MERCHANT HOUSE INTERNATIONAL LIMITED
ARBN 065 681 138

Head Office:
1807-1812 Ming Pao Industrial Centre
Block B 18 Ka Yip Street
Chai Wan
Hong Kong
Tel: (852) 2889 2000
Fax: (852) 2898 9992

Registered Office:
41 Stirling Highway
Nedlands WA 6009
Australia

Tel: (61 8) 9423 3200
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Postal Address:
PO Box 985
Nedlands WA 6909

15 July 2011

ASX LIMITED

Dear Sir / Madam

The directors of Merchant House International Limited wish to confirm that the 2011 Annual Report, together with the notice of meeting, explanatory memorandum and proxy form have been despatched to all shareholders.

Yours faithfully
MERCHANT HOUSE
INTERNATIONAL LIMITED

D McArthur

DAVID MCARTHUR
Company Secretary

MERCHANT HOUSE INTERNATIONAL LIMITED

ARBN 065 681 138

2011

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2011

Loretta Lee opens New York Showroom September 2010

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2011

ANNUAL FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2011

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 Director

David Bell
Non-executive Independent Director

David McArthur
Company Secretary

REGISTERED OFFICE:

41 Stirling Highway	PO Box 985
Nedlands	Nedlands
WA 6009	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
Shop 26, Flinders Shopping Centre
Flinders Street
Tuart Hill
WA 6060

AUDITORS:

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

SOLICITORS:

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

ASX HOME BRANCH:

Australian Securities Exchange Limited
2 The Esplanade
Perth WA 6000

SECURITIES EXCHANGE:

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

DOMICILE:

Hong Kong

COUNTRY OF INCORPORATION:

Bermuda

Dear Shareholder

Our total sales (in US Dollars) for the year 2010/2011 remained at approximately the same level as last year's, although they were slightly off target by 2%. The profit (in US Dollars) was close to our forecast but dropped 20% from the previous year.

During the year both the footwear and home textiles divisions suffered from the continuing pressure of price increases for raw materials. This was particularly acute for home textiles as the price of cotton rose by at least 80% during the last 12 months. Since we were committed to honouring contracts we had signed earlier in the year, but had shipped six months later, our cost of goods rose by a substantial 3% in USD, cutting margins accordingly. A further hit on our margins was the ongoing rise of the Chinese currency and of the cost of labour.

We forecast that our sales for 2011/2012 will remain the same as this year's. However, we are aiming for a much higher profit by cost cutting and increased efficiency.

We have started the new financial year by improving our factory management with the installation of a better management computer system. We will also continue to focus on raising our production output by re-engineering our production lines. We believe that with these measures we could cut our cost of goods by about 10%.

The consolidation of our management offices will be our second major step. This year, the combining of the footwear office in the south with the one in the north, is being considered. We are also planning how best we can integrate the marketing efforts for seasonal decorations with those for home textiles.

Upgrading the quality of our product lines is also an important mission. We have started producing branded footwear and a better grade of home textiles products for 2011/2012.

We will continue our sustainability efforts. Carbon audits of our Carsan factory were performed in 2008 and 2009. The results showed that our carbon emissions were reduced by 3.4%. We expect a greater reduction from 2010.

The Board of Directors has decided to distribute A$0.005 as the final dividend for 2010/2011.

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

GROUP OVERVIEW

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.

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.

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

BOARD OF DIRECTORS

Role of the Board

The primary responsibilities of the Board are set out in a written policy and include:

- 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.

The Board evaluates this policy on an ongoing basis.

Board composition

The Directors' Report 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 comprises an executive Chairman, one non-executive director and five non-executive independent directors. The one executive director is responsible for the corporate requirements of the Company and also to assist with the promotion and expansion of Merchant House International Limited. Details of the directors are set out in the Directors' Report.

The Board's composition of seven directors is considered an appropriate size for the Company at its present stage of development and given the breadth of its membership most issues can be decided at Board level without the need for separate committees. The Board is primarily responsible for identifying potential new directors, should the need arise, but has the option to use an external consulting firm to identify and approach possible new candidates for directorship. The selection of the directors must be approved by the majority of the shareholders.

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.

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 five of the 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.

The Board considers that Ms Christina Lee, Ms Peggy Liao, 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 director, and no conflicts of interest which could interfere with the exercise of independent judgement. Accordingly, they are considered to be independent.

Independent professional advice

With the 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.

Board Performance Review

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 as a whole twice a year at Board meetings.

Conflict of Interest

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

DIRECTOR REMUNERATION

Details of the Company's remuneration policies are disclosed 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.

AUDIT AND RISK MANAGEMENT COMMITTEE

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 Board has not formalised any procedures for the selection, appointment or rotation of its external auditor but reviews this matter on an ongoing basis and implements changes as required.

REMUNERATION AND NOMINATION COMMITTEE

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 to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

MANAGING BUSINESS RISK

The Company maintains policies and practices designed to identify and manage significant business risks, including:

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

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

The Board receives regular reports about the financial condition and operating results of the consolidated group. The Chairperson and Chief Financial Officer annually provide a formal statement to the Board that in all material respects and to the best of their knowledge and belief:

- the Company's financial reports present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and
- the Company's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

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.

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 2011.

ETHICAL STANDARDS

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 Chairman 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.

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 Company Secretary 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.

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 Stock Exchange in accordance with the Company's continuous disclosure policy, 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;
- shareholders are advised in writing of key issues affecting the Company;
- 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.

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 CORPORATE GOVERNANCE COUNCIL PRINCIPLES AND RECOMMENDATIONS

Pursuant to the ASX Listing Rule 4.10.3, the Company advises that it does not comply with the following Corporate Governance Principles and Recommendations, issued by the ASX Corporate Governance Council.

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 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.

Recommendation 2.4:

The board should establish a nomination committee.

The functions to be performed by a nomination committee 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. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Recommendation 4.1:

The board should establish an audit committee.

Recommendation 4.2:

The audit committee should be structured so that it:

4.2.1 consists only of non-executive directors

4.2.2 consists of a majority of independent directors

4.2.3 is chaired by an independent chair, who is not chair of the board

4.2.4 has at least 3 members.

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 an audit committee 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 between senior management and the auditors throughout the year to discuss the Company's ongoing activities and to discuss and propose changes prior to their implementation and to seek advice in relation thereto. In doing so, the Board also adheres to the Company's Code of Conduct and procedures to ensure independent judgement in decision making, as set out in relation to ASX Corporate Governance Principles and Recommendation 2.1. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

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 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.

The functions to be performed by a remuneration committee 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. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

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 2011. 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

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

Non-executive director, Sa Sa International Holdings Limited – Appointed 1997

Non-executive director, Television Broadcasts Limited – Appointed 1981

Former directorships in the past three years – None

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 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 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, Plantation Energy Limited – Appointed 9 August 2006

Former directorships in the past three years

Non-executive Chairman, Ellendale Resources NL – 1999 to 20 June 2008

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

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

Non-executive director, Cost Plus World Market – Appointed 6 April 2007

Former directorships in the past three years – None

Interest in shares and options – 585,217 ordinary shares

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, with the regional Australian office of Cathay Pacific Airways as its major client.

Other current directorships – None

Former directorships in the past three years – None

Interest in shares and options – None

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	Nil

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 29 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	2011	2010	2009	2008	2007
Net profit attributable to equity holders	2,687	4,024	3,210	3,601	4,744
Basic EPS (cents)	2.86	4.30	3.43	3.85	5.07
Net tangible assets (NTA)	22,762	23,478	28,766	19,204	19,064
NTA Backing (cents)	24.23	25.04	30.72	20.52	20.37

Net profit amounts for 2007 to 2011 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 there was no 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

On 11 May 2011, the Board of Directors approved the distribution of a 0.5 cent per share dividend to be paid to shareholders on 25 August 2011.

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. LIKELY 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 2011, the directors recommend payment of a final dividend of 0.5 cent per share unfranked. An interim dividend of 0.5 cent per share, unfranked, was paid on 27 January 2011.

In respect of the financial year ended 31 March 2010, as detailed in the Directors' Report for that financial year, an interim dividend of 0.5 cent per share unfranked was paid on 28 January 2010. The final dividend of 1 cent per share unfranked was paid on 27 August 2010.

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 2011, and the numbers of meetings attended by each director were:

	Full meetings of Directors	
Director	**No. of Meetings attended**	**No. of Meetings held whilst a director**
Ms L Lee	2	2
Ms C Lee	2	2
Ms P Liao	2	2
Mr I Burton	2	2
Ms X L Wu	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 & 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 included on page 19 of the annual report.

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

On behalf of the Directors.

Ian J Burton

I J BURTON

Director

Perth, Western Australia

17 June 2011

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 2011, and the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 24 to 84.

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 (including the Australian Accounting Interpretations) and for such internal control as the directors' determine is necessary to enable the preparation 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. These Auditing 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.

Auditor's 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 2011, and its financial performance for the year ended on that date in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations); and

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Kathleen Bozanic

Kathleen Bozanic
Partner
Chartered Accountants
Perth, 17 June 2011

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 2011 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

17 June 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2011

	Note	2011 $'000	2010 $'000
CURRENT ASSETS			
Cash or cash equivalents	28(a)	1,390	2,822
Trade and other receivables	9	6,065	8,291
Inventories	10	2,090	1,796
Current tax assets	8(b)	191	-
Other	14	230	157
TOTAL CURRENT ASSETS		9,966	13,066
NON CURRENT ASSETS			
Loans and other receivables	9	48	54
Investments accounted for using the equity method	11	5,993	5,781
Property, plant and equipment	12	10,978	12,524
Leasehold land	13	1,020	1,122
Deferred tax assets	8(c)	79	71
Goodwill	16	229	434
TOTAL NON CURRENT ASSETS		18,347	19,986
TOTAL ASSETS		28,313	33,052
CURRENT LIABILITIES			
Trade and other payables	17	3,985	6,246
Borrowings	18	-	1,591
Current tax payable	8(b)	1,253	1,107
Provisions	19	16	125
TOTAL CURRENT LIABILITIES		5,254	9,069
NON CURRENT LIABILITIES			
Provisions	19	68	71
TOTAL NON CURRENT LIABILITIES		68	71
TOTAL LIABILITIES		5,322	9,140
NET ASSETS		22,991	23,912
EQUITY			
Issued capital	20	2,884	2,856
Reserves	21	(5,768)	(3,539)
Retained earnings	22	25,875	24,595
TOTAL EQUITY		22,991	23,912

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

FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 $'000	2010 $'000
Continuing operations			
Revenue	5	68,795	75,863
Cost of sales	7	(58,222)	(62,455)
Gross profit		10,573	13,408
Other revenues	5	9	8
Other income	5	375	64
Share of profit of associated entities accounted for using the equity method	5	904	833
Administration expenses		(6,788)	(7,051)
Finance costs	6	(99)	(172)
Other expenses		(1,629)	(1,883)
Profit before tax	7	3,345	5,207
Income tax expense	8(a)	(658)	(1,183)
Profit for the year		2,687	4,024
Other comprehensive income			
Exchange differences arising on translation of foreign operations (loss) / profit		(2,226)	(8,353)
Income tax relating to components of other comprehensive income		(3)	(58)
Other comprehensive income for the period (net of tax)		(2,229)	(8,411)
Total comprehensive income / (loss) for the period		458	(4,387)
Profit attributable to owners of the parent		2,687	4,024
Total comprehensive income / (loss) attributable to owners of the parent		458	(4,387)
Earnings per share from continuing operations			
Basic and diluted (cents per share)	23	2.86	4.30

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 2011

		Attributable to owners of the parent			
	Note	Issued Capital $'000	Retained Earnings $'000	Foreign Currency Translation Reserve $'000	TOTAL $'000
Balance at 1 April 2009		2,838	21,507	4,872	29,217
Profit for the period		-	4,024	-	4,024
Other comprehensive income		-	-	(8,411)	(8,411)
Total comprehensive income for the period		-	4,024	(8,411)	(4,387)
Recognition of share-based payments	20	18	-	-	18
Dividends provided for or paid	24	-	(936)	-	(936)
Balance at 31 March 2010		2,856	24,595	(3,539)	23,912
Balance at 1 April 2010		2,856	24,595	(3,539)	23,912
Profit for the period		-	2,687	-	2,687
Other comprehensive income		-	-	(2,229)	(2,229)
Total comprehensive income for the period		-	2,687	(2,229)	458
Recognition of share-based payments	20	28	-	-	28
Dividends provided for or paid	24	-	(1,407)	-	(1,407)
Balance at 31 March 2011		2,884	25,875	(5,768)	22,991

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 2011

	Note	2011 $'000	2010 $'000
Cash flows from operating activities			
Receipts from customers		70,350	72,244
Payments to suppliers and employees		(67,471)	(68,179)
Interest and other costs of finance paid		(99)	(172)
Income tax paid		(584)	(373)
Net cash provided by operating activities	28(c)	2,196	3,520
Cash flows from investing activities			
Interest received		9	8
Proceeds from disposal of property, plant and equipment		4	-
Payment for property, plant and equipment		(479)	(389)
Net cash used in investing activities		(466)	(381)
Cash flows from financing activities			
Repayment of borrowings		(11,059)	(6,745)
Proceeds from borrowings		9,482	5,026
Dividends paid		(1,407)	(936)
Net cash used in financing activities		(2,984)	(2,655)
Net (decrease) / increase in cash and cash equivalents		(1,254)	484
Cash and cash equivalents at the beginning of the period		2,822	3,324
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(178)	(986)
Cash and cash equivalents at the end of the period	28(a)	1,390	2,822

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**
41 Stirling Highway	1807 - 1812 Ming Pao Industrial Centre
Nedlands	Block B 18 Ka Yip Street
Western Australia 6009	Chai Wan
	Hong Kong

The entities 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. The financial statements include the consolidated financial statements of the Group. Accounting standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the directors on 17 June 2011.

(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.

(d) *Change in accounting policies*

Following amendments to AASB 117 "Leases", the Group has made a change to its accounting policy regarding the classification of leases of land. As a result, leases of land should be classified as either finance or operating leases using the general principles of AASB 117, i.e. where the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Under the amendments, a land lease with a lease term of several decades or more may be classified as a finance lease, even if at the end of the lease term title will not pass to the lessee, because in such arrangement substantially all risks and rewards are transferred to the lessee and the present value of the residual value of the leased asset is negligible.

The new policy was applied retrospectively and as a result of the amendments, certain leases of land with a net book value of $2,143k at 31 March 2010 and $1,854k at 31 March 2011 has been reclassified to leasehold land under finance lease and included in property, plant and equipment in Note 12. Previously, these were included in leasehold land as operating leases in Note 13.

(e) Adoption of new and revised Accounting Standards

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 *Financial Instruments,* which becomes mandatory for the Group's 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

In the current year, the Group has adopted the following accounting standards as listed below which only impacted on the Group's financial statements with respect to disclosure.

AASB Standards and Interpretations

AASB 1048 – *Interpretation of Standards (June 2010)*

AASB 2009-5 – *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process*

AASB 2009-8 – *Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions*

AASB 2009-10 – *Amendments to Australian Accounting Standards – Classification of Rights Issues*

AASB 2010-3 – *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

Interpretation 19 – Extinguishing financial liabilities with equity instruments

(f) Standards and Interpretations issued not yet effective

At the date of authorisation of the financial statements, the following Standards and Interpretations, which were relevant to the entity, were in issue but not yet effective:

AASB Standards and Interpretations		**Nature of change to accounting policy**	**Application date of standard***	**Application date for the Group**
AASB 9	Financial Instruments, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9	Impact has not yet been determined	1 January 2013	1 April 2013
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	Impact has not yet been determined	1 January 2013	1 April 2013
AASB 124	Relate Party Disclosures (2009), AASB 2009-12 Amendments to Australian Accounting Standards	Impact has not yet been determined	1 January 2011	1 April 2011

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

AASB Standards and Interpretations		Nature of change to accounting policy	Application date of standard*	Application date for the Group
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from The Annual Improvements Project	Impact has not yet been determined	1 January 2011	1 April 2011
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosure On Transfers of Financial Assets	Impact has not yet been determined	1 July 2011	1 April 2012
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets	Impact has not yet been determined	1 January 2012	1 April 2012

** Application date is for the annual reporting period beginning on or after the date shown in the above table.*

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

(g) *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 consolidated income statement 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.

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.

(h) *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.

(i) 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) and Chinese Yuan Renminbi (CNY). 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 which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings; and
- 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 the consolidated profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing on the 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 profit or loss in the period in which the foreign operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS 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 A-IFRS is treated as an Australian-dollar denominated asset.

(j) 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 statements 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) *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.

(l) *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.

(m) *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.

(n) 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.

(o) 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(h).

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) *Financial assets (continued)*

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 original effective interest rate.

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

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

Derecognition of financial assets

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

(p) 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.

(q) 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

(r) 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.

(s) 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.

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 amount 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Leased assets (continued)

Group as lessee

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

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

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

Operating leases

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

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

The payments made on acquiring land 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.

(t) 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.

(u) 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.

(v) 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.

(w) 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.

(x) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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, is described in note 2(k).

Other financial liabilities

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

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

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

Derecognition of financial liabilities

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

(y) *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 19 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 16 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(q) 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 (consisting of two aggregated operating segments)
- 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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Continuing operations				
Home textile trading	6,182	8,587	270	526
Home textile manufacturing	13,124	13,135	1,384	2,857
Footwear	8,918	11,242	3,561	5,661
Total segment assets and liabilities	28,224	32,964	5,215	9,044
Corporate and other segment assets and liabilities	89	88	107	96
Total assets	28,313	33,052	5,322	9,140

For the purpose of monitoring segment performance and allocating resources between segments, the chief operating decision maker monitors the cash, receivables and payables position.

Goodwill has been allocated to reportable segments as described in note 16.

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)	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Continuing operations				
Home textile trading				
External customers	29,238	31,908	1,520	2,586
Intra-segment	11,595	7,893	-	-
Total home textile trading	40,833	39,801	1,520	2,586
Home textile manufacturing				
Inter-segment	22,699	22,150	(325)	(34)
Total home textile manufacturing	22,699	22,150	(325)	(34)
Footwear				
External customers	39,557	43,939	1,964	2,241
Total footwear	39,557	43,939	1,964	2,241
Eliminations	(34,294)	(30,027)	(94)	76
	68,795	75,863	3,065	4,869
Central administration and directors' salaries			(533)	(331)
Finance costs			(99)	(172)
Share of profit of associates			904	833
Investment revenue			9	8
Profit before tax			3,345	5,207
Income tax expense			(658)	(1,183)
Consolidated segment revenue and profit for the period	68,795	75,863	2,687	4,024

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, share of profits of associates, investment revenue, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Major products and services

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

	2011 $'000	2010 $'000
Home textile trading		
Textiles	26,664	25,731
Seasonal products	2,574	6,193
Footwear	39,557	43,939
	68,795	75,863

Geographical information

The Group's three divisions operate in five principal geographical areas – the USA, Australia, China/Hong Kong, Canada and the United Kingdom. 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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
United States of America / South America	64,616	70,769	-	-
Australia / New Zealand	2,384	3,501	229	434
China / Hong Kong	99	81	12,046	13,699
Canada	1,300	1,239	-	-
Europe / Eastern Europe	325	254	-	-
Other	71	19	-	-
	68,795	75,863	12,275	14,133

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			
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Carrying value of investments accounted for using the equity method	512	846	-	-	5,481	4,935
Share of net profit of associated entities	(142)	(161)	-	-	1,046	994
Acquisition of segment assets	63	23	414	365	2	1
Depreciation and amortisation of segment assets	140	157	897	903	4	5

4. SEGMENT INFORMATION (continued)

Information about major customers

The Group's Top 4 customers account for 59.74% (2010: 65.90%) 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 2011 %	2010 %	Home textiles Trading 2011 $'000	2010 $'000	Footwear 2011 $'000	2010 $'000
First	20.15	25.51	-	1,018	13,861	18,339
Second	18.16	13.01	12,495	9,869	-	-
Third	11.14	16.56	3,609	6,222	4,056	6,344
Fourth	10.29	10.82	-	-	7,081	8,212
	59.74	65.90	16,105	17,109	24,998	32,895

5. REVENUE AND OTHER INCOME

	Note	2011 $'000	2010 $'000
An analysis of the Group's revenue for the year from continuing operations is as follows:			
Continuing operations			
Revenue from the sale of goods		68,795	75,863
		68,795	75,863
Other revenue			
Interest - other entities		9	8
		9	8
Other income			
Recovery of receivable previously provided for		-	13
Net exchange gains on foreign currency transactions		43	-
Rental income		36	40
Other items	(i)	296	11
		375	64
Other			
Share of profits of associated entities accounted for using the equity		904	833
		904	833
Total		70,083	76,768

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

6. FINANCE COSTS

	2011 $'000	2010 $'000
Interest on bank overdrafts and loans	99	172

	2011 $'000	2010 $'000

7. PROFIT BEFORE TAX

(a) *Gains and losses*

Profit for the year has been arrived at after crediting / (charging) the following gains and losses:

	2011 $'000	2010 $'000
Net foreign exchange gains	43	-
	43	-
Loss on disposal of property, plant and equipment	(36)	(2)
Net foreign exchange losses	-	(33)
	(36)	(35)
	7	(35)

(b) *Expenses*

Profit for the year includes the following expenses;

	2011 $'000	2010 $'000
Cost of Sales	(58,222)	(62,455)
Write-down of inventory	(24)	(409)
Impairment of goodwill	(205)	(17)
Depreciation of non-current assets	(959)	(974)
Amortisation of non-current assets	(82)	(91)
	(1,041)	(1,065)
Research and development costs immediately expensed	354	384
Operating lease rental expenses:		
Minimum lease payments	(21)	(23)
Defined contribution plan	(35)	(39)
Equity-settled share-based payments	(28)	(18)
Other employee benefits	(5,877)	(5,815)
Employee benefit expense	(5,940)	(5,872)

8. INCOME TAXES

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

	Note	2011 $'000	2010 $'000
Tax expense comprises:			
Current tax expense in respect of the current year		540	794
Benefit arising from previously unrecognised tax losses of a prior period that is used to reduce current expense		45	18
Deferred tax income relating to the origination of temporary differences		33	133
Benefit arising from previously unrecognised tax losses of a prior period that is used to reduce deferred tax expense		(44)	(21)
Write-down of deferred tax assets		-	-
Under provided in prior years		84	259
		658	1,183
Attributable to:			
- Continuing operations		658	1,183

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

	Note	2011 $'000	2010 $'000
Profit from continuing operations		3,345	5,207
Income tax expense calculated at 30%	(i)	1,003	1,562
Effect of different tax rates of the parent company and its subsidiaries operating in other jurisdictions	(ii)	(261)	(565)
Effect of non-deductible expenses		80	52
Effect of different accounting period loss		(17)	(19)
Effect of non-assessable revenue		(6)	-
Effect of depreciation allowances		12	14
Effect of tax rebates		-	-
Unused tax losses and tax offsets not recognised as deferred tax assets		34	130
Share of profits / (losses) of associated entities		(271)	(250)
Under provided in prior years		84	259
		658	1,183

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% (2010: 16.5%). The subsidiaries incorporated in China are taxed at 25% (2010: 25%) with some small businesses eligible for a 5% tax rebate.*

(b) Current tax assets and liabilities

	2011 $'000	2010 $'000
Current tax assets		
- Tax refund receivable	191	-
Current tax liabilities		
- Income tax payable attributable to subsidiaries	1,253	1,107

(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
2011				
Temporary differences				
Trade and other receivables	35	-	-	35
Property, plant and equipment	(39)	(3)	-	(42)
Trade and other payables	21	4	-	25
Provisions	32	(15)	-	17
Exchange difference on foreign subsidiary	(58)	-	(3)	(61)
Unrecognised tax losses	80	25	-	105
	71	10	(3)	79
2010				
Temporary differences				
Trade and other receivables	35	-	-	35
Property, plant and equipment	(44)	5	-	(39)
Trade and other payables	20	1	-	21
Provisions	-	32	-	32
Exchange difference on foreign subsidiary	-	-	(58)	(58)
Unrecognised tax losses	230	(150)	-	80
	241	(112)	(58)	71

(d) Tax consolidation system

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities to elect to consolidate and be treated as a single entity for income tax purposes was substantially enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is not applicable to the Group as it has only one wholly-owned Australian resident subsidiary.

(e) Franking account

The franking account balance as at 31 March 2011 was $Nil (2010: $Nil).

	Note	2011 $'000	2010 $'000
9. TRADE AND OTHER RECEIVABLES			
Current			
Trade receivables		4,100	6,709
Allowance for doubtful debts		(98)	(106)
		4,002	6,603
Other receivables		69	146
Bills receivable	(i)	139	745
Deposits	(ii)	1,589	320
VAT refund receivable	(iii)	161	93
Rent receivables	(iv)	4	-
Amount receivable from associated entities	(v)	101	384
		6,065	8,291
Non-current			
Loans and other receivables	(vi)	48	54
		48	54

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 (2010: 60 days). No interest is charged on the trade receivables.

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

Included in the Group's trade receivable balance are debtors with a carrying amount of $8 thousand (2010: $357 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 (2010: 32 days).

	2011 $'000	2010 $'000
Ageing of past due but not impaired		
30 - 90 days	8	357
Total	8	357
Movements in the allowance for doubtful debts		
Balance at the beginning of the year	106	1,500
Amounts recovered during the year	-	(1,090)
Exchange differences	(8)	(304)
Balance at the end of the financial year	98	106

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 (2010: 120 days).

	2011 $'000	2010 $'000
10. INVENTORIES		
Materials	897	663
Work in progress	1,014	868
Finished goods	97	210
Goods in transit	82	55
	2,090	1,796
11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD		
Investments in associates	5,993	5,781
Reconciliation of movement in investments accounted for using the equity method		
Balance at 1 April	5,781	7,552
Share of profit for the year	904	833
Exchange difference	(692)	(2,604)
Balance at 31 March	5,993	5,781

Name of entity	Principal activity	Country of incorporation	Ownership interest 2011 %	2010 %
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
Zao An Xin Jia Decorations Company Limited	Textiles manufacturer	China	40.00	40.00

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

	2011 $'000	2010 $'000
Financial position		
Total assets	41,194	41,432
Toal liabilities	(21,081)	(22,671)
Net assets	20,114	18,761
Group's share of associate's net assets	6,558	6,133
Financial performance		
Total revenue	87,856	76,208
Total profit for the year	2,821	2,708
Group's share of associate's profit	904	833

12. 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 2009 (restated)	12,439	353	8,104	408	4,070	25,374
Additions	-	-	247	142	-	389
Disposals	-	-	(12)	-	-	(12)
Transfers between categories	-	-	269	(269)	-	-
Net foreign currency exchange differences	(3,184)	(92)	(2,110)	(95)	(1,050)	(6,531)
Balance at 1 April 2010 (restated)	9,255	261	6,498	186	3,020	19,220
Additions	-	31	416	32	-	479
Disposals	-	-	(158)	-	-	(158)
Transfer between categories	-	-	131	(131)	-	-
Net foreign currency exchange differences	(706)	(31)	(495)	(7)	(335)	(1,574)
Balance at 31 March 2011	8,549	261	6,392	80	2,685	17,967
Accumulated depreciation / amortisation and impairment						
Balance as at 1 April 2009 (restated)	3,099	279	3,245	-	1,105	7,728
Disposals	-	-	(10)	-	-	(10)
Amortisation / depreciation expense	413	20	541	-	62	1,036
Net foreign currency exchange differences	(824)	(74)	(870)	-	(290)	(2,058)
Balance at 1 April 2010 (restated)	2,688	225	2,906	-	877	6,696
Disposals	-	-	(118)	-	-	(118)
Amortisation / depreciation expense	465	21	473	-	56	1,015
Net foreign currency exchange differences	(235)	(26)	(241)	-	(102)	(604)
Balance at 31 March 2011	2,918	220	3,020	-	831	6,989
Net book value						
As at 31 March 2010 (restated)	6,567	36	3,592	186	2,143	12,524
As at 31 March 2011	5,631	41	3,372	80	1,854	10,978

13. 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 2009 (restated)	1,794
Additions	-
Disposals	-
Transfer between categories	-
Net foreign currency exchange differences	(458)
Balance at 1 April 2010 (restated)	1,336
Additions	-
Disposals	-
Transfer between categories	-
Net foreign currency exchange differences	(92)
Balance at 31 March 2011	1,244
Accumulated depreciation / amortisation and impairment	
Balance at 1 April 2009 (restated)	251
Disposals	-
Impairment losses charged to profit	-
Reversal of impairment losses	-
Amortisation / depreciation expense	29
Transfer between categories	-
Net foreign currency exchange differences	(66)
Balance at 1 April 2010 (restated)	214
Disposals	-
Impairment losses charged to profit	-
Reversals of impairment losses	-
Amortisation / depreciation expense	26
Transfer between categories	-
Net foreign currency exchange differences	(16)
Balance at 31 March 2011	224
Net book value	
As at 31 March 2010 (restated)	1,122
As at 31 March 2011	1,020

	Note	2011 $'000	2010 $'000
14. OTHER ASSETS			
Current			
Prepayments		230	157

15. ASSETS PLEDGED AS SECURITY

Refer to note 18 for details of assets pledged as security in accordance with the security arrangements of liabilities.

16. GOODWILL

	Note	2011 $'000	2010 $'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		(525)	(508)
Impairment losses for the year	(i)	(205)	(17)
Balance at end of financial year		(730)	(525)
Net book value			
At the beginning of the financial year		434	451
At the end of the financial year		229	434

(i) *During the financial year, the Group assessed the recoverable amount of goodwill, and determined that it was impaired by $205 thousand (2010: $17 thousand) which related to the home textile manufacturing and trading cash-generating units.*

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).

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

	2011 $'000	2010 $'000
Home textiles manufacturing	-	36
Home textiles trading	-	169
Footwear operations	229	229
	229	434

Key assumptions

Home textiles manufacturing and trading

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 14.35% (2010: 11%) 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 consumer price inflation during the budget period. The cash flows beyond that five year period have been extrapolated using a steady 2% per annum growth which is the projected long-term average growth rate for the home textile trading division. Due to the increase in cotton prices, management believes that the key assumptions on which the recoverable amount is based has caused the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit and is therefore impaired. Based on these key assumptions, the goodwill for home textiles manufacturing and home textiles trading was written off to the consolidated statement of comprehensive income during the 2011 financial year.

Footwear

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 14.35% (2010: 11%) 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 8% 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.

17. TRADE AND OTHER PAYABLES

	2011 $'000	2010 $'000
Current		
Trade payables	1,654	1,895
Accruals	497	528
Rent deposit received	6	6
Amounts payable to:		
- Associated entities	1,828	3,817
	3,985	6,246

The average credit period on purchases of goods from China and Hong Kong is 60 days (2010: 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.

18. BORROWINGS

An amount up to $16,494 thousand (2010: $16,737 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	2011 $'000	2010 $'000
Secured - at amortised cost			
Current		-	
Short term loan	(i)	-	1,591
		-	1,591

Summary of the borrowing arrangements

(i) The interest rate for the short term loan during the current financial year was between 4.86% and 5.10% but no loans were outstanding at the financial year end (2010: 5.31%).

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

19. PROVISIONS

	Note	2011 $'000	2010 $'000
Current			
Returns	(ii)	16	125
Non-current			
Employee benefits	(i)	68	71
Returns			
Balance at 1 April		125	143
Additional provisions recognised		58	261
Reductions resulting from reversal of provision		(162)	(241)
Net foreign currency exchange differences		(5)	(38)
Balance at 31 March		16	125
Long service payment			
Balance at 1 April		71	133
Additional provisions recognised		6	-
Reductions resulting from reversal of provision		-	(30)
Net foreign currency exchange differences		(9)	(32)
Balance at 31 March		68	71

(i) The non-current provision for employee benefits includes $68 thousand of vested long service payment accrued but not expected to be taken within 12 months (2010: $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.

	2011 $'000	2010 $'000

20. ISSUED CAPITAL

93,935,818 fully paid ordinary shares (2010: 93,778,148)	2,884	2,856

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

	2011 Number	2010 Number	2011 $'000	2010 $'000
Reconciliation of movement in issued capital				
Balance at beginning of financial year	93,778,148	93,661,377	2,856	2,838
Issue of shares to a senior manager in lieu of bonus	157,670	116,771	28	18
Balance at end of financial year	93,935,818	93,778,148	2,884	2,856

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

Options

As at balance date there were no options outstanding.

21. RESERVES

	2011 $'000	2010 $'000
Foreign currency translation reserve	5,768	(3,539)
Foreign currency translation reserve		
Balance at beginning of financial year	(3,539)	4,872
Translation of financial statement of foreign operations	(2,229)	(8,411)
Balance at end of financial year	(5,768)	(3,539)

22. RETAINED EARNINGS

	Note	2011 $'000	2010 $'000
Balance at beginning of financial year		24,595	21,507
Net profit attributable to members of the parent entity		2,687	4,024
Dividend provided for or paid	24	(1,407)	(936)
Balance at end of financial year		25,875	24,595

23. EARNINGS PER SHARE

	2011 Cents per Share	2010 Cents per share
Basic and diluted earnings per share	2.86	4.30

	$'000	$'000
The earnings used in the calculation of basic and diluted earnings per share	2,687	4,024

	Number	Number
The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	93,824,369	93,672,254
The weighted average number of ordinary shares on issue used in the calculation of diluted earnings per share	93,824,369	93,672,254

	2011 $'000	2010 $'000
24. DIVIDENDS		
Dividends declared in respect of the financial year:		
Recognised amounts		
Fully paid ordinary shares		
- Interim 1/2¢ paid (2010: 1/2¢)	469	468
- Final of 1¢ paid (2010: 1/2¢)	938	468
	1,407	936
Unrecognised amounts		
Fully paid ordinary shares		
- Final of 1/2¢ paid (2010: 1¢)	469	936

In respect of the financial year ended 31 March 2011, the directors recommend payment of a final dividend of 0.5 cent (2010: 1 cent) per share unfranked. An interim dividend of 1/2 cent per share, unfranked, was paid on 27 January 2011 (28 January 2010 - 1/2 cent).

The dividends were not franked.

25. COMMITMENTS FOR EXPENDITURE

Capital expenditure commitments

Property, plant and equipment not longer than 1 year	41	75

26. LEASES

Operating leases

Leasing arrangements

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

	2011 $'000	2010 $'000
Not longer than 1 year	12	14
Longer than 1 year and not longer than 5 years	32	27
	44	41

Non-cancellable operating lease receivables

Office rent income is receivable as follows:

Not longer than 1 year	23	43
Longer than 1 year and not longer than 5 years	-	26
	23	69

	Country of incorporation	Percentage of ordinary shares held 2011 %	2010 %

27. SUBSIDIARIES

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
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.

28. 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*

	2011 $'000	2010 $'000
Cash at bank	1,390	2,822
	1,390	2,822

(b) *Financing facilities*

Secured bank facilities reviewed annually		
Amounts used	-	1,591
Amounts unused	16,494	15,146
	16,494	16,737

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 18 for more details.

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

Profit for the year	2,687	4,024
Depreciation and amortisation of non-current assets	1,041	1,065
Goodwill impairment	205	17
Share of associates' profit	(904)	(833)
Foreign exchange loss / (gain) on translation	(43)	33
Net finance income	(9)	(8)
Loss on disposal of property, plant and equipment	36	2
Share-based payments	28	18
Reversal of provisions	(157)	-
Reversal of prepayments	1	-
Returns and damage	(123)	-
Income tax expense	658	1,183
	3,420	5,501
Change in net assets and liabilities, net of effects from acquisitions and disposal of businesses:		
(Increase) / decrease in assets:		
- Trade and other receivables	1,292	(3,890)
- Inventories	(413)	525
Increase / (decrease) in liabilities:		
- Trade and other payables	(1,544)	1,767
- Provisions	25	(10)
	2,780	3,893
Income taxes paid	(584)	(373)
Net cash from operating activities	2,196	3,520

29. FINANCIAL INSTRUMENTS

(a) Capital risk management

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

The Group's overall strategy remains unchanged from 2010.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents disclosed in note 28(a) and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 20, 21 and 22 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	2011 $'000	2010 $'000
Financial assets			
Debt	(i)	-	1,591
Cash and cash equivalents		(1,390)	(2,822)
Net debt		(1,390)	(1,231)
Equity	(ii)	22,991	23,912
Net debt to equity ratio		N/A	N/A

(i) Debt is as detailed in note 18.

(ii) Equity includes all capital and reserves.

(b) Categories of financial instruments

Financial assets			
Cash and cash equivalents		1,390	2,822
Loans and receivables		6,113	8,345
Financial liabilities			
Amortised cost			
- Borrowings		-	1,591
- Trade and other payables		3,985	6,246

29. FINANCIAL INSTRUMENTS (continued)

(c) *Financial risk management objectives*

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

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

(d) *Market risk*

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

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

	Assets		Liabilities	
Carrying amount	2011 $'000	2010 $'000	2011 $'000	2010 $'000
US dollar	5,464	10,058	1,902	3,937
HK dollar	73	100	594	947
Chinese yuan renminbi	1,955	991	1,382	2,857

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 10% (2010: 20%) 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 10% (2010: 20%) 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	
	2011	2010
	$'000	$'000
If AUD strengthens by 10% (2010: 20%)		
USD	(324)	(1,020)
HKD	47	141
CNY	(52)	311
If AUD weakens by 10% (2010: 20%)		
USD	396	1,530
HKD	(58)	(212)
CNY	64	(466)
If USD strengthens by 5%		
CNY	(28)	82
If USD weakens by 5%		
CNY	31	(90)

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

During the period 1 April 2010 to 31 March 2011 the movement between the Australian dollar and its main foreign currencies were:

	2011	2010
	%	%
Strengthened / (Weakened) against the USD by	12.12	34.53
Strengthened / (Weakened) against the HKD by	12.46	34.77
Strengthened / (Weakened) against the CNY by	7.43	34.33

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 (2010: nil).

29. FINANCIAL INSTRUMENTS (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 2011		
Variable rate instruments	7	(1)
31 March 2010		
Variable rate instruments	6	6

(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.

(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 28(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 of which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 month $'000	1 to 3 months $'000	3 to 12 Months $'000	>1 year $'000
2011					
Non-interest bearing	-	2,483	1,461	38	3
Variable interest rate instruments	-	-	-	-	-
		2,483	1,461	38	3
2010					
Non-interest bearing	-	3,717	2,468	55	6
Variable interest rate instruments	5.31	797	802	-	-
		4,514	3,270	55	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
2011					
Non-interest bearing	-	5,425	695	-	73
Variable interest rate instruments	0.06	1,310	-	-	-
		6,735	695	-	73
2010					
Non-interest bearing	-	7,628	720	-	90
Variable interest rate instruments	0.07	2,729	-	-	-
		10,357	720	-	90

29. FINANCIAL INSTRUMENTS (continued)

(i) Fair value of financial instruments

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

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:

	2011 $	2010 $
Short-term employee benefits	942,165	1,044,975
Post-employment benefits	2,449	3,030
Share-based payments	28,381	17,516
	972,995	1,065,521

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 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 C K Lo *(Financial Controller)*
- Mr M K Luk *(General Manager)*

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

Name		Short-term employee benefits Cash salary and fees $	Cash Bonus $	Non-monetary $	Post employment benefits Super-annuation $	Share based payments Shares $	Total $
Directors							
Ms L Lee	2011	479,489	-	-	-	-	479,489
Chairperson	2010	533,759	-	(1,601)	-	-	532,158
Ms C Lee	2011	25,000	-	-	-	-	25,000
Non-executive independent director	2010	25,000	-	-	-	-	25,000
Ms P Liao	2011	25,000	-	-	-	-	25,000
Non-executive independent director	2010	25,000	-	-	-	-	25,000
Mr I Burton	2011	25,000	-	-	-	-	25,000
Non-executive director	2010	25,000	-	-	-	-	25,000
Ms X L Wu	2011	25,000	-	-	-	-	25,000
Non-executive independent director	2010	25,000	-	-	-	-	25,000
Mr C J Einstein	2011	25,000	-	-	-	-	25,000
Non-executive independent director	2010	25,000	-	-	-	-	25,000
Mr D J Bell	2011	25,000	-	-	-	-	25,000
Non-executive independent director	2010	25,000	-	-	-	-	25,000
Senior Management							
Mr T R Bird	2011	152,380	-	-	-	28,381	180,761
General Manager	2010	167,520	-	-	-	17,516	185,036
Mr C K Lo	2011	94,200	-	-	1,633	-	95,833
Financial Controller	2010	102,112	-	-	1,818	-	103,930
Mr M K Luk	2011	66,096	-	-	816	-	66,912
General Manager	2010	93,185	-	-	1,212	-	94,397
Totals	2011	942,165	-	-	2,449	28,381	972,995
	2010	1,046,576	-	(1,601)	3,030	17,516	1,065,521

(i) On 15 December 2010, 157,670 shares with a fair value of $0.18 were issued to Mr Bird in lieu of bonus payment (2010: 116,771 shares with a fair value of $0.15).

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 27 to the financial statements.

Equity interests in associates and joint ventures

Details of interests in associates and joint ventures are disclosed in note 11 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 2010 No.	Granted as compensation No.	Net other changes No.	Balance at 31 March 2011 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	583,967	-	1,250	585,217
Mr T R Bird	1,064,286	157,670	-	1,221,956

	Balance at 1 April 2009 No.	Granted as compensation No.	Net other changes No.	Balance at 31 March 2010 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	539,667	-	44,300	583,967
Mr T R Bird	1,047,515	116,771	(100,000)	1,064,286

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:

	Note	2011 $'000	2010 $'000
Other transactions			
Accounting and administration services	(i)	61	66
Legal services	(ii)	-	1
Dividend		812	540
		873	607

(i) *Accounting and administration services were paid to Broadway Management (WA) Pty Ltd, an entity related to Mr I Burton.*

(ii) *Legal fees were paid to K C Ho & Fong, an entity related to Miss Peggy Liao.*

(iii) *During the financial year, directors and their director related entities purchased goods, which were domestic or trivial in nature, from the Group on the same terms and conditions available to other employees and customers.*

(c) *Subsidiaries*

Details of subsidiaries are disclosed in note 27 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	2011 $'000	2010 $'000
Purchase of goods	Associated entities		
	- Tianjin Jiahua Footwear Company Limited	11,619	4,558
	- Tianjin Tianxing Kesheng Leather Products Company Limited	25,281	26,645
All transactions were under normal terms and conditions.			
Current receivables	Associated entities		
	- Tianjin Jiahua Footwear Company Limited	93	105
	- Tianjin Tianxing Kesheng Leather Products Company Limited	8	280
Current payables	Associated entities		
	- Tianjin Jiahua Footwear Company Limited	234	1,049
	- Tianjin Tianxing Kesheng Leather Products Company Limited	1,594	2,768

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

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, 157,670 shares (2010: 116,771) were issued at a market price of 18 cents (2010: 15 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

	Note	2011 $	2010 $
Auditor of the parent entity			
Audit or review of the financial report		121,316	113,547
		121,316	113,547
Other auditors			
Audit or review of the financial report		21,311	15,779
Other non-audit services	(i)	10,253	970
		31,564	16,749

(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

On 11 May 2011, the Board of Directors approved the distribution of a 0.5 cent per share dividend to be paid to shareholders on 25 August 2011.

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 2011, 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.

		2011 $	2010 $
Result of the parent entity			
Profit for the period		1,079	622
Other comprehensive income		-	-
Total comprehensive income for the period		1,079	622
Financial position of parent entity at year end			
Current assets		10	16
Total assets		5,560	5,849
Current liabilities		107	95
Total liabilities		107	95
Total equity of the parent entity comprising of:			
Share capital		2,884	2,856
Retained earnings		2,569	2,898
Total equity		5,453	5,754
Related party transactions between the parent entity and related parties			
Type of transaction	*Class of related party*		
Management fee income	Subsidiaries	361	402
Dividend income	Subsidiaries	1,407	936
Guarantees entered into by the parent entity in relation to the debts of its subsidiaries			
Guarantee provided under the deed of cross guarantee (i)		7,473	8,404

(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 2011

Category	Number of Shareholders	Shares held
1 - 1,000	11	5,008
1,0001 - 5,000	31	93,892
5,001 - 10,000	31	261,884
10,001 - 100,000	161	5,545,690
100,001 and over	67	88,029,344
	301	93,935,818

(b) Marketable Parcel

The number of shareholders holding less than a marketable parcel of ordinary shares is 32.

(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 82.69% of the total issued ordinary shares in the Company as at 31 May 2011.

2. TOP TWENTY SHAREHOLDERS AS AT 31 MAY 2011

		Ordinary shares Number of Shares	Percentage of issued shares
1	Supreme Luck Enterprises Inc	43,060,652	45.84
2	Fubon Nominees (Hong Kong) Limited	10,813,647	11.51
3	Ms Loretta Lee	6,392,103	6.80
4	Mr John Maxwell Bleakie	1,965,740	2.09
5	Ms Fung Miu Ling	1,674,092	1.78
6	Mr Brian Garfield Benger	1,620,000	1.72
7	Mrs Lana Kinoshita	1,339,274	1.43
8	Hathorn Holdings Pty Ltd <Benger Super fund A/C>	1,227,095	1.31
9	Mrs Christina Lee	1,102,805	1.17
10	Mr Victor Tien Ren Hou	1,000,000	1.06
11	Ason Trading Limited	973,228	1.04
12	Mr Gerald Francis Pauley & Mr Michael James Pauley	938,008	1.00
13	Merrill Lynch (Australia) Nominees Pty Limited	800,000	0.85
14	Mr Raymond Lunney	789,674	0.84
15	Mr John Laidlaw	760,260	0.81
16	Triumph World Limited	715,000	0.76
17	Mr Gerald Francis Pauley	683,078	0.73
18	Ms Alice Liu	638,783	0.68
19	Miss Peggy Liao	635,455	0.68
20	Jenmart Industries Limited	550,000	0.59
		77,678,894	82.69

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ARBN 065 681 138

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Facsimile 852 2898 9992
Email mhihk@netvigator.com

Registered Office
41 Stirling Highway
Nedlands WA 6009
Australia

Telephone 61 8 9423 3200
Facsimile 61 8 9389 8327

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 41 Stirling Highway, Nedlands, on Monday, 15 August 2011 at 10.00 am (WST).

In order to determine voting entitlements, the register of Shareholders will be closed at 10.00 am (WST) on 13 August 2011.

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

2011 Accounts

To receive and consider the Directors' report and income statement for the year ended 31 March 2011, 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 2011.

That, pursuant to and in accordance with section 250R (2) of the Corporations Act, the Directors' Remuneration Report contained within the Directors' Report be adopted.

Ordinary Resolution 2: Re-election of a Director

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

Information about Mr Burton is set out in the Company's 2011 Annual Report.

Ordinary Resolution 3: Re-election of a Director

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

Information about Ms Liao is set out in the Company's 2011 Annual Report.

D McArthur

By order of the Board
D M McARTHUR
Company Secretary

Dated: 5 July 2011

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:

NON-BINDING ORDINARY RESOLUTION 1 – Directors' Remuneration Report

Pursuant to Section 250R (2) of the Corporations Act, a resolution adopting the Directors' Remuneration Report contained within the Directors' Report must be put to the vote.

Shareholders are advised that pursuant to Section 250R (3) of the Corporations Act, this resolution is advisory only and does not bind the Directors or the Company.

The Director's Remuneration Report is set out within the Director's Report. The Report:

- explains the Board's policy for determining the nature and amount of remuneration of executive and non-executive Directors and senior executives of the Company;
- sets out remuneration details for each Director and the most highly remunerated senior executives of the Company;

A reasonable opportunity will be provided for discussion of the Directors' Remuneration Report at the Meeting.

The Board unanimously recommends that shareholders vote in favour of adopting the Directors' Remuneration Report.

ORDINARY RESOLUTIONS 2 and 3 – Re-election of Directors

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

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PROXY FORM

APPOINTMENT OF PROXY
MERCHANT HOUSE INTERNATIONAL LIMITED
ARBN 065 681 138

ANNUAL GENERAL MEETING

I/We

Address

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

Appoint

Name of proxy

or failing the person so named or, if no person is named, the Chairman of the Meeting or the Chairman's nominee, to vote in accordance with the following directions or, if no directions have been given, as the proxy sees fit at the Annual General Meeting to be held at 41 Stirling Highway, Nedlands, Western Australia, on Monday, 15 August 2011 at 10.00 am (WST) and at any adjournment thereof..

If no direction is given, the Chairman intends to vote in favour of all the Resolutions.

Voting on Business of the Annual General Meeting

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

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

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

Signed this day of 2011

By:

Individuals and joint holders	**Companies (affix common seal if appropriate)**
Signature	Director
Signature	Director/Company Secretary
Signature	Sole Director and Sole Company Secretary

Instructions for Completing 'Appointment of Proxy' Form

1. A member entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies.
2. If a member appoints two proxies, each proxy must be appointed to represent a specified portion or number of the member's voting rights and neither proxy may vote on a show of hands.
3. If a member appoints two proxies, and the appointment does not specify the proportion or number of the member's votes each proxy may exercise, each proxy may exercise half of the votes.
4. A proxy need not be a member of the Company.
5. If a corporate representative is to attend the meeting on behalf of a corporation, a formal notice of appointment must be brought to the meeting.
6. The Proxy Form must be signed by the shareholder or the shareholder's attorney. If the shareholder is a corporation, the Proxy Form should be signed under its common seal, or by two directors (or a director and a company secretary), or if a corporation with a sole director and sole secretary by that director, with the office held printed under each signature. Alternatively, a corporation can sign by its attorney or duty authorised officer.
7. The Proxy Form and any power of attorney or authority under which it is signed must be received at the registered office of the Company not less than 48 hours prior to the appointed time of Meeting. Proxy Forms can be lodged:

in person at:	Merchant House International Limited 41 Stirling Highway NEDLANDS WA 6009
by post to:	Merchant House International Limited PO Box 985 NEDLANDS WA 6909
by facsimile on:	(61 8) 9389 8327

8. In accordance with Regulation 7.11.37 of the Corporations Regulations 2001, the Directors have set a snapshot date to determine the identity of those entitled to attend and vote at the Meeting. The snapshot date is 5.00 pm (WST) on Friday, 12th August 2010.