Merino & Co. Limited

ABN 74 162 863 121

Annual Report - 30 June 2024

Merino & Co. Ltd
Contents
30 June 2024

Directors	Fang (Fiona) Yue	(Executive Director)
	Jack Hanrahan	(Non-Executive Director)
	Garry Johnson	(resigned 30 November 2023)
	Boxiang (Peter) Zhao	(appointed 23 January 2024)
	TaiZong (Tim) Kang	(appointed 27 December 2023, resigned 22 January 2024)
Company secretary	Alan Thomas	
Registered office	4 Gould Street Osbourne Park WA 6017	
Principal place of business	4 Gould Street Osbourne Park WA 6017	
Contact details	www.merinosnug.com.au 08 9302 2659	
Share register	Automic Pty Ltd Level 5/ 191 St Georges Terrace Perth WA 6000	
Solicitor	HWL Ebsworth Lawyers Level 20/ 240 St Georges Terrace Perth WA 6000	
Auditor	William Buck Audit (WA) Pty Ltd Level 3 / 15 Labouchere Road South Perth WA 6151	

The directors present their report, together with the financial statements of the consolidated entity (referred to hereafter as the 'Group') consisting of Merino & Co. Limited (the 'Company') and the entity it controlled, for the financial year ended 30 June 2024.

These consolidated financial statements cover the period from 1 July 2023 to 30 June 2024. In order to comply with the provision of the Corporations Act 2001, the directors' report is as follows:

Directors
The names and particulars of the directors of the Company during or since the end of the financial year are:

Name:	Mrs Fang (Fiona) Yue
Title:	Mrs
Qualifications:	Master of Business Administration
Experience and expertise:	Ms Yue has grown Merino & Co into one of the largest wool products manufacturers in Australia. She helped Merino & Co establish retail, wholesale, and e-commerce business channels. Prior to migrating to Australia and establishing Merino & Co, Ms Yue led her own cashmere products manufacturing and distribution business in Inner Mongolia, China. Ms Yue holds an Masters of Business Administration from Edith Cowan University and has extensive business and management experience. Ms Yue was also an English-language lecturer of economics at the Inner Mongolia Normal University International Institute.
Other current directorships:	PGY Consultants; C&H International Pty Ltd;
Former directorships (in the last 3 years):	Nil
Interests in shares:	10,200,000 shares
Interests in options:	Nil

Name:	Mr Jack Hanrahan
Title:	Mr
Experience and expertise:	Mr Hanrahan has over 30 years of experience across various sectors with both publicly listed and private companies. Mr Hanrahan was head of retailer relations at Westfield for 9 years. Mr Hanrahan was also General Manager of the retail network for Vodafone Australia. Mr Hanrahan is a graduate of the Australian Institute of Company Directors, has a Masters Degree in Management from Macquarie University.
Other current directorships:	Forty Winks
Former directorships (in the last 3 years):	The Invigor Group Ltd (ASX:IVO) until 2020
Interests in shares:	Nil
Interests in options:	Nil

Name:	Mr Garry Johnson (appointed 1 June 2023, resigned 30 November 2023)
Title:	Mr
Experience and expertise:	Garry Johnson is a highly accomplished executive and Non-Executive Director known for his strategic thinking, branding expertise, and international sales acumen. As the Chief Executive Officer of Steel Blue (Footwear Industries Pty Ltd), Mr Johnson played a pivotal role in transforming the company into a powerhouse of growth and innovation. Mr Johnson's strategic vision led to the expansion of distribution channels and the successful launch of diversification strategies, capturing new geographic markets in UK, Europe and USA and new sectors, including of defence and emergency services. Prior to his role at Steel Blue, Mr Johnson held key leadership positions at Bankwest, where he focused on strategic planning, product development, and market expansion.
Other current directorships:	Business Station
Former directorships (in the last 3 years):	Nil
Interests in shares:	Nil
Interests in options:	Nil

Name:	Mr Boxiang (Peter) Zhao
Title:	Mr
Qualifications:	Master of Business Administration
Experience and expertise:	Mr Zhao brings over 17 years of experience in senior management, corporate governance, and risk advisory services. His career spans across leading accounting firms, Australian listed companies and global retail brands in Australia. Mr Zhao has dedicated 8 years to senior management roles in the retail sector. He currently serves as the founder and CEO of Fleur Jewellery, a fashion jewellery retail store network in Australia. Previously, he held the positions of CFO of Miniso Australia, a globally recognised retail brand, and the General Manager and CFO at AuMake (ASX:AUK), an online and offline cross-border retailer. Mr Zhao holds a Master of Business Administration from the University of Sydney and a Bachelor's Degree in Accounting and Finance from Edith Cowan University. Mr Zhao is also a Fellow Certified Practising Accountant with CPA Australia. As an experienced business and finance professional, Mr Zhao is equipped with extensive experience in financial management, business strategy implementation and advising on various corporate and cross border transactions. In his capacity as a Non-Executive Director, Mr Zhao leverages his background to provide valuable insights and oversight, enhancing corporate governance and strategic direction for the Company.
Other current directorships:	Fleur Jewellery
Former directorships (in the last 3 years):	Nil
Interests in shares:	Nil
Interests in options:	Nil

Name:	Mr TaiZong (Tim) Kang (appointed 27 December 2023, resigned 22 January 2024)
Title:	Mr
Qualifications:	Bachelor's Degree in Engineering
Experience and expertise:	Taizong (Tim) Kang is a qualified electromechanical engineer whose primary expertise lies in the trading, manufacturing & supply chain optimisation of cashmere and wool products. Mr Kang holds a Bachelors Degree in Engineering, specialising in agricultural mechanisation, from Inner Mongolia Agricultural University. Mr Kang has been extensively involved in the operations of King Deer Group, which at one time employed over ten thousand personnel, and has worked closely with Erdos as its OEM partner during his tenure in China. In the last 10 years, Mr Kang has led Merino & Co to become a premium Australian brand and has created value for both its clients and shareholders through consistent innovation in manufacturing products and distribution.
Other current directorships:	Wooltech Group Pty Ltd
Former directorships (in the last 3 years):	Merino & Co. Limited
Interests in shares:	9,800,000 shares
Interests in options:	Nil

Company Secretary

Mr Alan Thomas was appointed on 10 May 2023. He holds a Bachelor of Business degree from Curtin University and is a Fellow of the Institute of Chartered Accountants in Australia. He has over 35 years of experience in finance and administration, predominately in the accounting profession.

Principal activities

During the financial year the principal continuing activities of the Group consisted of sale of variety of wool products.

There were no significant changes in the nature of the Group's principal activities during the year ended 30 June 2024.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of Operations

Corporate:

The net profit of the Group after providing for income tax amounted to $137,256 (30 June 2023: Profit of $486,214). The Group had a net surplus of assets as at 30 June 2024 of $1,840,705 (2023: $1,703,449).

Operations:

Merino & Co is a vertically integrated Company, involving the manufacture, marketing and sale of wool products. The Company has over 600 points of sale spanning across Australia, selling wool clothing and accessories from its own showrooms as well as at duty free shops, airports, boutique shops, tourism sites, and generally via wholesalers and agents. The Company has also been exporting and selling direct to international markets, including China and North America, where high-quality wool products are in higher demand owing to colder climates.

Significant changes in state of affairs

There were no significant changes in the state of affairs of the Group's during the financial year, apart from the incorporation of a fully-owned subsidiary - Merinosnug (Shanghai) Wool Products Co, Ltd in February 2024. No transactions have yet been recognised within the entity.

Matters subsequent to the end of the financial year

On 2 August 2024, the Group released its prospectus, with the intention of listing on the ASX on 25 October 2024.

No other matter or circumstance has arisen since 30 June 2024 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years, apart from;

Likely developments and expected results of operations

As the Company currently in the process to become listed on the Australian Securities Exchange, it is soon to be subject to the continuous disclosure requirements of the ASX Listing Rules which require immediate disclosure to the market of information that is likely to have a material effect on the price or value of the Company's securities.

In the opinion of the Directors, it would prejudice the interests of the Company to provide additional information, beyond that which is reported in this Annual Report, relating to likely developments in the operations of the Company and the expected results of those operations in financial years subsequent to 30 June 2024.

Environmental regulation

The Group carries out operations that are subject to environmental regulations under Federal and State legislation in Australia and China. The Group is not aware of any breaches in relation to environmental matters.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each board committee held during the year ended 30 June 2024, and the number of meetings attended by each director were:

	Board Meetings		**Resolutions**	
Director	**Number Eligible to attend**	**Number Attended**	**Number Eligible to attend**	**Number Attended**
Fang Yue	3	3	2	2
Jack Hanrahan	3	3	2	2
Garry Johnson	3	3	2	2
TaiZong Kang	-	-	-	-
Boxiang Zhao	-	-	-	-

The Board of Directors approved 1 circular resolution during the year ended 30 June 2024 which were signed by all Directors of the Group. The audit, compliance and corporate governance committee functions are performed by the Board of Directors.

Shares issued during or since the end of the year as a result of exercise

At the date of this report, there are no unissued ordinary shares of the Group under option.

Indemnity and insurance of officers

The Group has indemnified the directors and executives of the Group for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Group paid a premium in respect of a contract to insure the directors and executives of the Group against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Indemnity and insurance of auditor

The Group has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the Group or any related entity against a liability incurred by the auditor.

During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Group or any related entity.

Proceedings on behalf of the Group

No person has applied to the Group under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

Non-audit services

There were non-audit services provided during the financial year by the auditor's related entity, William Buck (Consulting) Pty Ltd for the preparation of the Investigating Accountant's Report.

Remuneration paid to the Company's auditors is detailed in Note 24 of this report.

There are no officers of the Company who are former audit partners of William Buck.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors,

Fiona (Fang) Yue

Executive Director

1 October 2024

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the directors of Merino & Co. Limited

As lead auditor for the audit of Merino & Co. Limited during the year ended 30 June 2024, I declare that, to the best of my knowledge and belief, there have been:

— no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

— no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Merino & Co. Limited and the entity it controlled during the year.

William Buck

William Buck Audit (WA) Pty Ltd
ABN 67 125 012 124

Amar Nathwani

Amar Nathwani
Director

Dated this 1st day of October 2024

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Merino & Co. Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2024

	Note	2024	2023
		$	$
Revenue	4	5,495,638	7,515,417
Other income		79,957	32,709
Research and development rebate		112,972	-
Interest revenue		2,832	2,180
Foreign exchange gain/(loss)		36,225	(77,992)
Expenses			
Changes in inventories		1,151,579	(782,377)
Purchase of inventories		(5,103,692)	(3,812,718)
Employee benefits expense		(633,941)	(573,186)
Depreciation and amortisation expense		(290,341)	(290,351)
Allowance for expected credit loss		256,942	89,783
Interest expense		(251,982)	(258,141)
Marketing expense		(268,054)	(463,338)
Consulting expense		(120,598)	(223,722)
Listing expense		(152,635)	(126,554)
Research and development expense		-	(284,499)
Rental expense		(100,499)	(127,296)
Other expenses		(146,067)	(281,062)
Profit before income tax expense		68,336	338,853
Income tax benefit	5	68,920	147,361
Profit after income tax expense for the year		137,256	486,214
Other comprehensive income		-	-
Total comprehensive income for the year attributable to the owners of Merino & Co. Limited		137,256	486,214
		Cents	**Cents**
Basic earnings cents per share	26	0.57	2.01
Diluted earnings cents per share	26	0.57	2.01

The accompanying notes form an integral part of this statement of profit or loss and other comprehensive income.

Merino & Co. Limited
Consolidated Statement of Financial Position
As at 30 June 2024

	Note	2024 $	2023 $
Assets			
Current assets			
Cash and cash equivalents	6	455,832	480,562
Trade and other receivables	7	2,213,854	2,991,703
Inventories	8	2,529,952	1,378,373
Other assets	9	1,010,785	344,731
Total current assets		6,210,423	5,195,369
Non-current assets			
Property, plant and equipment	10	786,739	889,463
Intangible assets	11	121,784	167,992
Right-of-use assets	12	57,561	610,148
Other assets	9	105,041	103,503
Deferred tax assets	5	105,232	94,073
Total non-current assets		1,176,357	1,865,179
Total assets		7,386,780	7,060,548
Liabilities			
Current liabilities			
Trade and other payables	13	1,498,634	1,116,696
Income tax payable	14	-	136,080
Employee benefits	15	120,072	80,653
Borrowings	16	1,803,890	1,092,302
Lease liabilities	17	61,604	112,148
Total current liabilities		3,484,200	2,537,879
Non-current liabilities			
Borrowings	16	2,061,875	2,236,729
Lease liabilities	17	-	582,491
Total non-current liabilities		2,061,875	2,819,220
Total liabilities		5,546,075	5,357,099
Net assets		1,840,705	1,703,449
Equity			
Issued capital	18	800,100	800,100
Reserves	19	1,950,430	1,950,430
Accumulated losses	20	(909,825)	(1,047,081)
Total equity		1,840,705	1,703,449

The accompanying notes form an integral part of this consolidated statement of financial position.

Merino & Co. Limited
Consolidated Statement of Changes in Equity
For the year ended 30 June 2024

	Issued Capital $	Reserves $	Accumulated Loses $	Total equity $
Balance at 1 July 2022	800,100	821,430	(1,533,295)	88,235
Profit for the year	-	-	486,214	486,214
Other comprehensive income for the year net of tax	-	-	-	-
Total comprehensive income for the year	-	-	486,214	486,214
Transactions with owners in their capacity as owners:				
Convertible notes issued	-	1,129,000	-	1,129,000
Total contributions by owners	-	1,129,000	-	1,129,000
Balance as at 30 June 2023	800,100	1,950,430	(1,047,081)	1,703,449

	Issued Capital $	Reserves $	Accumulated Loses $	Total equity $
Balance at 1 July 2023	800,100	1,950,430	(1,047,081)	1,703,449
Profit for the year	-	-	137,256	137,256
Other comprehensive income for the year net of tax	-	-	-	-
Total comprehensive income for the year	-	-	137,256	137,256
Transactions with owners in their capacity as owners:				
Options issued	-	-	-	-
Total contributions by owners	-	-	-	-
Balance as at 30 June 2024	800,100	1,950,430	(909,825)	1,840,705

The accompanying notes form an integral part of this consolidated statement of changes in equity.

Merino & Co. Limited
Consolidated Statement of Cash Flows
For the year ended 30 June 2024

	Note	2024 $	2023 $
Cash flows from operating activities			
Receipts from customer		6,544,187	4,669,572
Payments to suppliers and employees		(6,655,562)	(5,126,814)
Interest received		2,832	2,180
Interest paid		(220,868)	(219,499)
Income tax paid		(43,743)	272,727
Net cash used in operating activities	27	(373,154)	(401,834)
Cash flows from investing activities			
Payments for property, plant and equipment		(3,262)	(2,534)
Proceeds on the disposal of property, plant and equipment		-	1,615
Net cash used in investing activities		(3,262)	(919)
Cash flows from financing activities			
Net advanced to/(from) director		580,382	99,882
Repayment of hire purchase loan		(26,296)	(57,065)
Proceeds from borrowings		140,000	2,566,904
Repayment of borrowings		(157,353)	(2,358,629)
Repayment of lease liabilities		(185,047)	(100,929)
Borrowing costs		-	(2,675)
Net cash provided by financing activities		351,686	147,488
Net decrease in cash and cash equivalents		(24,730)	(255,265)
Cash and cash equivalents at the beginning of the financial year		480,562	735,827
Cash and cash equivalents at the end of the financial year	6	455,832	480,562

The accompanying notes form an integral part of this consolidated statement of cash flows.

NOTE 1.

Merino & Co. Limited (the 'Company') is domiciled in Australia. The Company's registered address is 4 Gould Street, Osbourne Park, Western Australia.

This consolidated financial statement comprises the Company and its subsidiary (together referred to as the 'Group').

This Group is a for-profit entity involved in manufacturing and selling wool garments.

NOTE 2. Summary of Material Accounting Policy Information

(a) Basis of preparation

These general purpose financial statements for the reporting year ended 30 June 2024 have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards (AASB) other authoritative pronouncements of the Australian Accounting Standards Board. The financial statements and notes comply with International Financial Reporting Standards.

The financial report has been prepared on an accruals basis and is based on historical cost and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The financial report is presented in Australian dollars.

The financial report was authorised for issue in accordance with a resolution of Directors dated 30 September 2024.

(b) Adoption of new and revised standards

Standards and Interpretations applicable to 30 June 2024

For the year ended 30 June 2024, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the current reporting periods beginning on or after 1 July 2023.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Company and therefore no material change is necessary to the Company's accounting policies.

The following Accounting Standards and Interpretations is most relevant to the Company:

AASB 2021-2: Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates

The Company adopted AASB 2021-2 which amends AASB 7, AASB 101, AASB 108 and AASB 134 to require disclosure of 'material accounting policy information' rather than significant accounting policies' in an entity's financial statements. It also updates AASB Practice Statement 2 to provide guidance on the application of the concept of materiality to accounting policy disclosures.

The adoption of the amendment did not have a material impact on the financial statements.

Standards and Interpretations in issue not yet effective

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet effective for the year ended 30 June 2024.

As a result of this review the Directors have determined that there are no new and revised Standards and Interpretations that may have a material effect on the application in future periods and therefore, no material change is necessary to the Company's accounting policies.

NOTE 2. Summary of Material Accounting Policy Information (continued)

(c) Statement of compliance

The financial report was authorised for issue on 30 September 2024.

The financial report complies with Australian Accounting Standards (AAS). Compliance with AAS ensures that the financial report comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(d) Going Concern

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group reported a pre-tax gain of $68,336 and net operating cash outflow of $373,154 for year ended 30 June 2024. At year end, the Group had a cash balance of $455,832 and a surplus of current assets over current liabilities of $2,726,223. Included in current liabilities is a loan from a related party of $1,295,535 and the Board have received a letter from the related party confirming the loan will not be called upon for repayment in the 12-month period to September 2025.

Management have prepared a cash flow forecast for the period ending 12 months from the date of this report. The forecast assumes revenue growth based on initiatives management are working on.

Certain shareholders have also provided a letter of financial support to the directors of the Group confirming they have the intention and ability to provide financial support so that the Group has sufficient working capital in order to pay its debts as and when they fall due and payable, if required.

The Company is in the process of raising capital and listing on the Australian Securities Exchange to raise a minimum of $6,000,000 before costs. The Group’s reliance on meeting the forecast revenue, and the reliance on funding from the providers of the letter of financial support should revenue forecast not be achieved or the capital raise not be successful, indicate a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern.

Based on the above factors, the Directors believe it is appropriate to adopt the going concern basis in preparing the financial report.

Should the Group not achieve the forecast revenue growth, the capital raise not be successful and be unable to obtain sufficient funding based on the letter of financial support, then the going concern basis of accounting may not be appropriate with the result that the Group may have to realise its assets and extinguish its liabilities other than in the normal course of business and in amounts different to that stated within the financial report.

The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

(e) Revenue recognition

The company recognises revenue as follows:

Revenue from contracts with customers
Revenue is recognised at an amount that reflects the consideration to which the company is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the company: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates

NOTE 2. Summary of Material Accounting Policy Information (continued)

(e) Revenue recognition

are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Sale of goods
Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Rendering of services
Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

Interest
Interest revenue is recognised as interest accrues.

(f) Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

(g) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the company’s normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

NOTE 2. Summary of Material Accounting Policy Information (continued)

(g) Current and non-current classification

A liability is classified as current when: it is either expected to be settled in the company's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

(i) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The company has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

(j) Inventories

Finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(k) Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Company's has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, it's carrying value is written off.

NOTE 2. Summary of Accounting Policy Information (continued)

(k) Investments and other financial assets (continued)

Financial assets at fair value through profit or loss
Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Financial assets at fair value through other comprehensive income
Financial assets at fair value through other comprehensive income include equity investments which the company's intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets
The company's recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the company's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

(l) Property, plant and equipment

Land and buildings are shown at cost less subsequent depreciation and impairment for buildings.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Buildings and improvements	20-50 years
Motor vehicles	5-15 years
Plant and equipment	2-10 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the company. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

NOTE 2. Summary of Material Accounting Policy Information (continued)

(m) Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the company expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

The company has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

(n) Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Trademarks
Significant costs associated with trademarks are not amortised and are subsequently measured at cost less any impairment

Software
Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

(o) Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

NOTE 2. Summary of Material Accounting Policy Information (continued)

(q) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

(r) Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

(s) Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

(t) Provisions

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

(u) Employee benefits

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution superannuation expense
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

(v) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on 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; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its

NOTE 2. Summary of Material Accounting Policy Information (continued)

(v) Fair value measurement (continued)

highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(w) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(x) Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

(y) Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

3. Critical Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

3. Critical Accounting Judgements, Estimates and Assumptions (continued)

Net realisable value of inventory
The key assumptions, which require the use of management judgement, are the variables affecting costs recognised in the manufacture of the inventory, and the bringing of the inventory to its location and condition for sale, estimated costs to sell and its expected selling price. These key assumptions are reviewed at least annually.

4. Revenue

	2024 $	2023 $
Revenue		
Sale of goods	5,495,638	7,515,417
	5,495,638	**7,515,417**

Disaggregation of Revenue

The Company derives its revenue from the sale of goods at a point in time. This is consistent with the revenue information that is disclosed for each reportable segment under AASB 8, refer Note 28.

5. Income Tax

	2024 $	2023 $
Income tax expense		
Current tax	-	62,561
Deferred tax - origination and reversal of temporary differences	(11,159)	(94,073)
Adjustment recognised for prior periods	(57,761)	(115,849)
Aggregate income tax expense	(68,920)	(147,361)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	68,336	338,853
Tax at the statutory tax rate of 25% (2023: 25%)	17,084	84,713
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Permanent differences	-	326
Not Deductible Research and Development rebate	(28,243)	-
Recognition of tax assets not previously provided for	-	(116,551)
Over provided in prior years	(57,761)	(115,849)
Income tax benefits	**(68,920)**	**(147,361)**

Deferred tax assets of $105,232 (2023: $94,073) have been brought to account arising from tax losses, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 occur.

6. Cash And Cash Equivalents

	2024 $	2023 $
Cash at bank – unrestricted	34,178	211,419
Cash at bank - restricted	421,654	269,143
	455,832	**480,562**

Restricted fund represents the RMB balances held in China. Merino & Co has not repatriated any Chinese RMB to Australia and has instead used the RMB to purchase materials or inventory and pay expenses incurred in China.

7. Trade And Other Receivables

	2024	**2023**
	$	**$**
Trade receivables	2,373,703	3,434,965
Less: Allowance for expected credit losses	(162,381)	(445,202)
Accrued interest	2,532	1,940
	2,213,854	**2,991,703**

Allowance for expected credit losses

The Company applies the AASB 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

The Company has recognised a gain of $256,942 in profit or loss in respect of the expected credit losses for the year ended 30 June 2024 (2023: $89,783).

The aging of the receivables and allowances for expected credit losses provided for above are as follows:

	Expected credit loss rate		**Carrying amount**		**Allowance for expected credit losses**	
	2024	**2023**	**2024**	**2023**	**2024**	**2023**
	%	**%**	**$**	**$**	**$**	**$**
Not overdue	-	7.3	1,516,576	2,440,540	-	178,559
0 to 3 months overdue	-	-	444,237	59,991	-	-
3 to 6 months overdue	-	23.3	162,088	539,727	-	125,685
Over 6 months overdue	-	35.7	250,802	394,707	-	140,958
			2,373,703	**3,434,965**	**162,381**	**445,202**

Movements in the allowance for expected credit losses are as follows:

	2024	**2023**
	$	**$**
Opening balance	445,202	534,985
Additional provisions recognised	-	178,559
Unused amounts reversed	(282,821)	(268,342)
Closing balance	**162,381**	**445,202**

8. Inventories

Finished goods	2,529,952	1,378,373
	2,529,952	**1,378,373**

9. Other Assets

	2024 $	2023 $
Current		
Prepayments	893,516	344,731
Prepayments – Capital raising/IPO related costs	117,269	-
	1,010,785	**344,731**
Non-Current		
Rental deposit	102,903	100,828
Borrowing Costs	2,675	2,675
Less: Accumulated amortization on borrowing costs	(537)	-
	105,041	**103,503**

10. Property, Plant And Equipment

	2024 $	2023 $
Buildings and improvements – at cost	543,373	543,373
Less: Accumulated depreciation	(120,793)	(109,925)
	422,580	433,448
Motor vehicles – at cost	166,189	166,189
Less: Accumulated depreciation	(130,963)	(110,466)
	35,226	55,723
Plant and equipment – at cost	621,333	621,333
Less: Accumulated depreciation	(292,400)	(221,041)
	328,933	400,292
Total	**786,739**	**889,463**

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Buildings and improvements $	Motor Vehicles $	Plant and equipment $	Total $
Balance at 1 July 2022	444,315	76,497	470,768	991,580
Additions	-	-	873	873
Disposals	-	-	-	-
Depreciation expense	(10,867)	(20,774)	(71,349)	(102,990)
Balance at 1 July 2023	433,448	55,723	400,292	889,463
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation expense	(10,868)	(20,497)	(71,359)	(102,724)
Balance at 30 June 2024	422,580	35,226	328,933	786,739

11. Intangible Assets

	2024	2023
	$	$
Intangible assets	290,929	290,929
Less: Accumulated amortisation	(178,941)	(130,453)
	111,988	160,476
Trademarks – at cost	6,360	3,858
Less: Accumulated amortisation	-	-
	6,360	3,858
Software – at cost	5,116	4,355
Less: Accumulated amortisation	(1,680)	(697)
	3,436	3,658
Total	**121,784**	**167,992**

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Intangible assets	Software	Total
	$	$	$
Balance at 1 July 2022	212,822	4,121	216,943
Additions	-	1,661	1,661
Disposals	-	(1,616)	(1,616)
Amortisation expense	(48,488)	(508)	(48,996)
Balance at 1 July 2023	164,334	3,658	167,992
Additions	2,501	761	3,262
Disposals	-	-	-
Amortisation expense	(48,487)	(983)	(49,470)
Balance at 30 June 2024	118,348	3,436	121,784

12. Right-Of-Use Assets

	2024	2023
	$	$
Land and buildings – right-of-use	828,880	828,880
Less: Accumulated depreciation	(771,319)	(218,732)
	57,561	**610,148**

No new additions to the right-of-use assets were acquired during the year.

The company leases land and buildings for its officer under agreement of three years with option to extend. The leases have various escalation clause. On renewal, the terms of the leases are renegotiated.

In the financial year ended 30 June 2024, management determined they would not exercise the option to extend the lease and recognised a corresponding reduction in the ROU asset and lease liability.

13. Trade and Other Payables

	2024 $	2023 $
Trade payables	1,316,212	934,366
Other payables	182,422	182,330
	1,498,634	**1,116,696**

14. Income Tax

Provision for income tax/(Income tax refundable)	-	136,080
	-	**136,080**

15. Employee Benefits

Provision for annual leave	120,072	80,653
	120,072	**80,653**

16. Borrowings

Current		
Loan from directors[1]	1,295,535	714,995
Hire purchase loan[2]	20,837	26,296
Loan from bank[3a]	187,693	191,011
Loan from bank[3b]	300,000	160,000
Other	(175)	-
	1,803,890	1,092,302
Non-current		
Hire purchase loan[2]	-	20,837
Loan from bank[3c]	403,000	403,000
Loan from bank[3d]	1,658,875	1,812,892
	2,061,875	2,236,729
	3,865,765	**3,329,031**

[1] $699,454 is interest-free, the remaining balance has interest charged at 5% p.a.

[2] Secured, interest charge between 6.31% and 7.54% p.a. Final repayment in April 2025 and May 2023 respectively.

[3a] Secured over the company's present and future rights, property and undertaking and director personal guarantee, interest charge at 5.12% p.a. (2023: 5.12%). Final repayment in December 2031.

[3b] Secured over undertaking and director personal guarantee, interest charge at 6.2%.

[3c] Secured over the property located at 3/82 Christable Way, Landsdale WA 6065.

[3d] Secured over the company's present and future rights, property and undertaking and director personal guarantee, interest charge at 8.2% p.a. (2023: 8.2%). Final repayment in December 2031.

17. Lease Liabilities

	2024 $	2023 $
Current lease liabilities	61,604	112,148

Non-current lease liabilities	-	582,491
	61,604	694,639

18. Issued Capital

	2024 Shares	2023 Shares	2024 $	2023 $
Ordinary shares – fully paid	24,000,000	24,000,000	800,100	800,100

Movements in ordinary share capital

Details	Date	Shares	Issue Price	$
Opening balance	1 July 2022	24,000,000	-	800,100
Closing balance	30 June 2023	24,000,000	-	800,100
Opening balance	1 July 2023	24,000,000	-	800,100
Closing balance	30 June 2024	24,000,000	-	800,100

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

19. Reserves

	2024 $	2023 $
Convertible notes reserves	1,950,430	1,950,430
	1,950,430	**1,950,430**

The reserve is used to recognise the convertible notes issued during the year ended 30 June 2023. No new convertible notes were issued in 2024.

In 2023, the Company issued 7,500,000 convertible notes with a face value of $0.15 each, for total proceeds of $1,129,000 in full satisfaction of investor loans (refer Note 16). The notes are non-interest bearing and are automatically converted to shares of the company upon the sooner of the Company's successful listing on ASX or two years from issue date. The conversion rate is one share for each note held.

20. Accumulated Losses

	2024 $	2023 $
Accumulated losses at the beginning of the financial year	(1,047,081)	(1,533,295)
Profit / (Loss) after income tax expense for the year	137,256	486,214
Accumulated losses at the end of the financial year	**(909,825)**	**(1,047,081)**

21. Dividends

There were no dividends paid, recommended or declared during the current financial year.

22. Financial Instruments

Financial risk management objectives

The company's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company. The company uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Market risk

The carrying amount of the company's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Foreign currency risk

The Company undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity’s functional currency. The risk is measured using sensitivity analysis and cash flowing forecasting.

The carrying amount of the company’s foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		**Liabilities**	
	2024	**2023**	**2024**	**2023**
	$	**$**	**$**	**$**
Chinese Yuan	2,330,879	2,884,475	392,216	366,403
	2,330,879	2,884,475	392,216	366,403

The company had net assets denominated in foreign currencies of $1,938,663 (assets of $2,330,879 less liabilities of $392,216) as at 30 June 2024 (2023: net liabilities $2,518,072 (assets of $2,884,475 less liabilities of $366,403). Based on this exposure, had the Australian dollar weakened by 5%/strengthened by 5% (2023: weakened by 5%/strengthened by 5%) against these foreign currencies with all other variables held constant, the company's profit before tax for the year would have been $96,933 lower/higher (2023: $125,904 lower/higher). The percentage change is the expected overall volatility of the significant currencies, which is based on management’s assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange gain for the year ended 30 June 2024 was $36,225 (2023: loss of $77,992).

Price risk

The company is not exposed to significant price risk.

Interest rate risk

The company's main interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the company to interest rate risk.

The company's loan from bank, totalling $2,549,568 (2023: $2,566,903), are principal and interest payment loans based on variable interest rate. An official increase/decrease in interest rates of 100 (2023: 100) basis points would have an adverse/favourable effect on profit before tax of $25,496 (2023: $25,669) per annum. The percentage change is based on the expected volatility of interest rates using market data and analyst forecasts.

The loan and borrowings other than mentioned above are fixed rate instruments.

22. Financial Instruments (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The company obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The company does not hold any collateral.

Liquidity risk

2024	**Weighted average interest rate**	**1 year or less**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Remaining contractually maturities**
	%	**$**	**$**	**$**	**$**	**$**
Non-derivatives						
Non-interest bearing						
Trade and other payables		1,498,634	-	-	-	1,498,634
Loan from directors		1,295,535	-	-	-	1,295,535
Interest-bearing – fixed rate						
Hire purchase loan	6.31%	20,837	-	-	-	20,837
Lease liabilities	5.15%	61,604	-	-	-	61,604
Interest-bearing – floating rate						
Loan from bank	5.40% - 10.32%	487,693	327,288	1,331,587	403,000	2,549,568
Total non-derivatives		**3,364,303**	**327,288**	**1,331,587**	**403,000**	**5,426,178**

22. Financial Instruments (continued)

2023	**Weighted average interest rate**	**1 year or less**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Remaining contractually maturities**
	%	**$**	**$**	**$**	**$**	**$**
Non-derivatives						
Non-interest bearing						
Trade and other payables		1,116,696	-	-	-	1,116,696
Loan from directors		714,995	-	-	-	714,995
Interest-bearing – fixed rate						
Hire purchase loan	6.31%	26,296	20,837	-	-	47,133
Lease liabilities	5.15%	112,148	143,762	438,729	-	694,639
Interest-bearing – floating rate						
Loan from bank	5.4% - 10.32%	351,011	294,540	1,286,620	634,732	2,566,903
Total non-derivatives		**2,321,146**	**459,139**	**1,725,349**	**634,732**	**5,140,366**

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

23. Commitments

	2024	**2023**
	$	**$**
Capital commitments		
Committed at the reporting date but not recongsied as liabilities payable:		
Research project funding	410,000	410,000

24. Key Management Personnel Disclosures

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

	2024	**2023**
	$	**$**
Short-term employee benefits	364,114	424,500
Post-employment benefits	33,507	37,800
	397,621	462,300

25. Remuneration Of Auditors

During the financial year the following fees were paid or payable for services provided by William Buck Audit (WA) Pty Ltd, the auditor of the company:

	2024 $	2023 $
Audit services – Willam Buck (Accrual)	36,000	35,000
Other services – William Buck (Investigating Accountant services)	18,000	-
Audit services – RSM Australia Partners (resigned 22 November 2023)	-	80,156
	54,000	115,156

26. Earnings Per Share (EPS)

	2024 $	2023 $
Basic and diluted earnings per share	0.57 cents	2.01 cents

The loss and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share is as follows:

	2024 $	2023 $
Profit for the year	137,256	486,214
	Number	**Number**
Weighted average number of ordinary shares	24,000,000	24,000,000

27. Reconciliation Of Profit After Income Tax To Net Cash From Operating Activities

	2024 $	2023 $
Profit after income tax expense for the year	137,256	486,214
Adjustments for:		
Depreciation and amortisation	290,341	290,351
Allowance for expected credit loss	(256,942)	(89,783)
Gain on modification of lease	(66,200)	-
Interest repayments - lease	33,188	-
Change in operating assets and liabilities		
- Trade and other receivables	1,034,788	(2,878,552)
- Inventories	(1,151,579)	1,061,183
- Other assets	(668,128)	(320,952)
- Deferred tax assets	(11,158)	(94,073)
- Trade and other payables	381,941	896,651
- Income tax	(136,080)	219,439
- Employee benefits	39,419	27,688
Net cash used in operating activities	(373,154)	(401,834)

28. Related Party Transactions

Key management personnel

Disclosures relating to key management personnel are set out in Note 24.

Transactions with related parties

The following transactions occurred with related parties:

	2024 $	2023 $
Loans from related parties	1,295,535	714,995

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates, with the exception of the loan from a related party which is interest free.

29. Operating Segments

AASB 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Company's operating segments have been determined with reference to the monthly management accounts used by the Chief Operating Decision Maker to make decisions regarding the Company's operations and allocation of working capital. Due to the size and nature of the Company, the Board as a whole has been determined as the Chief Operating Decision Maker.

The Entity has identified two reporting segments, being Australia and China.

30 June 2024	Australia $	China $	Total $
Revenue	2,465,662	3,029,976	5,495,638
Profit/(loss) after income tax	87,756	49,500	137,256
Total segment assets	5,055,901	2,330,879	7,386,780
Total segment liabilities	5,153,858	392,217	5,546,075

30 June 2023	Australia $	China $	Total $
Revenue	2,513,738	5,001,679	7,515,417
Profit/(loss) after income tax	(830,119)	1,316,333	486,214
Total segment assets	4,176,073	2,884,475	7,060,548
Total segment liabilities	4,990,696	366,403	5,357,099

29. Contingent Assets and Liabilities

The Group has given bank guarantees as at 30 June 2024 of $102,903 (30 June 2023: $100,828) to the lessor.

The Group has no contingent assets as at 30 June 2024 and 30 June 2023.

30. Parent Entity Information

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Accounting Standards. There were no transactions within the newly created subsidiary during the 2024 financial year.

A. Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Parent Entity	
	2024	**2023**
	$	**$**
Net profit attributable to equity holders of the Company	137,256	486,214
Total comprehensive profit for the year	137,256	486,214

B. Statement of Financial Position

	2024	2023
	$	**$**
ASSETS		
Total current assets	6,210,423	5,195,369
Total non-current assets	1,176,357	1,865,179
Total assets	7,386,780	7,060,548
LIABILITIES		
Total current liabilities	(3,484,200)	(2,537,879)
Total non-current liabilities	(2,061,875)	(2,819,220)
Total liabilities	(5,546,075)	(5,357,099)
Net assets	1,840,705	1,703,449
EQUITY		
Share capital	800,100	800,100
Other reserves	1,950,430	1,950,430
Accumulated losses	(909,825)	(1,047,081)
Total Equity	1,840,705	1,703,449

31. Investment in Controlled Entities

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1:

		Equity holding	
	Country of	2024	2023
Name of entity	Incorporation	%	%
Merinosnug (Shanghai) Wool Products Co. Ltd [1]	China	100	-

[1] The entity was incorporated on 2 February 2024.

32. Events After the Reporting Period

On 2 August 2024, the Group released its prospectus, with the intention of listing on the ASX on 25 October 2024.

No other matter or circumstance has arisen since 30 June 2024 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years**,** apart from;

Basis of preparation

This consolidated entity disclosure statement ("CEDS") has been prepared in accordance with the Corporations Act 2001 and includes information for each entity that was part of the consolidated entity as at the end of the financial year in accordance with AASB 10 Consolidated Financial Statements.

Determination of tax residency

Section 295 (3A)(vi) of the Corporations Act 2001 defines tax residency as having the meaning in the Income Tax Assessment Act 1997. The determination of tax residency involves judgement as there are different interpretations that could be adopted, and which could give rise to a different conclusion on residency. In determining tax residency, the consolidated entity has applied the following interpretations:

- Australian tax residency: the consolidated entity has applied current legislation and judicial precedent, including having regard to the Tax Commissioner's public guidance in Tax Ruling TR 2018/5; and
- Foreign tax residency: where necessary, the consolidated entity has used independent tax advisers in foreign jurisdictions to assist in its determination of tax residency to ensure applicable foreign tax legislation has been complied with (see section 295(3A)(vii) of the Corporations Act 2001).

Name of Controlled Entity	Entity type	Place of Incorporation	% of share capital held in 2024	Australian or Foreign Resident	Foreign Jurisdiction of Foreign Resident
Merino & Co Limited	Body corporate	Australia	N/A	Australia	N/A
Merinosnug (Shanghai) Wool Products Co. Ltd	Body corporate	China	100%	Foreign	China

In the directors' opinion:

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and correct view of the Consolidated Entity's financial position as at 30 June 2024 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
- the information disclosed in the attached Consolidated Entity Disclosure Statement is true and correct.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

Fiona (Fang) Yue

Director

1 October 2024

Independent auditor's report to the members of Merino & Co. Limited

Report on the audit of the financial report

Our opinion on the financial report

In our opinion, the accompanying financial report of Merino & Co. Limited (the Company) and its subsidiary (the Group), is in accordance with the *Corporations Act 2001*, including:

— giving a true and fair view of the Group's financial position as at 30 June 2024 and of its financial performance for the year then ended; and

— complying with Australian Accounting Standards and the *Corporations Regulations 2001.*

What was audited?

We have audited the financial report of the Group, which comprises:

— the consolidated statement of financial position as at 30 June 2024,

— the consolidated statement of profit or loss and other comprehensive income for the year then ended,

— the consolidated statement of changes in equity for the year then ended,

— the consolidated statement of cash flows for the year then ended,

— notes to the financial statements, including material accounting policy information,

— the consolidated entity disclosure statement, and

— the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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William Buck
ACCOUNTANTS & ADVISORS

Material uncertainty related to going concern

We draw attention to Note 2(d) in the financial report, which indicates that the Group reported a pre-tax gain of $68,336 and a net operating cash outflow of $373,154 for the year ended 30 June 2024. These events or conditions, along with other matters as set forth in Note 2(d), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2024 but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of:

— the financial report (other than the consolidated entity disclosure statement) that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*; and

— the consolidated entity disclosure statement that is true and correct in accordance with the *Corporations Act 2001,* and

for such internal control as the directors determine is necessary to enable the preparation of:

— the financial report (other than the consolidated entity disclosure statement) that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and

— the consolidated entity disclosure statement that is true and correct and is free of misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/auditors_responsibilities/ar3.pdf

This description forms part of our auditor's report.

William Buck

William Buck Audit (WA) Pty Ltd
ABN 67 125 012 124

Amar Nathwani

Amar Nathwani
Director

Dated this 1st day of October 2024