



**MERCHANT HOUSE  
INTERNATIONAL LIMITED**  
ARBN 065 681 138

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10<sup>th</sup> Floor, E-Trade Plaza  
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**Registered Office:**  
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Australia  
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PO Box 985  
Nedlands WA 6909

30<sup>th</sup> June 2015

**ASX Limited**

**Electronic lodgement**

Dear Sir / Madam

**RE: ANNUAL FINANCIAL REPORT**

We attach the annual financial report for Merchant House International Limited for the year ended 31 March 2015.

Yours sincerely

**MERCHANT HOUSE INTERNATIONAL LIMITED**

**IAN J BURTON**  
Director

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**MERCHANT HOUSE INTERNATIONAL LIMITED**

**ARBN 065 681 138**

**ANNUAL REPORT**

**2015**

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## COMPANY DIRECTORY

### DIRECTORS AND COMPANY SECRETARY:

**Ms Loretta Lee**  
Chairperson

**Ms Peggy Zi-Yin Liao**  
Independent Non-executive Director

**Ms Xiao Lan Wu**  
Independent Non-executive Director

**Mr Clifford Einstein**  
Independent Non-executive Director

**Ms Christina Lee**  
Independent Non-executive Director

**Mr Ian Burton**  
Independent Non-executive Director

**Mr David Bell**  
Independent Non-executive Director

**Mr David McArthur**  
Company Secretary

### REGISTERED OFFICE:

Level 2, 55 Carrington Street  
Nedlands  
WA 6009  
Telephone: +61 8 9423 3200  
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### PRINCIPAL OFFICE:

10<sup>th</sup> Floor, E-Trade Plaza  
No.24 Lee Chung Street  
Chai Wan, Hong Kong  
Telephone: +852 2889 2000  
Facsimile: +852 2898 9992

### BANKERS - PERTH

ANZ Banking Group Limited  
Business Relationship Banking  
Level 6, 77 St George's Terrace  
Perth WA 6000

### BANKERS – HONG KONG

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

### AUDITOR:

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

### SOLICITOR:

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

### SHARE REGISTRY:

Computershare Investor Services Pty Ltd  
Level 11  
172 St Georges Terrace  
Perth WA 6000

### SECURITIES EXCHANGE:

Merchant House International Limited shares are listed on the Australian Securities Exchange ("ASX")  
Code: MHI

Telephone: +61 8 9323 2000  
Facsimile: +61 8 9323 2033

**DOMICILE:**  
Hong Kong

**ASX HOME BRANCH:**  
Perth

**COUNTRY OF INCORPORATION:**  
Bermuda

## CHAIRPERSON'S REPORT

Dear Shareholder

### Performance review

This has been a year of relative stability in China, with no significant movements to material costs or exchange rates. Nevertheless, increases in labour costs have continued to put pressure on manufacturing costs, especially as they relate to labour intensive products like our textiles and shoes. During the year ended 31 March 2015, the Group's sales were US\$75.5 million (A\$86.2 million) compared with A\$78.7 million (A\$84.3 million) last year. Our sales were closed to our budget of US\$78.0 million in 2014/15. A net loss of approximately US\$1.7 million (A\$2.0 million) was recorded for the year. The overall loss incurred by the Group during the year was mainly attributable to the newly established US footwear manufacturing business and an impairment loss of US\$2.0 million (A\$2.3 million) was provided for such operation.

American retail sales continue their slow recovery, although consumers remain extremely price sensitive. We continue to receive price challenges from our customers, demanding ever lower price quotations. In part this reflects the ability of large retail chains to source their products from a wider range of low cost developing countries in Southeast Asia, and even Africa.

While China remains the world's leading manufacturer, its dominance is being challenged on many fronts. Amongst these is the Trans Pacific Partnership ("TPP") which is now the centrepiece of the Obama administration's trade agenda. This initiative includes 12 countries around the Asia Pacific Region (40% of the world's trade), and aims to both increase competition for US imports and widen export markets for US goods.

China will remain the prime destination for manufacturing of more technically sophisticated products like computer parts, cell phones and heavy machinery. But for our labour intensive goods, controlling costs is a major challenge.

Sales of our China footwear business for the year were US\$49.8 million (A\$56.8 million), which was relatively stable, compared with sales of US\$49.1 million (A\$52.6 million) last year. Segment margin, however, decreased due to increasing cost pressure.

There was a slight improvement in our China textile business profitability this year. Sales for the year were US\$24.8 million (A\$28.3 million) compared with sales of US\$29.6 million (A\$31.7 million) last year. Segment performance was almost break-even this year.

We believe that our decision to invest in US on-shore manufacturing is strategically the right direction; however we have underestimated the problems with our new start-up. It has been hard to find experienced factory managers, we had difficulties training the workforce, and the local supplier base to support our manufacturing operations is limited.

In May 2014, the US footwear manufacturing plant commenced its operation. During the cultivating stage, a segment loss, including an impairment loss of US\$2.0 million (A\$2.3 million), totalling approximately US\$4.4 million (A\$5.0 million) was recorded. We will continue our efforts to market the factory's capacity to US customers. To this end the Group plans to allocate further resources to innovation and technical support.

The board of directors of the Company did not recommend the payment of a final dividend for 2014/15.

### Forecast

We forecast that sales for the coming year will be slightly decreased due to loss of certain footwear orders from Walmart. However, by continuing to tighten cost controls and increase operational efficiency, we expect to see an improvement in the Group's overall profitability in coming years.



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 textile and seasonal decorations. The Group's primary export market is the United States of America ("USA"), although merchandise is also sold to customers in Australia, Canada, Russia, Japan and Europe. Customers in the USA include major importers as well as many leading retailers. Ms Loretta Lee, the founder of the Group, began her business activities in 1978. She is continuing to successfully apply her philosophies and strategies for expansion to Merchant House International Limited.

### PHILOSOPHY

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

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

### CORPORATE STRUCTURE

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

### FOOTWEAR

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

The Group manufactures footwear in Tianjin, China. 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 factories, as well as providing quality control services and technical support.

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

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

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

## HOME TEXTILE

Trading in textiles was the first of the Group's ventures in China and began in 1978. The business focus was later shifted from trading to manufacturing, and the Group now manufactures products ranging from kitchen textiles to table linens, rugs, decorative pillows and throws. 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 production base and ensuring top quality products at affordable prices. 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 Textile Division. A large volume of orders for decorations and gifts was processed at the Carsan factory. To cope with the fast changing market, the Group strategically shifted the focus away from the home décor collections business in recent years.

In 2014, the Group was named Vendor of the Year by Kohl's Department Stores. The Group is firmly dedicated to producing the highest quality products and delivering the best possible service to its customers. The Group's philosophy is to be a true partner to all its customers, participating actively in all stages of product development, product testing, manufacturing, marketing and sales. The customer base includes a wide range of business formats from the largest US mass retailers to specialty and internet exclusive buyers. Additionally, in the coming year we will explore a new business with great potential by selling our home textile products in mainland China.

## CORPORATE GOVERNANCE STATEMENT

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

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

### 1. BOARD OF DIRECTORS

#### (a) Role of the Board and responsibilities

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

The Board evaluates these policies on an ongoing basis.

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

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

#### (b) Board composition and expertise

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

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



**1. BOARD OF DIRECTORS (continued)**

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

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

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

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

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

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

**(d) Independence of directors**

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

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

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

**(e) Director education**

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

## 1. BOARD OF DIRECTORS (continued)

### (f) Independent professional advice

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

### (g) Board Performance Review

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

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

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

### (h) Conflict of Interest

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

### (i) Directors' remuneration

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

## 2. BOARD COMMITTEES

### Board committees and membership

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

## 3. MANAGING BUSINESS RISK

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

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

### 3. MANAGING BUSINESS RISK (continued)

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

The Board has not established a separate Risk Committee. The Board as a whole assess and monitor risk management.

The Company does not have an internal audit function.

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

#### (a) Internal controls

Procedures are established at the Board and executive management levels that are designed to safeguard the assets and interests of the Company, and to ensure the integrity of reporting. These include accounting and financial reporting and internal control policies and procedures. To 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 the Board's requirements; and
- conduct a detailed review of published accounts.

#### (b) CEO and CFO assurance on corporate reporting

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

#### (c) Environmental regulation

The Company has a policy of at least complying, but in most cases exceeding, its environmental performance obligations. No environmental breaches were notified by any Government agency during the year ended 31 March 2015.

### 4. ETHICAL STANDARDS

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

#### (a) Code of Conduct

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

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

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

#### 4. ETHICAL STANDARDS (continued)

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

The Board comprises of members possessing different nationalities. They have various experiences, qualifications and educational backgrounds. Over one-half of the Board's composition is represented by female members. The Company continues to achieve and maintain diversity on the Board in order to enhance its effectiveness.

Pursuant to *Recommendation 1.5* of the Recommendations, the Company discloses the following information as at 31 March 2015:

Gender representation	2015		2014	
	Women	Men	Women	Men
Group representation	67%	33%	72%	28%
Board representation	57%	43%	57%	43%
Senior management representation	-	100%	57%	43%
Corporate services provider representation	75%	25%	78%	22%

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

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

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

#### 5. COMMUNICATION WITH SHAREHOLDERS

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

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

The Board reviews this policy and ensure its compliance all the time.

**5. COMMUNICATION WITH SHAREHOLDERS (continued)**

**Continuous Disclosure**

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

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

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

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

## ASX PRINCIPLES COMPLIANCE STATEMENT

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

### Recommendation 2.1

*The Board should establish a nomination committee.*

### Recommendation 2.5

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

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

### Recommendation 4.1

*The Board should establish an audit committee.*

### Recommendation 4.2

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

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

### Recommendation 7.1

*The Board should establish a risk committee.*

### Recommendation 8.1

*The Board should establish a remuneration committee.*

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

## DIRECTORS' REPORT

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 2015. The directors report as follows:

### 1. INFORMATION ABOUT THE DIRECTORS

The directors of the Company at any time during the year and up to the date of this report are:

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

#### **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

## 1. INFORMATION ABOUT THE DIRECTORS (continued)

### Ms Christina N K Lee

*Independent Non-executive Director*  
*Appointed: 15 July 1994*

#### **Experience and expertise**

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

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

#### **Other current directorships**

None

#### **Former directorships in the past three years**

Non-executive director	Sa Sa International Holdings Limited	1997 to 23 August 2012
------------------------	--------------------------------------	------------------------

### Ms Peggy Zi-Yin Liao

*Independent Non-executive 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.

Peggy Liao commenced her legal practice with an international law firm. In 1992, she founded her own law firm and remained as the Managing Partner for 12 years.

In 2013, she joined ONC Lawyers in Hong Kong, one of the largest local law firms with over 100 members, offering a full and comprehensive range of legal services. Peggy specialises in banking, project finance and landed securities. Her practices have extended to China, advising on joint venture projects and land transactions as well as handling cross-border litigation.

Peggy is active in public service. She was appointed by the Hong Kong Chief Executive to serve a number of public bodies.

Peggy, by invitation, has joined the Hong Kong University of Science and Technology's (HKUST) Leadership and Public Policy Advisory Committee. This Committee focuses on pressing public issues and current affairs. It has recently organised a successful forum to discuss the democracy for Hong Kong bringing together distinguished international academics with local politicians and legislative councillors.

Peggy is a frequent speaker on women issues and remains close to her Alma Mater: Smith College and Oxford University. She is a Founding Member of China Oxford Advisory Group for the University of Oxford. Through Peggy's initiative, Smith and HKUST have set up a collaborative program to foster women leadership in Hong Kong and the first program will be held in November 2015 on "Women in the Work Place".

#### **Other current directorships**

None

#### **Former directorships in the past three years**

None





**1. INFORMATION ABOUT THE DIRECTORS (continued)**

**Mr Clifford J Einstein**

*Independent Non-executive Director*  
*Appointed: 2 August 2007*

**Experience and expertise**

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

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

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

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

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

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

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

Clifford has a long history of philanthropic work for several organisations. These include The Jewish Community Foundation, The Discovery Eye Foundation and The Rape Foundation, where he was given the Governor's Victim's Service Award.

**Other current directorships**

None

**Former directorships in the past three years**

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

**1. INFORMATION ABOUT THE DIRECTORS (continued)**

**Mr David J T Bell**

*Independent Non-executive Director*  
*Appointed: 14 August 2007*

**Experience and expertise**

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

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

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

**Other current directorships**

None

**Former directorships in the past three years**

None

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:

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

**3. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT**

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

**4. SHARE OPTIONS GRANTED TO DIRECTORS AND SENIOR MANAGEMENT**

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

**5. COMPANY SECRETARY**

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

## 6. PRINCIPAL ACTIVITIES

The Group's principal activities in the course of the financial year were the design, manufacture and marketing of leather boots and shoes, home and seasonal decorative items and home textile.

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

## 7. OPERATING AND FINANCIAL REVIEW

### Summary of material transactions

During the year ended 31 March 2015, the Group continued to develop its footwear manufacturing business in Tennessee, USA, with an official ribbon cutting ceremony at the manufacturing plant on 22 May 2014.

Sales and segment loss of \$1,024 thousand and \$4,968 thousand respectively, were recorded for the footwear manufacturing business during the reporting year.

### Financial Results

The loss for the financial year ended 31 March 2015 attributable to members of Merchant House International Limited after income tax expense, was \$1,983 thousand (2014 profit: \$8,771 thousand).

No interim dividend was paid for the six months ended 30 September 2014.

Shareholder returns	2015	2014	2013	2012	2011
Net (loss) / profit attributable to equity holders (\$'000)	(1,983)	8,771	3,042	3,564	2,687
Basic (loss) / earnings per share (cents)	(2.10)	9.31	3.23	3.79	2.86
Net tangible assets (NTA) (\$'000)	45,356	39,477	27,708	26,091	22,762
NTA Backing (cents)	48.11	41.88	29.44	27.72	24.23

Net profit amounts for 2011 to 2015 have been calculated in accordance with Australian Accounting Standards (AASBs).

### Review of Financial Condition

During the year the net assets of the Group increased by \$5,879 thousand from \$39,706 thousand at 31 March 2014 to \$45,585 thousand at 31 March 2015.

### Changes in state of affairs

During the year ended 31 March 2015, two subsidiaries were disposed following de-registration and long suspension. A loss on dissolution of subsidiaries of \$60 thousand was recorded.

Following an impairment assessment of the USA footwear manufacturing operation, an impairment loss on property, plant and equipment of \$2,285 thousand was recognised.

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

## 8. SUBSEQUENT EVENTS

Other than the matters disclosed in note 38 of the notes to the consolidated financial statements, there have been no matters or circumstance that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Group, the results of these operations, or the state of affairs of the Group in future financial years.

## 9. FUTURE DEVELOPMENTS

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

## 10. ENVIRONMENTAL REGULATIONS

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

## 11. DIVIDENDS

In respect of the financial year ended 31 March 2015 the directors did not recommend the payment of a final dividend. No interim dividend was paid for the six months ended 30 September 2014.

In respect of the financial year ended 31 March 2014, an interim dividend of 2.0 cents per share was paid on 31 January 2014. The final dividend of 0.5 cent per share unfranked was paid on 29 August 2014.

## 12. SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

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

## 13. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

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

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

## 14. DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held during the year ended 31 March 2015, and the numbers of meetings attended by each director were:

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

## 15. NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 36 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 36 to the financial statements do not compromise the external auditor's independence, for the following reasons:

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

## 16. INDEPENDENT AUDITOR'S REPORT

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

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

On behalf of the Directors.



**I J BURTON**

Director  
Perth, Western Australia  
30 June 2015

## **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 2015, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and 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 22 to 78.

### *The Directors' Responsibility for the Financial Report*

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

### *Auditor's Responsibility*

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

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

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

## *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 2015 and its financial performance for the year then ended in accordance with Australian Accounting Standards; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.



DELOITTE TOUCHE TOHMATSU



**Neil Smith**  
Partner  
Chartered Accountants  
Perth, 30 June 2015



**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 2015 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 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  
30 June 2015

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
 AS AT 31 MARCH 2015**

	Note	2015 \$'000	2014 \$'000
<b>CURRENT ASSETS</b>			
Cash or cash equivalents	15(a)	18,950	15,010
Trade and other receivables	13	8,319	7,299
Inventories	14	3,414	2,230
Current tax assets	12(c)	110	-
Other	20	883	330
<b>TOTAL CURRENT ASSETS</b>		<b>31,676</b>	<b>24,869</b>
<b>NON CURRENT ASSETS</b>			
Investments accounted for using the equity method	31	10,455	7,362
Property, plant and equipment	16	10,370	11,243
Lease premium for leasehold land	17	1,323	1,120
Deferred tax assets	12(d)	15	4
Goodwill	19	229	229
<b>TOTAL NON CURRENT ASSETS</b>		<b>22,392</b>	<b>19,958</b>
<b>TOTAL ASSETS</b>		<b>54,068</b>	<b>44,827</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	21	7,262	4,966
Bank borrowings	15(b)	1,106	-
Current tax payable	12(c)	-	49
Provisions	23	115	42
<b>TOTAL CURRENT LIABILITIES</b>		<b>8,483</b>	<b>5,057</b>
<b>NON CURRENT LIABILITIES</b>			
Employee benefits	24	-	64
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>-</b>	<b>64</b>
<b>TOTAL LIABILITIES</b>		<b>8,483</b>	<b>5,121</b>
<b>NET ASSETS</b>		<b>45,585</b>	<b>39,706</b>
<b>EQUITY</b>			
Issued capital	26	2,944	2,944
Reserves		8,520	218
Retained earnings		34,121	36,544
<b>TOTAL EQUITY</b>		<b>45,585</b>	<b>39,706</b>

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED 31 MARCH 2015**

	Note	2015 \$'000	2014 \$'000
<b>Continuing operations</b>			
Revenue	6	86,196	84,312
Cost of sales	14	(77,130)	(74,072)
Gross profit		9,066	10,240
Investment income	6	77	121
Other gains and losses	7	148	9,434
Share of profits of associates	31	1,095	788
Provision for impairment of investment in an associate	31	-	(96)
Impairment of property, plant and equipment	16	(2,285)	-
Write-down of inventories to net realisable value		(102)	-
Administration expenses		(8,346)	(8,001)
Finance costs		(16)	(3)
Other expenses		(1,543)	(1,413)
(Loss) / profit before tax	9	(1,906)	11,070
Income tax expense	12(a)	(17)	(1,070)
<b>(Loss) / profit from continuing operations</b>	11	<b>(1,923)</b>	<b>10,000</b>
<b>Discontinued operations</b>			
Loss on dissolution of a subsidiary	8	(60)	(1,229)
<b>(Loss) / profit for the year</b>	11	<b>(1,983)</b>	<b>8,771</b>

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED 31 MARCH 2015 (continued)**

	Note	2015 \$'000	2014 \$'000
<b>Other comprehensive income, net of income tax</b>			
<b>Items that will not be reclassified subsequently to profit or loss</b>		-	-
Total items that will not be reclassified subsequently to profit or loss		-	-
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange differences arising on translation of foreign operations		7,632	4,404
Reversal of foreign currency translation reserve on dissolution of subsidiaries		673	921
Income tax on items that may be reclassified subsequently to profit or loss		(3)	(2)
Total items that may be reclassified subsequently to profit or loss		8,302	5,323
Other comprehensive income for the year, net of income tax		8,302	5,323
<b>Total comprehensive income for the year</b>		<b>6,319</b>	<b>14,094</b>
<b>(Loss) / profit for the year attributable to owners of the parent</b>		<b>(1,983)</b>	<b>8,771</b>
<b>Total comprehensive income attributable to owners of the parent</b>		<b>6,319</b>	<b>14,094</b>
<b>(Loss) / earnings per share from continuing operations</b>			
Basic and diluted (cents per share)		(2.04)	10.62
<b>Loss per share from discontinued operations</b>			
Basic and diluted (cents per share)	8	(0.06)	(1.31)
<b>(Loss) / earnings per share for profit attributable to owners of the parent</b>			
Basic and diluted (cents per share)		(2.10)	9.31

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 2015**

	Note	Attributable to owners of the parent			TOTAL \$'000
		Issued Capital \$'000	Retained Earnings \$'000	Foreign Currency Translation Reserve \$'000	
<b>Balance at 1 April 2013</b>		2,913	30,129	(5,105)	27,937
Profit for the year		-	8,771	-	8,771
Reversal of foreign currency translation reserve on dissolution of a subsidiary		-	-	921	921
Other comprehensive income		-	-	4,402	4,402
<b>Total comprehensive income for the year</b>		-	8,771	5,323	14,094
Recognition of share-based payments		31	-	-	31
Dividends	27	-	(2,356)	-	(2,356)
<b>Balance at 31 March 2014</b>		<b>2,944</b>	<b>36,544</b>	<b>218</b>	<b>39,706</b>
<b>Balance at 1 April 2014</b>		2,944	36,544	218	39,706
Loss for the year		-	(1,983)	-	(1,983)
Reversal of foreign currency translation reserve on dissolution of a subsidiary		-	-	673	673
Other comprehensive income		-	-	7,629	7,629
<b>Total comprehensive (loss) / income for the year</b>		-	(1,983)	8,302	6,319
Reversal of unclaimed dividends	27	-	31	-	31
Dividends	27	-	(471)	-	(471)
<b>Balance at 31 March 2015</b>		<b>2,944</b>	<b>34,121</b>	<b>8,520</b>	<b>45,585</b>

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 2015**

	Note	2015 \$'000	2014 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		86,214	85,204
Payments to suppliers and employees		(85,080)	(82,489)
Government subsidy		6	-
Interest and other costs of finance paid		(16)	(3)
Income tax paid		(180)	(1,203)
Net cash generated from operating activities	15(c)	944	1,509
<b>Cash flows from investing activities</b>			
Interest received		107	76
Proceeds from disposal of property, plant and equipment		2	12,133
Payments for property, plant and equipment		(870)	(3,640)
Dividend received from an associate		-	1,255
Net cash (used in) / generated from investing activities		(761)	9,824
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(690)	(2,240)
Proceeds from borrowings		1,661	2,240
Dividends	27	(397)	(2,356)
Net cash generated from / (used in) financing activities		574	(2,356)
<b>Net increase in cash and cash equivalents</b>		757	8,977
<b>Cash and cash equivalents at the beginning of the year</b>		15,010	5,419
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		3,183	614
<b>Cash and cash equivalents at the end of the year</b>	15(a)	18,950	15,010

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2015**

**1. GENERAL INFORMATION**

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

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

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

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

The Group is a for-profit entity and its principal activities are the manufacturing and distribution of home textile and footwear.

**2. STATEMENT OF COMPLIANCE**

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

The consolidated financial statements were authorised for issue by the Board of Directors on 30 June 2015.

Details of the Group's accounting policies, including changes during the year, are included in notes 40 and 41.

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

**3. FUNCTIONAL AND PRESENTATION 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 Dollar (HKD), Chinese Yuan Renminbi (CNY) and US Dollar (USD). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

#### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATION

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

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

##### (a) Judgements, assumptions and estimation uncertainties

Information about judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 March 2015 are included in the following notes:

- (i) *Note 13 – Recoverability of debtors*
- (ii) *Note 14 – Impairment of inventory*
- (iii) *Note 16 – Impairment of property, plant and equipment*
- (iv) *Note 19 – Goodwill*
- (v) *Note 23 – Provision for sales returns*
- (vi) *Note 24 – Employee entitlements*

##### (b) Measurement of fair values

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

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

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

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

Further information about the assumptions made in measuring fair values is included in note 29.



## 5. OPERATING SEGMENTS

### Information about reportable segments

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

The Group currently operates in four distinct segments. These are:

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

The home textile manufacturing segment manufactures and sells home textile products to the home textile trading segment. The home textile trading segment engages in the export trading of home textile products to overseas customers.

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

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

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

### Segment assets and liabilities

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

	Assets		Liabilities	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Home textile trading	18,142	17,195	140	222
Home textile manufacturing	14,353	11,738	2,429	1,594
Footwear trading	18,937	12,595	4,455	2,941
Footwear manufacturing	2,115	3,271	1,322	232
Total segment assets and liabilities	53,547	44,799	8,346	4,989
Corporate and other segment assets / liabilities	521	28	137	132
Total	54,068	44,827	8,483	5,121

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

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

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

5. SEGMENT INFORMATION (continued)

Segment revenue and results

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

	Revenue		Segment profit / (loss)	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Home textile trading				
<i>External customers</i>	28,346	31,737	593	2,355
Total home textile trading	28,346	31,737	593	2,355
Home textile manufacturing				
<i>Inter-segment</i>	23,810	25,646	(462)	(2,925)
Total home textile manufacturing	23,810	25,646	(462)	(2,925)
Footwear trading				
<i>External customers</i>	56,826	52,575	2,247	3,586
Total footwear trading	56,826	52,575	2,247	3,586
Footwear manufacturing				
<i>External customers</i>	1,024	-	(4,968)	(405)
Total footwear manufacturing	1,024	-	(4,968)	(405)
Eliminations	(23,810)	(25,646)	(154)	(1,377)
Total for continuing operations	86,196	84,312	(2,744)	1,234
Share of profits of associates			1,095	788
Provision for impairment of associates			-	(96)
Net gain on disposal of property, plant and equipment			-	9,286
Interest income			77	104
Central administration costs and directors' salaries			(318)	(243)
Finance costs			(16)	(3)
(Loss) / profit before tax			(1,906)	11,070

**5. SEGMENT INFORMATION (continued)**

**Segment revenue and results (continued)**

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 41. Segment profit represents the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, share of profits of associates, provision for impairment of associates, investment revenue and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

**Revenue from major products and services**

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

	2015 \$'000	2014 \$'000
Home textile trading	28,346	31,737
Footwear trading	57,850	52,575
	86,196	84,312

There are no external sales from manufacturing.

**Geographical information**

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

	Revenue from external customers		Non-current assets	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
United States of America / South America	81,363	80,950	1,201	3,113
Australia / New Zealand	2,890	1,844	229	229
China / Hong Kong	-	-	10,492	9,250
Canada	1,640	1,284	-	-
Europe	259	173	-	-
Others	44	61	-	-
	86,196	84,312	11,922	12,592

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

Non-current assets excludes financial instruments, deferred tax assets, construction contracts in progress, employee benefit assets and investments accounted for using the equity method.

5. SEGMENT INFORMATION (continued)

Other segment information

	Home Textile				Footwear			
	Trading		Manufacturing		Trading		Manufacturing	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Carrying value of investments accounted for using the equity method	274	290	-	-	10,181	7,072	-	-
Share of net profit / (loss) of associated entities	(140)	(49)	-	-	1,235	837	-	-
Acquisition of segment assets	88	208	414	300	2	45	366	3,087
Depreciation and amortisation of segment assets	118	95	898	846	24	6	315	-

Information about major customers

The Group's Top 4 customers account for 58.83% (2014: 64.21%) 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		Home textile Trading		Footwear Trading	
	2015 %	2014 %	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
First	20.43	26.23	3,584	7,425	14,026	14,687
Second	17.27	16.82	14,888	14,185	-	-
Third	11.73	12.36	-	-	10,112	10,419
Fourth	9.40	8.80	-	-	8,099	7,418
	58.83	64.21	18,472	21,610	32,237	32,524

## 6. REVENUE AND INVESTMENT INCOME

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

	2015 \$'000	2014 \$'000
<b>Continuing operations</b>		
<b>Revenue</b>		
Revenue from the sale of goods	86,196	84,312
<b>Investment income</b>		
Interest income from bank deposits	77	104
Rental income	-	17
	77	121
<b>Total</b>	86,273	84,433

## 7. OTHER GAINS AND LOSSES

Net exchange gain on foreign currency transactions	58	-
Net gain on disposal of property, plant and equipment	-	9,286
Others and reversal of prior year provisions, including damage and returns	90	148
	148	9,434

## 8. DISSOLUTION OF SUBSIDIARIES

On 30 July 2014 a dormant Australian subsidiary company, Merchant House Australia Pty Ltd, was officially deregistered.

The loss on discontinued operations also includes a dormant US subsidiary Home Affairs Inc.

	2015 \$'000	2014 \$'000
Loss on dissolution of subsidiary	(60)	(1,229)
Basic loss per share (cents)	(0.06)	(1.31)

The loss on discontinued operations is attributable to the resulting reversal of the initial investments in these subsidiaries.

**9. (LOSS) / PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS**

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

	2015 \$'000	2014 \$'000
<b>Depreciation and amortisation expense</b>		
Depreciation of non-current assets	1,324	918
Amortisation of non-current assets	31	29
	1,355	947
Research and development costs expensed as incurred	460	312
<b>Operating lease rental expenses</b>		
Minimum lease payments	258	15
<b>Employee benefits expense</b>		
Key management personnel remuneration	1,100	1,173
Wages and salaries	6,263	4,834
Contributions to defined contribution plans	46	37
Movement in liability for long service leave	75	(16)
Other employee benefits	388	318
Total employee benefits expense	7,872	6,346

**10. SHARE-BASED PAYMENTS**

The Group does not recognise a long-term share-based payment scheme. However, at the discretion of the Board of Directors, key management personnel may be issued Company shares in lieu of bonus payments as an equity-settled share based payment. The number of shares is calculated by converting the dollar value of the bonus at the market share price on the date the bonus is earned. During the current year, no shares were issued (2014: 147,370 shares were issued at a market price of 21 cents totalling \$31 thousand).

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.

**11. (LOSS) / EARNINGS PER SHARE**

**(a) Basic (loss) / earnings per share**

The calculation of basic loss per share at 31 March 2015 was based on the loss attributable to ordinary shareholders of \$1,983 thousand, (31 March 2014: profit of \$8,771 thousand) and a weighted average number of ordinary shares outstanding of 94,266,496 (31 March 2014: 94,172,018) calculated as follows:

11. (LOSS) / EARNINGS PER SHARE (continued)

(a) Basic (loss) / earnings per share (continued)

(Loss) / profit attributable to ordinary shareholders (basic)

	2015 \$'000	2014 \$'000
(Loss) / profit from continuing operations	(1,923)	10,000
Loss from discontinued operations	(60)	(1,229)
(Loss) / profit attributable to owners of the parent	(1,983)	8,771

Weighted average number of ordinary shares (basic)

	2015 Number	2014 Number
Issued ordinary shares at 1 April	94,266,496	94,119,126
Effect of shares issued during the year	-	52,892
	94,266,496	94,172,018

12. INCOME TAX EXPENSE

(a) Amounts recognised in profit or loss

	Note	2015 \$'000	2014 \$'000
Tax (benefit) / expense comprises:			
Current tax expense in respect of the current year		186	847
Adjustments recognised in the current year in relation to the current tax of prior years		(5)	(3)
Current year tax losses not brought to account		296	39
Deferred tax income relating to the origination of temporary differences		(14)	(2)
Dividend receivable from associate		-	207
Claim for offshore tax		(376)	(598)
(Over) / under provided in prior years		(70)	580
		17	1,070
Attributable to:			
- Continuing operations		17	1,070

12. INCOME TAXES (continued)

(b) Reconciliation of effective tax rate

		2015 \$'000	2014 \$'000
(Loss) /profit from continuing operations		(1,906)	11,070
Loss from discontinued operations		(60)	(1,229)
		(1,966)	9,841
Income tax (benefit) / expense calculated at 30%	(i)	(590)	2,952
Effect of different tax rates of the parent company and its subsidiaries operating in other jurisdictions	(ii)	945	(970)
Effect of non-deductible expenses		4	765
Effect of non-assessable revenue		126	(1,533)
Effect of depreciation allowances		29	77
Effect of tax rebates		(4)	(3)
Unused tax losses and tax offsets not recognised as deferred tax assets		282	36
Share of profits / (losses) of associated entities		(329)	(236)
Claim for offshore tax		(376)	(598)
(Over) / under provided in prior years		(70)	580
		17	1,070

**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% (2014: 0%). The subsidiaries incorporated in Hong Kong are taxed at 16.5% (2014: 16.5%). The subsidiaries incorporated in China are taxed at 25% (2014: 25%). The subsidiaries incorporated in the US are taxed between 6.5% and 40.5% due to differing state and federal tax rates.

(c) Current tax assets and liabilities

		2015 \$'000	2014 \$'000
Current tax assets			
- Tax refund receivable		110	-
Current tax liabilities			
- Income tax payable attributable to subsidiaries		-	49



**12. INCOME TAXES (continued)**

**(d) Deferred tax balances**

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

	Opening Balance \$'000	Charged to Income \$'000	Recognised in other comprehen- sive income \$'000	Closing Balance \$'000
<b>2015</b>				
<b>Temporary differences</b>				
Trade and other receivables	9	-	-	9
Property, plant and equipment	(41)	26	-	(15)
Trade and other payables	26	1	-	27
Provisions	12	(13)	-	(1)
Exchange difference on a foreign subsidiary	(2)	-	(3)	(5)
	4	14	(3)	15
Tax losses not recognised	126	881	-	1,007
<b>2014</b>				
<b>Temporary differences</b>				
Trade and other receivables	9	-	-	9
Property, plant and equipment	(53)	12	-	(41)
Trade and other payables	26	-	-	26
Provisions	22	(10)	-	12
Exchange difference on a foreign subsidiary	-	-	(2)	(60)
	4	2	(2)	4
Tax losses not recognised	-	126	-	126

**(e) Franking account**

The franking account balance as at 31 March 2015 was \$Nil (2014: \$Nil).

13. TRADE AND OTHER RECEIVABLES

	Note	2015 \$'000	2014 \$'000
<b>Current</b>			
Trade receivables		7,145	6,074
Allowance for doubtful debts		(205)	(169)
		6,940	5,905
Other receivables		289	86
Interest receivable		-	29
Bills receivable	(i)	337	640
Deposits	(ii)	68	246
VAT refund receivable	(iii)	150	122
Amount receivable from associates	(iv)	145	271
Loan receivable	(v)	390	-
		8,319	7,299

**Terms and conditions of other receivables**

- (i) The bills receivable is non-interest bearing and payable within 30 days;
- (ii) The deposits are non-interest bearing and repayable on demand;
- (iii) The VAT refund receivable is non-interest bearing for the export of goods;
- (iv) The amounts due from associates are non-interest bearing and payable on demand;
- (v) The loan was made to a potential business partner for exploring new business development opportunities. The amount is non-interest bearing and repayable on demand.

The average credit period on sales of goods and rendering of services is 60 days (2014: 60 days). No interest is charged on trade receivables.

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

Included in the Group's trade receivable balance are debtors with a carrying amount of \$67 thousand (2014: \$4 thousand) which are past due for 30 to 90 days at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 90 days (2014: 90 days).

	2015 \$'000	2014 \$'000
<b>Movements in the allowance for doubtful debts</b>		
Balance at the beginning of the year	169	148
Exchange differences	36	21
Balance at the end of the financial year	205	169

**13. TRADE AND OTHER RECEIVABLES (continued)**

**Impairment of trade receivables**

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

The Group has recognised an allowance for doubtful debts based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

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.

There are no impaired trade receivables at the reporting date.

**14. INVENTORIES**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Materials	1,418	950
Work in progress	1,481	905
Finished goods	617	375
Write-down of inventories to net realisable value	(102)	-
	<b>3,414</b>	<b>2,230</b>

The cost of inventories recognised as an expense during the year in respect of continuing operations was \$77,130 thousand (2014: \$74,072 thousand).

The cost of inventories recognised as an expense includes \$102 thousand (2014: nil) in respect of write-downs to net realisable value for goods returned.

**15. CASH AND CASH EQUIVALENTS**

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

**(a) Reconciliation of cash and cash equivalents**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank	18,950	15,010

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 29.

The perceived credit risk is low as cash and cash equivalents are held with authorised financial institutions with good credit ratings.

**(b) Financing facilities**

<b>Secured bank facilities reviewed annually</b>		
Amounts used	1,106	-
Amounts unused	16,038	13,172
	<b>17,144</b>	<b>13,172</b>

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

15. CASH AND CASH EQUIVALENTS (continued)

(c) Reconciliation of cash flows from operating activities

	2015 \$'000	2014 \$'000
(Loss) / profit for the year	(1,983)	8,771
Depreciation and amortisation of non-current assets	1,355	947
Share of associates' profit	(1,095)	(788)
Impairment loss recognised on trade receivables	-	(2)
Foreign exchange (gain) / loss on translation	(58)	181
Loss on dissolution of a subsidiary	60	1,229
Impairment of investment in an associate	-	96
Finance income	(77)	(104)
Loss / (gain) on disposal of property, plant and equipment	93	(9,286)
Impairment of property, plant and equipment	2,285	-
Write-down of inventories to net realisable value	102	-
Income tax expense	17	1,070
	699	2,114
Change in net assets and liabilities, net of effects from acquisitions and disposal of businesses:		
(Increase) / decrease in assets:		
- Trade and other receivables	(91)	1,693
- Inventories	(569)	284
Increase / (decrease) in liabilities:		
- Trade and other payables	1,097	(1,337)
- Provisions	(12)	(42)
	1,124	2,712
Income taxes paid	(180)	(1,203)
Net cash generated from operating activities	944	1,509

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings \$'000	Freehold land \$'000	Leasehold improve- ments \$'000	Plant and equipment \$'000	Construction in progress \$'000	Leasehold land under finance lease \$'000	Total \$'000
<b>Gross carrying amount</b>							
<b>Balance at 1 April 2013</b>	8,865	-	259	6,632	206	2,667	18,629
Additions	1,028	29	204	2,368	8	-	3,637
Disposals	(1,334)	-	(208)	(292)	-	(2,980)	(4,814)
Transfer between categories	153	-	-	28	(181)	-	-
Net foreign currency exchange differences	1,264	3	34	974	29	313	2,617
<b>Balance at 31 March 2014</b>	9,976	32	289	9,710	62	-	20,069
Additions	7	-	-	863	-	-	870
Disposals	-	-	-	(411)	(66)	-	(477)
Net foreign currency exchange differences	2,114	7	57	2,104	4	-	4,286
<b>Balance at 31 March 2015</b>	12,097	39	346	12,266	-	-	24,748

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings \$'000	Freehold land \$'000	Leasehold improve- ments \$'000	Plant and equipment \$'000	Construction in progress \$'000	Leasehold land under finance lease \$'000	Total \$'000
<b>Accumulated depreciation / amortisation and impairment</b>							
<b>Balance at 1 April 2013</b>	3,646	-	245	3,843	-	927	8,661
Disposals	(493)	-	(194)	(229)	-	(1,050)	(1,966)
Amortisation / depreciation expense	406	-	39	459	-	14	918
Net foreign currency exchange differences	520	-	30	554	-	109	1,213
<b>Balance at 31 March 2014</b>	4,079	-	120	4,627	-	-	8,826
Disposals	-	-	-	(382)	-	-	(382)
Impairment losses charged to profit or loss	-	-	-	2,285	-	-	2,285
Amortisation / depreciation expense	462	-	79	783	-	-	1,324
Net foreign currency exchange differences	935	-	35	1,355	-	-	2,325
<b>Balance at 31 March 2015</b>	5,476	-	234	8,668	-	-	14,378
<b>Net book value</b>							
As at 31 March 2014	5,897	32	169	5,083	62	-	11,243
As at 31 March 2015	6,621	39	112	3,598	-	-	10,370

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

**Impairment losses charged to profit or loss**

The USA footwear manufacturing facility was officially opened in May 2014 but did not reach full commercial production by the end of the reporting period, as anticipated. The director's carried out a review and now believe that full commercial production will not be reached until the 2016/2017 financial year. Accordingly, management has determined that the recoverable amount of the CGU's plant and equipment, based on the value in use method, is \$1,437 thousand at the reporting date. This review led to the recognition of an impairment loss of \$2,285 thousand, which has been recognised in profit or loss.

These assets are used in the Group's footwear manufacturing reportable segment. Cash flow projections are based on a 5 year financial budget approved by the directors. The estimate of value in use was determined using a pre-tax discount rate of 8.94%, and a terminal value growth rate of 2% from 2018. Directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying value to exceed its recoverable amount. No impairment assessment for this CGU was required for 2014.

**17. LEASE PREMIUM FOR LEASEHOLD LAND**

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

	<b>Leasehold land at fair value \$'000</b>
<b>Gross carrying amount</b>	
Balance at 1 April 2013	1,286
Net foreign currency exchange differences	187
<b>Balance at 31 March 2014</b>	<b>1,473</b>
Net foreign currency exchange differences	314
<b>Balance at 31 March 2015</b>	<b>1,787</b>
<b>Accumulated depreciation / amortisation and impairment</b>	
Balance at 1 April 2013	283
Amortisation / depreciation expense	29
Net foreign currency exchange differences	41
<b>Balance at 31 March 2014</b>	<b>353</b>
Amortisation / depreciation expense	31
Net foreign currency exchange differences	80
<b>Balance at 31 March 2015</b>	<b>464</b>
<b>Net book value</b>	
As at 31 March 2014	1,120
As at 31 March 2015	1,323



## 18. ASSETS PLEDGED AS SECURITY

Refer to note 22 for details of assets pledged as security in accordance with the security arrangements of liabilities.

## 19. GOODWILL

### 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.

	2015 \$'000	2014 \$'000
<b>Gross Carrying Amount</b>		
Balance at beginning of financial year	959	959
Balance at end of financial year	959	959
<b>Accumulated impairment losses</b>		
Balance at beginning of financial year	(730)	(730)
Balance at end of financial year	(730)	(730)
<b>Net book value</b>		
At the beginning of the financial year	229	229
At the end of the financial year	229	229

The goodwill is attributable to the footwear trading business of the Group. During the financial year, the Group assessed the recoverable amount of goodwill, and determined that it was not impaired (2014: nil).

### Allocation of goodwill to cash generating units

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

	2015 \$'000	2014 \$'000
Footwear trading	229	229

### Key assumptions

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 12% (2014: 10.23%) per annum. Cash flow projections during the budget period for the cash-generating unit are based on prior experience, lower gross margins during the budget period and the consumer price inflation during the budget period. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit. Management project gross profit margins to increase between 5.5% and 6.2% per year over the next five years.

**20. OTHER ASSETS**

	2015 \$'000	2014 \$'000
<b>Current</b>		
Prepayments	883	330

**21. TRADE AND OTHER PAYABLES**

	2015 \$'000	2014 \$'000
<b>Current</b>		
Amounts payable to associates	4,096	2,688
Trade payables	2,030	1,645
Accruals	907	633
Receipts in advance	182	-
Other	47	-
	7,262	4,966

The average credit period on trade purchases is 60 days (2014: 60 days). The trade payable balances are non-interest bearing. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

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

**22. FINANCING FACILITIES**

As at 31 March 2015, the Group's bank loans were repayable within one year and bore interest at prevailing market rates. The total banking facilities available was \$13,790 thousand (2014: \$10,383 thousand) and \$1,106 thousand was utilised (2014: Nil). These facilities are reviewed annually.

During the year, the Group had access to a foreign currency forward contract facility up to \$3,354 thousand (2014: \$2,789 thousand). This facility was not utilised during the year (2014: not utilised). This facility is reviewed annually.

As at 31 March 2015, the Company has given guarantees to certain banks to support these banking facilities granted to the Group.

## 23. PROVISIONS

	Note	2015 \$'000	2014 \$'000
<b>Current</b>			
Returns	(i)	115	42
<b>Returns</b>			
Balance at 1 April		42	61
Additional provisions recognised		316	140
Reductions resulting from reversal of provision		(259)	(166)
Net foreign currency exchange differences		16	7
Balance at 31 March		115	42

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

## 24. EMPLOYEE ENTITLEMENTS

	2015 \$'000	2014 \$'000
<b>Long service payment</b>		
Balance at 1 April	64	71
Amounts written back	(68)	(16)
Net foreign currency exchange differences	4	9
Balance at 31 March	-	64

The non-current provision for employee benefits includes \$nil of vested long service leave payments accrued but not expected to be taken within 12 months (2014: \$64 thousand).

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.

## 25. RETIREMENT BENEFIT PLANS

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

During the year, the total expense, representing the contribution paid / payable to these plans, recognised in profit or loss was \$46 thousand (2014: 37 thousand).

**26. CAPITAL AND RESERVES**

**(a) Share capital**

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

	2015 Number	2014 Number	2015 \$'000	2014 \$'000
<b>Reconciliation of movement in issued capital</b>				
<b>On issue at 1 April</b>	<b>94,266,496</b>	<b>94,119,126</b>	<b>2,944</b>	<b>2,913</b>
Issue of shares to a senior manager in lieu of bonus (refer to note 10)	-	147,370	-	31
<b>On issue at 31 March</b>	<b>94,266,496</b>	<b>94,266,496</b>	<b>2,944</b>	<b>2,944</b>

**(b) Ordinary shares**

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

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

All issued shares are fully paid.

The Company does not hold issued share options.

**(c) Nature and purpose of reserves**

***Translation reserve***

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

## 27. DIVIDENDS

	Note	2015 \$'000	2014 \$'000
<b>Dividends declared in respect of the financial year:</b>			
<i>Recognised amounts (declared and paid)</i>			
Fully paid ordinary shares			
- Interim Nil paid (2014:2¢)		-	1,885
- Final 0.5¢ paid (2014:0.5¢)		471	471
		471	2,356
<i>Unrecognised amounts (declared post year end and unpaid)</i>			
Fully paid ordinary shares			
- Final of Nil paid (2014: 0.5¢)		-	471

Pursuant to Bye-law 147 of the Company's Constitution, any dividend unclaimed after a period of 6 years from the date of declaration of such dividend may be forfeited by board of directors and shall revert to the company. During the year ended 31 March 2015, \$31 thousand (2014: \$ nil) was written back as an unclaimed dividend and \$43 thousand (2014: \$ nil) has been provided for pending forfeiture for unclaimed dividends between 1 and 6 years.

## 28. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. The Group's focus has been to raise sufficient funds through equity to fund exploration and evaluation activities.

There were no changes in the Group's approach to capital management during the year.

The Group entities are not subject to externally imposed capital requirements.

### **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	2015 \$'000	2014 \$'000
<b>Financial assets</b>			
Debt	(i)	1,106	-
Cash and cash equivalents		(18,950)	(15,010)
Net debt / (cash)		(17,844)	(15,010)
Equity	(ii)	45,585	39,706
Net debt to equity ratio		N/A	N/A

- (i) Debt is as detailed in notes 15(b) and 22.
- (ii) Equity includes all capital and reserves.

29. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

(a) Carrying amounts and fair values

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

	Carrying Amounts			Fair Values			
	Other receivables	Current assets		Level 1	Level 2	Level 3	Total
		Cash and cash equivalents	Total				
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>31 March 2015</b>							
<b>Financial assets not measured at fair value</b>							
Cash and cash equivalents	-	18,950	18,950	-	-	-	-
Trade receivables	6,940	-	6,940	-	6,940	-	6,940
Amounts receivable from associates	145	-	145	-	145	-	145
Other loans and receivables	1,234	-	1,234	-	1,234	-	1,234
	8,319	18,950	27,269	-	8,319	-	8,319
<b>31 March 2014</b>							
<b>Financial assets not measured at fair value</b>							
Cash and cash equivalents	-	15,010	15,010	-	-	-	-
Trade receivables	5,905	-	5,905	-	5,905	-	5,905
Amounts receivable from associates	271	-	271	-	271	-	271
Other loans and receivables	1,123	-	1,123	-	1,123	-	1,123
	7,299	15,010	22,309	-	7,299	-	7,299

29. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

(a) Carrying amounts and fair values (continued)

	Carrying Amounts			Fair Values			
	Current liabilities			Level 1	Level 2	Level 3	Total
	Other financial liabilities	Trade and other payables	Total				
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>31 March 2015</b>							
<b>Financial liabilities not measured at fair value</b>							
Borrowings	1,106	-	1,106	-	-	1,106	1,106
Trade payables	-	2,035	2,035	-	2,035	-	2,035
Associated entities	-	4,096	4,096	-	4,096	-	4,096
Other payables	-	1,131	1,131	-	1,131	-	1,131
	1,106	7,262	8,368	-	7,262	1,106	8,368
<b>31 March 2014</b>							
<b>Financial liabilities not measured at fair value</b>							
Borrowings	-	-	-	-	-	-	-
Trade payables	-	1,645	1,645	-	1,645	-	1,645
Associated entities	-	2,688	2,688	-	2,688	-	2,688
Other payables	-	633	633	-	633	-	633
	-	4,966	4,966	-	4,966	-	4,966

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

**29. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)**

**(b) Financial risk management**

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

- credit risk
- liquidity risk
- market risk

**(i) Risk Management framework**

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

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

**(ii) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group 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.

At 31 March 2015, the maximum exposure to credit risk for trade and other receivables by geographic region was as follows:

	Carrying amount	
	2015	2014
	\$'000	\$'000
USA	7,330	5,905
China / Hong Kong	989	1,394
	8,319	7,299



**29. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)**

**(b) Financial risk management (continued)**

**(ii) Credit risk (continued)**

At 31 March 2015, the maximum exposure to credit risk for trade and other receivables by type of counterparty was as follows:

	Carrying amount	
	2015 \$'000	2014 \$'000
Trade receivables	6,940	5,905
Associated entities	145	271
Other loans and receivables	1,234	1,123
	<b>8,319</b>	<b>7,299</b>

**(iii) Liquidity risk**

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in notes 15(b) and 22 is the total amount of facilities available to the Group to further reduce liquidity risk.

The following tables detail the company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities 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
<b>2015</b>					
Non-interest bearing	-	6,376	687	129	69
Variable interest rate instruments	2.75	3	1,111	-	-
		<b>6,379</b>	<b>1,798</b>	<b>129</b>	<b>69</b>
<b>2014</b>					
Non-interest bearing	-	4,083	838	45	-
Variable interest rate instruments	-	-	-	-	-
		<b>4,083</b>	<b>838</b>	<b>45</b>	<b>-</b>

29. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

(b) Financial risk management (continued)

(iii) Liquidity risk (continued)

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

	Weighted Average Effective Interest Rate %	Less than 1 month \$'000	1 to 3 months \$'000	3 to 12 Months \$'000	>1 year \$'000
<b>2015</b>					
Non-interest bearing	-	24,972	890	102	639
Variable interest rate instruments	0.34	645	22	-	-
		25,617	912	102	639
<b>2014</b>					
Non-interest bearing	-	6,211	2,840	-	162
Variable interest rate instruments	0.99	7,151	5,965	-	-
		13,362	8,805	-	162

(iv) Market risk

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

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

**Currency risk**

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

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

Carrying amount	Assets		Liabilities	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
US dollar	25,609	12,100	5,471	3,043
HK dollar	451	4,632	343	186
Chinese Yuan Renminbi	1,094	5,544	2,417	1,604

29. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

(b) Financial risk management (continued)

(iv) Market risk (continued)

**Currency risk (continued)**

**Foreign currency sensitivity analysis**

The Group is mainly exposed to US dollars (USD) and Chinese Yuan Renminbi (CNY). The following table details the Group's sensitivity to a 15% (2014: 12%) 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 yearend for a 15% (2014: 12%) 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 1% (2014: 2%) increase and decrease in the Chinese Yuan Renminbi against the US dollar.

	Impact on profit & loss	
	2015 \$'000	2014 \$'000
<b>If AUD strengthens by 15% (2014: 12%)</b>		
USD	(2,627)	(431)
HKD	(14)	(212)
CNY	173	(188)
<b>If AUD weakens by 15% (2014: 12%)</b>		
USD	3,554	477
HKD	19	234
CNY	(233)	207
<b>If USD strengthens by 1% (2014: 2%)</b>		
CNY	10	(71)
<b>If USD weakens by 1% (2014: 2%)</b>		
CNY	(10)	74

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

**Forward foreign exchange contracts**

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

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

There were no forward foreign currency contracts outstanding as at the reporting date (2014: nil).

29. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (continued)

(b) Financial risk management (continued)

(iv) Market risk (continued)

**Interest rate risk**

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.

**Exposure to interest rate risk**

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

	Carrying amount	
	2015 \$'000	2014 \$'000
<b>Variable rate instruments</b>		
Financial assets	667	13,095
Financial liabilities	(1,106)	-
	(439)	13,095

**Fair value sensitivity analysis for fixed rate instruments**

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

**Cash flow sensitivity analysis for variable rate instruments**

The Group's sensitivity to interest rates during the current year was not material.

### 30. SUBSIDIARIES

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

Name of subsidiary	Note	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
				2015 %	2014 %
Loretta Lee Limited		Textile trading	Hong Kong	100	100
Forsan Limited		Footwear trading	Hong Kong	100	100
Grandview Textiles Limited		Textile trading	Hong Kong	100	100
Merchant House Australia Pty Ltd	(ii)	Dormant	Australia	-	100
Home Affairs Inc.		Dormant	United States	100	100
Pacific Bridges Enterprises Inc (Delaware) USA		Corporate	United States	100	100
Footwear Industries of Tennessee Inc.		Footwear manufacturing	United States	100	100
Carsan (Shunde) Manufacturing Company Limited		Textile manufacturing	China	100	100
Carsan Trading Co. Ltd.		Textile trading	China	100	100

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

(ii) On 30 July 2014 Merchant House Australia Pty Ltd was officially de-registered;

### 31. ASSOCIATES

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

Name of associate	Note	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
				2015 %	2014 %
Tianjin Jiahua Footwear Company Limited	(i)	Footwear manufacturer	China	30.00	30.00
Tianjin Tianxing Kesheng Leather Products Company Limited	(ii)	Footwear manufacturer	China	33.79	33.79
Jawa (Jiangsu) Textiles Company Limited	(iii)	Textile manufacturer and manufacturing facility lessor	China	33.33	33.33

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

	2015 \$'000	2014 \$'000
Investments in associates	10,455	7,362
<b>Reconciliation of movement in investments accounted for using the equity method</b>		
Balance at 1 April	7,362	6,775
Provision for impairment of investment	-	(96)
Share of profit for the year	1,095	788
Dividend paid	-	(1,255)
Exchange difference	1,998	1,150
Balance at 31 March	10,455	7,362

- (i) The financial year end date of Tianjin Jiahua Footwear Company Limited is 31 December. This was the reporting date established when that company was incorporated, and a change of reporting date is not permitted in China. For the purpose of applying the equity method of accounting, the financial statements of Tianjin Jiahua Footwear Company Limited for the year ended 31 December 2014 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 March 2015.

**31. ASSOCIATES (continued)**

- (ii) The financial year end date of Tianjin Tianxing Kesheng Leather Products Company Limited is 31 December. This was the reporting date established when that company was incorporated, and a change of reporting date is not permitted in China. For the purpose of applying the equity method of accounting, the financial statements of Tianjin Tianxing Kesheng Leather Products Company Limited for the year ended 31 December 2014 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 March 2015.
- (iii) The financial year end date of Jawa (Jiangsu) Textiles Company Limited is 31 December. This was the reporting date established when that company was incorporated, and a change of reporting date is not permitted in China. For the purpose of applying the equity method of accounting, the financial statements of Jawa (Jiangsu) Textiles Company Limited for the year ended 31 December 2014 have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 March 2015.

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

**Tianjin Jiahua Footwear Company Limited**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Financial position</b>		
Current assets	10,300	7,651
Non-current assets	2,764	2,359
Current liabilities	(2,667)	(2,717)
<b>Financial performance</b>		
Revenue	30,936	31,858
Profit for the year	1,353	916
Total comprehensive income for the year	1,353	916
Dividends received from associate during the year	-	1,259

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

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Net assets of the associate	10,397	7,293
Proportion of the Group's ownership interest in Tianjin Jiahua Footwear Company Limited	30%	30%
Carrying amount of the Group's interest in Tianjin Jiahua Footwear Company Limited	3,119	2,188

31. ASSOCIATES (continued)

Tianjin Tianxing Kesheng Leather Products Company Limited

	2015 \$'000	2014 \$'000
<b>Financial position</b>		
Current assets	39,222	30,261
Non-current assets	8,106	6,441
Current liabilities	(26,506)	(21,856)
<b>Financial performance</b>		
Revenue	94,685	81,496
Profit for the year	2,455	1,663
Total comprehensive income for the year	2,455	1,663

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

	2015 \$'000	2014 \$'000
Net assets of the associate	20,822	14,846
Proportion of the Group's ownership interest in Tianjin Tianxing Kesheng Leather Products Company Limited	33.79%	33.79%
Carrying amount of the Group's interest in Tianjin Tianxing Kesheng Leather Products Company Limited	7,036	5,016

Jawa (Jiangsu) Textiles Company Limited

	2015 \$'000	2014 \$'000
<b>Financial position</b>		
Current assets	358	965
Non-current assets	1,000	895
Current liabilities	(572)	(814)
<b>Financial performance</b>		
Revenue	1,814	2,240
Loss for the year	(421)	(147)
Total comprehensive loss for the year	(421)	(147)



**31. ASSOCIATES (continued)**

**Jawa (Jiangsu) Textiles Company Limited (continued)**

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

	2015 \$'000	2014 \$'000
Net assets of the associate	786	1,046
Proportion of the Group's ownership interest in Jawa (Jiangsu) Textiles Company Limited	33.33%	33.33%
Carrying amount of the Group's interest in Jawa (Jiangsu) Textiles Company Limited	262	349

**32. OPERATING LEASE ARRANGEMENTS**

**Operating leases**

Leasing arrangements

Operating leases relate to photocopiers under non-cancellable leases.

Non-cancellable operating lease commitments

	2015 \$'000	2014 \$'000
Not later than 1 year	271	218
Later than 1 year and not later than 5 years	117	286
	388	504

**33. COMMITMENTS FOR EXPENDITURE**

	2015 \$'000	2014 \$'000
<b>Capital expenditure commitments</b>		
Property, plant and equipment not longer than 1 year	22	264
Property, plant and equipment greater than 1 year but within 5 years	-	41
	22	305

### 34. CONTINGENCIES

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

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

### 35. RELATED PARTY TRANSACTIONS

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

#### (a) Key management personnel compensation

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

The aggregate compensation paid to key management personnel of the Group and the company is set out below:

	2015 \$	2014 \$
Short-term employee benefits	1,079,960	1,140,109
Post-employment benefits	6,998	2,419
Share-based payments	-	30,947
	1,086,958	1,173,475

#### (b) Transactions with key management personnel

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

	2015 \$'000	2014 \$'000
<b>Other transactions</b>		
Dividend (paid by the parent company)	282	1,411

**35. RELATED PARTY TRANSACTIONS (continued)**

**(c) Trading transactions (continued)**

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

Type of transaction	Class of related party	2015 \$'000	2014 \$'000
Purchase of goods	Associated entities		
	- Tianjin Jiahua Footwear Company Limited	12,733	15,549
	- Tianjin Tianxing Kesheng Leather Products Company Limited	35,162	30,531
	- Jawa (Jiangsu) Textiles Company Limited	377	1,602

All transactions were under normal terms and conditions.

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

		2015 \$'000	2014 \$'000
Current receivables	Associated entities		
	- Tianjin Jiahua Footwear Company Limited	129	104
	- Tianjin Tianxing Kesheng Leather Products Company Limited	11	-
	- Jawa (Jiangsu) Textiles Company Limited	4	166
Current payables	Associated entities		
	- Tianjin Jiahua Footwear Company Limited	594	682
	- Tianjin Tianxing Kesheng Leather Products Company Limited	3,502	2,006
	- Jawa (Jiangsu) Textiles Company Limited	-	-

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

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

36. REMUNERATION OF AUDITORS

	2015 \$	2014 \$
<b>Group auditor – Deloitte Touche Tohmatsu</b>		
Audit or review of the financial report of the Company	98,500	124,706
<b>Other auditors</b>		
Audit or review of the financial reports of subsidiaries	29,957	23,777
Taxation compliance services	8,840	-
Other non-audit services – W M Sum	26,873	27,922
	65,670	51,699

37. PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 41 for a summary of the significant accounting policies relating to the Group.

	2015 \$	2014 \$
<b>Financial performance</b>		
(Loss) / profit for the year from continuing operations	(318)	2,087
Loss on dissolution of subsidiary	-	(310)
(Loss) / profit for the year	(318)	1,777
Other comprehensive income	-	-
Total comprehensive (loss) / income	(318)	1,777
<b>Financial position</b>		
Current assets	116	21
Non-current assets	6,533	4,365
Total assets	6,649	4,386
Current liabilities	137	133
Non-current liabilities	3,016	-
Total liabilities	3,153	133
<b>Total equity of the parent entity comprising of:</b>		
Share capital	2,944	2,944
Retained earnings	552	1,309
Total equity	3,496	4,253

37. PARENT ENTITY INFORMATION (continued)

		2015	2014
		\$	\$
<b>Related party transactions between the parent entity and related parties</b>			
<i>Type of transaction</i>	<i>Class of related party</i>		
Management fee income	Subsidiaries	390	365
Dividend income	Subsidiaries	-	2,356
<b>Guarantees entered into by the parent entity in relation to the debts of its subsidiaries</b>			
Guarantee provided under the deed of cross guarantee (i)		10,063	8,365
(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.			

38. SUBSEQUENT EVENTS

On 19 May 2015, the Board of Directors proposed that no final dividend be paid for the year ended 31 March 2015.

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.

39. BASIS OF MEASUREMENT

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

40. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

**New and revised AASBs affecting amounts reported and / or disclosures in the financial statements**

During the current year, the Group has applied a number of new and revised AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 April 2014.

**AASB 1031 Materiality (December 2013) and AASB 2013-9 Amendments to AASB 1031 Part B**

Revised AASB 1031 is an interim standard that cross-references to other Standards and the *Framework for the Preparation and Presentation of Financial Statements* (issued December 2013) that contain guidance on materiality. These changes have no impact on the financial statements.

**AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 132)**

AASB 2012-3 address inconsistencies in current practice when applying the offsetting criteria in AASB 132 *Financial Instruments: Presentation*. These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group.

#### 40. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

##### **AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets**

Narrow-scope amendments to AASB 136 *Impairment of Assets* include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. These amendments have no impact on the Group.

##### **AASB 2014-1 Amendments to Australian Accounting Standards arising from Annual Improvements 2010-2012 and 2011-2013 Cycles**

The change amends a number of pronouncements as a result of the 2010-2012 and 2011-2013 annual improvements cycles. These changes did not impact the financial statements.

##### **Interpretation 21 ‘Levies’**

Interpretation 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. These amendments have no impact on the Group.

#### 41. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in note 40, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

##### **(a) Basis of consolidation**

###### ***Subsidiaries***

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

#### 41. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (a) Basis of consolidation (continued)

###### **Subsidiaries (continued)**

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

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

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

###### **Transactions eliminated on consolidation**

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

##### (b) Investments in associates

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

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

##### (c) Revenue

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

###### **Sale of goods**

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

###### **Dividend and interest income**

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

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

#### 41. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (d) 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.

##### (e) Foreign currency translation

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

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

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

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

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

##### (f) Employee benefits

###### **Short-term employee benefits**

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

###### **Share-based payment transactions**

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

###### **Retirement benefit costs**

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



#### 41. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (g) 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 year**

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

##### (h) Goods and services tax

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

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

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

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

#### 41. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (i) Financial instruments

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

##### **Non-derivative financial assets and financial liabilities – recognition and de-recognition**

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

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

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

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

##### **Non-derivative financial assets – measurement**

###### *Loans and receivables*

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

###### *Cash and cash equivalents*

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

##### **Non-derivative financial liabilities - measurement**

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

###### *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.

##### **Share capital**

###### *Ordinary Shares*

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

##### (j) 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.

**41. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(k) Property, plant and equipment**

**Recognition and measurement**

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

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

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

**Depreciation**

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

Depreciation is recognised in profit or loss.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

	Method	2015	2014
Buildings	Straight line	20 – 50 years	20 – 50 years
Plant and equipment	Straight line	5 – 10 years	5 – 10 years
Leasehold improvements	Straight line	5 years	5 years
Equipment under finance lease	Straight line	5 years	5 years
Leasehold land under finance	Straight line	50 years	50 years

**(l) Leased assets**

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

**Leases of land and buildings**

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

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

#### 41. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (l) Leased assets (continued)

###### **Group as lessee**

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

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

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

###### **Operating leases**

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

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

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

##### (m) 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.

##### (n) 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.

##### (o) 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.

**41. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(o) Provisions (continued)**

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.

***Return of defective goods***

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.

**(p) 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.

**42. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED**

A number of new accounting standards and interpretations that have recently been issued or amended but are not yet mandatory for annual periods beginning after 1 April 2014, have not been applied in preparing these consolidated financial statements. The Group's assessment of the impact of these new or amended accounting standards and interpretations, most relevant to the Group, are set out below.

Reference	Title	Summary	Application date of standard	Application date for the Group
			Periods beginning on or after	
AASB 9	Financial Instruments (December 2014)	The final version of AASB 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace AASB 139 <i>Financial Instruments: Recognition and Measurement</i> . This version adds a new expected loss impairment model and limited amendments to classification and measurement for financial assets.  This new version supersedes AASB 9 (December 2009) and AASB 9 (December 2010). The new version of AASB 9 includes: <ul style="list-style-type: none"> <li>• requirements for impairment of financial assets; and</li> <li>• limited amendments to classification and measurement of financial assets, including introduction of a measurement category of 'fair value through other comprehensive income' for debt instruments.</li> </ul>	1 January 2018	1 April 2018
AASB 2014-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)			

42. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS (continued)

Reference	Title	Summary	Application date of standard	Application date for the Group
			Periods beginning on or after	
AASB 15	Revenue from Contracts with Customers	AASB 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; and replaces:	1 January 2017	1 April 2017
AASB 2015-5	Amendments to Australian Accounting Standards arising from AASB 15	<p>(a) AASB 111 <i>Construction Contracts</i></p> <p>(b) AASB 118 <i>Revenue</i></p> <p>(c) IFRIC 13 <i>Customer Loyalty Programmes</i></p> <p>(d) IFRIC 15 <i>Agreements for the Construction of Real Estate</i></p> <p>(e) IFRIC 18 <i>Transfers of Assets from Customers</i></p> <p>(f) IFRIC 131 <i>Revenue—Barter Transactions Involving Advertising Services</i></p> <p>The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.</p>		
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments: Part C	Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 <i>Hedge Accounting</i> into AASB 9 <i>Financial Instruments</i> .	Part C - reporting periods beginning on or after 1 January 2015	Part C – period beginning 1 April 2015
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions if Interests in Joint Operations	Amends AASB 11 <i>Joint Arrangements to provide guidance on the accounting for acquisitions of interests in a joint operation where the operation constitutes a business</i> .	1 January 2016	1 April 2016

42. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS (continued)

Reference	Title	Summary	Application date of standard	Application date for the Group
			Periods beginning on or after	
AASB 2014-4	Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation	Amends AASB 116 <i>Property, Plant and Equipment</i> and AASB 138 <i>Intangible Assets</i> to provide additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated.	1 January 2016	1 April 2016
AASB 2014-9	Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements	Amends AASB 127 <i>Separate Financial Statements</i> , to allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements: <ul style="list-style-type: none"> <li>• at cost,</li> <li>• in accordance with AASB 9 <i>Financial Instruments</i>, or</li> <li>• using the equity method as described in AASB 128 <i>Investments in Associates and Joint Ventures</i>.</li> </ul> <p>The accounting policy option must be applied for each category of investment.</p>	1 January 2016	1 April 2016
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Addresses a conflict between the requirements of AASB 128 <i>Investments in Associates and Joint Ventures</i> and AASB 10 <i>Consolidated Financial Statements</i> and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.	1 January 2016	1 April 2016
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	Amends a number of pronouncements as a result of the IASB's 2012-2014 annual improvements cycle. Key amendments include: <ul style="list-style-type: none"> <li>• AASB 5 – Change in methods of disposal;</li> <li>• AASB 7 – Servicing contracts and applicability of the amendments to AASB 7 to condensed interim financial statements;</li> <li>• AASB 119 – Discount rate: regional market issue; and</li> <li>• AASB 134 – Disclosure of information 'elsewhere in the interim financial report'.</li> </ul>	1 January 2016	1 April 2016



42. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS (continued)

Reference	Title	Summary	Application date of standard	Application date for the Group
			Periods beginning on or after	
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	Amends AASB 101 <i>Presentation of Financial Statements</i> to provide clarification regarding the disclosure requirements in AASB 101. Includes narrow-focus amendments to address concerns about existing presentation and disclosure requirements and to ensure entities are able to use judgements when applying a Standard in determining what information to disclose in their financial statements.	1 January 2016	1 April 2016
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	Completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.	1 July 2015	1 April 2016

**SECURITIES EXCHANGE INFORMATION**

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 2015**

Category	Number of Shareholders	Shares held
1 - 1,000	15	6,777
1,001 - 5,000	41	139,595
5,001 - 10,000	43	353,480
10,001 - 100,000	165	5,857,964
100,001 and over	67	87,908,680
	331	94,266,496

**(b) Marketable Parcel**

The number of shareholders holding less than a marketable parcel of ordinary shares is 26.

**(c) Voting rights**

**Ordinary shares**

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

**(d) Substantial shareholders**

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

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

**(e) Shareholders**

The twenty largest shareholders hold 81.50% of the total issued ordinary shares in the Company as at 31 May 2015.

2. TOP TWENTY SHAREHOLDERS AS AT 31 MAY 2015

		Ordinary shares	
		Number of Shares	Percentage of issued shares
1	Supreme Luck Enterprises Inc	43,060,652	45.68
2	Fubon Nominees (Hong Kong) Limited	10,813,647	11.47
3	Ms Loretta Lee	6,392,103	6.78
4	Mr John Maxwell Bleakie	2,067,394	2.19
5	Mr Yin Sang Tsang	1,674,092	1.78
6	Mrs Lana Kinoshita	1,339,274	1.42
7	Mr Milton Yannis	1,135,860	1.20
8	Mrs Christina Lee	1,102,805	1.17
9	Mr Gerald Francis Pauley & Mr Michael James Pauley <Pauley Super Fund A/C>	1,047,531	1.11
10	Mr Victor Tien Ren Hou	1,000,000	1.06
11	Mr Brian Garfield Bengier <No.4 A/C>	900,000	0.95
12	Mr Raymond Lunney	789,674	0.84
13	Citicorp Nominees Pty Limited	786,273	0.83
14	Mr Brian Garfield Bengier	748,200	0.79
15	Mr Ross George Yannis	698,330	0.74
16	Shandora One Pty Ltd <Bengier Super Fund A/C>	683,500	0.73
17	JP Morgan Nominees Australia Limited	668,876	0.71
18	Mr Timothy Bird	664,402	0.70
19	Ms Alice Liu	638,783	0.68
20	Miss Peggy Liao	635,455	0.67
		76,846,851	81.50