Benefit arising from previously unrecognised tax losses of a prior period that is used to reduce deferred tax expense		-	(120)
Dividend receivable from associate		114	-
(Over) / under provided in prior years		(509)	(1,489)
		644	(955)
Attributable to:			
– Continuing operations		644	(955)

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

	Note	2013 $'000	2012 $'000
Profit from continuing operations		3,686	2,609
Income tax expense calculated at 30%	(i)	1,106	783
Effect of different tax rates of the parent company and its subsidiaries operating in other jurisdictions	(ii)	(391)	(345)
Effect of non-deductible expenses		529	252
Effect of non-assessable revenue		(1)	(9)
Effect of depreciation allowances		1	12
Effect of tax rebates		(3)	(1)
Unused tax losses and tax offsets not recognised as deferred tax assets		168	(15)
Share of profits / (losses) of associated entities		(256)	(143)
(Over) / under provided in prior years		(509)	(1,489)
		644	(955)

Key to the table

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

(ii) The Company is taxed in the country of its incorporation, Bermuda. The tax rate in Bermuda is 0%. The subsidiaries incorporated in Hong Kong are taxed at 16.5% (2012: 16.5%). The subsidiaries incorporated in China are taxed at 25% (2012: 25%).

9. INCOME TAXES *(continued)*

(b) *Current tax assets and liabilities*

	2013 $'000	2012 $'000
Current tax assets		
– Tax refund receivable	-	-
Current tax liabilities		
– Income tax payable attributable to subsidiaries	160	98

(c) *Deferred tax balances*

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

	Opening Balance $'000	Charged to Income $'000	Recognised in other comprehensive income $'000	Closing Balance $'000
2013				
Temporary differences				
Trade and other receivables	46	(37)	-	9
Property, plant and equipment	(40)	(13)	-	(53)
Trade and other payables	25	1	-	26
Provisions	20	2	-	22
Exchange difference on foreign subsidiary	(59)	-	1	(58)
Unrecognised tax losses	179	(121)	-	58
	171	(168)	1	4
2012				
Temporary differences				
Trade and other receivables	35	11	-	46
Property, plant and equipment	(42)	2	-	(40)
Trade and other payables	25	-	-	25
Provisions	17	3	-	20
Exchange difference on foreign subsidiary	(61)	-	2	(59)
Unrecognised tax losses	105	74	-	179
	79	90	2	171

(d) *Franking account*

The franking account balance as at 31 March 2013 was $Nil (2012: $Nil).

10. TRADE AND OTHER RECEIVABLES

	Note	2013 $'000	2012 $'000
Current			
Trade receivables		6,657	5,196
Allowance for doubtful debts		(148)	(152)
		6,509	5,044
Other receivables		81	72
Bills receivable	(i)	86	527
Deposits	(ii)	808	106
VAT refund receivable	(iii)	170	227
Rent receivables	(iv)	2	-
Amount receivable from associated entities	(v)	199	230
		7,855	6,206
Non-current			
Loans and other receivables	(vi)	-	48
Allowance for doubtful debts		-	(48)
		-	-

Terms and conditions of other receivables

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

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

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

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

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

(vi) The non-current loan is non-interest bearing, with no risk nor responsibility

The average credit period on sales of goods and rendering of services is 60 days (2012: 60 days). No interest is charged on the trade receivables.

An allowance has been made for estimated irrecoverable trade receivable amounts.

10. TRADE AND OTHER RECEIVABLES *(continued)*

***Terms and conditions of other receivables** (continued)*

Included in the Group's trade receivable balance are debtors with a carrying amount of $nil (2012: $51 thousand) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 90 days (2012: 90 days).

	2013 $'000	2012 $'000
Ageing of past due but not impaired		
30 - 90 days	-	45
90 - 120 days	-	4
Over 120 days	-	2
Total	-	51
Movements in the allowance for doubtful debts		
Balance at the beginning of the year	152	98
Impairment losses recognised on receivables	-	50
Exchange differences	(4)	4
Balance at the end of the financial year	148	152

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

The ageing of the impaired trade receivables are over 120 days (2012: 120 days).

11. INVENTORIES

	2013 $'000	2012 $'000
Materials	991	662
Work in progress	799	1,139
Finished goods	425	83
Goods in transit	66	-
	2,281	1,884

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2013 $'000	2012 $'000
Investments in associates	6,775	6,591
Reconciliation of movement in investments accounted for using the equity method		
Balance at 1 April	6,591	5,993
Additional investment	-	392
Disposal of investment	-	(629)
Share of profit for the year	852	476
Dividend paid	(688)	-
Exchange difference	20	359
Balance at 31 March	6,775	6,591

Name of entity	Principal activity	Country of incorporation	Ownership interest 2013 %	Ownership interest 2012 %
Associates				
Tianjin Jiahua Footwear Company Limited	Footwear manufacturer	China	30.00	30.00
Tianjin Tianxing Kesheng Leather Products Company Limited	Footwear manufacturer	China	33.79	33.79
Jawa (Jiangsu) Textiles Company Limited	Textiles manufacturer	China	33.33	33.33

Summarised financial position of the Group's associates is set out below:

	2013 $'000	2012 $'000
Financial position		
Total assets	44,987	42,838
Total liabilities	(23,197)	(21,450)
Net assets	21,790	21,387
Group's share of associate's net assets	7,007	6,819
Financial performance		
Total revenue	104,310	86,973
Total profit for the year	2,619	1,499
Group's share of associate's profit	852	476

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings $'000	Leasehold improvements $'000	Plant and equipment $'000	Construction in progress $'000	Leasehold land under finance lease $'000	Total $'000
Gross carrying amount						
Balance as at 1 April 2011	8,549	261	6,392	80	2,685	17,967
Additions	-	-	189	79	-	268
Disposals	-	-	(410)	(3)	-	(413)
Transfers between categories	-	-	55	(55)	-	-
Net foreign currency exchange differences	209	(1)	173	2	(11)	372
Balance at 1 April 2012	8,758	260	6,399	103	2,674	18,194
Additions	81	-	211	209	-	501
Disposals	-	-	(107)	-	-	(107)
Transfer between categories	-	-	106	(106)	-	-
Net foreign currency exchange differences	26	(1)	23	-	(7)	41
Balance at 31 March 2013	8,865	259	6,632	206	2,667	18,629
Accumulated depreciation / amortisation and impairment						
Balance as at 1 April 2011	2,918	220	3,020	-	831	6,989
Disposals	-	-	(275)	-	-	(275)
Amortisation / depreciation expense	276	21	604	-	51	952
Net foreign currency exchange differences	75	(1)	81	-	(3)	152
Balance at 1 April 2012	3,269	240	3,430	-	879	7,818
Disposals	-	-	(94)	-	-	(94)
Amortisation / depreciation expense	369	6	497	-	51	923
Net foreign currency exchange differences	8	(1)	10	-	(3)	14
Balance at 31 March 2013	3,646	245	3,843	-	927	8,661
Net book value						
As at 31 March 2012	5,489	20	2,969	103	1,795	10,376
As at 31 March 2013	5,219	14	2,789	206	1,740	9,968

14. LEASEHOLD LAND

The figures below represent consolidated figures for the Group subsidiaries. Leasehold land relates to the leases classified as operating leases.

	Leasehold land at fair value $'000
Gross carrying amount	
Balance at 1 April 2011	1,244
Additions	-
Disposals	-
Net foreign currency exchange differences	37
Balance at 1 April 2012	1,281
Additions	-
Disposals	-
Net foreign currency exchange differences	5
Balance at 31 March 2013	1,286
Accumulated depreciation / amortisation and impairment	
Balance at 1 April 2011	224
Disposals	-
Impairment losses charged to profit	-
Reversal of impairment losses	-
Amortisation / depreciation expense	25
Net foreign currency exchange differences	7
Balance at 1 April 2012	256
Disposals	-
Impairment losses charged to profit	-
Reversals of impairment losses	-
Amortisation / depreciation expense	26
Net foreign currency exchange differences	1
Balance at 31 March 2013	283
Net book value	
As at 31 March 2012	1,025
As at 31 March 2013	1,003

15. OTHER ASSETS

	2013 $'000	2012 $'000
Current		
Prepayments	242	310

16. ASSETS PLEDGED AS SECURITY

Refer to note 19 for details of assets pledged as security in accordance with the security arrangements of liabilities.

17. GOODWILL

	Note	2013 $'000	2012 $'000
Gross Carrying Amount			
Balance at beginning of financial year		959	959
Balance at end of financial year		959	959
Accumulated impairment losses			
Balance at beginning of financial year		(730)	(730)
Impairment losses for the year	(i)	-	-
Balance at end of financial year		(730)	(730)
Net book value			
At the beginning of the financial year		229	229
At the end of the financial year		229	229

(i) During the financial year, the Group assessed the recoverable amount of goodwill, and determined that it was not impaired (2012: nil impairment).

Allocation of goodwill to cash generating units

Goodwill has been allocated for impairment testing purposes to three groups of cash generating units as follows:

– Home textiles manufacturing
– Home textiles trading
– Footwear operations

The recoverable amount of the cash-generating units was assessed by reference to the cash-generating unit's value in use (projected and cash flows).

Goodwill that has been allocated to the home textiles manufacturing and trading cash generating units have been fully impaired in the 2011 financial year.

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

	2013 $'000	2012 $'000
Footwear operations	229	229
	229	229

Key assumptions

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 9.40% (2012: 9.58%) per annum. Cash flow projections during the budget period for the cash-generating unit are based on prior experience, lower gross margins during the budget period and the consumer price inflation during the budget period. The cash flows beyond that five year period have been extrapolated using a steady 5% per annum growth which is the projected long-term average growth rate for the footwear division. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

18. TRADE AND OTHER PAYABLES

	2013 $'000	2012 $'000
Current		
Trade payables	1,806	2,757
Accruals	520	502
Rent deposit received	7	6
Amounts payable to:		
– Associated entities	3,214	2,632
	5,547	5,897

The average credit period on purchases of goods from China and Hong Kong is 60 days (2012: 60 days). No interest is charged on the trade payables for the first 60 days from the date of the invoice. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

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

19. BORROWINGS

An amount up to $11,687 thousand (2012: $11,720 thousand) secured is available for letters of credit, trust receipt financing, working capital loan, term loans and shipping guarantees. At balance date, the following was being used. These facilities are reviewed annually.

	Note	2013 $'000	2012 $'000
Secured - at amortised cost			
Current			
Short term loan			
	(i)	-	-
		-	-

Summary of the borrowing arrangements

(i) The interest rate for the short term loan during the current financial year was between 1.72% and 2.71% but no loans were outstanding at the financial year end (2012: between 1.76% and 2.04% but no loans outstanding at the financial year end).

The short-term loan is secured against land and buildings, repayable within 12 months, and is reviewed annually.

20. PROVISIONS

	Note	2013 $'000	2012 $'000
Current			
Returns	(ii)	61	32
Non-current			
Employee benefits	(i)	71	71
Returns			
Balance at 1 April		32	16
Additional provisions recognised		223	341
Reductions resulting from reversal of provision		(194)	(325)
Balance at 31 March		61	32
Long service payment			
Balance at 1 April		70	68
Additional provisions recognised		1	2
Net foreign currency exchange differences		-	1
Balance at 31 March		71	71

(i) The non-current provision for employee benefits includes $71 thousand of vested long service payment accrued but not expected to be taken within 12 months (2012: $71 thousand).

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

21. ISSUED CAPITAL

	2013 $'000	2012 $'000
94,119,126 fully paid ordinary shares (2012: 94,119,126)	2,913	2,913

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

	2013 Number	2012 Number	2013 $'000	2012 $'000
Reconciliation of movement in issued capital				
Balance at beginning of financial year	94,119,126	93,935,818	2,913	2,884
Issue of shares to a senior manager in lieu of bonus	-	183,308	-	29
Balance at end of financial year	94,119,126	94,119,126	2,913	2,913

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

Options

As at balance date there were no options outstanding.

22. RESERVES

	2013 $'000	2012 $'000
Foreign currency translation reserve	(5,105)	(5,092)
Foreign currency translation reserve		
Balance at beginning of financial year	(5,092)	(5,768)
Translation of financial statement of foreign operations	(13)	676
Balance at end of financial year	(5,105)	(5,092)

23. RETAINED EARNINGS

	Note	2013 $'000	2012 $'000
Balance at beginning of financial year		28,499	25,875
Net profit attributable to members of the parent entity		3,042	3,564
Dividend	25	(1,412)	(940)
Balance at end of financial year		30,129	28,499

24. EARNINGS PER SHARE

	2013 Cents per Share	2012 Cents per Share
Basic and diluted earnings per share	3.23	3.79

	$'000	$'000
The earnings used in the calculation of basic and diluted earnings per share	3,042	3,564

	Number	Number
The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	94,119,126	93,977,388
The weighted average number of ordinary shares on issue used in the calculation of diluted earnings per share	94,119,126	93,977,388

25. DIVIDENDS

	Note	2013 $'000	2012 $'000
Dividends declared in respect of the financial year:			
Recognised amounts (declared and paid)			
Fully paid ordinary shares			
– Interim 1¢ paid (2012:1/2¢)		941	470
– Final 1/2¢ paid (2012:1/2¢)		471	470
		1,412	940
Unrecognised amounts (declared post year end and unpaid)			
Fully paid ordinary shares			
– Final of 1/2¢ paid (2012: 1/2¢)		471	470

In respect of the financial year ended 31 March 2013, the directors recommended payment of a final dividend of 0.5 cent (2012: 0.5 cent) per share unfranked was declared and approved on 14 May 2013. An interim dividend of 1.0 cent per share, unfranked, was paid on 24 January 2013 (27 January 2012 - 0.5 cent).

The dividends were not franked.

26. COMMITMENTS FOR EXPENDITURE

	2013 $'000	2012 $'000
Capital expenditure commitments		
Property, plant and equipment not longer than 1 year	46	97

27. LEASES

Operating leases

Leasing arrangements

Operating leases relate to photocopiers under non-cancellable leases. The future payments are as follows:

	2013 $'000	2012 $'000
No longer than 1 year	12	12
Longer than 1 year and not longer than 5 years	32	21
	44	33

Non-cancellable operating lease receivables

Office rent income is receivable as follows:

	2013 $'000	2012 $'000
No longer than 1 year	25	40
Longer than 1 year and not longer than 5 years	-	25
	25	65

28. SUBSIDIARIES

	Country of incorporation	Percentage of ordinary shares held 2013 %	2012 %
Ultimate parent entity			
Merchant House International Limited	Bermuda		
Subsidiaries			
Loretta Lee Limited *	Hong Kong	100	100
China Christmas Collections Limited	Hong Kong	100	100
Forsan Limited *	Hong Kong	100	100
Grandview Textiles Limited *	Hong Kong	100	100
Merchant House Australia Pty Ltd	Australia	100	100
Home Affairs Inc	United States	100	100
Pacific Bridges Enterprises Inc (Delaware USA)	United States	100	-
Carsan (Shunde) Manufacturing Company Ltd *	China	100	100
Carsan Trading Co Ltd *	China	100	100

* These companies are audited by WM Sum & Co, Hong Kong.

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

An application to deregister China Christmas Collections Limited was lodged with the Companies Registry in Hong Kong on 28 January 2013. The process may take up to five months.

Pacific Bridges Enterprises Inc.(Delaware USA), a new USA holding company, was established on 27 March 2013. In April 2013, its 100% owned subsidiary, Footwear Industries of Tennessee Inc. was incorporated.

29. NOTES TO THE STATEMENTS OF CASH FLOWS

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

(a) *Reconciliation of cash and cash equivalents*

	2013 $'000	2012 $'000
Cash at bank	5,419	5,626
	5,419	5,626

29. NOTES TO THE STATEMENTS OF CASH FLOWS *(continued)*

(b) Financing facilities

	2013 $'000	2012 $'000
Secured bank facilities reviewed annually		
Amounts used	-	-
Amounts unused	11,687	11,720
	11,687	11,720

The Group has access to financing facilities at the reporting date as indicated above. The facility is secured over land and buildings and is available for letters of credit, trust receipt financing, working capital loans, term loans and shipping guarantees. Refer to note 19 for more details.

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

	2013 $'000	2012 $'000
Profit for the year	3,042	3,564
Depreciation and amortisation of non-current assets	949	977
Share of associates' profit	(852)	(476)
Foreign exchange (gain) / loss on translation	73	(218)
Impairment of investment in subsidiary	-	62
(Gain) / loss on disposal of investment in associate	-	103
Finance income	(65)	(60)
Gain / (loss) on disposal of property, plant and equipment	(2)	99
Share-based payments	-	29
Reversal of provisions	(10)	-
Returns and damage	(31)	-
Income tax expense / (benefit)	644	(955)
	3,748	3,125
Change in net assets and liabilities, net of effects from acquisitions and disposal of businesses:		
(Increase) / decrease in assets:		
– Trade and other receivables	(1,876)	205
– Inventories	(187)	48
Increase / (decrease) in liabilities:		
– Trade and other payables	(275)	1,736
– Provisions	61	18
	1,471	5,132
Income taxes paid	(413)	(90)
Net cash from operating activities	1,058	5,042

30. KEY MANAGEMENT PERSONNEL COMPENSATION

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

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

	2013 $'000	2012 $'000
Short-term employee benefits	1,137,177	1,104,820
Post-employment benefits	3,624	2,960
Share-based payments	-	29,330
	1,140,801	1,137,110

Details of key management personnel

The directors and other members of key management personnel of the Group during or since the end of the financial year:

- Ms L Lee (Chairperson)
- Ms C Lee (Non-executive independent director)
- Ms P Liao (Non-executive independent director)
- Mr I Burton (Non-executive independent director)
- Ms X L Wu (Non-executive independent director)
- Mr C J Einstein (Non-executive independent director)
- Mr D J Bell (Non-executive independent director)
- Mr T R Bird (General Manager)
- Mr J M Bleakie (Marketing Director)
- Mr C K Lo (Financial Controller)
- Mr M K Luk (General Manager)

Non-monetary benefits on the following table refer to legal and professional fees paid to K C Ho & Fong, an entity related to Miss Peggy Liao.

30. KEY MANAGEMENT PERSONNEL COMPENSATION *(continued)*

The compensation of each member of the key management personnel of the Group for the current year is set out below:

		Short-term employee benefits			Post employment benefits	Share based payments	
Name		Cash salary and fees $	Cash Bonus $	Non-monetary $	Super-annuation $	Shares (1) $	Total $
Executive directors							
Ms L Lee	2013	439,136	-	-	-	-	439,136
Chairperson	2012	433,416	-	-	-	-	433,416
Non-executive directors							
Ms C Lee	2013	25,000	-	-	-	-	25,000
Non-executive independent director	2012	25,000	-	-	-	-	25,000
Ms P Liao	2013	25,000	-	-	-	-	25,000
Non-executive independent director	2012	25,000	-	1,634	-	-	26,634
Mr I Burton	2013	25,000	-	-	-	-	25,000
Non-executive independent director	2012	25,000	-	-	-	-	25,000
Ms X L Wu	2013	25,000	-	-	-	-	25,000
Non-executive independent director	2012	25,000	-	-	-	-	25,000
Mr C J Einstein	2013	25,000	-	-	-	-	25,000
Non-executive independent director	2012	25,000	-	-	-	-	25,000
Mr D J Bell	2013	25,000	-	-	-	-	25,000
Non-executive independent director	2012	25,000	-	-	-	-	25,000
Subtotal non-executive directors	2013	150,000	-	-	-	-	150,000
remuneration	2012	150,000	-	1,634	-	-	151,634
Total current directors	2013	589,136	-	-	-	-	589,136
remuneration	2012	583,416	-	1,634	-	-	585,050
Senior executives							
Mr T R Bird	2013	158,433	-	-	-	-	158,433
General Manager	2012	137,237	-	-	-	14,665	151,902
Mr J M Bleakie	2013	152,586	-	-	-	-	152,586
Marketing Director	2012	150,588	-	-	-	14,665	165,253
Mr C K Lo	2013	94,827	-	-	1,812	-	96,639
Financial Controller	2011	91,612	-	-	1,480	-	93,092
Mr M K Luk	2013	142,195	-	-	1,812	-	144,007
General Manager	2012	140,333	-	-	1,480	-	141,813
Subtotal senior executives	2013	548,041	-	-	3,624	-	551,665
Remuneration	2012	519,770	-	-	2,960	29,330	552,060
Total directors and executive	2013	1,137,177	-	-	3,624	-	1,140,801
officer remuneration	2012	1,103,186	-	1,634	2,960	29,330	1,137,110

(1) Shares issued to key management personnel in lieu of bonus payments (see note 32).

31. RELATED PARTY TRANSACTIONS

(a) *Equity interests in related parties*

Equity interest in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 28 to the financial statements.

Equity interests in associates and joint ventures

Details of interests in associates and joint ventures are disclosed in note 12 to the financial statements.

(b) *Transactions with key management personnel*

Key management personnel compensation

Details of key management personnel compensation are disclosed in note 30 to the financial statements.

Key management personnel equity holdings

The movement during the reporting period in the number of fully paid ordinary shares in the Company held directly, indirectly or beneficially, by each key management personnel, including their personally-related entities, is as follows:

	Balance at 1 April 2012 No.	Granted as compensation No.	Net (sales) / purchases No.	Balance at 31 March 2013 No.
Ms L Lee	50,401,588	-	-	50,401,588
Ms C Lee	1,102,805	-	-	1,102,805
Ms P Liao	635,455	-	-	635,455
Mr I Burton	305,500	-	-	305,500
Mr C J Einstein	585,217	-	-	585,217
Mr D J Bell	55,000	-	-	55,000
Mr T R Bird	1,158,610	-	-	1,158,610
Mr J M Bleakie	2,067,394	-	-	2,067,394

	Balance at 1 April 2011 No.	Granted as compensation No.	Net (sales) / purchases No.	Balance at 31 March 2012 No.
Ms L Lee	50,401,588	-	-	50,401,588
Ms C Lee	1,102,805	-	-	1,102,805
Ms P Liao	635,455	-	-	635,455
Mr I Burton	305,500	-	-	305,500
Mr C J Einstein	585,217	-	-	585,217
Mr D J Bell	55,000	-	-	55,000
Mr T R Bird	1,221,956	91,654	(155,000)	1,158,610
Mr J M Bleakie	1,975,740	91,654	-	2,067,394

31. RELATED PARTY TRANSACTIONS *(continued)*

(b) ***Transactions with key management personnel*** *(continued)*

Other transactions with key management personnel of the Group

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

	2013 $'000	2012 $'000
Other transactions		
Legal services	-	1
Dividend (paid by the parent company)	845	563
	845	564

(c) ***Subsidiaries***

Details of subsidiaries are disclosed in note 28 to the financial statements.

(d) ***Parent entity***

The parent entity in the Group is Merchant House International Limited.

(e) ***Transactions with other related parties***

Transactions between the Group and its related parties

Type of transaction	Class of related party	2013 $'000	2012 $'000
Purchase of goods	Associated entities		
	- Tianjin Jiahua Footwear Company Limited	8,644	10,715
	- Tianjin Tianxing Kesheng Leather Products Company Limited	31,505	31,790
	- Jawa (Jiangsu) Textiles Company Limited	1,874	165

All transactions were under normal terms and conditions.

		2013 $'000	2012 $'000
Current receivables	Associated entities		
	- Tianjin Jiahua Footwear Company Limited	92	113
	- Tianjin Tianxing Kesheng Leather Products Company Limited	-	-
	- Jawa (Jiangsu) Textiles Company Limited	107	117
Current payables	Associated entities		
	- Tianjin Jiahua Footwear Company Limited	981	-
	- Tianjin Tianxing Kesheng Leather Products Company Limited	2,233	2,632
	- Jawa (Jiangsu) Textiles Company Limited	-	-

All loans between subsidiaries are non-current, non-interest bearing and payable on demand.

Transactions between the Group and its subsidiaries were eliminated in the preparation of the consolidated financial statements.

32. SHARE-BASED PAYMENTS

The Group does not recognise a long-term share-based payment scheme. However, at the discretion of the board of directors, key management personnel may be issued Company shares in lieu of bonus payments. The number of shares is calculated by converting the dollar value of the bonus at the market share price on the date the bonus is earned. During the current year, no shares (2012: 183,308) were issued at a market price of nil cents (2012: 16 cents).

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

33. REMUNERATION OF AUDITORS

	2013 $	2012 $
Auditor of the parent entity		
Audit or review of the financial report	115,300	113,951
	115,300	113,951
Other auditors		
Audit or review of the financial report	20,697	16,265
Other non-audit services (i)	24,251	20,233
	44,948	36,498

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

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

34. ADDITIONAL COMPANY INFORMATION

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

35. SUBSEQUENT EVENTS

In April 2013 the Group established a new US manufacturing subsidiary named Footwear Industries of Tennessee Inc (FIT) in Tennessee. FIT is a 100% owned subsidiary of the recently incorporated Pacific Bridges Enterprises Inc. (Delaware USA). FIT will acquire factory premises and install the necessary plant and equipment.

During April 2013 the Company made a capital commitment of $1.4 million (EUR1.1 million) for the purchase of plant and machinery from Germany.

On 14 May 2013, the Board of Directors approved the distribution of a 0.5 cent per share dividend to be paid to shareholders on 23 August 2013.

On 12 June 2013, Footwear Industries of Tennessee Inc entered into an agreement to purchase premises for a consideration of US$ 850,000 (A$ 799,000) if completed by 27 June 2013 or $900,000 (A$ 846,000) if completed after 27 June 2013.

On 17 June 2013, the Board of Directors executed a provisional sale and purchase agreement for the disposal of its premises and parking space in Chai Wan, Hong Kong. The total consideration for the sale is HK$ 88 million (A$11.78 million). A 10% deposit was paid on the execution of the agreement, with the balance of the proceeds due no later than 1 November 2013.

35. SUBSEQUENT EVENTS *(continued)*

Other than the above, there has not been any matter or circumstance, occurring subsequent to the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

36. PARENT COMPANY DISCLOSURES

As at, and throughout the financial year ended 31 March 2013, the parent entity of the Group was Merchant House International Limited.

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 2 for a summary of the significant accounting policies relating to the Group.

		2013 $	2012 $
Result of the parent entity			
Profit for the period		1,071	600
Other comprehensive income		-	-
Total comprehensive income for the period		1,071	600
Financial position of parent entity at year end			
Current assets		10	8
Total assets		4,925	5,253
Current liabilities		124	111
Total liabilities		124	111
Total equity of the parent entity comprising of:			
Share capital		2,913	2,913
Retained earnings		1,888	2,229
Total equity		4,801	5,142
Related party transactions between the parent entity and related parties			
Type of transaction	*Class of related party*		
Management fee income	Subsidiaries	330	325
Dividend income	Subsidiaries	1,412	940
Guarantees entered into by the parent entity in relation to the debts of its subsidiaries			
Guarantee provided under the deed of cross guarantee (i)		7,420	7,441

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

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

1. SHAREHOLDER INFORMATION

(a) *Distribution of fully paid ordinary shares at 31 May 2013*

Category	Number of Shareholders	Shares held
1 - 1,000	12	5,028
1,0001 - 5,000	31	96,961
5,001 - 10,000	35	303,240
10,001 - 100,000	188	7,094,776
100,001 and over	70	86,619,121
	336	94,119,126

(b) *Marketable Parcel*

The number of shareholders holding less than a marketable parcel of ordinary shares is 33.

(c) *Voting rights*

Ordinary shares

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

(d) *Substantial shareholders*

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

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

(e) *Shareholders*

The twenty largest shareholders hold 81.04% of the total issued ordinary shares in the Company as at 6 June 2013.

2. TOP TWENTY SHAREHOLDERS AS AT 6 JUNE 2013

		Ordinary shares	
		Number of Shares	Percentage of issued shares
1	Supreme Luck Enterprises Inc	43,060,652	45.75
2	Fubon Nominees (Hong Kong) Limited	10,813,647	11.49
3	Ms Loretta Lee	6,392,103	6.79
4	Mr John Maxwell Bleakie	2,067,394	2.20
5	Estate Late Fung Miu Ling	1,674,092	1.78
6	Mr Milton Yannis	1,385,860	1.47
7	Mrs Lana Kinoshita	1,339,274	1.42
8	Mr Gerald Francis Pauley & Mr Michael James Pauley <Pauley Super Fund A/C>	1,230,295	1.31
9	Mrs Christina Lee	1,102,805	1.17
10	Mr Victor Tien Ren Hou	1,000,000	1.06
11	Mr Brian Garfield Benger <No.4 A/C>	900,000	0.96
12	Mr Raymond Lunney	789,674	0.84
13	Mr Brian Garfield Benger	748,200	0.79
14	Ms Alice Liu	638,783	0.68
15	Miss Peggy Liao	635,455	0.68
16	Mr Timothy Bird	587,032	0.62
17	Mr William Edmund Brent	500,000	0.53
18	Intersuisse Nominees Pty Ltd <Custodian A/C>	500,000	0.53
19	Mr Marvin Edelman	477,575	0.51
20	EGP Fund No.1 Pty Ltd	437,500	0.46
		76,280,341	81.04

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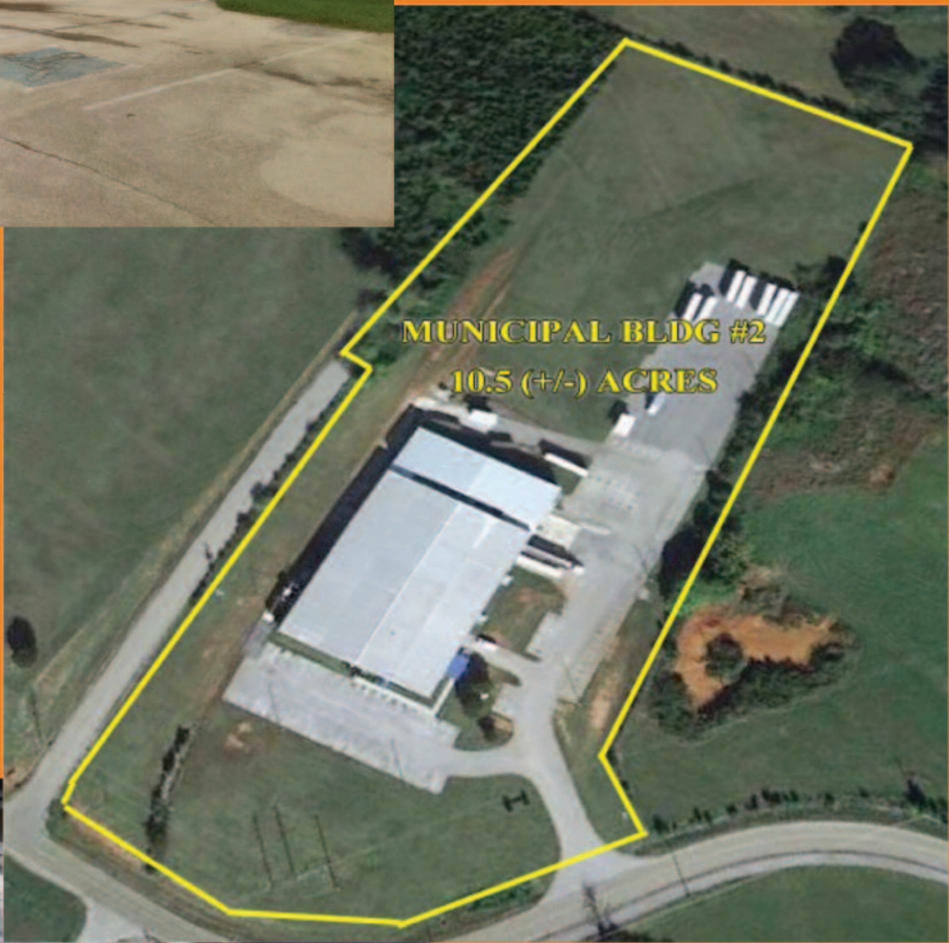

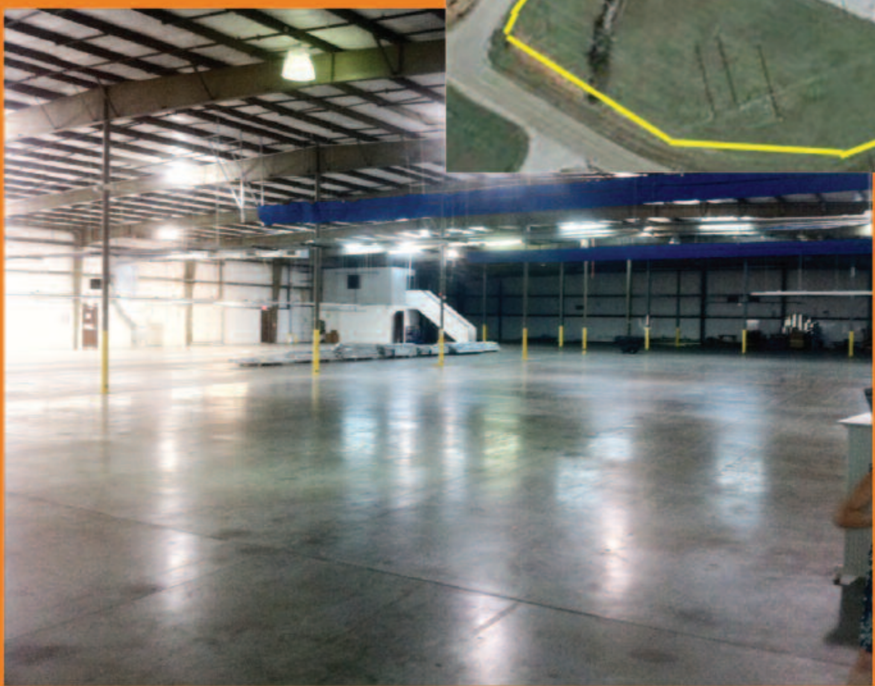

Our new footwear factory in Jefferson city, Tennessee, USA.

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