



MERINO & CO

PROSPECTUS

For an initial public offer of up to 37,500,000 Shares at an issue price of \$0.20 each to raise up to \$7,500,000 (before costs). The Offer is subject to a minimum subscription requirement to raise at least \$6,000,000.

The Offer pursuant to this Prospectus is conditional upon the events set out in Section 1.5 of this Prospectus occurring.

It is proposed that the IPO Offer will close at 5.00pm (WST) on Friday, 20 September 2024. The Directors reserve the right to close the Offer earlier or to extend this date without notice. Applications must be received before that time.

This is an important document and requires your immediate attention. It should be read in its entirety. Please consult your professional adviser(s) if you have any questions about this document.

Investment in the Securities offered pursuant to this Prospectus should be regarded as highly speculative in nature, and investors should be aware that they may lose some or all of their investment. Refer to Section 4 for a summary of the key risks associated with an investment in the Securities.

LEAD MANAGER



LEGAL ADVISER





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IMPORTANT INFORMATION

PROSPECTUS

This Prospectus is dated and was lodged with ASIC on 2 August 2024. Neither ASIC nor ASX (or their respective officers) take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. The expiry date of this Prospectus is 5.00pm WST on that date which is 13 months after the date this Prospectus was lodged with ASIC. No Securities will be issued on the basis of this Prospectus after that expiry date.

Application will be made to ASX within seven days of the date of this Prospectus for Official Quotation of the Shares the subject of the Offer.

No person is authorised to give any information or to make any representation in connection with the Offer, other than as is contained in this Prospectus. Any information or representation not contained in this Prospectus should not be relied on as having been made or authorised by the Company or the Directors in connection with the Offer.

It is important that you read this Prospectus in its entirety and seek professional advice where necessary. The Securities the subject of this Prospectus should be considered highly speculative.

EXPOSURE PERIOD

This Prospectus will be circulated during the Exposure Period. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. You should be aware that this examination may result in the identification of deficiencies in this Prospectus. In such circumstances, any Application that has been received may need to be dealt with in accordance with section 724 of the Corporations Act. Applications under this Prospectus will not be processed by the Company until after the Exposure Period. No preference will be conferred upon Applications received during the Exposure Period.

RISKS

Any investment in the Company should be considered highly speculative. Before deciding to invest in the Company, potential investors should read the entire Prospectus and, in particular, in considering the prospects of the Company, potential investors should consider the risk factors that could affect the financial performance and assets of the Company. Investors should carefully consider these factors in light of their personal circumstances (including financial and taxation issues). The Securities offered by this Prospectus should be considered highly speculative. Please refer to Section 4 for details relating to risk factors. Persons considering applying for Securities pursuant to the Prospectus should obtain professional advice from an accountant, stockbroker, lawyer or other adviser before deciding whether to invest.

ELECTRONIC PROSPECTUS AND APPLICATION FORM

This Prospectus will generally be made available in electronic form by being posted on the Company's website at www.merinosnug.com.au. Persons having received a copy of this Prospectus in its electronic form may obtain an additional paper copy of this Prospectus and the relevant Application Form (free of charge) from the Company's registered office during the Offer Period by contacting the Company as detailed in the Corporate Directory. The Offer constituted by this Prospectus is only available to persons receiving this Prospectus and relevant Application Form within Australia or China.

Applications will only be accepted on the relevant Application Form attached to, or accompanying, this Prospectus or in its paper copy form as downloaded in its entirety from www.merinosnug.com.au. The Corporations Act prohibits any person from passing on to another person the Application Form unless it is accompanied by or attached to a complete and unaltered copy of this Prospectus.

Prospective investors wishing to subscribe for Securities under the Offer should complete the relevant Application Form. If you do not provide the information required on the Application Form, the Company may not be able to accept or process your Application.

No document or information included on the Company's website is incorporated by reference into this Prospectus.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the Electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

NOTICE TO FOREIGN INVESTORS

No action has been taken to register or qualify the Securities the subject of this Prospectus, or the Offer, or otherwise to permit the public offering of the Shares, in any jurisdiction outside Australia. The distribution of this Prospectus in jurisdictions outside of Australia may be restricted by law and persons who come into possession of this Prospectus outside of Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Prospectus does not constitute an offer of Securities in any jurisdiction where, or to any person to whom, it would be unlawful to issue this Prospectus except to the extent permitted below, relating to China.

This Prospectus has not been filed with, or reviewed by, the US Securities and Exchange Commission or any US state securities authority and none of them has passed upon or

endorsed the merits of the Offer or the accuracy, adequacy or completeness of the Prospectus. Any representation to the contrary is a criminal offence.

The Securities offered pursuant to this Prospectus have not been, and will not be, registered under the US Securities Act 1933 or the securities laws of any US state or other jurisdiction. The Offer is not being made in any US state or other jurisdiction where it is not legally permitted to do so.

Notice to Chinese investors

Neither this Prospectus nor any other document relating to Shares may be distributed to the public in the People's Republic of China (excluding, for purposes of this notice, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). This Prospectus has not been approved by, nor registered with, any competent regulatory authority of the PRC. Accordingly, any Shares may not be offered or sold, nor may any invitation, advertisement or solicitation for Shares be made from, within the PRC unless permitted under the laws of the PRC.

Shares may not be offered or sold to legal or natural persons in the PRC other than to:

- (i) "qualified domestic institutional investors" as approved by a relevant PRC regulatory authority to invest in overseas capital markets;
- (ii) sovereign wealth funds or quasi-government investment funds that have the authorization to make overseas investments; or
- (iii) other types of qualified investors that have obtained all necessary PRC governmental approvals, registrations and/or filings (whether statutorily or otherwise).

SPECULATIVE INVESTMENT

The Securities offered pursuant to this Prospectus should be considered highly speculative. There is no guarantee that the Securities offered pursuant to this Prospectus will make a return on the capital invested, that dividends will be paid on the Securities or that there will be an increase in the value of the Securities in the future.

Prospective investors should carefully consider whether the Securities offered pursuant to this Prospectus are an appropriate investment for them in light of their personal circumstances, including their financial and taxation position. Refer to Section 4 for details relating to the key risks applicable to an investment in the Securities.

USING THIS PROSPECTUS

Persons wishing to subscribe for Securities offered by this Prospectus should read this Prospectus in its entirety in order to make an informed assessment of the assets and liabilities, financial position and performance, profits and losses, and prospects of the Company and the rights and liabilities attaching to the Securities offered pursuant to this Prospectus. If persons considering subscribing for Securities offered pursuant to this Prospectus have any questions, they should consult their stockbroker, solicitor, accountant or other professional adviser for advice.

FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements which are identified by words such as 'believes', 'estimates', 'expects', 'targets', 'intends', 'may', 'will', 'would', 'could', or 'should' and other similar words that involve risks and uncertainties.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the Directors and management of the Company. Key risk factors associated with an investment in the Company are detailed in Section 4. These and other factors could cause actual results to differ materially from those expressed in any forward-looking statements.

The Company has no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

The Company cannot and does not give assurances that the results, performance or achievements expressed or implied in the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

NO FORECAST FINANCIAL INFORMATION

After considering ASIC Regulatory Guide 170, the Directors believe that reliable financial forecasts for the Company cannot be prepared, and accordingly, financial forecasts have not been included in this Prospectus.

NO COOLING-OFF RIGHTS

Cooling-off rights do not apply to an investment in Securities issued under this Prospectus. This means that, in most circumstances, you cannot withdraw your Application once it has been accepted.

CONDITIONAL OFFER

The Offer contained in this Prospectus is conditional on certain events occurring. If these events do not occur, the Offer will not proceed and investors will be refunded their Application Monies without interest. Please refer to Section 1.5 for further details on the conditions attaching to the Offer.

PHOTOGRAPHS AND DIAGRAMS

Photographs used in this Prospectus which do not have descriptions are for illustration only and should not be interpreted to mean that any person shown endorses this Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

TAXATION

The acquisition and disposal of Securities will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Securities from a taxation viewpoint and generally.

The Company does not propose to give any taxation advice and, to the maximum extent permitted by law, the Company, its Directors and other officers and each of their respective advisers accept no responsibility or liability for any taxation consequences of subscribing for Securities under this Prospectus. You should consult your own professional tax advisers in regard to tax implications of the Offer.

DISCLAIMER

The information in this Prospectus is not investment or financial product advice and does not take account your investment objectives, financial situation or particular needs. It is important that you read this Prospectus carefully and in its entirety before deciding whether to invest in the Company.

Except as required by law, and only to the extent so required, none of the Company, the Directors, the Company's management, the Lead Manager or any other person warrants or guarantees the future performance of the Company, or any return on any investment made pursuant to this Prospectus.

No person is authorised to give any information or to make any representation in connection with the Offer, other than as is contained in this Prospectus. Any information or representation not contained in this Prospectus should not be relied on as having been made or authorised by the Company, the Directors, the Lead Manager or any other person in connection with the Offer.

THIRD PARTY PUBLICATIONS

The Industry Overview in Section 3 of this Prospectus includes attributed statements from books, journals and comparable publications that are not specific to, and have no connection with the Company. The authors of these books, journals and comparable publications have not provided their consent for these statements to be included in this Prospectus, and the Company is relying upon ASIC Corporations (Consents to Statements) Instrument 2016/72 for the inclusion of these statements in this Prospectus without such consent having been obtained.

MISCELLANEOUS

All financial amounts contained in this Prospectus are expressed as Australian currency unless otherwise stated. Conversions may not reconcile due to rounding. All references to '\$' or 'A\$' are references to Australian dollars.

All references to time in this Prospectus are references to WST, being the time in Perth, Western Australia, unless otherwise stated.

Defined terms and abbreviations used in this Prospectus are detailed in the glossary in Section 10.

DIRECTORS

Jack Hanrahan | Non-Executive Chairman

Fang (Fiona) Yue | Managing Director

Boxiang (Peter) Zhao | Non-Executive Director

COMPANY SECRETARY

Alan Thomas

REGISTERED AND PRINCIPAL OFFICE

4 Gould Street
Osborne Park WA 6017
P (08) 9302 2659
E mnc@merinoandco.com.au
www.merinosnug.com.au

AUDITOR*

William Buck Audit (WA) Pty Ltd**
Level 3, 15 Labouchere Road
South Perth WA 6151

AUSTRALIAN LEGAL ADVISER

HWL Ebsworth Lawyers
Level 20, 240 St Georges Terrace
Perth WA 6000

LEAD MANAGER

Lodge Corporate Pty Ltd
Level 40, North Tower, 80 Collins Street
Melbourne VIC 3000

INVESTIGATING ACCOUNTANT

William Buck Consulting (WA) Pty Ltd
Level 3, 15 Labouchere Road
South Perth WA 6151

PROPOSED STOCK EXCHANGE LISTING

Australian Securities Exchange (**ASX**)
Proposed ASX Code: ASX:MNC

INDUSTRY EXPERT

Frost & Sullivan Australia Pty Limited
Governor Phillip Tower
Level 36, 1 Farrer Place
Sydney NSW 2000

* These entities are included for information purposes only. They have not been involved in the preparation of this Prospectus.

** William Buck Audit (WA) Pty Ltd has been appointed to act as auditor to the Company for the year ended 30 June 2023 and the half year ended 31 December 2023.

LETTER FROM THE CHAIRMAN

Dear Investor

On behalf of the board of Merino & Co. Limited (**Merino & Co** or **Company**), I am pleased to present this Prospectus and to invite you to become a shareholder in the Company.

Established in 2013, Merino & Co is a branded lifestyle clothing and accessories company based in Perth, Western Australia. The Company manufactures, markets and sells wool apparel and accessories, predominately featuring fine Merino wool, to both Australian and international markets.

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, Japan and North America, where high-quality wool products are in higher demand owing to colder climates.

The Company is seeking to raise up to \$7,500,000 (before costs) through the issue of up to 37,500,000 Shares at a price of \$0.20 per Share, pursuant to the IPO Offer.

Lodge Corporate has been appointed to act as the lead manager to the IPO Offer.

The proceeds of the IPO Offer will be utilised to enable the Company to:

1. expand production capacity;
2. fund preparation of stock for wholesale orders;
3. fund marketing and branding, including for online platforms.
4. fund research & development;
5. fund corporate expenses and working capital; and
6. meet the costs of the Offer.

The Company has established a Board and management team possessing skills and experience across various industry sectors in manufacturing, retail and wholesale businesses.

This Prospectus contains detailed information about the IPO Offer and the current and proposed operations of the Company, as well as the risks pertaining to an investment in the Company. Potential investors in the Company should carefully consider those risks (detailed in Section 4).

The Offer contained in this Prospectus is conditional on the events outlined in Section 1.5 occurring. If these events do not occur, the Offer will not proceed and investors will be refunded their Application Monies without interest.

I encourage you to read this Prospectus in its entirety to gain a full understanding of the Company's operations before making an investment decision. Before deciding on whether to invest in the Company, you should read this Prospectus carefully and consult with your accountant, financial adviser, stockbroker, lawyer or other professional adviser.

On behalf of the Directors, I invite you to consider this opportunity to invest in the Company and look forward to welcoming you as a Shareholder.

Yours faithfully



Jack Hanrahan

Non-Executive Chairman

Merino & Co. Limited

KEY OFFER DETAILS

Key details of the Offers	Shares		Options		Convertible Notes	
	Minimum Subscription	Maximum Subscription	Minimum Subscription	Maximum Subscription	Minimum Subscription	Maximum Subscription
Existing Securities on issue as at the date of this Prospectus ¹	24,000,000	24,000,000	Nil.	Nil.	8	8
Total number of Securities to be issued under the Offer	30,000,000	37,500,000	Nil.	Nil.	Nil.	Nil.
Shares to be issued upon conversion of Convertible Notes ²	13,809,300	13,809,300	-	-	-	-
Shares to be issued upon conversion of Management Loan ³	3,497,270	3,497,270	-	-	-	-
Shares to be issued to Consultant ⁴	200,000	200,000	-	-	-	-
Securities to be issued to Lead Manager ⁵	500,000	750,000	300,000	300,000	Nil.	Nil.
Total Securities on issue on completion of the Offer	72,006,570	79,756,570	300,000	300,000	Nil.	Nil.

Notes:

1. See Section 2.2 for further details regarding the Company's current capital structure.
2. See Sections 7.7 and 8.3 for further details regarding the Convertible Notes and Shares to be issued upon conversion of the Convertible Notes.
3. See Section 2.11 for further details regarding the Management Loan and Shares to be issued upon conversion of the Management Loan.
4. Upon Admission, the Company will issue EMPF (or its nominees) 200,000 Shares at a deemed issue price of \$0.20, in consideration for EMPF providing the Company investor engagement and communication services. EMPF is not a related party or promoter of the Company.
5. See Section 7.1 for further details.

INDICATIVE TIMETABLE

Event	Date
Lodgement of this Prospectus with ASIC	Friday, 2 August 2024
Opening Date for the Offer	Monday, 12 August 2024
Closing Date for the Offer	Friday, 20 September 2024
Issue Date	Friday, 27 September 2024
Despatch of holding statements	Thursday, 3 October 2024
Expected date for quotation on ASX	Friday, 4 October 2024

Note:

The above dates are indicative only and may vary subject to the Corporations Act, the Listing Rules and other applicable laws. In particular the Company reserves the right to vary the Opening Date and the Closing Date without prior notice, which may have a consequential effect on the other dates. Applicants are therefore encouraged to lodge their Application Form as soon as possible after the Opening Date if they wish to invest in the Company.



INVESTMENT OVERVIEW

This Section is not intended to provide full information for investors intending to apply for Securities offered pursuant to this Prospectus. This Prospectus should be read and considered in its entirety. The Securities offered pursuant to this Prospectus carry no guarantee in respect of return of capital, return on investment, payment of dividends or the future value of the Securities.

Topic	Summary	More Information
INTRODUCTION		
Who is the Company and what does it do?	<p>Merino & Co. Limited ACN 162 863 121.</p> <p>Established in 2013, Merino & Co is a branded lifestyle clothing and accessories company based in Perth, Western Australia. The Company manufactures, markets and sells wool apparel and accessories, predominately featuring fine Merino wool, to both Australian and international markets.</p> <p>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, Japan and North America, where high-quality wool products are in higher demand owing to colder climates.</p> <p>Merino & Co's wool-based products are made and/or partially made in Australia, and are assembled in both Australia and China. The Company conducts a material portion of its business in China.</p> <p>The Company is a strong advocate of the benefits of wool as a natural fibre, and is strong supporter of the proliferation of more sustainable, renewable and biodegradable products made from environmentally friendly and raw natural materials such as wool, alpaca and possum.</p>	Sections 2.1 and 2.12
What are the Company's sources of revenue?	<p>The Company generates its revenue by the sale of its clothing and apparel products, which revenue can be generally categorised as follows:</p> <ul style="list-style-type: none"> (a) retail sales; (b) wholesale - general; (c) wholesale - airport; and (d) exports. 	Section 2.6
What is the Company's growth strategies, plans and objectives?	<p>Following Admission, the Company's growth strategies, plans and objectives will primarily focus on the following key areas:</p> <ul style="list-style-type: none"> (a) strengthening brand equity and recognition; (b) new product development; (c) international expansion; and (d) relaunching the Company in the domestic and tourist markets. 	Section 2.5
What are the key dependencies of the Company's business model?	<p>The key factors that the Company will depend on to meet its objectives are:</p> <ul style="list-style-type: none"> (a) supply and distribution security; (b) key customer relationships; (c) retail participation and general economic conditions; and (d) key personnel. 	Section 2.10
What is the Company's financial position?	<p>See the financial information in Section 6 consisting of:</p> <ul style="list-style-type: none"> (a) the historical statements of profit or loss and other comprehensive income and statements of cash flows of the Company for the years ended 30 June 2022 and 30 June 2023 and for the six months ended 31 December 2023 (with comparative for the six months ended 31 December 2022); (b) the historical statement of financial position of the Company as at 31 December 2023, and (c) the pro forma statement of financial position of the Company as at 31 December 2023, including the pro forma adjustments applied to the Historical Financial Information of the Company to illustrate the events and transactions related to the Offer as if they had occurred at 31 December 2023. 	Section 6

INVESTMENT OVERVIEW

Topic	Summary						More Information
	Key details of the Offers	Shares		Options		Convertible Notes	
		Minimum Subscription	Maximum Subscription	Minimum Subscription	Maximum Subscription	Minimum Subscription	Maximum Subscription
	Existing Securities on issue as at the date of this Prospectus ¹	24,000,000	24,000,000	Nil.	Nil.	8	8
	Total number of Securities to be issued under the Offer	30,000,000	37,500,000	Nil.	Nil.	Nil.	Nil.
	Shares to be issued upon conversion of Convertible Notes ²	13,809,300	13,809,300	-	-	-	-
	Shares to be issued upon conversion of Management Loan ³	3,497,270	3,497,270	-	-	-	-
	Shares to be issued to Consultant ⁴	200,000	200,000	-	-	-	-
	Securities to be issued to Lead Manager ⁵	500,000	750,000	300,000	300,000	Nil.	Nil.
	Total Securities on issue on completion of the Offer	72,006,570	79,756,570	300,000	300,000	Nil.	Nil.
	<p>Notes:</p> <ol style="list-style-type: none"> See Section 2.2 for further details regarding the Company's current capital structure. See Sections 7.7 and 8.3 for further details regarding the Convertible Notes and Shares to be issued upon conversion of the Convertible Notes. See Section 2.11 for further details regarding the Management Loan and Shares to be issued upon conversion of the Management Loan. Upon Admission, the Company will issue EMPF (or its nominees) 200,000 Shares at a deemed issue price of \$0.20, in consideration for EMPF providing the Company investor engagement and communication services. EMPF is not a related party or promoter of the Company. See Section 7.1 for further details. 						

INVESTMENT OVERVIEW

Topic	Summary					More Information
What is the proposed use of funds raised under the IPO Offer?		Minimum Subscription		Maximum Subscription		Section 1.6
	Use of Funds – Year 1 ⁽¹⁾	\$	%	\$	%	
	Expanding production capacity ⁽²⁾	1,179,900	19.67%	1,419,900	18.93%	
	Preparing stock for wholesale orders ⁽³⁾	1,540,000	25.67%	1,600,000	21.33%	
	Marketing and branding, including for online platforms ⁽⁴⁾	483,000	8.05%	875,000	11.67%	
	Research & development ⁽⁵⁾	350,000	5.83%	350,000	4.67%	
	Corporate expenses ⁽⁴⁾	534,000	8.90%	534,000	7.12%	
	Working capital ⁽⁷⁾	131,894	2.20%	466,476	6.22%	
	Costs of the Offer ⁽⁸⁾	654,206	10.9%	745,706	9.94%	
	Total Funds Allocated – Year 1	4,873,000	81.22%	5,991,082	79.88%	
		Minimum Subscription		Maximum Subscription		
	Use of Funds – Year 2 ⁽¹⁾	\$	%	\$	%	
	Preparing stock for wholesale orders ⁽³⁾	236,000	3.93%	250,000	3.33%	
	Marketing and branding, including for online platforms ⁽⁴⁾	207,000	3.45%	375,000	5.00%	
	Research & development ⁽⁵⁾	150,000	2.50%	150,000	2.00%	
	Corporate expenses ⁽⁴⁾	534,000	8.90%	534,000	7.12%	
	Working capital ⁽⁷⁾	0	0%	199,918	2.67%	
	Total Funds Allocated – Year 2	1,127,000	18.78%	1,508,918	20.12%	
	Total Funds Allocated	6,000,000	100%	7,500,000	100%	

INVESTMENT OVERVIEW

Topic	Summary	More Information
	<p>Notes:</p> <ol style="list-style-type: none"> 1. Shareholders should note that the above estimated expenditures will be subject to modification on an ongoing basis depending on the results obtained from the Company's activities. Due to market conditions, the development of new opportunities and/or any number of other factors (including the risk factors outlined in Section 4), actual expenditure levels may differ significantly from the above estimates. 2. Funds allocated towards expanding production capacity includes using funds towards expanding manufacturing capabilities by adding more, highly-automated, woven loom machines and sock machines to produce Merino wool products. Following Admission, the Company intends to purchase new high-speed rapier loom machines, which will significantly increase the manufacturing and production capacity of the Company. Further, the Company intends to lease a larger premises in Perth, Western Australia to accommodate, not only its increased manufacturing capacity, but also its storage and distribution facilities. 3. Funds allocated towards preparing stock for wholesale orders aims to enhance the Company's capacity to meet wholesale demand and fulfill wholesale orders promptly by building up substantial inventory, expanding the Company's market reach and distribution channels with major strategic wholesalers, and optimising production efficiency. 4. Funds allocated towards marketing and branding, including for online platforms, includes using funds to complete the redevelopment of the Company's website with the aim of growing opportunities for the Company in online retail sales, expanding market reach, and optimising direct-to-consumer channels. 5. Funds allocated towards research and development will be used towards funding expenses incurred by the Company in relation to the R&D Project. See Section 2.5(c)(iii) for further information regarding the R&D Project. 6. Corporate expenses include the general costs associated with the management and operation of the business, including Directors' fees, office expenses, insurance costs, travel, audit fees, legal fees, share registry costs, annual listing fees, and other associated corporate and governance costs. See Section 5.8 for further information about the fees payable to Directors. 7. Working capital includes funding for additional operational related activities such as fulfilling larger than anticipated orders, additional promotional activities in existing and new online platforms and acquisition costs (including due diligence investigations and expert's fees in relation to such acquisitions). Any amounts not so expended will be applied toward administration costs for the period following the 24-month period following Admission. 8. Expenses paid or payable by the Company in relation to the Offer are set out in Section 8.8. 	

INVESTMENT OVERVIEW

Topic	Summary	More Information
SUMMARY OF KEY RISKS		
Prospective investors should be aware that subscribing for Securities in the Company involves a number of risks. The risk factors set out in Section 4, and other general risks applicable to all investments in listed securities, may affect the value of the Shares in the future. Accordingly, an investment in the Company should be considered highly speculative.		
Retail environment and general economic conditions	Many of the Company's products are discretionary in nature. Consumer spending on these items is potentially sensitive to changes in general consumer sentiment. Factors which affect general consumer sentiment may or may not have a direct impact on the income levels of the Company's customers but can adversely affect their spending levels notwithstanding. These factors include house prices, political uncertainty, economic outlook, employment certainty, conflict and terror events.	Section 4.1(a)
Competition	<p>The Australian wool apparel industry is competitive. The Company's primary competition arises from the increasing market share of small local workshops and overseas wool apparel companies.</p> <p>The Company has determined the key factors in assessing the risk of competition to the Company are generally the:</p> <ul style="list-style-type: none"> (a) range of merchandise available; (b) quality of the merchandise; (c) price of the merchandise; (d) marketing and social media presence of the competitor; and (e) quality of customer service. 	Section 4.1(b)
Demand and economic factors	While the wool apparel market has been growing, there is no guarantee this growth will continue into the future or as currently forecasted. The Company is subject to factors outside its control including both the Australian and global economic outlook, movements in the cash rate and unemployment rate, levels of building activity, instability in real estate and housing markets, consumer sentiment, global economic outlook, foreign economic shocks, changes to trade policies (including the imposition of tariffs or other protectionist measures) and adverse exchange rate instability. All of the aforementioned factors may affect spending in the domestic Australian market, which may reduce demand for the Company's apparel and in turn adversely affect the Company's revenue.	Section 4.1(c)
Material sourcing risks and supply chain disruptions	The Company depends on a number of raw materials, semi-finished goods and conversion processes in the production of its merchandise. When rising costs of raw materials cannot be offset through increase in the prices of the Company's merchandise, the Company's operations, financial position and earnings may be adversely affected. If there were to be interruptions to the supply of raw materials and semi-finished goods supply chains, and temporary shortages of certain materials, this may adversely impact the Company's operations and revenue.	Section 4.1(d)
Contract risk	The success of the Company's business will depend on its continued relationships with its existing distributors or agents of its products. There can be no guarantee that these relationships will continue or, if they do continue, that these relationships will continue to be successful. There remains a risk that the Company's revenue may decline if the Company fails to meet key contractual or commercial requirements, which can in turn lead to distributors and/or agents shifting entering into agreements with the Company's competitors. Although the Company does not currently rely on one single supplier, distributor or agent for its business activities, the Company's business is still maturing into a more diverse supply and distribution base. The loss of a number of the Company's distributors and/or agents may impact the Company's revenue and it may take time to establish new relationships. These relationships may also be on terms less favourable to the Company than those existing at the date of this Prospectus. As at the date of this Prospectus, the Company has certain contracts with a term expiring in less than one year. Refer to Section 7 for further details.	Section 4.1(e)

Topic	Summary	More Information
Country risk	<p>As set out in Section 2 above, a substantial portion of the Company's revenue is anticipated to be derived from China. Accordingly, the Company's financial performance and operating capacity is exposed to and dependent on the economic, legal, political and social climate of China. Economic, legal, political and social changes in China may have a material adverse effect on the Company's financial performance and operating capacity.</p> <p>The Chinese Government exerts significant control over the management of the national economy and the regulation of industry development. It may exercise control over China's economic growth by allocating resources, controlling payment of foreign currency, setting monetary policy and at times providing preferential (or detrimental) treatment to specific companies or industries. The Chinese Government may introduce or amend laws or policies affecting trade relations (including in relation to trade with Australia), taxation, banking, import and export of goods, and foreign investment. In the past, China has imposed restrictions on trade and imposed substantial tariffs on the import of certain Australian goods which has caused financial loss for Australian companies. Changes to law or the interpretation of law, regulations, policy and government controls in China may affect the Company's operations in China and therefore its financial performance. As at the date of this Prospectus, the Chinese Government has not imposed any restrictions on trade or substantial tariffs that are likely to impact the Company's operations in China.</p> <p>Although the Chinese economy has experienced significant growth in the past 30 years, the Company cannot assure investors that the Chinese economy will continue to grow, or that if there is growth, such growth will be steady and uniform, or that if there is a slowdown, such slowdown will not have a negative effect on its business, financial condition and operations, including demand for the Company's products.</p> <p>The Chinese Government may exercise its control to impose lending and borrowing restrictions on specific sectors, industries, areas or companies, and the People's Bank of China may change lending guidelines imposed on commercial banks, restricting access to finance for particular borrowers. Such changes could materially affect the Company's liquidity and ability to access capital and therefore may have a material adverse effect on the Company's financial performance and operating capacity. As at the date of this Prospectus, neither the Company nor the Group have entered into, or anticipate entering into, any financing arrangements with persons or entities in China.</p> <p>The Chinese Government exercises control over the conversion of CNY into foreign currencies and, in certain cases, the remittance of currency out of China. Approvals from the relevant Chinese Government authorities, including the State Administration of Foreign Exchange, are usually required when remitting currency outside of China. Under China's existing currency repatriation and foreign investment law regulations, the Company may freely remit its capital contributions, profits, capital gains, income from asset disposal, intellectual property royalties obtained, compensation or compensation obtained in accordance with law, and liquidation income within the territory of China in accordance with the law, and no entity or individual may illegally impose restrictions on the currency, amount, and frequency of remittance, provided the company submits:</p> <ul style="list-style-type: none"> (a) the profit distribution resolution of the shareholders' meeting or the board of directors (or the profit distribution resolution of partners) related to the profit remittance; (b) audited financial statements, and (c) the tax certificate issued by the relevant tax department. <p>Notwithstanding the above, the Chinese Government or relevant authority may impose changes on the currency repatriation and foreign investment law regulations. Adverse changes in policy, or adverse determinations made against the Company that affect the Company's ability to exchange currency or remit funds may affect the Company's ability to fund its operations and therefore may have a material adverse effect on the Company's financial performance and operating capacity. Refer to Section 2.12 for further details in relation to the repatriation of funds from China.</p> <p>The risks associated with movements in exchange rates are discussed in Section 4.1(o).</p> <p>The Company is also exposed to taxation regulation in both China and Australia, resulting from the cross-jurisdictional nature of the Company's business and operations (refer to Section 2 for further details). The Company's exposure to taxation regulation in both China and Australia may vary in the course of the Company's business, and will depend largely on the origin of the Company's sources of revenue. Further, there is potential for new or amended taxation regulations, and changes to the manner in which taxation regulations are interpreted or implemented in China or Australia, which may materially and adversely impact the Company's financial performance.</p>	Section 4.1(f)

INVESTMENT OVERVIEW

Topic	Summary	More Information
	The Company's operations and dealings in China are governed by the laws and regulations of China. The legal system in China can be complex and is subject to change. The interpretation and enforcement of laws and regulations may not always be uniform, and uncertainty or changes in law or policy may limit the legal protections available to the Company. While previous court decisions may be indicative, or noted for reference, they may not necessarily carry precedent value. The Company is party to a number of agreements with Chinese counterparties. The interpretation of law in relation to these agreements may be subject to uncertainty, including due to potential discretion that administrative or court authorities are afforded. This may reduce the Company's ability to enforce its rights, including by way of making it more difficult to evaluate the outcome of proceedings. If the Company was unable to enforce its rights in relation to key contracts the Company holds with Chinese counterparties, this would materially impact the Company's business and operations. Legal uncertainties regarding China may also limit the legal protections or rights available to the Company and to investors, including the Applicants.	
Evolving fashion trends and consumer preferences	Demand for the Company's products is sensitive to its successful range development and the contemporary brand and product selection, and accompanying quantification decisions, made by the Company. While the Company does allow for, and consider, material error in its product selection, sustained and material misjudgements in relation to evolving fashion trends and product range can adversely affect sales levels and consumer perspective regarding its brand and result in a loss of market share. Though the Company does not think it is likely, it is possible that the Company may misread or misinterpret fashion trends on a sustained and recurring basis. Further, notwithstanding the Company's relevant mitigating procedures, the Company may also incorrectly quantify the consumer demand arising from certain fashion trends, and therefore offer too much or too little product that is relevant to a particular fashion trend, which may adversely impact the Company's sales.	Section 4.1(g)
Seasonal sales	The Company's retail sales revenue has historically been subject to seasonal patterns as the Company's wholesale customers will generally pre-order for the following year's winter. An unexpected decrease in sales over those traditionally high-volume trading periods may adversely impact the Company's revenue during the relevant period, and could result in surplus inventory, which may need to be sold over an extended period or at lower margins. Further, seasonal patterns may vary from time to time, which may adversely impact Company sales, and result in surplus inventory.	Section 4.1(h)
COVID-19	The COVID-19 pandemic has had a significant impact on the Australian economy, including the ability of individuals and businesses to operate. There continues to be uncertainty as to the duration and further impact of COVID-19, including government, regulatory or health authority actions, downturn in tourism, supply restrictions and unemployment rates in Australia. The negative impact of some or all of these factors on the Australian economy may have an adverse impact on the Company's business, operations, growth strategies and financial performance.	Section 4.1(i)
Inventory management	The Company must keep enough inventory on hand to meet demand in order to operate its business successfully. The Company must also avoid excessive stockpiling of inventory that may be out-of-date in terms of fashion trends, or inventory that does not sell at a rate which is in line with that projected by the Company. When the Company makes judgements about the quantity and type of inventory to manufacture and provide to its clients, these decisions can result in holding insufficient or excessive inventory above and beyond amounts arising in the ordinary course of business. To mitigate this risk, the Company uses its inventory management systems to control stock levels and help with stock manufacturing predictions. However, the Company's future financial condition and performance could suffer from maintaining insufficient or excessive inventory levels.	Section 4.1(j)
Key personnel	The Company's future success is dependent on its ability to retain and/or attract individuals that will complement its culture and retain an experienced senior management team, including the Company's Managing Director, Fang (Fiona) Yue, and Operations General Manager, Taizong (Tim) Kang. Competition for key personnel within the global retail/wholesale market could increase the demand and cost for quality employees. In the interests of managing the risks and challenges associated with leadership succession and retention of know-how and experience, the Company aims to mitigate this risk by providing key employees both short and long-term incentives, primarily through the Company's Employee Securities Incentive Plan, which will align the interests of those employees with the interests of the Company.	Section 4.1(k)

INVESTMENT OVERVIEW

Topic	Summary	More Information
New markets	Any future acquisitions or expansions into new markets (in product segments, relevant adjacencies and potentially geographically) may expose us to unforeseen risks. A number of these risks could include regulatory requirements, complications or inefficiencies related to staff, managerial and operational performance, enforcing contractual obligations and intellectual property rights, the inability to register the Company's trademarks or other intellectual property in certain jurisdictions, differing consumer sentiments and preferences, competition from existing established competitors, exchange rate fluctuations, political or economic instabilities, and taxation.	Section 4.1(l)
Marketing	<p>The growth in new customers depends in part on the effectiveness of the marketing efforts of the Company, particularly online marketing but also in more traditional media such as outdoor advertising, radio and television.</p> <p>There is a risk that the Company's traditional media advertising and online marketing may become less effective or more expensive as a result of:</p> <ul style="list-style-type: none"> (a) increased competition or costs associated with the media slots and segments targeted by the Company for its advertising campaigns; (b) increased cost of production of print, television or radio advertisements; and (c) a reduction in the degree of engagement with online users. 	Section 4.1(m)
Brand integrity	The Company's brand integrity is a crucial component of the Company's capacity to both appeal to its present clientele and draw in new clientele. There are several factors, both inside and outside of the Company's direct control which may negatively impact public perception of the Company's brand integrity, including compulsory product recalls, adverse legal disputes, failure to meet customer expectations or negative media coverage may have an adverse impact on the reputation and integrity of the Merino & Co brand name, and thereby may adversely impact the business of the Company.	Section 4.1(n)
Exchange rate movements	Given the cross-border nature of the Company sales and supply, the Company is often exposed to foreign exchange rates and currency movements, largely because the majority of the world's apparel is manufactured in markets wherein pricing is denominated in USD. While most of the Company's sales and supply materials are contracted in CNY & AUD, the standard market practice in entering agreements with manufacturers and suppliers in key markets is to utilise USD or CNY. This means that the Company has a direct and indirect exposure to the relative strength of the AUD against both the USD and CNY. A sustained decline in the strength of the AUD against foreign currencies may adversely affect the Company's financial performance.	Section 4.1(o)
Growth strategies	<p>The Company has a number of strategies in place to generate future growth and earnings, including:</p> <ul style="list-style-type: none"> (a) expanding the Company's manufacturing capability by adding highly automated woven loom machines to produce consistently high-quality merino wool products; (b) successfully fulfilling the Company's fast-growing wholesale orders and continuing to build the pipeline of orders with major strategic wholesalers; (c) optimising Direct-to-Consumer online platforms and stores in the Company's target markets; and (d) increasing brand awareness, and promoting Australia Made, fine merino wool products, outside of Australia. <p>There is a risk that the implementation of these strategies will be subject to delays or cost overruns, and there is no guarantee that these strategies will generate proportionate customer demand, and may not deliver a favourable return on the Company's investment. Furthermore, the implementation of these growth strategies may lead to changes to the Company's business and customer experience, which may result in unintended adverse consequences if such changes affect customers' willingness to buy the Company's products.</p>	Section 4.1(p)
New technology evolution	The Company relies on third-party hardware and software technologies to deliver its products and services. These technologies are required to meet the high quality standards associated with the Company. Any disruption in the provision of these third-party technologies may have an adverse impact on both the production and quality of the Company's apparel. Given the rapid development of technology generally, it may be that competitors of the Company may have access to technologies not available to the Company. In which case, this may affect the capacity for the Company to viably compete in the market, which may have an adverse impact on the profitability of the Company.	Section 4.1(q)

INVESTMENT OVERVIEW

Topic	Summary	More Information
Future capital requirements	<p>The Company may require further financing in the future, in addition to amounts raised pursuant to the Offer. Any additional equity financing may be dilutive to Shareholders, may be undertaken at lower prices than the current market price (or Offer Price) or may involve restrictive covenants which limit the Company's operations and business strategy. Debt financing, if available, may involve restrictions on financing and operating activities.</p> <p>Although the Directors believe that additional capital can be obtained, no assurances can be made that appropriate capital or funding, if and when needed, will be available on terms favourable to the Company or at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations, and this could have a material adverse effect on the Company's activities and could affect the Company's ability to continue as a going concern.</p>	Section 4.1(r)
Product development	<p>The Company may introduce new products or functionality on its online platforms that are intended to enhance the user experience and deliver greater levels of customer satisfaction. There is a risk that these initiatives may result in unforeseen costs or risks, and may not perform as intended, or may not deliver the corresponding growth in customers.</p> <p>There is no guarantee that the Company will be able to undertake research and product development successfully. There is a risk that during the research, design, development and testing of the Company's future products that unforeseen costs will be incurred and that the products will not perform or test as expected. If testing during product development produces results that do not meet the Company's expectations, this could result in delays to the Company's growth plans.</p>	Section 4.1(s)
Liquidity	<p>At Admission, assuming the Minimum Subscription is raised, the Company expects to have 72,006,570 Shares on issue. Assuming the Minimum Subscription is raised, the Company expects approximately 38,006,570 Shares to be subject to 24 months escrow and nil Shares subject to 12 months escrow in accordance with Chapter 9 of the Listing Rules, which would be equal to approximately 52.78% of the Company's issued capital. This creates a liquidity risk as a large portion of issued capital may not be able to be freely tradable for a period of time. The ability of an investor in the Company to sell their Shares on the ASX will depend on the turnover or liquidity of the Shares at the time of sale. Therefore, investors may not be able to sell their Shares at the time, in the volumes or at the price they desire.</p>	Section 4.1(t)
Insurance risk	<p>The Company intends to insure its operations in accordance with industry practice. However, in certain circumstances, the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a materially adverse effect on the Company's financial position.</p>	Section 4.1(u)
Litigation	<p>The Company may occasionally become the target of grievances, lawsuits, enquiries, or audits brought by clients, staff members, suppliers, competitors, governmental bodies, regulators, or other third parties whose claims may relate to inaccurate product descriptions, harm, health, environmental, safety, or operational concerns, negligence, noncompliance, or breach of contract. Further, negative publicity from complaints, lawsuits, investigations, or audits may damage the Company's reputation and also divert management's focus from the general operations of the business, which may have an adverse impact on the Company's operational and financial performance.</p>	Section 4.1(v)
Future profitability	<p>Whilst the Directors have confidence in the future revenue earning potential of expanding Merino apparel market globally, there can be no certainty that the Company will achieve or sustain profitability, or achieve or sustain positive cash flow from its operating activities.</p> <p>The Company's profitability may be impacted by, among other things, the success of its business strategies, its ability to successfully provide a high-quality product and level of service to users, satisfaction of legal, regulatory and licensing requirements, economic conditions in the markets in which it operates and competition factors. Accordingly, the extent of future profits (if any) and the time required to achieve sustained profitability are uncertain and cannot be reliably predicted.</p>	Section 4.1(w)

INVESTMENT OVERVIEW

Topic	Summary	More Information																		
Attracting users and customers to website	<p>Though a large portion of the Company's revenue will come from wholesalers and distributors, the number of retail consumers engaging with the Company will stem from Company's website once redeveloped. If web traffic on the Company's website is lessened, this may adversely affect the financial performance of the Company's business. Various factors can affect the level of web traffic arriving at Company's website, including:</p> <ul style="list-style-type: none"> (a) marketing and promotions: if the Company's marketing and promotion efforts are not effective, this may manifest itself as a lack of retail consumers and distributors visiting the main website. (b) brand damage: should the Company suffer from reputational damage, web traffic could be affected. 	Section 4.1(x)																		
Further risks	For further information on general risks, please see Section 4.2.	Section 4.2																		
DIRECTORS, RELATED PARTY INTERESTS AND SUBSTANTIAL HOLDERS																				
Who are the Directors?	<p>As at the date of this Prospectus, the Board comprises of:</p> <ul style="list-style-type: none"> (a) Fang (Fiona) Yue - Managing Director; (b) Jack Hanrahan - Non-Executive Chairman; and (c) Boxiang (Peter) Zhao - Non-Executive Director. 	Section 5.1																		
Who are the key management personnel?	<ul style="list-style-type: none"> (a) Taizong (Tim) Kang - Operations General Manager; and (b) Alan Thomas - Chief Financial Officer. 	Section 5.4																		
What benefits are being paid to the Non-Executive Directors?	<p>Each of Jack Hanrahan and Boxiang (Peter) Zhao will be paid \$54,000 and \$42,000 per annum (exclusive of statutory superannuation and exclusive of GST), respectively.</p> <p>The maximum aggregate amount of fees that can be paid to Non-Executive Directors is currently set at \$500,000 per annum. This amount may be altered by a resolution of a general meeting.</p>	Section 5.8																		
What benefits are being paid to the Managing Director?	The Company has entered into a letter of engagement with Ms Fang (Fiona) Yue pursuant to which she receives \$160,000 per annum (exclusive of statutory superannuation and exclusive of GST). The remuneration of the Managing Director or Executive Directors will otherwise be as determined by the Board.	Section 5.8																		
What interests do the Directors and key management personnel have in the securities of the Company?	<p>The Directors, key management personnel and their related entities have the following interests in Securities as at the date of this Prospectus:</p> <table> <tr> <th>Director & Key Management Personnel</th><th>Shares</th><th>Voting Power %⁽¹⁾</th></tr> <tr> <td>Fang (Fiona) Yue⁽²⁾</td><td>10,200,000</td><td>83.33%</td></tr> <tr> <td>Jack Hanrahan⁽³⁾</td><td>Nil</td><td>Nil</td></tr> <tr> <td>Boxiang (Peter) Zhao⁽⁴⁾</td><td>Nil</td><td>Nil</td></tr> <tr> <td>Taizong (Tim) Kang⁽⁵⁾</td><td>9,800,000</td><td>83.33%</td></tr> <tr> <td>Alan Thomas</td><td>Nil</td><td>Nil</td></tr> </table>	Director & Key Management Personnel	Shares	Voting Power % ⁽¹⁾	Fang (Fiona) Yue ⁽²⁾	10,200,000	83.33%	Jack Hanrahan ⁽³⁾	Nil	Nil	Boxiang (Peter) Zhao ⁽⁴⁾	Nil	Nil	Taizong (Tim) Kang ⁽⁵⁾	9,800,000	83.33%	Alan Thomas	Nil	Nil	Sections 5.5 and 5.6
Director & Key Management Personnel	Shares	Voting Power % ⁽¹⁾																		
Fang (Fiona) Yue ⁽²⁾	10,200,000	83.33%																		
Jack Hanrahan ⁽³⁾	Nil	Nil																		
Boxiang (Peter) Zhao ⁽⁴⁾	Nil	Nil																		
Taizong (Tim) Kang ⁽⁵⁾	9,800,000	83.33%																		
Alan Thomas	Nil	Nil																		

INVESTMENT OVERVIEW

Topic	Summary				More Information
	<p>Notes:</p> <ol style="list-style-type: none"> Based on 24,000,000 Shares being on issue. Fang (Fiona) Yue is the legal holder of 10,200,000 Shares as at the date of this Prospectus. Fang (Fiona) Yue is the spouse of Taizong (Tim) Kang and is also an associate of Taizong (Tim) Kang in accordance with section 12(2)(c) of the Corporations Act. Taizong (Tim) Kang is the legal holder of 9,800,000 Shares as at the date of this Prospectus. Subject to receipt of all necessary shareholder approvals, to be sought at the Company's first annual general meeting following Admission, the Company shall issue Mr Hanrahan (or his nominee) 300,000 Shares. Subject to receipt of all necessary shareholder approvals, to be sought no later than the first anniversary following Admission, the Company shall issue Mr Hanrahan (or his nominee) 300,000 Shares. Subject to receipt of all necessary shareholder approvals, to be sought at the Company's first annual general meeting following Admission, the Company shall issue Mr Zhao (or his nominee) 150,000 Shares. Taizong (Tim) Kang is the legal holder of 9,800,000 Shares as at the date of this Prospectus. Taizong (Tim) Kang is the spouse of Fang (Fiona) Yue and is also an associate of Fang (Fiona) Yue in accordance with section 12(2)(c) of the Corporations Act. Fang (Fiona) Yue is the legal holder of 10,200,000 Shares as at the date of this Prospectus. 				
What important contracts with related parties is the Company a party to?	The Directors consider that certain contracts entered into by the Company are material to the Company or are of such a nature that an investor may wish to have particulars of them when making an assessment as to whether to apply for Shares under the IPO Offer. The provisions of such material contracts are summarised in Section 7.				Section 7
Who will be the substantial holders of the Company?	Number of Shares ⁽¹⁾			Voting Power	
	Use of Funds – Year 1 ⁽¹⁾	Minimum Subscription ⁽²⁾	Maximum Subscription ⁽³⁾	Minimum Subscription ⁽²⁾	Maximum Subscription ⁽³⁾
	AWN	4,000,000	4,000,000	5.56%	5.02%
	Fang (Fiona) Yue ⁽⁴⁾	20,000,000	20,000,000	27.78%	25.08%
	Taizong (Tim) Kang ⁽⁵⁾	20,000,000	20,000,000	27.78%	25.08%
<p>Notes:</p> <ol style="list-style-type: none"> This column records the number of Shares that the Shareholder and its Associates have a Relevant Interest in. Assuming the Minimum Subscription and 72,006,570 Shares being on issue. Assuming the Maximum Subscription and 79,756,570 Shares being on issue. Fang (Fiona) Yue will be the legal holder of 10,200,000 Shares on Admission. Fang (Fiona) Yue is the spouse of Taizong (Tim) Kang and is also an associate of Taizong (Tim) Kang in accordance with section 12(2)(c) of the Corporations Act. Taizong (Tim) Kang will be the legal holder of 9,800,000 Shares on Admission. Taizong (Tim) Kang will be the legal holder of 9,800,000 Shares on Admission. Taizong (Tim) Kang is the spouse of Fang (Fiona) Yue and is also an associate of Fang (Fiona) Yue in accordance with section 12(2)(c) of the Corporations Act. Fang (Fiona) Yue will be the legal holder of 10,200,000 Shares on Admission. 					

INVESTMENT OVERVIEW

Topic	Summary	More Information
What fees are payable to the Lead Manager?	<p>The Company will pay the following fees to the Lead Manager (or its nominees) pursuant to the Lead Manager Mandate, subject to Admission:</p> <ul style="list-style-type: none"> (a) \$150,000 (plus GST); (a) a fee of 6% (plus GST) on all amounts raised by Lodge Corporate under the Offer; (b) 500,000 Shares if the Minimum Subscription is raised, and an additional 250,000 Shares if the Maximum Subscription is raised (i.e. 750,000 Shares in aggregate); and (c) the Lead Manager Options. <p>For 12 months following Admission:</p> <ul style="list-style-type: none"> (a) Lodge Corporate will provide equity capital raising and transaction services to the Company for 12 months, for which it will be paid \$8,000 (plus GST) per month; and (b) Lodge Corporate will be paid a fee of 6% on any investment (including a debt, equity or hybrid investment) made in the Company by a party introduced to the Company by Lodge Corporate. 	Section 7.1
What interests will the Lead Manager have in the Securities of the Company upon Admission?	<p>The Lead Manager is not presently a shareholder of the Company. As at the date of this Prospectus, the Lead Manager and its Associates do not have a Relevant Interest in any Securities.</p> <p>Based on the information available to the Company as at the date of the Prospectus regarding the intentions of the Lead Manager and its Associates in relation to the Offer and assuming:</p> <ul style="list-style-type: none"> (a) the Minimum Subscription is achieved under the Offer; and (a) neither of the Lead Manager nor its Associates subscribe for any Shares under the Offer, <p>the Lead Manager and its Associates will have a Relevant Interest in:</p> <ul style="list-style-type: none"> (b) 500,000 Shares and 300,000 Lead Manager Options on Admission, if the Minimum Subscription is raised, issued pursuant to the Lead Manager Mandate (see Section 7.1 for further details); and (c) 750,000 Shares and 300,000 Lead Manager Options on Admission, if the Maximum Subscription is raised, issued pursuant to the Lead Manager Mandate (see Section 7.1 for further details). 	Section 1.7
What important contracts and/or arrangements with related parties is the Company a party to?	<p>The Company has entered into the following related party transactions on arms' length terms:</p> <ul style="list-style-type: none"> (a) the Management Loan with Mr Taizong (Tim) Kang (refer to Section 2.11 for further details). Mr Taizong (Tim) Kang is a related party of the Company, as a result of being the spouse of the Company's Managing Director, Fang (Fiona) Yue; (b) the Second Management Loan with Mr Taizong (Tim) Kang (refer to Section 2.11 for further details); (c) letters of engagement with Ms Fang (Fiona) Yue and Mr Taizong (Tim) Kang (refer to Section 7.2 for further details); (d) letters of appointment with Naha Holdings Pty Ltd and Mr Boxiang (Peter) Zhao as the Trustee for The Madeley Family Trust (refer to Section 7.2 for further details); and (e) deeds of indemnity, insurance and access with each of its Directors on customary terms (refer to Section 7.8 for further details). <p>At the date of this Prospectus, no other material transactions with related parties and Directors' interests exist that the Directors are aware of, other than those disclosed in the Prospectus. Related party interests and transactions will be governed and managed in accordance with the policies, procedures and requirements referred to in Section 5.10(d).</p>	Section 5.9
WHAT IS THE IPO OFFER?		
What is the IPO Offer?	The IPO Offer is an initial public offer by the Company, pursuant to this Prospectus, of up to 37,500,000 Shares at the Offer Price to raise up to \$7,500,000 (before costs).	Section 1.2
What is the IPO Offer Price?	\$0.20 per Share.	Section 1.2

INVESTMENT OVERVIEW

Topic	Summary	More Information
What is the minimum subscription amount under the IPO Offer?	<p>The minimum level of subscription under the Offer is \$6,000,000 before costs (being 30,000,000 Shares).</p> <p>None of the Securities offered under this Prospectus will be issued if Applications are not received for the Minimum Subscription. Should Applications for the Minimum Subscription not be received within four months from the date of this Prospectus, the Company will either repay the Application Monies (without interest) to Applicants or issue a supplementary prospectus or replacement prospectus and allow Applicants one month to withdraw their Applications and have their Application Monies refunded to them (without interest).</p>	Section 1.3
Will the Shares be quoted?	<p>Within seven days after the date of this Prospectus, the Company will apply to ASX for admission to the Official List and for the Shares, including those offered by this Prospectus, to be granted Official Quotation (apart from any Shares that may be designated by ASX as restricted securities).</p>	Section 1.14
What is the purpose of the IPO Offer?	<p>The purpose of this Prospectus is to:</p> <ul style="list-style-type: none"> (a) raise a minimum of \$6,000,000 (before costs) and a maximum of \$7,500,000 (before costs), pursuant to the Offer; (b) provide funding for the purposes outlined in Section 1.6; (c) position the Company to seek to achieve the objectives detailed in Section 2; (d) provide the Company with access to capital markets to improve financial flexibility; (e) enhance the public and financial profile of the Company; (f) meet the conditions to apply for Official Quotation of the Shares on the ASX; and (g) assist the Company to meet the requirements of ASX and satisfy Chapters 1 and 2 of the Listing Rules, as part of the Company's application for admission to the Official List. 	Section 1.4
What are the conditions of the Offer?	<p>The Offer under this Prospectus is conditional upon the following events occurring:</p> <ul style="list-style-type: none"> (a) the Company raising the Minimum Subscription under the Offer; (b) to the extent required by ASX or the Listing Rules, certain persons entering into a restriction agreement imposing such restriction on trading on the Company's securities as mandated by the Listing Rules; and (c) ASX providing the Company with a list of conditions which, once satisfied, will result in ASX admitting the Company to the Official List. <p>If these conditions are not satisfied then the Offer will not proceed and the Company will repay all Application Monies received under the Offer to the Applicants (without interest) in accordance with the Corporations Act.</p>	Section 1.5
Are there any escrow arrangements?	<p>As at the date of this Prospectus the Company expects, on a Maximum Subscription basis, up to 38,256,570 Shares and 300,000 Options to be subject to 24 months escrow and nil Shares or Options to be subject to 12 months escrow. The Company notes that total Securities to be subject to escrow above is to be confirmed by ASX, and the Company has not applied any relief in the calculation of the Restricted Securities.</p>	Section 1.17
What is the Offer Period for the Offer?	<p>The Offer will open on Monday, 12 August 2024, and close on Friday, 20 September 2024. The above dates are indicative only and may vary subject to the Corporations Act, the Listing Rules and other applicable laws. In particular the Company reserves the right to vary the Opening Date and the Closing Date without prior notice, which may have a consequential effect on the other dates.</p>	Indicative Timetable
Is the IPO Offer underwritten?	No.	1.2

INVESTMENT OVERVIEW

Topic	Summary	More Information
What are the key terms of the Lead Manager Mandate?	<p>Under the Lead Manager Mandate, the Lead Manager will provide services and assistance to the Company customarily provided in connection with the marketing and execution of an initial public offer.</p> <p>The Company will pay the following fees to the Lead Manager (or its nominees) pursuant to the Lead Manager Mandate, subject to Admission:</p> <ul style="list-style-type: none"> (a) \$150,000 (plus GST); (b) a fee of 6% (plus GST) on all amounts raised by Lodge Corporate under the Offer; (c) 500,000 Shares if the Minimum Subscription is raised, and an additional 250,000 Shares if the Maximum Subscription is raised (i.e. 750,000 Shares in aggregate); and (d) the Lead Manager Options. <p>For 12 months following Admission:</p> <ul style="list-style-type: none"> (a) Lodge Corporate will provide equity capital raising and transaction services to the Company for 12 months, for which it will be paid \$8,000 (plus GST) per month; and (b) Lodge Corporate will be paid a fee of 6% on any investment (including a debt, equity or hybrid investment) made in the Company by a party introduced to the Company by Lodge Corporate. <p>Please see Section 1.7 for further information regarding the interests of Lodge Corporate in the IPO Offer.</p> <p>Either party may terminate the Lead Manager Mandate on seven days written notice.</p>	Sections 1.7 and 7.1
ADDITIONAL INFORMATION		
Will the Company be adequately funded after completion of the IPO Offer?	The Board believes that the funds raised from the Offer will provide the Company with sufficient working capital to fund its near-term capital commitments and to achieve its stated objectives as detailed in this Prospectus.	Section 1.6
What rights and liabilities attach to the Securities on issue?	A summary of the rights and liabilities attaching to the Shares is set out in Section 8.1, and a summary rights and liabilities attaching to the Lead Manager Options is set out in Section 8.2	Sections 8.1 and 8.2
Who is eligible to participate in the Offer?	The Offer is open to the general public in Australia and certain investors in China. Applications for Shares under the Offer can only be made using the Offer Application Form, which can be found by following the instructions at https://apply.automic.com.au/Merino .	Sections 1.10 and 1.15
How do I apply for Shares under the IPO Offer?	Applications for Shares under the Offer can only be made using the Offer Application Form, which can be found by following the instructions at https://apply.automic.com.au/Merino .	Section 1.10

INVESTMENT OVERVIEW

Topic	Summary	More Information
What is the allocation policy?	<p>The allocation of Shares under the Offer will be determined by the Lead Manager, in consultation with the Company. The Lead Manager and the Company have absolute discretion regarding the basis of allocation of Shares among Institutional Investors. Participants in the Offer will be advised of their allocation of Shares, if any, by the Lead Manager. The allocation policy will be influenced, but not constrained by the following factors:</p> <ul style="list-style-type: none"> (a) number of Shares bid for by particular Applicants; (b) number of Shares bid for by particular Applicants; (c) timeliness of the bid by particular Applicants; (d) the Company's desire for an informed and active trading market following completion; (e) the Company's desire to establish a wide spread of institutional Shareholders; (f) overall level of demand under the Offer; (g) size and type of funds under management of particular Applicants; (h) likelihood that particular Applicants will be long-term Shareholders; and (i) other factors that the Company and the Lead Manager consider appropriate. 	Section 1.11
When will I receive confirmation that my application has been successful?	<p>The Company anticipates the despatch of holding statements on Thursday, 3 October 2024, however this date is indicative only and may vary subject to the Corporations Act, the Listing Rules and other applicable laws. In particular the Company reserves the right to vary the Opening Date and the Closing Date without prior notice, which may have a consequential effect on the other dates.</p>	Indicative Timetable
What is the Company's dividend policy?	<p>The Company does not expect to pay dividends in the near future as its focus will primarily be on the growing the Company's existing business.</p> <p>Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors and will depend upon matters such as the availability of distributable earnings, the operating results and financial condition of the Company, future capital requirements, general business and other factors considered relevant by the Directors. No assurances are given in relation to the payment of dividends, nor that any dividends may attach franking credits.</p>	Section 2.15
Is there any brokerage, commission or stamp duty payable by Applicants?	<p>No brokerage, stamp duty or other costs are payable by Applicants.</p>	1.10(a)
How can I find out more about the Prospectus or the Offer?	<p>Questions relating to the Offer and the completion of an Application Form can be directed to the Company Secretary at mnc@merinoandco.com.au.</p>	Section 1.23



**DETAILS
OF OFFER**

1. DETAILS OF OFFER

1.1 IMPORTANT INFORMATION

This Prospectus contains details of the Offer to apply for Shares in the Company. You are encouraged to:

- (a) read the contents of this Prospectus carefully, including the risk factors in Section 4; and
- (b) obtain independent professional advice from your accountant, lawyer, financial advisor or any other party qualified to provide advice on the contents of this Prospectus.

1.2 DESCRIPTION OF THE OFFER

This Prospectus invites investors to apply for up to 37,500,000 Shares at an issue price of \$0.20 each to raise up to \$7,500,000 (before costs).

The Shares to be issued pursuant to the Offer are of the same class and will rank equally with the existing Shares on issue. The rights and liabilities attaching to the Shares are further described in Section 8.1.

The Offer is a public offer, which is open to the general public in Australia and certain investors in China. The Offer is not underwritten.

Lodge Corporate has been appointed as lead manager to the Offer on the terms and conditions summarised in Section 7.1 of this Prospectus. The allocation of Shares under the Offer will be determined by agreement between the Company and the Lead Manager. Applications for Shares under the Offer must be made on the Application Form and received by the Company on or before the Closing Date.

Further details and instructions on how to apply for Shares under the Offer and how the Shares under the Offer will be allocated are set out in Sections 1.10 and 1.11.

1.3 MINIMUM SUBSCRIPTION

The minimum level of subscription under the Offer is \$6,000,000 before costs (being 30,000,000 Shares).

None of the Securities offered under this Prospectus will be issued if Applications are not received for the Minimum Subscription. Should Applications for the Minimum Subscription not be received within four months from the date of this Prospectus, the Company will either repay the Application Monies (without interest) to Applicants or issue a supplementary prospectus or replacement prospectus and allow Applicants one month to withdraw their Applications and have their Application Monies refunded to them (without interest).

1.4 PURPOSE OF PROSPECTUS

The purpose of this Prospectus is to:

- (a) raise a minimum of \$6,000,000 (before costs) and a maximum of \$7,500,000 (before costs), pursuant to the Offer;
- (b) provide funding for the purposes outlined in Section 1.6;
- (c) position the Company to seek to achieve the objectives detailed in Section 2;
- (d) provide the Company with access to capital markets to improve financial flexibility;
- (e) enhance the public and financial profile of the Company;
- (f) meet the conditions to apply for Official Quotation of the Shares on the ASX; and
- (g) assist the Company to meet the requirements of ASX and satisfy Chapters 1 and 2 of the Listing Rules, as part of the Company's application for admission to the Official List.

1.5 CONDITIONAL OFFER

The Offer under this Prospectus is conditional upon the following events occurring:

- (a) the Company raising the Minimum Subscription under the Offer;
- (b) to the extent required by ASX or the Listing Rules, certain persons entering into a restriction agreement imposing such restriction on trading on the Company's securities as mandated by the Listing Rules; and
- (c) ASX providing the Company with a list of conditions which, once satisfied, will result in ASX admitting the Company to the Official List.

If these conditions are not satisfied then the Offer will not proceed and the Company will repay all Application Monies received under the Offer to the Applicants (without interest) in accordance with the Corporations Act.

1. DETAILS OF OFFER

1.6 PROPOSED USE OF FUNDS

Following the Offer, it is anticipated that the following funds will be available to the Company:

Source of funds	Minimum Subscription (\$)	Maximum Subscription (\$)
Existing cash reserves as at the date immediately prior to lodgement of the Prospectus	378,985.45	378,985.45
Proceeds from Offer	6,000,000	7,500,000
Total funds available	6,378,985.45	7,878,985.45

The following table shows the intended use of funds in the two-year period following Admission:

	Minimum Subscription (\$)		Maximum Subscription (\$)	
Use of Funds – Year 1 ⁽¹⁾	\$	%	\$	%
Expanding production capacity ⁽²⁾	1,179,900	19.67%	1,419,900	18.93%
Preparing stock for wholesale orders ⁽³⁾	1,540,000	25.67%	1,600,000	21.33%
Marketing and branding, including for online platforms ⁽⁴⁾	483,000	8.05%	875,000	11.67%
Research & development ⁽⁵⁾	350,000	5.83%	350,000	4.67%
Corporate expenses ⁽⁶⁾	534,000	8.90%	534,000	7.12%
Working capital ⁽⁷⁾	131,894	2.20%	466,476	6.22%
Costs of the Offer ⁽⁸⁾	654,206	10.9%	745,706	9.94%
Total Funds Allocated – Year 1	4,873,000	81.22%	5,991,082	79.88%

	Minimum Subscription (\$)		Maximum Subscription (\$)	
Use of Funds – Year 2 ⁽¹⁾	\$	%	\$	%
Preparing stock for wholesale orders ⁽³⁾	236,000	3.93%	250,000	3.33%
Marketing and branding, including for online platforms ⁽⁴⁾	207,000	3.45%	375,000	5.00%
Research & development ⁽⁵⁾	150,000	2.50%	150,000	2.00%
Corporate expenses ⁽⁶⁾	534,000	8.90%	534,000	7.12%
Working capital ⁽⁷⁾	0	0%	199,918	2.67%
Total Funds Allocated – Year 2	1,127,000	18.78%	1,508,918	20.12%
Total Funds Allocated	6,000,000	100%	7,500,000	100%

1. DETAILS OF OFFER

Notes:

1. Shareholders should note that the above estimated expenditures will be subject to modification on an ongoing basis depending on the results obtained from the Company's activities. Due to market conditions, the development of new opportunities and/or any number of other factors (including the risk factors outlined in Section 4), actual expenditure levels may differ significantly from the above estimates.
2. Funds allocated towards expanding production capacity includes using funds towards expanding manufacturing capabilities by adding more, highly-automated, woven loom machines and sock machines to produce Merino wool products. Following Admission, the Company intends to purchase new high-speed rapier loom machines, which will significantly increase the manufacturing and production capacity of the Company. Further, the Company intends to lease a larger premises in Perth, Western Australia to accommodate, not only its increased manufacturing capacity, but also its storage and distribution facilities.
3. Funds allocated towards preparing stock for wholesale orders aims to enhance the Company's capacity to meet wholesale demand and fulfill wholesale orders promptly by building up substantial inventory, expanding the Company's market reach and distribution channels with major strategic wholesalers, and optimising production efficiency.
4. Funds allocated towards marketing and branding, including for online platforms, includes using funds to complete the redevelopment of the Company's website with the aim of growing opportunities for the Company in online retail sales, expanding market reach, and optimising direct-to-consumer channels.
5. Funds allocated towards research and development will be used towards funding expenses incurred by the Company in relation to the R&D Project. See Section 2.5(c)(iii) for further information regarding the R&D Project.
6. Corporate expenses include the general costs associated with the management and operation of the business, including Directors' fees, office expenses, insurance costs, travel, audit fees, legal fees, share registry costs, annual listing fees, and other associated corporate and governance costs. See Section 5.8 for further information about the fees payable to Directors.
7. Working capital includes funding for additional operational related activities such as fulfilling larger than anticipated orders, additional promotional activities in existing and new online platforms and acquisition costs (including due diligence investigations and expert's fees in relation to such acquisitions). Any amounts not so expended will be applied toward administration costs for the period following the 24-month period following Admission.
8. Expenses paid or payable by the Company in relation to the Offer are set out in Section 8.8.



1. DETAILS OF OFFER

If the Company raises more than the Minimum Subscription but less than the Maximum Subscription, the additional funds raised will be proportionately applied towards the allocation of the funds under the use of funds tables above.

The above table is a statement of current intentions as at the date of this Prospectus. Prospective investors should note that, as with any budget, the allocation of funds set out in the above table may change depending on a number of factors, including market conditions, the development of new opportunities and/or any number of other factors (including the risk factors outlined in Section 4), and actual expenditure levels, may differ significantly from the above estimates.

The Board believes that the funds raised from the Offer will provide the Company with sufficient working capital to fund its near-term capital commitments and to achieve its stated objectives as detailed in this Prospectus.

The use of further equity funding will be considered by the Board where it is appropriate to accelerate a specific project or strategy.

Based on the intended use of funds detailed above, the amounts raised pursuant to the Offer will provide the Company with sufficient funding for approximately the 24-month period following Admission (based on the Minimum Subscription). The future capital requirements of the Company will depend on many factors including its business development activities. The Company believes its available cash and the net proceeds of the Offer should be adequate to fund its business objectives in the short term as stated in this Prospectus, however, the Company may require further financing in the future. See Section 4 for further details about the risks associated with the Company's future capital requirements.

1.7 KEY ADVISORS' INTERESTS IN SECURITIES

Lodge Corporate (also referred to in this Prospectus as the Lead Manager) has been appointed as lead manager to the Offer and is a party to the Lead Manager Mandate summarised in Section 7.1.

(a) Fees payable to the Lead Manager

The Company has paid, or will pay, to the Lead Manager, certain cash fees in connection with the Offer as summarised in Section 7.1.

(b) Lead Manager's interests in Securities

The Lead Manager is not presently a shareholder of the Company. As at the date of this Prospectus, the Lead Manager and its Associates do not have a Relevant Interest in any Securities.

Based on the information available to the Company as at the date of the Prospectus regarding the intentions of the Lead Manager and its Associates in relation to the Offer and assuming:

- (i) the Minimum Subscription is achieved under the Offer; and
- (ii) neither of the Lead Manager nor its Associates subscribe for any Shares under the Offer,

the Lead Manager and its Associates will have a Relevant Interest in:

- (iii) 500,000 Shares and 300,000 Lead Manager Options on Admission, if the Minimum Subscription is raised, issued pursuant to the Lead Manager Mandate (see Section 7.1 for further details); and
- (iv) 750,000 Shares and 300,000 Lead Manager Options on Admission, if the Maximum Subscription is raised, issued pursuant to the Lead Manager Mandate (see Section 7.1 for further details).

(c) Lead Manager's participation in previous placements

Lodge Corporate and its Associates have not participated in a placement of Securities by the Company in the 2 years preceding lodgement of this Prospectus.

(d) Related party participation in previous placements

Related parties and their Associates (including Directors) have not participated in a placement of Securities by the Company in the 2 years preceding lodgement of this Prospectus.

1. DETAILS OF OFFER

1.8 CAPITAL STRUCTURE

On the basis that the Company completes the Offer on the terms in this Prospectus, the Company's capital structure will be as follows:

Key details of the Offers	Shares		Options		Convertible Notes	
	Minimum Subscription	Maximum Subscription	Minimum Subscription	Maximum Subscription	Minimum Subscription	Maximum Subscription
Existing Securities on issue as at the date of this Prospectus ¹	24,000,000	24,000,000	Nil.	Nil.	8	8
Total number of Securities to be issued under the Offer	30,000,000	37,500,000	Nil.	Nil.	Nil.	Nil.
Shares to be issued upon conversion of Convertible Notes ²	13,809,300	13,809,300	-	-	-	-
Shares to be issued upon conversion of Management Loan ³	3,497,270	3,497,270	-	-	-	-
Shares to be issued to Consultant ⁴	200,000	200,000	-	-	-	-
Securities to be issued to Lead Manager ⁵	500,000	750,000	300,000	300,000	Nil.	Nil.
Total Securities on issue on completion of the Offer	72,006,570	79,756,570	300,000	300,000	Nil.	Nil.

Notes:

1. See Section 2.2 for further details regarding the Company's current capital structure.
2. See Sections 7.7 and 8.3 for further details regarding the Convertible Notes and Shares to be issued upon conversion of the Convertible Notes.
3. See Section 2.11 for further details regarding the Management Loan and Shares to be issued upon conversion of the Management Loan.
4. Upon Admission, the Company will issue EMPF (or its nominees) 200,000 Shares at a deemed issue price of \$0.20, in consideration for EMPF providing the Company investor engagement and communication services. EMPF is not a related party or promoter of the Company.
5. See Section 7.1 for further details.

The number of Shares on issue at the time of Admission on a fully diluted basis (assuming all convertible Securities on issue are converted into Shares on a Maximum Subscription basis) is 80,056,570 Shares.

The Company's free float at the time of Admission will be not less than 20%.

1. DETAILS OF OFFER

1.9 FORECASTS

The Directors have considered the matters detailed in ASIC Regulatory Guide 170 and believe that they do not have a reasonable basis to forecast future earnings on the basis that the operations of the Company are inherently uncertain. Accordingly, any forecast or projection information would contain such a broad range of potential outcomes and possibilities that it is not possible to prepare a reliable best estimate forecast or projection.

The Directors consequently believe that, given these inherent uncertainties, it is not possible to include reliable forecasts in this Prospectus.

1.10 APPLICATIONS

(a) Offer

The Offer is open to the general public in Australia and certain investors in China. Applications for Shares under the Offer can only be made using the Offer Application Form, which can be found by following the instructions at <https://apply.automic.com.au/Merino>.

Applications under the Offer must be for a minimum of 10,000 Shares (\$2,000) and then in increments of 2,500 Shares (\$500). Payments must be made in Australian dollars. No brokerage, stamp duty or other costs are payable by Applicants.

For further information on how to complete the Application Form, Applicants should refer to the instructions set out on the form found by following the instructions at <https://apply.automic.com.au/Merino>.

(b) Application Forms

A completed and lodged Application Form together with payment for the Application Monies constitutes a binding and irrevocable offer to subscribe for the number of Securities specified in the Application Form. The Application Form does not need to be signed to be valid. If the Application Form is not completed correctly or if the accompanying payment is for the wrong amount, it may be treated by the Company as valid. The Directors' decision as to whether to treat such an Application as valid and how to construe, amend or complete the Application Form is final. If your cheque, BPAY¹ or electronic funds transfer payment for the Application Money is different to the amount specified

in your Application Form then the Company may accept your Application for the amount of Application Money provided.

It is the responsibility of Applicants outside Australia to obtain all necessary approvals for the allotment and issue of Securities pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by the Applicant that all relevant approvals have been obtained and that the Applicant:

- (i) agrees to be bound by the terms of the relevant Offer;
- (ii) declares that all details and statements in the Application Form are complete and accurate;
- (iii) declares that, if they are an individual, they are over 18 years of age and have full legal capacity and power to perform all its rights and obligations under the Application Form;
- (iv) authorises the Company and its respective officers or agents, to do anything on their behalf necessary for the Securities to be issued to them, including to act on instructions of the Company's share registry upon using the contact details set out in the Application Form;
- (v) acknowledges that the information contained in, or accompanying, the Prospectus is not investment or financial product advice or a recommendation that Securities are suitable for them given their investment objectives, financial situation or particular needs; and
- (vi) acknowledges that the Securities have not, and will not be, registered under the securities laws in any other jurisdictions outside Australia and accordingly, the Securities may not be offered, sold or otherwise transferred except in accordance with an available exemption from, or in a transaction not subject to, the registration requirements of applicable securities laws.

The Offer may be closed at an earlier date and time at the discretion of the Directors, without prior notice. Applicants are therefore encouraged to submit their Application Form as early as possible. However, the Company reserves the right to extend the Offer or accept late Applications.

¹Registered to BPAY Pty Ltd ABN 69 079 137 518.

1. DETAILS OF OFFER

(c) Acceptance of Applications

An Application in the Offer is an offer by you to the Company to apply for Shares at the Offer Price, on the terms and conditions detailed in this Prospectus (including any supplementary or replacement document) and the relevant Application Form. To the extent permitted by law, an Application by an Applicant may not be varied and is irrevocable.

An Application may be accepted by the Company in respect of the full amount, or any amount lower than that specified on the Application Form without further notice to the Applicant. The Company reserves the right to decline any Application if it believes any provisions or procedures in this Prospectus, the relevant Application Form or other laws or regulations may not be complied with in relation to the Application.

The Company and the Lead Manager reserve the right to reject any Application which is not correctly completed or which is submitted by a person whom they believe is ineligible to participate in the relevant Offer, or to waive or correct any errors made by the Applicant in completing their Application. In addition, the Company and the Lead Manager reserves the right to aggregate any Applications which they believe may be multiple Applications from the same person or reject or scale back any Applications (or aggregation of applications).

The final allocation of Shares to Applicants in the Offer will be determined in accordance with the allocation policy outlined in Section 1.11. The Company and the Lead Manager may reject an Application, or allocate fewer Shares than the number, or the equivalent dollar amount applied for.

Successful Applicants in the Offer will be allotted Shares at the Offer Price. Acceptance of an Application will give rise to a binding contract, conditional on settlement and quotation of Shares on ASX on an unconditional basis.

1.11 ALLOCATION AND ISSUE OF SHARES

The allocation of Shares under the Offer will be determined by the Lead Manager, in consultation with the Company. The Lead Manager and the Company have absolute discretion regarding the basis of allocation of Shares among Institutional Investors. Participants in the Offer will be advised of their allocation of Shares, if any, by the Lead Manager. The allocation policy will be influenced, but not constrained by the following factors:

- (a) number of Shares bid for by particular Applicants;
- (b) timeliness of the bid by particular Applicants;
- (c) the Company's desire for an informed and active trading market following completion;
- (d) the Company's desire to establish a wide spread of institutional Shareholders;

- (e) overall level of demand under the Offer;
- (f) size and type of funds under management of particular Applicants;
- (g) likelihood that particular Applicants will be long-term Shareholders; and
- (h) other factors that the Company and the Lead Manager consider appropriate.

There is no assurance that any Applicant will be allocated any Shares under the Offer, or the number of Shares for which it has applied. The Company reserves the right to reject any Application or to issue a lesser number of Shares than those applied for under the Offer. Where the number of Shares issued is less than the number applied for, surplus Application Monies will be refunded (without interest) as soon as reasonably practicable after the Closing Date.

Subject to the matters in Section 1.14, Shares under the Offer are expected to be allotted on the Issue Date. It is the responsibility of Applicants to determine their allocation prior to trading in the Shares issued under the Offer. Applicants who sell Shares before they receive their holding statements do so at their own risk.

1.12 APPLICATION MONIES

Application Monies will be held in trust for Applicants until the allotment of the Securities. Any interest that accrues will be retained by the Company. No allotment of Securities under this Prospectus will occur unless:

- (a) the Company raises not less than \$6,000,000 (before costs) under the Offer; and
- (b) ASX grants conditional approval for the Company to be admitted to the Official List (refer to Section 1.14).

Applicants whose Applications are not accepted, or who are allocated a lesser dollar amount of Securities than the amount applied for, will be mailed (or otherwise in the Company's discretion provided with) a refund (without interest) of all or part of their Application Monies, as applicable.

No refunds pursuant solely to rounding will be provided. Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will be retained by the Company. Payment for Applications made using a paper Application Form can only be made by cheque.

It is your responsibility to ensure that your cheque, BPAY^{®2} or electronic funds transfer payment is received by the share registry by no later than 5.00pm (WST) on the Closing Date. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment, and you should therefore take this into consideration when making payment.

1. DETAILS OF OFFER

1.13 CHESS AND ISSUER SPONSORSHIP

The Company will apply to participate in CHESS. All trading on the ASX will be settled through CHESS. ASX Settlement, a wholly-owned subsidiary of the ASX, operates CHESS in accordance with the Listing Rules and the ASX Settlement Operating Rules. On behalf of the Company, the share registry will operate an electronic issuer sponsored sub-register and an electronic CHESS sub-register. The two sub-registers together make up the Company's principal register of securities.

Under CHESS, the Company will not issue certificates to Shareholders. Rather, holding statements (similar to bank statements) will be sent to Shareholders as soon as practicable after allotment. Holding statements will be sent either by CHESS (for Shareholders who elect to hold Shares on the CHESS sub-register) or by the Company's share registry (for Shareholders who elect to hold their Shares on the issuer sponsored sub-register). The statements will set out the number of existing Shares (where applicable) and the number of new Shares allotted under this Prospectus and provide details of a Shareholder's holder identification number (for Shareholders who elect to hold Shares on the CHESS sub-register) or Shareholder reference number (for Shareholders who elect to hold their Shares on the issuer sponsored sub-register). Updated holding statements will also be sent to each Shareholder at the end of each month in which there is a transaction on their holding, as required by the Listing Rules.

1.14 ASX LISTING AND OFFICIAL QUOTATION

Within seven days after the date of this Prospectus, the Company will apply to ASX for admission to the Official List and for the Shares, including those offered by this Prospectus, to be granted Official Quotation (apart from any Shares that may be designated by ASX as restricted securities).

If ASX does not grant permission for Official Quotation within three months after the date of this Prospectus (or within such longer period as may be permitted by ASIC) none of the Shares offered by this Prospectus will be allotted and issued. If no allotment and issue is made, all Application Monies will be refunded to Applicants (without interest) as soon as practicable.

ASX takes no responsibility for the contents of this Prospectus. The fact that ASX may grant Official Quotation is not to be taken in any way as an indication of the merits of the Company or the Shares offered pursuant to this Prospectus.

1.15 OVERSEAS APPLICANTS

No action has been taken to register or qualify the Securities, or the Offer in any jurisdiction outside Australia or otherwise to permit a public offering of the Securities in any jurisdiction outside Australia.

The distribution of this Prospectus in jurisdictions outside Australia, except to the extent permitted under this Section 1.15, may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any of those restrictions. Any failure to comply with the restrictions may constitute a violation of applicable securities laws.

This Prospectus does not constitute an offer of Securities in any jurisdiction where, or to any person to whom, it would be unlawful to issue this Prospectus.

It is the responsibility of any overseas Applicant to ensure compliance with all laws of any country relevant to his or her Application. The return of a duly completed Application Form will be taken by the Company to constitute a representation and warranty that there has been no breach of such law and that all necessary approvals and consents have been obtained.

This document does not constitute an offer of Securities in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the Securities may not be offered or sold, in any country outside Australia except to the extent permitted below, relating to China.

Notice to Chinese investors

Neither this Prospectus nor any other document relating to Shares may be distributed to the public in the People's Republic of China (excluding, for purposes of this notice, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). This Prospectus has not been approved by, nor registered with, any competent regulatory authority of the PRC. Accordingly, any Shares may not be offered or sold, nor may any invitation, advertisement or solicitation for Shares be made from, within the PRC unless permitted under the laws of the PRC.

Shares may not be offered or sold to legal or natural persons in the PRC other than to:

- (a) "qualified domestic institutional investors" as approved by a relevant PRC regulatory authority to invest in overseas capital markets;
- (b) sovereign wealth funds or quasi-government investment funds that have the authorization to make overseas investments; or
- (c) other types of qualified investors that have obtained all necessary PRC governmental approvals, registrations and/or filings (whether statutorily or otherwise).

²Registered to BPAY Pty Ltd ABN 69 079 137 518.

1. DETAILS OF OFFER

1.16 BROKERAGE, COMMISSION AND STAMP DUTY

No brokerage, commission or stamp duty is payable by Applicants on acquisitions of Shares under the Offer.

1.17 ESCROW ARRANGEMENTS

ASX will classify certain existing Securities on issue in the Company (as opposed to those to be issued under this Prospectus) as being subject to the restricted securities provisions of the Listing Rules (**Restricted Securities**). Restricted Securities will be required to be held in escrow for up to 24 months commencing on the date on which quotation of the Securities commences, or 12 months from the date the Restricted Securities were issued by the Company (as applicable), and will not be able to be sold, mortgaged, pledged, assigned or transferred for that period without the prior approval of ASX. During the period in which these Restricted Securities are prohibited from being transferred, trading in Shares may be less liquid which may impact on the ability of a Shareholder to dispose of their Shares in a timely manner.

Prior to the Company's Shares being admitted to Official Quotation on the ASX, the Company will either issue restriction notices or enter into restriction deeds with certain recipients of the Restricted Securities in accordance with Chapter 9 of the Listing Rules, and the Company will announce to ASX full details (quantity and duration) of the Securities required to be held in escrow.

As at the date of this Prospectus the Company expects, on a Maximum Subscription basis, up to 38,256,570 Shares and 300,000 Options to be subject to 24 months escrow and nil Shares or Options to be subject to 12 months escrow. The Company notes that total Securities to be subject to escrow above is to be confirmed by ASX, and the Company has not applied any relief in the calculation of the Restricted Securities. The Company notes that on application of cash formula relief, the total amount of Restricted Securities is likely to be less than that which has been stated above. Further, the Company may in its discretion resolve to enter into voluntary restriction agreements.

1.18 TAXATION IMPLICATIONS

The Directors do not consider it appropriate to give Applicants advice regarding the taxation consequences of subscribing for Securities.

The Company, its advisers and its officers do not accept any responsibility or liability for any such taxation consequences to Applicants. As a result, Applicants should consult their professional tax adviser in connection with subscribing for Securities.

1.19 WITHDRAWAL

The Directors, in consultation with the Lead Manager, may at any time decide to withdraw this Prospectus and the Offer in which case the Company will return all Application Monies (without interest) within 28 days of giving notice of their withdrawal.

1.20 RISKS

Prospective investors should be aware that an investment in the Company should be considered highly speculative and involves a number of risks inherent in the various business segments of the Company. Section 4 details the key risk factors which prospective investors should be aware of. It is recommended that prospective investors consider these risks carefully before deciding whether to invest in the Company.

This Prospectus should be read in its entirety as it provides information for prospective investors to decide whether to invest in the Company. If you have any questions about the desirability of, or procedure for, investing in the Company please contact your stockbroker, accountant or other independent adviser.

1. DETAILS OF OFFER

1.21 PRIVACY DISCLOSURE

By completing and returning an Application Form, you will be providing personal information directly or indirectly to the Company, the share registry, and Related Bodies Corporate, agents, contractors and third-party service providers of the foregoing **(Collecting Parties)**. The Collecting Parties will collect, hold and use that information to assess your Application, service your needs as a Security holder and to facilitate distribution payments and corporate communications to you as a Security holder.

By submitting an Application Form, you authorise the Company to disclose any personal information contained in your Application Form **(Personal Information)** to the Collecting Parties where necessary, for any purpose in connection with the Offer, including processing your Application and complying with applicable law, the Listing Rules, the ASX Settlement Operating Rules and any requirements imposed by any applicable regulatory authority.

If you do not provide the information required in the Application Form, the Company may not be able to accept or process your Application.

If the Offer is successfully completed, your Personal Information may also be used from time to time and disclosed to persons inspecting the register of Security holders, including bidders for your Securities in the context of takeovers, regulatory authorities, authorised securities brokers, print service providers, mail houses and the share registry.

Any disclosure of Personal Information made for the above purposes will be on a confidential basis and in accordance with the Privacy Act 1988 (Cth) and all other legal requirements. If obliged to do so by law or any public authority, Personal Information collected from you will be

passed on to third parties strictly in accordance with legal requirements. Once your Personal Information is no longer required, it will be destroyed or de-identified. As at the Prospectus Date, the Company does not anticipate that Personal Information will be disclosed to any overseas recipient.

Subject to certain exemptions under law, you may have access to Personal Information that the Collecting Parties hold about you and seek correction of such information. Access and correction requests, and any other queries regarding this privacy statement, must be made in writing to the share registry at the address set out in the Corporate Directory of this Prospectus. A fee may be charged for access.

1.22 PAPER COPIES OF PROSPECTUS

The Company will provide paper copies of this Prospectus (including any supplementary or replacement document) and the Application Form to investors upon request and free of charge. Requests for a paper copy from should be directed to the Company Secretary at mnc@merinoandco.com.au.

1.23 ENQUIRIES

This Prospectus provides information for potential investors in the Company and should be read in its entirety. If, after reading this Prospectus, you have any questions about any aspect of an investment in the Company, please contact your stockbroker, accountant or independent financial adviser.

Questions relating to the Offer and the completion of an Application Form can be directed to the Company Secretary at mnc@merinoandco.com.au.



2. COMPANY OVERVIEW

2.1 INTRODUCTION

Established in 2013, Merino & Co is a branded lifestyle clothing and accessories company based in Perth, Western Australia. The Company manufactures, markets and sells wool apparel and accessories, predominately featuring fine Merino wool, to both Australian and international markets.

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 shops³, 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, Japan and North America, where high-quality wool products are in higher demand owing to colder climates.

Merino & Co's wool-based products are made and/or partially made in Australia, and are assembled in both Australia and China.

The Company is a strong advocate of the benefits of wool as a natural fibre, and is strong supporter of the proliferation of more sustainable, renewable and biodegradable products made from environmentally friendly and raw natural materials such as wool, alpaca and possum.

2.2 GROUP STRUCTURE

(a) Capital structure of the Company

As at the date of this Prospectus, the capital structure of the Company, and particulars of its current Shareholders (and their related entities), are as follows:

Shareholder	Shares	% of Shares on Issue ⁽¹⁾
AWN	4,000,000	16.67%
Fang (Fiona) Yue	10,200,000	42.50%
Taizong (Tim) Kang	9,800,000	40.83%
Securities on issue as at the date of this Prospectus	24,000,000⁽²⁾	100%

Notes:

1. Based on 24,000,000 Shares being on issue. The Company has only 3 Shareholders holding 100% of the total number of Shares on issue.
2. The Company also has Convertible Notes on issue, each convertible into fully paid ordinary shares in the Company. See Sections 7.7, 8.3 and the table below for further information.

Apart from the Shareholders set out above, as at the date of this Prospectus, the Company has Convertible Notes on issue, as noted below.

Noteholder	Subscription Amount	Shares to be Issued on Conversion
Butterfly Trading ¹	\$50,000	500,000
Chenling & Zi Huang ²	\$300,000	1,500,000
Hongwen Bo ²	\$50,000	250,000
Shufeng Bai ¹	\$21,430	214,300
Yuhui Wang ³	\$200,000	1,200,000
Yuhu Sun ¹	\$100,000	1,000,000
Xiaoyong Qiang ¹	\$100,000	1,000,000
Baoye Zhang ⁴	\$1,129,000	8,145,000
Total	\$1,950,430	13,809,300

³These duty free shops include, but are not limited to: LS Travel, Lagardere/AWPL, Australian Collection and Royal Sydney Duty Free.

2. COMPANY OVERVIEW

Notes:

- 1. Conversion price of \$0.10.
- 2. Conversion price of \$0.20.
- 3. Conversion price of \$0.10 in respect of 25% of the Shares to be issued on conversion and \$0.20 in respect of 75% of the Shares to be issued on conversion.
- 4. Conversion price of \$0.10 in respect of 44.29% of the Subscription Amount to be converted into Shares and \$0.20 in respect of 55.71% of the Subscription Amount to be converted into Shares.

(b) **Corporate structure**

Upon Admission, the corporate structure of the Group will be as follows:

- (i) Merino & Co. Limited ACN 162 863 121, a company registered in Australia on 15 March 2013, that conducts its business activities primarily in Australia. Merino & Co. Limited is the ultimate holding company of the Group; and
- (ii) Merinosnug (Shanghai) Wool Products Co., Ltd. (Company No. 91310000MADBN3CB0B), a company registered in China on 2 February 2024, that conducts its business activities primarily in China. Merinosnug (Shanghai) Wool Products Co., Ltd. (Company No. 91310000MADBN3CB0B) is a wholly owned subsidiary of Merino & Co. Limited ACN 162 863 121. The Company does not have any other Related Bodies Corporate.

A diagram setting out the corporate structure of the Group upon Admission is set out below:



(c) **Company status and financial year**

The Company will be subject to tax at the Australian corporate tax rate. The Company's financial year for taxation purposes ends on 30 June of each year.

2. COMPANY OVERVIEW

2.3 COMPANY HISTORY

Merino & Co was established in 2013 under the name Aclink International Pty Ltd, as a wool clothing and accessories business that exported finished wool products to overseas markets mainly in Asia, where the Company's management have extensive experience. Exposure to the wool and cashmere industries in those markets highlighted to the Company that there was ample and viable opportunity expand into the production and sale of fine Merino wool products. The Company assessed that there was global market recognition of the quality of Australian Made clothing and accessories, particularly for clothing and accessories utilising Australia's widely abundant fine Merino wool. The Company then soon moved into manufacturing and selling Australia Made and branded Merino wool products. The Company found early success in the sale of its products in the local tourism sector.

Prior to the COVID-19 pandemic, the Company had established its presence in most key tourism sites across Australia, including primarily airports and duty-free shops. Additional to the Company's sales and operations in Australia, the Company also exports Merino wool products to wholesalers and distributors in China, and direct to consumers in the Japanese and North American markets.

In September 2020, Aclink merged with (and adopted the name of) Merino & Co. Pty Ltd, an existing wool garment manufacturing and retail business, then owned by AWN, one of Australia's largest independent wool marketers.

2.4 BUSINESS MODEL OF MERINO & CO AND CURRENT OPERATIONS

(a) Manufacturing and distribution

The Company manufactures Merino wool and other products in its Western Australian and China factories by using selected domestic and international raw materials, being primarily Merino and other wools. The Company owns all necessary plant and equipment necessary for the domestic production of Company products, including:

- (i) 8-16 Gauge whole-garment machines;
- (ii) sewing machines;
- (iii) rapier loom machines;
- (iv) double faced wool fabric sewing machines;
- (v) double faced wool fabric ironing machine;
- (vi) blanket stitching machines;
- (vii) industrial washing machines;
- (viii) industrial ironing facilities; and
- (ix) packaging facilities.

Owing to domestic manufacturing employed by the Company, many of the Company products proudly bear the "Australian Made" logo in accordance with the AMAG Logo Code of Practice governing the use of the Australian Made logo.

The Company's Merino apparel and accessories branded under "Merinosnug" are made and/or assembled in Western Australia by the Company's semi and fully automated machines from selected raw materials, yarns and fabrics secured from Australian and overseas suppliers. The Merinosnug range, except throws, carries the iconic "Australian Made" logo.

Merino & Co's Merino apparel and accessories branded under "Auzwool Family" are made and/or assembled in China using selected raw materials/yarns/fabric secured from overseas suppliers. This range mainly supplies China local wholesalers.

The Company's Australian distribution centre and showrooms are located in Osborne Park and Gnanagara, Western Australia and the Company's Chinese distribution centre is located in Beijing, China.

Finished goods are picked, packed and dispatched from each respective distribution centre. The Company utilises multiple courier services such as Australian Post, TNT and DHL depending on each respective delivery location, customer type and quantity of the goods.

(b) Products

As noted above, the Company currently offers products to customers under two brand names, being Merinosnug and Auzwool Family. Both brands generally offer a similar range of products, which ranges include:

- (i) scarves;
- (ii) shawls;
- (iii) sweaters;
- (iv) coats;
- (v) throws; and
- (vi) miscellaneous knitwear.

The Company's available product range is subject to change owing to, among other things, market trends and seasonal factors.

(c) Materials

The Company's Merino wool and wool-blend products are created to best take advantage of the many natural and beneficial attributes of fine Merino wool.

(i) Natural and renewable

Merino wool is a natural fibre produced by the Merino breed of sheep, for which breed and quality of wool Australia is globally renowned.

2. COMPANY OVERVIEW

Unlike synthetic fibres used in many modern clothing products (which fibres are generally industrially produced largely from non-renewable fossil fuels), Merino wool is a natural fibre grown year-round by Merino sheep. Given the right conditions, Merino wool is grown naturally, year-round, with minimal intervention required by growers. This year-round naturally occurring growth makes Merino wool an entirely sustainable and renewable fibre available for use in apparel products.

(ii) **Biodegradable**

Depending on the climate and nature of the soil in which Merino wool is placed, Merino wool can naturally biodegrade in as little as 3-4 months. Contrastingly, synthetic fibres can be extremely slow to degrade and significantly contribute to pollution and landfill. Wool also biodegrades in a marine environment and does not contribute to microplastic pollution. In contrast, microfibrils from synthetic textiles (microplastics) accumulate in marine environments, as well as terrestrial environments, where they damage ecosystems.

(iii) **Soft**

The softness of a natural fibre can generally be determined or derived from its width, measured in microns. The lower the number of microns of a fibre, the softer the fibre is. The width of Merino wool used by the Company is generally less than 22 microns (μm), which ensures Company products are especially soft in comparison to other synthetic fibres. Put in context, the average human hair is approximately $70\ \mu\text{m}$ (+/- $20\ \mu\text{m}$).

(iv) **UV and skin protectant**

Depending on how they're spun and dyed, Merino fibres help obstruct UV rays from the sun. Wool, including Merino wool, absorbs radiation throughout the entire UV spectrum whereas cotton and synthetic materials only absorb UV rays at low wavelengths.

Merino wool has also been found to benefit those suffering dermatitis-related skin conditions such as eczema, and studies have shown prolonged use of only Merino wool substantially reduces some of the symptoms of eczema.

(v) **Moisture management**

Wool can absorb and release twice as much moisture vapour as cotton and 30 times as much as polyester. When worn next to the skin, wool works to buffer the dynamic micro-climate between the fabric and the skin, helping to stabilise the humidity and temperature.

(vi) **Elasticity**

Merino fibre has natural wrinkle resistance thanks to its alpha helix structure. This structure gives it the elastic properties. The give and take action of hydrogen and covalent disulphide bonds within the helix results in the ability to extend 30% or more of its length without breaking, and then recover to that original length intact, making it an excellent material for the manufacture of clothing.

(vii) **Odour suppression**

A number of studies have shown that wool outperforms other fibres in its ability to resist the build-up of moisture and sweat, which in turn reduces odour. A number of studies have found that wool fabrics are less odorous after wear than other natural materials and man-made synthetic fibres such as cotton and polyester. Not only is Merino wool more resistant to moisture, but studies have shown that Merino wool's chemical structure enables it to absorb and "lock away" unpleasant odours which may develop, and are only released upon washing of the fabric.

The Company notes that some of the Company's products incorporate additional fine, natural fibres such as alpaca and possum, both of which possess some of the same benefits attributed to Merino wool.

(d) **New product development**

As a Company operating in the apparel and garment industry, the Company recognises the necessity for constant evolution and improvement of its products, and accordingly places great emphasis on new product development. The Company has implemented the following projects and initiatives to further the Company's NPD:

- (i) relaunching HYSPOUT as incorporating new wool-based activewear and sportswear apparel;
- (ii) development of apparel with integrated new technologies; and
- (iii) development of new ranges of apparel such as Merino wool socks & leggings.

Refer to Section 2.5(c) for further information regarding the Company's NPD.

2. COMPANY OVERVIEW

(e) **Customers and marketing**

The Company's current customer base can be summarily divided into four main categories, being:

- (i) retail and online customers;
- (ii) wholesale - general customers;
- (iii) wholesale - airport customers; and
- (iv) export customers.

The Company deploys different and tailored marketing and engagement strategies dependent on the requirements of each of those customers and markets.

Retail and online customers

The Company is currently in the process of redeveloping its website and e-commerce platform to be more user friendly, with more features and increased usability to promote online retail sales direct from the Company. As noted in Section 1.4, the Company intends to use funds raised under the Offer for marketing and branding purposes, which the Company intends to utilise in part to complete the redevelopment of its website with the aim of growing opportunities for the Company in online retail sales. In the meantime, the Company maintains its secondary website, www.merinosnug.com.au containing Company and product information.

In addition to the Company's efforts to expand its activities into online retail sales through its redeveloped website, the Company maintains a presence in the market through traditional media and marketing practices such as social media, affiliate marketing, email-subscriber advertising and community engagement.

Wholesale - general customers

The Company regularly supplies various clients with Company products through wholesale supply. Generally, the Company engages its wholesale customers through agents and/or distributors throughout Australia. Depending on seasonal requirements, wholesale clients are provided with relevant brochures and sample products from which they submit orders to the Company in bulk. Through these agents, and during "out-of-season" periods such as the summer months, the Company also undertakes periodical promotions to promote product ranges and encourage out-of-season sales.

Wholesale - airport customers

The Company has identified the tourist market as a key demographic for the Company's products. The Company primarily engages this tourist market through placement of its products in airports and duty-free shops, as these areas are high-traffic areas for tourists.

The Company works closely with various duty-free shops, including Sydney Duty Free as well as Lagardere/AWPL, the Pacific region's largest and most experienced travel-retail operator, located in 26 airports with 150 stores. Merino & Co has entered into supply agreement with Lagardere/AWPL whereby the Company may supply Company products to AWPL's retail stores throughout Australia. To best address the needs of these relationships, these accounts are managed by specialist agents, and strategies are tailored as appropriate on an ad hoc basis.

Export customers

In light of the impact of the COVID-19 pandemic on the Australian tourism industry in recent years, the Company sought to expand its operations to the wholesale export of Company products, especially Merino shawls and scarves, to markets in China. The export of these products has significantly contributed to the Company's revenue. The wholesale export business to China is predominately managed by the Company's overseas representatives in China.

The Company notes that it has entered into four key distribution agreements with large distributors in China (refer to Section 2.8(c) for further details).

2. COMPANY OVERVIEW

2.5 GROWTH STRATEGIES, PLANS AND OBJECTIVES

(a) Overview

Following Admission, the Company's growth strategies, plans and objectives will primarily focus on the following key areas:

- (i) strengthening brand equity and recognition;
- (ii) new product development;
- (iii) international expansion; and
- (iv) relaunching the Company in the domestic and tourist markets.

The Company intends to focus on these areas by deploying the following key growth strategies.

(b) Strengthening brand equity and recognition

As a fast growing business (see Section 6 for further information on the Company's financial information) the Company strives to strengthen brand equity and deliver suitable products and outcomes to customers and stakeholders worldwide. To achieve a high level of brand equity, the Company has established and prioritised the following four-pillar strategy:

- (i) manufacture the best quality, Australian Made (where possible) Merino wool products with natural materials and maximum functionality;
- (ii) establish and maintain cross-channel sales networks combining both offline and online strategies and maximise the Company's reach in relation to consumers;
- (iii) build a stable and agile global supply chain to deliver products to clients at lower costs and a higher margin; and
- (iv) establish a global Merino wool brand, based in Australia, that delivers high-quality Australian products to customers worldwide.

(c) New product development

The Company places great emphasis on NPD. To continue to be successful and relevant in the apparel and garment industry, the Company plans to implement the following initiatives following Admission:

(i) HYSPOUT outdoor range

The Company owns an existing brand under the trademark of "HYSPOUT". Trademarked in 1982, HYSPOUT has a rich history offering Merino wool garments and accessories to consumers. In its early years, the brand focused on sports and activewear products. Following Admission, when commercially appropriate, the Company intends to relaunch products under the brand name, HYSPOUT, and will specifically include Merino wool-based activewear and sportswear apparel.

(ii) New underwear range

The Company has noted a demand in some key market sectors for high-quality undergarments that possess many of the attributes attributable to Merino wool, such as breathability and softness. To this end, following Admission, the Company intends to invest in the development of a range of such products, with an aim to launch a range of both socks and leggings to meet market demand.

(iii) Research and development

As stated above, the Company is a strong advocate for the use of natural fibres where possible, and especially in clothing, as an alternative to the using synthetic fibres which are actively harmful to the environment. The Company is a party to a research and development project in co-operation with the Queensland University of Technology and The University of Queensland, co-funded by the Australian Federal Government, to develop wearable thermoelectric textiles (**R&D Project**).

To give effect to the R&D Project, the Company has entered into two collaboration agreements with Queensland University of Technology and The University of Queensland relating to research and development of wearable thermoelectric for personal heat management. The Company notes that the funding provided under this agreement is provided by the Australian Government by way of the Australian Research Council Linkage Project. The Australian Research Council Linkage Project supports projects which initiate or develop long term strategic research alliances to apply advanced knowledge to problems, acquire new knowledge and as a basis for securing commercial and other benefits of research.

The R&D Project aims to make the proposed thermoelectric textiles wearable, and function as an eco-friendly and low-emission heat and/or cooling solution. The R&D Project aims to double the current output power density of the thermoelectric fibres, which will ultimately power wearable electronics or provide the power for the heating and cooling of clothing. It is currently anticipated that any such developed products may be used for personal cooling or heating (as applicable) in commercial operations operating in inclement and less hospitable climates, such as Australia.

The Company notes that it considers the R&D Project to be a long-term research and development program, and while it may be that the Company believes the R&D Project has significant commercial potential, the Company makes no representations or guarantees regarding the progress or success of the R&D Project.

2. COMPANY OVERVIEW

(d) International expansion

Following Admission, the Company will also focus on further expanding into global markets and offering a more fulsome product range of fine Merino wool products to those markets.

In relation to international expansion, the key strategic focus of the Company is to:

- (i) expand manufacturing capabilities by adding more, highly-automated, woven loom machines and sock machines to produce Merino wool products. Following Admission, the Company intends to purchase new high-speed rapier loom machines, which will significantly increase the manufacturing and production capacity of the Company. Further, the Company intends to lease a larger premises in Perth, Western Australia to accommodate, not only its increased manufacturing capacity, but also its storage and distribution facilities;
- (ii) continue to build order pipeline with major strategic wholesalers; and
- (iii) optimise direct-to-consumer online platforms such as Amazon and stores in target markets, to offer quality products at competitive prices.

(e) Relaunching the Company in the domestic and tourist markets

The Company is currently in the process of redeveloping its new website and e-commerce platform, which will re-enable the Company to engage online

retail customers. The new and updated website will be fully integrated with futures such as customer relation management software, delivery tracking and other technologies that will help the Company streamline its online services and capabilities.

Initially, the Company intends to utilise its extensive email subscriber and social media base, as well as other traditional and non-traditional marketing services, to promote the use of the new website.

2.6 SOURCES OF REVENUE

The Company generates its revenue by the sale of its clothing and apparel products, which revenue can be generally categorised as follows:

- (a) retail sales;
- (b) wholesale - general;
- (c) wholesale - airport; and
- (d) exports.

Given the nature of the Merino wool apparel industry (refer to Section 3 for further information on the Merino wool apparel industry) and Merino wool products, the Company's revenue is subject to seasonal factors, and the Company has obtained the majority of its revenue during, or leading up to, the winter months of its primary markets. As a result of, and in conjunction with, the recovery of the tourism industry in Australia (and globally), the Company expects its revenue to increase and be less subject to seasonal factors.

The breakdown of the Company's revenue by financial year is set out below:

FY23 Audited Accounts	\$7,515,417
FY22 Audited Accounts	\$5,076,039

The percentage breakdown of the Company's revenue by jurisdiction in FY22 and FY23, per the Company's audited accounts, is set out below:

Country	FY22 %	FY23 %
China	76.63%	66.34%
Australia	23.37%	33.45%
North America	Nil	0.2%
Japan	Nil	0.01%

2. COMPANY OVERVIEW

2.7 SOURCES OF EXPENSES

Operating costs associated with the Company's revenue generation include, and are expected to include:

- (a) direct costs of goods sold;
- (b) marketing expenditure;
- (c) personnel costs;
- (d) premises costs;
- (e) equipment and maintenance costs;
- (f) foreign currency exchange-rate costs; and
- (g) administration and other costs.

2.8 IMPORTANT CONTRACTS

(a) Auzwool Marketing Agreement

The Company has entered into a marketing agreement with Auzwool Story (Beijing) Imp. & Exp. Co. Ltd (**Auzwool**), a company incorporated in China (**Auzwool Marketing Agreement**). Pursuant to the Auzwool Marketing Agreement, Auzwool will provide promotional, sales and marketing services in consideration for \$15,000 per month.

Due to various regulatory restrictions concerning the import and export of products in China, and the costs associated with the currency conversion and fluctuating prices, the Company has determined it necessary to enter into the Auzwool Marketing Agreement.

Refer to Section 7.4 for further details regarding the Auzwool Marketing Agreement.

(b) Supply contracts

As a manufacturer, the supply of raw materials is of utmost importance to the sustainability of the business. As such, the Company has in place a number of important supply contracts with three key materials suppliers, being Jiaying, Nantong Hongyang and Woolyarns.

(i) Wool Yarn Supply Contract - Jiayingbaolai Textile Technology Ltd

Jiayingbaolai Textile Technology Ltd (**Jiaying**) is a key supplier to the Company of both pure and wool-blend yarn. The Company has entered into an agreement with Jiaying for the supply of fine Merino wool and wool-blend yarns (**Jiaying Agreement**).

Refer to Section 7.6(a) for further details regarding the Jiaying Agreement.

(ii) Wool Fabric Supply Contract - Nantong Hongyang

Nantong Hongyang Woolen Products Co., Ltd. (**Nantong**) is a key supplier to the Company of custom wool fabrics. The Company has entered into an agreement with Nantong for the supply of wool fabrics (**Nantong Agreement**).

Refer to Section 7.6(b) for further details regarding the Nantong Agreement.

(iii) Possum Yarn Supply Contract - Woolyarns

Woolyarns Limited (**Woolyarns**) is a key supplier to the Company of Merino and possum yarn. The Company has entered into an agreement with Woolyarns for the supply of possum yarn (**Woolyarns Agreement**).

Refer to Section 7.6(c) for further details regarding the Woolyarns Agreement.

(c) Key distribution agreements

The Company has entered into four key distribution agreements, for the wholesale supply and distribution of Company products in mainland China.

(i) Beijing Jiayu Agreement

The Company has entered into a distribution agreement dated 17 June 2022 with Beijing Jiayu Innovation E-Commerce Co., Ltd. (**Beijing Jiayu**), a company incorporated in China, for the wholesale supply of Company products to Beijing Jiayu, who will act as an agent and distributor for the Company in Beijing, mainland China (**Beijing Jiayu Agreement**). The Company considers the Beijing Jiayu Agreement to be important for the generation income and growth for Shareholders.

Refer to Section 7.5(a) for further details regarding the Beijing Jiayu Agreement.

(ii) Shanghai Tongsheng Agreement

The Company has entered into a similar distribution agreement to the Beijing Jiayu Agreement, dated 17 June 2022, with Shanghai Tongsheng Industry and Trade Co., Ltd. (**Shanghai Tongsheng**), a company incorporated in China, for the wholesale supply of Company products to Shanghai Tongsheng, who will act as an agent and distributor for the Company in Shanghai, mainland China (**Shanghai Tongsheng Agreement**). The Company considers the Shanghai Tongsheng Agreement to be important for the generation income and growth for Shareholders.

Refer to Section 7.5(b) for further details regarding the Shanghai Tongsheng Agreement.

2. COMPANY OVERVIEW

(iii) **Wooliwooli Agreement**

The Company has entered into a distribution agreement dated 26 August 2023 with Wooliwooli Pty Ltd (**Wooliwooli**) for the wholesale supply of the Company's Merinosnug range products to Wooliwooli, who will act as an agent and distributor for the Company in the local Australian and mainland China regions (**Wooliwooli Agreement**). The Company considers the Wooliwooli Agreement to be important for the generation income and growth for shareholders.

Refer to Section 7.5(c) for further details regarding the Wooliwooli Agreement.

(iv) **Lagardere/AWPL Agreement**

The Company has entered into an agreement with Lagardere/AWPL Pty Ltd (ACN 655 935 158) as trustee for Lagardere/AWPL Trust (**Lagardere/AWPL**), for the wholesale supply of Company products to Lagardere/AWPL, who will act as a distributor for the Company in their Australian stores (**Lagardere/AWPL Agreement**).

Refer to Section 7.5(d) for further details regarding the Lagardere/AWPL Agreement.

(a) **Supply and distribution security**

While the Company has established a diverse supplier base to minimise the risk of disruption to the Company's supply of raw materials, given the international nature of the Company's suppliers, the Company's operations are dependent on a secure supply chain to Australia. Any disruption to the supply of raw materials to the Company may have an adverse effect on the overall operations of the Company. The Company is similarly dependent on international logistics for the export of its products to international markets.

(b) **Key customer relationships**

Any customers accounting for 10% or more of the Company's annual revenue are regarded by the Company as a key customer, on which the Company is dependent for that revenue. A significant portion of the Company's sales revenue is generated from the wholesale supply of Company products to these key customers. Notwithstanding actions taken by the Company to formalise, maintain and diversify from these key customer relationships, the Company (at least in the short-term) is dependent on maintenance of these key customer relationships for much of its revenue, and the loss of a key customer may adversely affect the Company's overall operations.

(c) **Retail participation and general economic conditions**

The nature of the Company's products as apparel makes them inherently subject and sensitive to consumer and market sentiment. Although the majority sales revenue of the Company comes from the wholesale and/or export of Company products, the Company is dependent on continuing market sentiment in relation to retail sales to maximise its revenue. Retail sales also form a key aspect of the Company's growth strategy in the long term. Any reduction in retail spending may adversely affect the Company's overall operations.

(d) **Key personnel**

The industry in which the Company operates involves a high barrier for entry in respect of, not only the necessary plant and equipment required for the manufacture of Company products, but also in respect of experienced and skilled operators in Australia. The Company's future success is dependent on its ability to retain and/or attract such individuals with the necessary expertise, and those whom will complement the Company's culture and values. Refer to Section 5 for further details regarding the Company's key personnel.

2.9 DOMESTIC AGENT AGREEMENTS

The Company has also entered into a number of customary agreements with domestic agents to promote the sale of Company products in Australia. In accordance with those agreements, the agents are obliged to use their best endeavours to sell Company products to retail and other purchasers within their relevant operating territories. These agreements are non-exclusive and the Company may enter into further such agent agreements with other agents. Agents are incentivised to sell Company products by way of commissions payable on sale of Company products. The Company considers such arrangements to be an effective way of both promoting the Company's products and managing client relationships.

2.10 SIGNIFICANT DEPENDENCIES

The key factors that the Company will depend on to meet its objectives are:

- (a) supply and distribution security;
- (b) key customer relationships;
- (c) retail participation and general economic conditions; and
- (d) key personnel.

Investors should refer to Section 4 for full disclosure regarding the risks associated with an investment in the Company.

2. COMPANY OVERVIEW

2.11 FINANCING ARRANGEMENTS

(a) Management Loan

The Company has entered into a loan agreement, on arm's length terms, with Operations General Manager, Taizong (Tim) Kang (**Management Loan**).

Mr Kang is a related party of the Company, as a result of being the spouse of the Company's Managing Director, Fang (Fiona) Yue.

The maturity date of the Management Loan is the later of the date:

- (i) 12 months after the date of execution of the Management Loan letter deed (or such other date agreed by the parties in writing); and
- (ii) 12 months after the date that the independent auditor's report on the Company's financial statements for the half year ended 31 December 2023 is signed (or such other date agreed by the parties in writing).

No interest is charged or payable in connection with the Management Loan and the Company is not required to repay any amounts under the Management Loan prior to the maturity date.

As at the date of this Prospectus, the outstanding loan amount is \$699,454. The outstanding loan amount will automatically be converted into Shares upon the later of the following occurring:

- (i) ASX granting conditional listing approval for the Company to be admitted to the Official List and for the Shares to be quoted on the ASX on terms reasonably acceptable to the Company; and
- (ii) the Board resolving to allot Shares pursuant to a prospectus in respect of the Company's initial public offering and listing on the ASX,

at a deemed conversion price of \$0.20 per dollar of loan amount outstanding. Accordingly, 3,497,270 Shares will be issued to Mr Kang upon conversion of the outstanding loan amount (assuming the outstanding loan amount is \$699,454 at the time of conversion).

The Management Loan contains additional provisions considered customary for agreements of this nature.

(b) Second Management Loan

The Company has entered into a second loan agreement, on arm's length terms, with Operations General Manager, Taizong (Tim) Kang (**Second Management Loan**).

Mr Kang is a related party of the Company, as a result of being the spouse of the Company's Managing Director, Fang (Fiona) Yue.

The maturity date of the Second Management Loan is 60 months after the date that the independent auditor's report on the Company's financial statements for the year ended 30 June 2024 is signed (or such other date agreed by the parties in writing).

5% annual interest is charged or payable in connection with the Second Management Loan and the Company is required to repay the outstanding loan amount plus interest by the maturity date.

The term of the Second Management Loan is the period:

- (i) commencing on the date 12 months after the date that the independent auditor's report on the Company's financial statements for the year ended 30 June 2024 is signed (or such other date agreed by the parties in writing); and
- (ii) ending on the date 60 months after the commencement date (or such other date agreed by the parties in writing).

As at the date of this Prospectus, the outstanding loan amount is \$716,081.

The Second Management Loan contains additional provisions considered customary for agreements of this nature.

(c) Convertible Notes

The Company is a party to 8 Convertible Note Deeds with 8 convertible note holders, entered into between 10 August 2020 and 1 August 2022, which raised \$1,950,430 (before costs) pursuant to the issue of Convertible Notes. See Sections 7.7 and 8.3 for further information regarding the Convertible Note Deeds and Convertible Notes.

(d) Loan agreements

The Company has borrowed funds from various lenders pursuant to various debt facilities and loan agreements. The Company has, and will use, the funds borrowed, primarily for working capital purposes.

Refer to Section 6 for further information about the Company's loan arrangements.

2. COMPANY OVERVIEW

2.12 OPERATIONS IN CHINA

As set out above, the Company conducts a material portion of its business in China. Accordingly, to assist the Company in addressing some of the challenges faced by entities undertaking business in China, on 2 February 2024, the Company established a wholly owned subsidiary incorporated in China, Merinosnug (Shanghai) Wool Products Co., Ltd. (Company No. 91310000MADBN3CB0B) (**Merino Subsidiary**). Refer to Section 4.1(f) for further details relating to the key risks associated with undertaking business in China. The Company is the sole shareholder of Merino Subsidiary. The Board of Merino Subsidiary is comprised of one Chinese local director, and will be comprised of two further Australian independent directors to be appointed by the Company on and from receipt by the Company of a conditional admission letter from ASX. It is currently intended that the Company will appoint each of Jack Hanrahan and Boxiang (Peter) Zhao to the board of Merino Subsidiary.

The Merino Subsidiary is an entity incorporated in the People's Republic of China, and is incorporated with all the necessary approvals, licenses and certifications to undertake its Chinese Operations. These operations comprise the import and export of various products in China, including clothing and accessories. The Merino Subsidiary has obtained the following approvals and licenses that are required to operate its business in China:

- (a) a Certificate of Incorporation from the Shanghai Municipal Administration for Market Regulation;
- (b) an Import Export Goods Receiver and Consigner Certificate from Jinshan Customs;
- (c) a General VAT Payer Certificate from the State Administration of Taxation Shanghai Electronic Tax Bureau; and
- (d) an Administrative Licensing Decision from the State Administration of Foreign Exchange (**SAFE**).

A key issue faced by foreign-owned entities in undertaking business in China (such as the Company) concerns the repatriation of funds from China to the entity's target State. Generally, foreign investment law in China (including other relevant law and regulation) categorise foreign exchange (including repatriation of business profits) into two distinctly regulated categories, being:

- (a) foreign exchange under a 'capital account'; and
- (b) foreign exchange under a 'current account'.

The way in which foreign exchange regulations will apply to the Company in regard to repatriation of funds from China to Australia will depend on the method utilised by the Company.

From time to time, Merino Subsidiary may seek to repatriate funds utilising its capital account, in which case the remittance of business profits of domestic direct investment (excluding banks and insurance institutions) can be freely

remitted in accordance with the law, subject to submission of the following audit materials:

- (a) a resolution of the shareholders or board of Merino Subsidiary resolving on repatriation of the relevant net profits;
- (b) the audited financial statements of Merino Subsidiary; and
- (c) a tax certificate issued by the relevant tax department.

The Company notes that repatriation of funds under this method is potentially limited in that entities are generally restricted to repatriation of funds in excess of their losses (being a concept similar to insolvent trading in Australia). If the statutory reserve fund (being funds reserved by Merino Subsidiary to pay out liabilities, if any) of an enterprise is insufficient to make up for the losses of previous years, the profits of the current year shall be used to make up for the losses before distributing the statutory reserve fund in accordance with the regulations. In practice, the Company would be obliged to settle any liabilities with its Chinese suppliers and distributors (refer to the below and Section 7.6 for further details on the Company's supply and distribution arrangements) prior to repatriating funds to Australia.

From time to time, Merino Subsidiary may seek to repatriate funds to Australia by way of its 'current account'. With regard to the restriction and regulation of the current account, SAFE and its branches implement the registration and management of the 'Directory of Enterprises with Foreign Exchange Receipts and Payments for Trade'. On 26 February 2024, Merino Subsidiary obtained the Administrative Licensing Decision (No. XK2024022600000553) issued by the Shanghai Branch of SAFE on the "Registration of Enterprises with General Current Account Receipts and Expenditures", which permits the remit of current account funds from China to Australia. For the current account, enterprises should handle the foreign exchange receipts and payments of trade in goods in accordance with the principle of "whoever exports receives foreign exchange, and whoever imports pays foreign exchange". Assuming the Company determines to remit currency by way of its 'current account', Merino Subsidiary must provide to the Merino Subsidiary's bank for review the relevant contract giving rise to the proposed remittance, following which review (for authenticity of the contract), the funds can be remitted.

In relation to the Company's business in China, the Company's wool-based products are made or partially made in Australia, and are assembled in both Australia and China. The Company's Merino apparel and accessories branded under "Auzwool Family" are made and/or assembled in China using selected raw materials, yarns and fabric secured from overseas suppliers. This range mainly supplies China local wholesalers. The Company's Chinese distribution centre is located in Beijing, China.

Merino & Co also exports Merino wool products to wholesalers and distributors in China.

2. COMPANY OVERVIEW

(a) **Auzwool**

Auzwool effectively conducts business on behalf of Merino & Co in China, including the marketing, distribution and sale of wool products and arranging the purchase of inventory and manufacture of wool products in China.

The Company has entered into the Auzwool Marketing Agreement for the provision of promotional, sales and marketing services.

Auzwool is not owned or controlled by Merino & Co, nor any of its Directors or key management personnel (or any of their Associates).

(b) **Supply Agreements**

Merino & Co also has a number of important supply agreements in place with key materials suppliers based in China, including with:

- (i) Jiaxing, a key supplier to the Company of both pure and wool-blend yarn. The Company has entered into the Jiaxing Agreement for the supply of fine Merino wool and wool-blend yarns; and
- (ii) Nantong, a key supplier to the Company of custom wool fabrics. The Company has entered into the Nantong Agreement for the supply of wool fabrics.

See Section 7.6 for further details.

(c) **Distribution Agreements**

Merino & Co also has a number of important distribution agreements in place, for the wholesale supply and distribution of Company products in mainland China, with parties based in China, including with:

- (i) Beijing Jiayu, for the wholesale supply of Company products to Beijing Jiayu, who will act as an agent and distributor for the Company in Beijing, mainland China; and
- (ii) Shanghai Tongsheng, for the wholesale supply of Company products to Shanghai Tongsheng, who will act as an agent and distributor for the Company in Shanghai, mainland China.
- (iii) Wooliwooli, for the wholesale supply of Company Products to Wooliwooli, who will act as an agent and distributor for the Company in the local Australian and mainland China regions.

See Section 7.5 for further details.

2.13 TAXATION

Given the Company is a 'non-resident enterprise' under the provisions of Article 3, Paragraph 3 of the Enterprise Income Tax Law of the People's Republic of China (2018 Amendment) (**Enterprise Income Tax Law**). Under Article 3, Paragraph 3 and Article 4 of the Enterprise Income Tax Law, the Company is liable to pay enterprise income tax on its income derived from sources in China at a rate of 20%.

In accordance with:

- (a) the 'Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Income Tax at Source for Non-resident Enterprises';
- (b) the 'Guidelines for Tax Withholding at Source for Non-resident Enterprises'; and
- (c) Article 37 of the Enterprise Income Tax Law, the income tax payable by non-resident enterprises on the income specified in Paragraph 3 of Article 3 of this Law shall be withheld at source, with the payer as the withholding agent. The tax is withheld by the withholding agent from the amount paid or due each time it is paid or due and payable. The tax withheld at source is also known as withholding tax. The withholding agent shall declare and pay the tax withheld at source to the tax authority where the withholding agent is located. According to Article 27 of the Enterprise Income Tax Law and Article 91 of the Regulations for the Implementation of the Enterprise Income Tax Law, non-resident enterprises shall be subject to enterprise income tax at a reduced rate of 10% on the income specified in paragraph 3 of Article 3 of the Enterprise Income Tax Law.

2.14 INTELLECTUAL PROPERTY

The Company holds various intellectual property licences for the effective undertaking of its operations, including domain names, trademarks and registered brand names. The Company has in place valid and existing trademarks, primarily in respect of its brand names and product lines.

2.15 DIVIDEND POLICY

The Company does not expect to pay dividends in the near future as its focus will primarily be on the growing the Company's existing business.

Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors and will depend upon matters such as the availability of distributable earnings, the operating results and financial condition of the Company, future capital requirements, general business and other factors considered relevant by the Directors. No assurances are given in relation to the payment of dividends, nor that any dividends may attach franking credits.



3. INDUSTRY OVERVIEW

The Industry Expert Report contained in Annexure B sets out an explanation of the industry the Company operates in. The Industry Expert Report contains information relating to the industry's:

- (a) structure;
- (b) market size and growth;
- (c) market trends and drivers;
- (d) competitive landscape;
- (e) regulatory framework; and
- (f) sales and distribution channels.

Investors are urged to read the Industry Expert Report in full.



4. RISK FACTORS

As with any share investment, there are risks involved. This Section identifies the major areas of risk associated with an investment in the Company but should not be taken as an exhaustive list of the potential risk factors to which the Company and its Shareholders are exposed. Potential investors should read the entire Prospectus and consult their professional advisers before deciding whether to apply for Shares.

Any investment in the Company under this Prospectus should be considered highly speculative.

4.1 RISKS SPECIFIC TO THE COMPANY

(a) Retail environment and general economic conditions

Many of the Company's products are discretionary in nature. Consumer spending on these items is potentially sensitive to changes in general consumer sentiment. Factors which affect general consumer sentiment may or may not have a direct impact on the income levels of the Company's customers but can adversely affect their spending levels notwithstanding. These factors include house prices, political uncertainty, economic outlook, employment certainty, conflict and terror events.

The Company's offering of products, and its business, financial performance and operations, may also be adversely affected by actual or expected changes in consumers' disposable incomes, or changes in their preferences or needs as to the utilisation of their disposable incomes (including any shifts in allocation of disposable income as a result of the imposition and/or easing of government-imposed COVID-19 restrictions such as international border closures). Disposable incomes of the Company's customers can vary as a result of changes to factors such as petrol prices, food and energy prices, interest rates, unemployment levels and taxation.

Any material reduction in consumer spending on discretionary items may in turn result in lower levels of revenue and profitability for the Company.

(b) Competition

The Australian wool apparel industry is competitive. The Company's primary competition arises from the increasing market share of small local workshops and overseas wool apparel companies.

The Company has determined the key factors in assessing the risk of competition to the Company are generally the:

- (i) range of merchandise available;
- (ii) quality of the merchandise;
- (iii) price of the merchandise;
- (iv) marketing and social media presence of the competitor; and
- (v) quality of customer service.

The Company's market share in Australian wool apparel market may decline if overseas competitors increase their focus on growing online sales through investment in the retail e-commerce market. Existing online competitors may strengthen their market share through increased funding or industry consolidation, an increase in brand awareness or attractiveness to customers, or through financial or operational advantages (such as low labour and manufacturing costs) which allow them to compete aggressively with the Company, particularly in terms of pricing.

Accordingly, the Company's position in the market may deteriorate as a result of positive increases by competitors in the factors set out above, including the entry of new competitors or a failure by the Company to successfully maintain its brand reputation as the retail environment changes. Any deterioration in the Company's competitive position may result in a loss of market share and a decline in revenue and earnings.

(c) Demand and economic factors

While the wool apparel market has been growing, there is no guarantee this growth will continue into the future or as currently forecasted. The Company is subject to factors outside its control including both the Australian and global economic outlook, movements in the cash rate and unemployment rate, levels of building activity, instability in real estate and housing markets, consumer sentiment, global economic outlook, foreign economic shocks, changes to trade policies (including the imposition of tariffs or other protectionist measures) and adverse exchange rate instability. All of the aforementioned factors may affect spending in the domestic Australian market, which may reduce demand for the Company's apparel and in turn adversely affect the Company's revenue.

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(d) **Material sourcing risks and supply chain disruptions**

The Company depends on a number of raw materials, semi-finished goods and conversion processes in the production of its merchandise. When rising costs of raw materials cannot be offset through increase in the prices of the Company's merchandise, the Company's operations, financial position and earnings may be adversely affected. If there were to be interruptions to the supply of raw materials and semi-finished goods supply chains, and temporary shortages of certain materials, this may adversely impact the Company's operations and revenue.

While the Company has established a diversified supplier base to mitigate this risk, the Company relies on certain key materials. Any material changes or disruption to the Company's product sourcing or supply chain could have an adverse impact on inventory and availability of the Company's merchandise.

(e) **Contract risk**

The success of the Company's business will depend on its continued relationships with its existing distributors or agents of its products. There can be no guarantee that these relationships will continue or, if they do continue, that these relationships will continue to be successful. There remains a risk that the Company's revenue may decline if the Company fails to meet key contractual or commercial requirements, which can in turn lead to distributors and/or agents shifting entering into agreements with the Company's competitors. Although the Company does not currently rely on one single supplier, distributor or agent for its business activities, the Company's business is still maturing into a more diverse supply and distribution base. The loss of a number of the Company's distributors and/or agents may impact the Company's revenue and it may take time to establish new relationships. These relationships may also be on terms less favourable to the Company than those existing at the date of this Prospectus. As at the date of this Prospectus, the Company has certain contracts with a term expiring in less than one year. Refer to Section 7 for further details.

(f) **Country risk**

As set out in Section 2 above, a substantial portion of the Company's revenue is anticipated to be derived from China. Accordingly, the Company's financial performance and operating capacity is exposed to and dependent on the economic, legal, political and social climate of China. Economic, legal, political and social changes in China may have a material adverse effect on the Company's financial performance and operating capacity.

The Chinese Government exerts significant control over the management of the national economy and the regulation of industry development. It may exercise control over China's economic growth by allocating resources, controlling payment of foreign currency, setting monetary policy and at times providing preferential (or detrimental) treatment to specific companies or industries. The Chinese Government may introduce or amend laws or policies affecting trade relations (including in relation to trade with Australia), taxation, banking, import and export of goods, and foreign investment. In the past, China has imposed restrictions on trade and imposed substantial tariffs on the import of certain Australian goods which has caused financial loss for Australian companies. Changes to law or the interpretation of law, regulations, policy and government controls in China may affect the Company's operations in China and therefore its financial performance. As at the date of this Prospectus, the Chinese Government has not imposed any restrictions on trade or substantial tariffs that are likely to impact the Company's operations in China.

Although the Chinese economy has experienced significant growth in the past 30 years, the Company cannot assure investors that the Chinese economy will continue to grow, or that if there is growth, such growth will be steady and uniform, or that if there is a slowdown, such slowdown will not have a negative effect on its business, financial condition and operations, including demand for the Company's products.

The Chinese Government may exercise its control to impose lending and borrowing restrictions on specific sectors, industries, areas or companies, and the People's Bank of China may change lending guidelines imposed on commercial banks, restricting access to finance for particular borrowers. Such changes could materially affect the Company's liquidity and ability to access capital and therefore may have a material adverse effect on the Company's financial performance and operating capacity. As at the date of this Prospectus, neither the Company nor the Group have entered into, or anticipate entering into, any financing arrangements with persons or entities in China.

The Chinese Government exercises control over the conversion of CNY into foreign currencies and, in certain cases, the remittance of currency out of China. Approvals from the relevant Chinese Government authorities, including the State Administration of Foreign Exchange, are usually required when remitting currency outside of China. Under China's existing currency repatriation and foreign investment law regulations, the Company may freely remit its capital

4. RISK FACTORS

contributions, profits, capital gains, income from asset disposal, intellectual property royalties obtained, compensation or compensation obtained in accordance with law, and liquidation income within the territory of China in accordance with the law, and no entity or individual may illegally impose restrictions on the currency, amount, and frequency of remittance, provided the company submits:

- (i) the profit distribution resolution of the shareholders' meeting or the board of directors (or the profit distribution resolution of partners) related to the profit remittance;
- (ii) audited financial statements, and
- (iii) the tax certificate issued by the relevant tax department.

Notwithstanding the above, the Chinese Government or relevant authority may impose changes on the currency repatriation and foreign investment law regulations. Adverse changes in policy, or adverse determinations made against the Company that affect the Company's ability to exchange currency or remit funds may affect the Company's ability to fund its operations and therefore may have a material adverse effect on the Company's financial performance and operating capacity. Refer to Section 2.12 for further details in relation to the repatriation of funds from China.

The risks associated with movements in exchange rates are discussed in Section 4.1(o).

The Company is also exposed to taxation regulation in both China and Australia, resulting from the cross-jurisdictional nature of the Company's business and operations (refer to Section 2 for further details). The Company's exposure to taxation regulation in both China and Australia may vary in the course of the Company's business, and will depend largely on the origin of the Company's sources of revenue. Further, there is potential for new or amended taxation regulations, and changes to the manner in which taxation regulations are interpreted or implemented in China or Australia, which may materially and adversely impact the Company's financial performance.

The Company's operations and dealings in China are governed by the laws and regulations of China. The legal system in China can be complex and is subject to change. The interpretation and enforcement of laws and regulations may not always be uniform, and uncertainty or changes in law or policy may limit the legal protections available to the Company. While previous court decisions may be indicative, or noted

for reference, they may not necessarily carry precedent value. The Company is party to a number of agreements with Chinese counterparties. The interpretation of law in relation to these agreements may be subject to uncertainty, including due to potential discretion that administrative or court authorities are afforded. This may reduce the Company's ability to enforce its rights, including by way of making it more difficult to evaluate the outcome of proceedings. If the Company was unable to enforce its rights in relation to key contracts the Company holds with Chinese counterparties, this would materially impact the Company's business and operations. Legal uncertainties regarding China may also limit the legal protections or rights available to the Company and to investors, including the Applicants.

(g) **Evolving fashion trends and consumer preferences**

Demand for the Company's products is sensitive to its successful range development and the contemporary brand and product selection, and accompanying quantification decisions, made by the Company. While the Company does allow for, and consider, material error in its product selection, sustained and material misjudgements in relation to evolving fashion trends and product range can adversely affect sales levels and consumer perspective regarding its brand and result in a loss of market share. Though the Company does not think it is likely, it is possible that the Company may misread or misinterpret fashion trends on a sustained and recurring basis. Further, notwithstanding the Company's relevant mitigating procedures, the Company may also incorrectly quantify the consumer demand arising from certain fashion trends, and therefore offer too much or too little product that is relevant to a particular fashion trend, which may adversely impact the Company's sales.

(h) **Seasonal sales**

The Company's retail sales revenue has historically been subject to seasonal patterns as the Company's wholesale customers will generally pre-order for the following year's winter. An unexpected decrease in sales over those traditionally high-volume trading periods may adversely impact the Company's revenue during the relevant period, and could result in surplus inventory, which may need to be sold over an extended period or at lower margins. Further, seasonal patterns may vary from time to time, which may adversely impact Company sales, and result in surplus inventory.

(i) **COVID-19**

The COVID-19 pandemic has had a significant impact on the Australian economy, including the ability of

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individuals and businesses to operate. There continues to be uncertainty as to the duration and further impact of COVID-19, including government, regulatory or health authority actions, downturn in tourism, supply restrictions and unemployment rates in Australia. The negative impact of some or all of these factors on the Australian economy may have an adverse impact on the Company's business, operations, growth strategies and financial performance.

Market volatility has been significantly increased as a result of COVID-19. COVID-19's scope, length, and long-term impacts remain uncertain, as is the manner in which governments and other authorities will respond in the near and distant future. COVID-19 regulations put in place by state and federal governments have disrupted and may continue to affect the Company's activities. These activities include, especially, attendance at the Company's retail stores and creation of its marketing materials.

Given the disparate and unpredictable nature of differing international COVID-19 policies, there remains a risk that the spread of COVID-19 may negatively affect the supply chain of the Company. COVID-19 has heavily impacted the import and export of good to and from Australia. If COVID-19 policies are put in place which adversely affect the supply chain of the Company or its suppliers, or if the company is otherwise unable to otherwise properly distribute its goods to customers, this may adversely affect the Company's financial and/or operational performance.

(j) **Inventory management**

The Company must keep enough inventory on hand to meet demand in order to operate its business successfully. The Company must also avoid excessive stockpiling of inventory that may be out-of-date in terms of fashion trends, or inventory that does not sell at a rate which is in line with that projected by the Company. When the Company makes judgements about the quantity and type of inventory to manufacture and provide to its clients, these decisions can result in holding insufficient or excessive inventory above and beyond amounts arising in the ordinary course of business. To mitigate this risk, the Company uses its inventory management systems to control stock levels and help with stock manufacturing predictions. However, the Company's future financial condition and performance could suffer from maintaining insufficient or excessive inventory levels.

(k) **Key personnel**

The Company's future success is dependent on its ability to retain and/or attract individuals that will complement its culture and retain an experienced senior management team, including the Company's Managing Director, Fang (Fiona) Yue, and Operations General Manager, Taizong (Tim) Kang. Competition for key personnel within the global retail/wholesale market could increase the demand and cost for quality employees. In the interests of managing the risks and challenges associated with leadership succession and retention of know-how and experience, the Company aims to mitigate this risk by providing key employees both short and long-term incentives, primarily through the Company's Employee Securities Incentive Plan, which will align the interests of those employees with the interests of the Company.

(l) **New markets**

Any future acquisitions or expansions into new markets (in product segments, relevant adjacencies and potentially geographically) may expose us to unforeseen risks. A number of these risks could include regulatory requirements, complications or inefficiencies related to staff, managerial and operational performance, enforcing contractual obligations and intellectual property rights, the inability to register the Company's trademarks or other intellectual property in certain jurisdictions, differing consumer sentiments and preferences, competition from existing established competitors, exchange rate fluctuations, political or economic instabilities, and taxation.

The Company will make informed decisions on the attractiveness and effectiveness of any future acquisitions or expansions into new markets, based on information available to the Company at that time. If such information is inaccurate, or circumstances arise outside of the Company's control while entering these new markets, there may be a material adverse effect on the financial and/or operational performance of the Company.

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(m) Marketing

The growth in new customers depends in part on the effectiveness of the marketing efforts of the Company, particularly online marketing but also in more traditional media such as outdoor advertising, radio and television.

There is a risk that the Company's traditional media advertising and online marketing may become less effective or more expensive as a result of:

- (i) increased competition or costs associated with the media slots and segments targeted by the Company for its advertising campaigns;
- (ii) increased cost of production of print, television or radio advertisements; and
- (iii) a reduction in the degree of engagement with online users.

If the costs of either online or traditional advertising materially increase or the effectiveness of the Company's media marketing strategies decreases, the Company may be unable to continue to grow at the same rate or maintain the same degree of profitability. In addition to marketing activities, the Company may also offer promotional incentives and discounts on its products or services to attract new customers. There is a risk that the level of uptake of any such promotional incentives and discounts is greater than expected, which could affect the Company's financial performance, particularly in the event that the new customers remain active for only a short period and do not re-engage with the Company.

The Company intends to use some of the funds raised under the Offer toward sales and marketing in an effort to grow brand awareness. By their nature, there is no guarantee that such sales and marketing campaigns will be successful. If they are not, the Company may encounter difficulty in creating market awareness, which would likely have an adverse impact on the Company's sales and profitability.

(n) Brand integrity

The Company's brand integrity is a crucial component of the Company's capacity to both appeal to its present clientele and draw in new clientele. There are several factors, both inside and outside of the Company's direct control which may negatively impact public perception of the Company's brand integrity, including compulsory product recalls, adverse legal disputes, failure to meet customer expectations or negative media coverage may have an adverse impact on the reputation and integrity of the Merino & Co brand name, and thereby may adversely impact the business of the Company.

(o) Exchange rate movements

Given the cross-border nature of the Company sales and supply, the Company is often exposed to foreign exchange rates and currency movements, largely because the majority of the world's apparel is manufactured in markets wherein pricing is denominated in USD. While most of the Company's sales and supply materials are contracted in CNY & AUD, the standard market practice in entering agreements with manufacturers and suppliers in key markets is to utilise USD or CNY. This means that the Company has a direct and indirect exposure to the relative strength of the AUD against both the USD and CNY. A sustained decline in the strength of the AUD against foreign currencies may adversely affect the Company's financial performance.

(p) Growth strategies

The Company has a number of strategies in place to generate future growth and earnings, including:

- (i) expanding the Company's manufacturing capability by adding highly automated woven loom machines to produce consistently high-quality merino wool products;
- (ii) successfully fulfilling the Company's fast-growing wholesale orders and continuing to build the pipeline of orders with major strategic wholesalers;
- (iii) optimising Direct-to-Consumer online platforms and stores in the Company's target markets; and
- (iv) increasing brand awareness, and promoting Australia Made, fine merino wool products, outside of Australia.

4. RISK FACTORS

There is a risk that the implementation of these strategies will be subject to delays or cost overruns, and there is no guarantee that these strategies will generate proportionate customer demand, and may not deliver a favourable return on the Company's investment. Furthermore, the implementation of these growth strategies may lead to changes to the Company's business and customer experience, which may result in unintended adverse consequences if such changes affect customers' willingness to buy the Company's products.

(q) **New technology evolution**

The Company relies on third-party hardware and software technologies to deliver its products and services. These technologies are required to meet the high quality standards associated with the Company. Any disruption in the provision of these third-party technologies may have an adverse impact on both the production and quality of the Company's apparel. Given the rapid development of technology generally, it may be that competitors of the Company may have access to technologies not available to the Company. In which case, this may affect the capacity for the Company to viably compete in the market, which may have an adverse impact on the profitability of the Company.

(r) **Future capital requirements**

The Company may require further financing in the future, in addition to amounts raised pursuant to the Offer. Any additional equity financing may be dilutive to Shareholders, may be undertaken at lower prices than the current market price (or Offer Price) or may involve restrictive covenants which limit the Company's operations and business strategy. Debt financing, if available, may involve restrictions on financing and operating activities.

Although the Directors believe that additional capital can be obtained, no assurances can be made that appropriate capital or funding, if and when needed, will be available on terms favourable to the Company or at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations, and this could have a material adverse effect on the Company's activities and could affect the Company's ability to continue as a going concern.

The Company may undertake additional offerings of Shares and of securities convertible into Shares in the future. The increase in the number of Shares issued and outstanding and the possibility of sales of such shares may have a depressive effect on the price of Shares. In addition, as a result of such additional Shares, the voting power of the Company's existing shareholders will be diluted.

(s) **Product development**

The Company may introduce new products or functionality on its online platforms that are intended to enhance the user experience and deliver greater levels of customer satisfaction. There is a risk that these initiatives may result in unforeseen costs or risks, and may not perform as intended, or may not deliver the corresponding growth in customers.

There is no guarantee that the Company will be able to undertake research and product development successfully. There is a risk that during the research, design, development and testing of the Company's future products that unforeseen costs will be incurred and that the products will not perform or test as expected. If testing during product development produces results that do not meet the Company's expectations, this could result in delays to the Company's growth plans.

A failure to successfully develop new and current products or a delay stemming from product development may adversely affect the Company's financial position and prospects.

(t) **Liquidity**

At Admission, assuming the Minimum Subscription is raised, the Company expects to have 72,006,570 Shares on issue. Assuming the Minimum Subscription is raised, the Company expects approximately 38,006,570 Shares to be subject to 24 months escrow and nil Shares subject to 12 months escrow in accordance with Chapter 9 of the Listing Rules, which would be equal to approximately 52.78% of the Company's issued capital. This creates a liquidity risk as a large portion of issued capital may not be able to be freely tradable for a period of time. The ability of an investor in the Company to sell their Shares on the ASX will depend on the turnover or liquidity of the Shares at the time of sale. Therefore, investors may not be able to sell their Shares at the time, in the volumes or at the price they desire.

(u) **Insurance risk**

The Company intends to insure its operations in accordance with industry practice. However, in certain circumstances, the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a materially adverse effect on the Company's financial position.

4. RISK FACTORS

(v) **Litigation**

The Company may occasionally become the target of grievances, lawsuits, enquiries, or audits brought by clients, staff members, suppliers, competitors, governmental bodies, regulators, or other third parties whose claims may relate to inaccurate product descriptions, harm, health, environmental, safety, or operational concerns, negligence, noncompliance, or breach of contract. Further, negative publicity from complaints, lawsuits, investigations, or audits may damage the Company's reputation and also divert management's focus from the general operations of the business, which may have an adverse impact on the Company's operational and financial performance.

(w) **Future profitability**

Whilst the Directors have confidence in the future revenue earning potential of expanding Merino apparel market globally, there can be no certainty that the Company will achieve or sustain profitability, or achieve or sustain positive cash flow from its operating activities.

The Company's profitability may be impacted by, among other things, the success of its business strategies, its ability to successfully provide a high-quality product and level of service to users, satisfaction of legal, regulatory and licensing requirements, economic conditions in the markets in which it operates and competition factors. Accordingly, the extent of future profits (if any) and the time required to achieve sustained profitability are uncertain and cannot be reliably predicted.

(x) **Attracting users and customers to website**

Though a large portion of the Company's revenue will come from wholesalers and distributors, the number of retail consumers engaging with the Company will stem from Company's website once redeveloped. If web traffic on the Company's website is lessened, this may adversely affect the financial performance of the Company's business. Various factors can affect the level of web traffic arriving at Company's website, including:

- (i) marketing and promotions: if the Company's marketing and promotion efforts are not effective, this may manifest itself as a lack of retail consumers and distributors visiting the main website.
- (ii) brand damage: should the Company suffer from reputational damage, web traffic could be affected.

4.2 GENERAL RISKS

(a) **Securities investments**

There are risks associated with any securities investment. The prices at which the securities of the Company trade may fluctuate in response to a number of factors. Furthermore, the stock market has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. There can be no guarantee that trading prices will be sustained. These factors may materially affect the market price of the securities of the Company regardless of its operational performance.

(b) **Share market conditions**

Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (i) general economic outlook;
- (ii) introduction of tax reform or other new legislation;
- (iii) interest rates and inflation rates;
- (iv) changes in investor sentiment toward particular market sectors;
- (v) the demand for, and supply of, capital; and
- (vi) terrorism or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

(c) **General economic climate**

Factors such as inflation, currency fluctuations, interest rates, legislative changes, political decisions and industrial disruption have an impact on operating costs. The Company's future income, asset values and share price can be affected by these factors and, in particular, by exchange rate movements.

(d) **Policies and legislation**

Any material adverse changes in government policies or legislation of Australia, China or any other country that the Company has economic interests may affect the viability and profitability of the Company.

4. RISK FACTORS

(e) **Negative publicity may adversely affect the Share price**

Any negative publicity or announcement relating to any of the Company's substantial Shareholders, key personnel or activities may adversely affect the stock performance of the Company, whether or not this is justifiable. Examples of such negative publicity or announcements may include involvement in legal or insolvency proceedings, failed attempts in takeovers, joint ventures or other business transactions.

(f) **Force majeure**

Force majeure is a term used to refer to an event beyond the control of a party claiming that the event has occurred. Significant catastrophic events – such as war, acts of terrorism, pandemics, loss of power, cyber security breaches or global threats – or natural disasters – such as earthquakes, fire or floods or the outbreak of epidemic disease – could disrupt the Company's operations and impair deployment of its solutions by its customers, interrupt critical functions, reduce demand for the Company's products, prevent customers from honouring their contractual obligations to the Company or otherwise harm the business. To the extent that such disruptions or uncertainties result in delays or cancellations of the deployment of the Company's products and solutions, its business, results of operations and financial condition could be harmed.

(g) **Unforeseen expenditure risks**

Expenditure may need to be incurred which has not been taken into account in the preparation of this Prospectus. Although the Company is not aware of any such additional expenditure requirements, however if such expenditure is subsequently required or incurred, this may adversely impact budgeted expenditure proposals by the Company.

(h) **Potential acquisitions**

The Company may make acquisitions of, or significant investments in, complementary companies or prospects (although no such acquisitions or investments are currently planned). Any such transactions will be accompanied by risks commonly encountered in making such acquisitions.

(i) **Taxation**

The acquisition and disposal of Securities will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Securities from a taxation point of view and generally. To the maximum extent permitted by law, the Company, its officers and each of their respective advisers accept no liability and responsibility with respect to the taxation consequences of applying for Securities under this Prospectus.

(j) **Climate change**

Climate change and the corresponding increase in the likelihood of events such as floods, droughts, fires, heatwaves and cyclones could impact Merino & Co by causing increased costs, closures, disruption to operations, lack of access, damage to stores, impacts on supply and transportation of product, among other things. Such events may lead to an increase in operational costs or business interruption and may have a detrimental impact on Merino & Co's financial performance.

(k) **Unforeseen risk**

There may be other risks which the Directors are unaware of at the time of issuing this Prospectus which may impact on the Company, its operations and/or the valuation and performance of its Shares.

4.3 SPECULATIVE INVESTMENT

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Shares offered under this Prospectus.

Therefore, the Shares to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Shares.

Potential investors should consider that the investment in the Company is highly speculative and should consult their professional advisers before deciding whether to apply for Shares pursuant to this Prospectus.

5. BOARD, MANAGEMENT & CORPORATE GOVERNANCE

5.1 BOARD OF DIRECTORS

As at the date of this Prospectus, the Board comprises of:

- (a) Fang (Fiona) Yue - Managing Director;
- (b) Jack Hanrahan - Non-Executive Chairman; and
- (c) Boxiang (Peter) Zhao - Non-Executive Director.

5.2 DIRECTORS' PROFILES

The names and details of the Directors in office at the date of this Prospectus are:

(a) **Fang (Fiona) Yue - Managing Director (Not Independent)**

Ms Yue has grown Merino & Co into one of the largest wool products manufacturers in Australia. She has 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 a 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.

Ms Yue has acknowledged to the Company that she will have sufficient time to fulfil his responsibilities as a Director.

Ms Yue is not considered to be an independent Director as she is employed in an executive capacity, as Managing Director, and will be a substantial shareholder of the Company upon Admission.

(b) **Jack Hanrahan - Non-Executive Chairman (Independent)**

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 and has a Masters of Management Degree from Macquarie University.

Mr Hanrahan was a director of ASX listed The Reject Shop (ASX:TRS) until 2019 and the Invigor Group Ltd (ASX:IVO) until 2020. Mr Hanrahan is currently a Non-

Executive Director of Forty Winks, Australia's leading bedding retail specialist with over 100 stores servicing all major capital cities and regional centres.

Mr Hanrahan has acknowledged to the Company that he will have sufficient time to fulfil his responsibilities as a Director.

Mr Hanrahan is considered to be an independent Director and is free from any business or other relationship that could materially interfere with, or reasonably be perceived to interfere with, the independent exercise of the person's judgement.

(c) **Boxiang (Peter) Zhao - Non-Executive Director (Independent)**

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.

Mr Zhao has acknowledged to the Company that he will have sufficient time to fulfil his responsibilities as a Director.

Mr Zhao is considered to be an independent Director and is free from any business or other relationship that could materially interfere with, or reasonably be perceived to interfere with, the independent exercise of the person's judgement.

5. BOARD, MANAGEMENT & CORPORATE GOVERNANCE

5.3 COMPANY SECRETARY

The name and details of the Company Secretary in office at the date of this Prospectus is set out below:

Alan Thomas - Company Secretary

Alan Thomas is a director within the Tax and Accounting division at Armada Accountants, with significant experience in most areas of accounting, taxation, company administration and business management. Mr Thomas has vast expertise in corporate services, attending to annual statutory compliance requirements of both listed and unlisted entities. This experience includes all company secretarial requirements, including both ASX and ASIC reporting and corporate governance matters. Mr Thomas is a Certified Practising Accountant with CPA Australia, and a Fellow of the Institute of Chartered Accountants (Australia and New Zealand). He is also a non-executive Director of Discovery Alaska Ltd, an ASX listed company.

5.4 KEY MANAGEMENT PERSONNEL

Other than the Directors and Company Secretary, the Company's other key senior management members are set out below:

(a) **Taizong (Tim) Kang - Operations General Manager**

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 Bachelor's 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.

Mr Kang is a related party of the Company, as a result of being the spouse of the Company's Managing Director, Fang (Fiona) Yue.

(b) **Alan Thomas - Chief Financial Officer**

See Section 5.3 for details regarding Mr Thomas.

5.5 INTERESTS OF DIRECTORS

No Director of the Company (or entity in which they are a partner or director) has, or has had in the two years before the date of this Prospectus, any interests in:

- (a) the formation or promotion of the Company; or
 - (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the Offer; or
 - (c) the Offer, and
no amounts have been paid or agreed to be paid and no value or other benefit has been given or agreed to be given to:
 - (d) any Director to induce him or her to become, or to qualify as, a Director; or
 - (e) any Director of the Company for services which he or she (or an entity in which they are a partner or director) has provided in connection with the formation or promotion of the Company or the Offer,
- except as disclosed in this Prospectus and as follows.

5. BOARD, MANAGEMENT & CORPORATE GOVERNANCE

5.6 SECURITY HOLDINGS OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

The Directors, key management personnel and their related entities have the following interests in Securities as at the date of this Prospectus:

Director & Key Management Personnel	Shares	Voting Power % ⁽¹⁾	Options	Convertible Notes
Fang (Fiona) Yue ⁽²⁾	10,200,000	83.33%	Nil	Nil
Jack Hanrahan ⁽³⁾	Nil	Nil	Nil	Nil
Boxiang (Peter) Zhao ⁽⁴⁾	Nil	Nil	Nil	Nil
Taizong (Tim) Kang ⁽⁵⁾	9,800,000	83.33%	Nil	Nil
Alan Thomas	Nil	Nil	Nil	Nil

Notes:

1. Based on 24,000,000 Shares being on issue.
2. Fang (Fiona) Yue is the legal holder of 10,200,000 Shares as at the date of this Prospectus. Fang (Fiona) Yue is the spouse of Taizong (Tim) Kang and is also an associate of Taizong (Tim) Kang in accordance with section 12(2)(c) of the Corporations Act. Taizong (Tim) Kang is the legal holder of 9,800,000 Shares as at the date of this Prospectus.
3. Subject to receipt of all necessary shareholder approvals, to be sought at the Company's first annual general meeting following Admission, the Company shall issue Mr Hanrahan (or his nominee) 300,000 Shares. Subject to receipt of all necessary shareholder approvals, to be sought no later than the first anniversary following Admission, the Company shall issue Mr Hanrahan (or his nominee) 300,000 Shares.
4. Subject to receipt of all necessary shareholder approvals, to be sought at the Company's first annual general meeting following Admission, the Company shall issue Mr Zhao (or his nominee) 150,000 Shares.
5. Taizong (Tim) Kang is the legal holder of 9,800,000 Shares as at the date of this Prospectus. Taizong (Tim) Kang is the spouse of Fang (Fiona) Yue and is also an associate of Fang (Fiona) Yue in accordance with section 12(2)(c) of the Corporations Act. Fang (Fiona) Yue is the legal holder of 10,200,000 Shares as at the date of this Prospectus.

5. BOARD, MANAGEMENT & CORPORATE GOVERNANCE

Based on the intentions of the Directors and key management personnel at the date of this Prospectus in relation to the Offer, the Directors, key management personnel and their related entities will have the following interests in Securities on Admission:

Director and key management personnel	Shares		Voting power (%) ⁽¹⁾	Options		Convertible Notes	
	Minimum Subscription	Maximum Subscription		Minimum Subscription	Maximum Subscription	Minimum Subscription	Maximum Subscription
Fang (Fiona) Yue ⁽²⁾	10,200,000	10,200,000	27.78%	Nil	Nil	Nil	Nil
Jack Hanrahan ⁽³⁾	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Boxiang (Peter) Zhao ⁽⁴⁾	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Taizong (Tim) Kang ⁽⁵⁾	9,800,000	9,800,000	27.78%	Nil	Nil	Nil	Nil
Alan Thomas	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Notes:

1. Assuming the Minimum Subscription and 72,006,570 Shares being on issue.
2. Fang (Fiona) Yue will be the legal holder of 10,200,000 Shares on Admission. Fang (Fiona) Yue is the spouse of Taizong (Tim) Kang and is also an associate of Taizong (Tim) Kang in accordance with section 12(2)(c) of the Corporations Act. Taizong (Tim) Kang will be the legal holder of 9,800,000 Shares on Admission.
3. Subject to receipt of all necessary shareholder approvals, to be sought at the Company's first annual general meeting following Admission, the Company shall issue Mr Hanrahan (or his nominee) 300,000 Shares. Subject to receipt of all necessary shareholder approvals, to be sought no later than the first anniversary following Admission, the Company shall issue Mr Hanrahan (or his nominee) 300,000 Shares.
4. Subject to receipt of all necessary shareholder approvals, to be sought at the Company's first annual general meeting following Admission, the Company shall issue Mr Zhao (or his nominee) 150,000 Shares.
5. Taizong (Tim) Kang will be the legal holder of 9,800,000 Shares on Admission. Taizong (Tim) Kang is the spouse of Fang (Fiona) Yue and is also an associate of Fang (Fiona) Yue in accordance with section 12(2)(c) of the Corporations Act. Fang (Fiona) Yue will be the legal holder of 10,200,000 Shares on Admission.

5.7 DISCLOSURE OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

No Directors or key management personnel of the Company have been the subject of any disciplinary action, criminal conviction, personal bankruptcy or disqualification in Australia or elsewhere in the last 10 years which is relevant or material to the performance of their duties as a Director or which is relevant to an investor's decision as to whether to subscribe for Shares. No Director has been an officer of a company that has entered into any form of external administration as a result of insolvency during the time that they were an officer, or within a 12-month period after they ceased to be an officer.

The Company notes that a civil claim was made in the Supreme Court of Western Australia on 25 February 2021 against Fang (Fiona) Yue and Taizong (Tim) Kang in relation to a company controlled by Ms Yue and Mr Kang. The

statement of claim lodged in 2021 alleges Ms Yue and Mr Kang engaged in misleading and deceptive conduct in relation to a business transaction in 2015. Whilst the proceedings are ongoing, the Company has been advised that there have been no material updates since lodgement of the initial pleadings, and that Ms Yue and Mr Kang intend to continue to defend this claim. Ms Yue and Mr Kang maintain that their conduct was in no way misleading, deceptive or dishonest. The Company notes that a case evaluation hearing is listed for 13 August 2024, at which conference the Company is advised that the matter will likely either be programmed towards a hearing at a future date, or referred to a further mediation conference. The Company does not consider that these proceedings relate to the business or operations of the Company, and as at the date of this Prospectus, there have been no findings of impropriety against Ms Yue or Mr Kang in relation to this claim.

5. BOARD, MANAGEMENT & CORPORATE GOVERNANCE

5.8 REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

The Constitution provides that the Company may remunerate the Directors. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is currently set at \$500,000 per annum. This amount may be altered by a resolution of a general meeting. The remuneration of the Managing Director or Executive Directors will be as determined by the Board.

The Company has entered into letters of engagement with Ms Fang (Fiona) Yue and Mr Taizong (Tim) Kang, letters of appointment with Mr Jack Hanrahan and Mr Boxiang (Peter) Zhao as set out in Section 7.2, as well as the Armada Accountants Consulting Agreement with Armada, which agreement sets out the remuneration payable to Mr Alan Thomas, as set out in Section 7.3.

The Directors will receive the following remuneration:

Director/KMP	Remuneration ⁽¹⁾ (\$)
Fang (Fiona) Yue	160,000
Jack Hanrahan ⁽²⁾	54,000
Boxiang (Peter) Zhao ⁽³⁾	42,000
Taizong (Tim) Kang	200,000
Alan Thomas ⁽⁴⁾	See below.

Notes:

1. Amount is to be paid annually and is exclusive of statutory superannuation and exclusive of GST (as applicable).
2. The Company has entered into a letter of appointment with Naha Holdings Pty Ltd (ACN 614 172 717), an entity controlled by Mr Hanrahan, pursuant to which Mr Hanrahan is engaged to provide non-executive director and chairman services to the Company. In accordance with this agreement, Mr Hanrahan will also receive Securities in the Company, as set out in Section 5.6. See Section 7.2 for further details regarding Mr Hanrahan's letter of appointment.
3. The Company has entered into a letter of appointment with Mr Zhao, as Trustee for The Madeley Family Trust (ABN 76 448 524 415) pursuant to which Mr Zhao is appointed as a Non-Executive Director. In accordance with this letter of appointment, Mr Zhao will also be paid a fee of \$24,000 exclusive of GST on or before Admission and Securities in the Company, as set out in Section 5.6. See Section 7.2 for further details regarding Mr Zhao's letter of appointment.
4. Mr Thomas will provide company secretarial services under the Armada Accountants Consulting Agreement. See section 7.3 for further details regarding this agreement.

5.9 RELATED PARTY TRANSACTIONS

The Company has entered into the following related party transactions on arms' length terms:

- (a) the Management Loan with Mr Taizong (Tim) Kang (refer to Section 2.11 for further details). Mr Taizong (Tim) Kang is a related party of the Company, as a result of being the spouse of the Company's Managing Director, Fang (Fiona) Yue;
- (b) the Second Management Loan with Mr Taizong (Tim) Kang (refer to Section 2.11 for further details);
- (c) letters of engagement with Ms Fang (Fiona) Yue and Mr Taizong (Tim) Kang (refer to Section 7.2 for further details);

- (d) letters of appointment with Naha Holdings Pty Ltd and Mr Boxiang (Peter) Zhao as the Trustee for The Madeley Family Trust (refer to Section 7.2 for further details); and
- (e) deeds of indemnity, insurance and access with each of its Directors on customary terms (refer to Section 7.8 for further details).

At the date of this Prospectus, no other material transactions with related parties and Directors' interests exist that the Directors are aware of, other than those disclosed in the Prospectus. Related party interests and transactions will be governed and managed in accordance with the policies, procedures and requirements referred to in Section 5.10(d).

5. BOARD, MANAGEMENT & CORPORATE GOVERNANCE

5.10 ASX CORPORATE GOVERNANCE COUNCIL PRINCIPLES AND RECOMMENDATIONS

The Company has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the Company's policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

To the extent applicable, the Company has adopted the 4th edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations **(Recommendations)**.

In light of the Company's size and nature, the Board considers that the current Board is a cost effective and practical method of directing and managing the Company. As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

The Company's main corporate governance policies and practices as at the date of this Prospectus are detailed below. The Company's full Corporate Governance Plan is intended to be made available in a dedicated corporate governance information section of the Company's website at www.merinosnug.com.au.

(a) Board of Directors

The Board is responsible for the corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives and monitors performance against those objectives. Clearly articulating the division of responsibilities between the Board and management will help manage expectations and avoid misunderstandings about their respective roles and accountabilities.

In general, the Board assumes (amongst others) the following responsibilities:

- (i) providing leadership and setting the strategic objectives of the Company;
- (ii) appointing and when necessary replacing the Executive Directors;
- (iii) approving the appointment and when necessary replacement, of other senior executives;
- (iv) undertaking appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director;

- (v) overseeing management's implementation of the Company's strategic objectives and its performance generally;
- (vi) approving operating budgets and major capital expenditure;
- (vii) overseeing the integrity of the Company's accounting and corporate reporting systems including the external audit;
- (viii) overseeing the Company's process for making timely and balanced disclosure of all material information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities;
- (ix) ensuring that the Company has in place an appropriate risk management framework and setting the risk appetite within which the Board expects management to operate; and
- (x) monitoring the effectiveness of the Company's governance practices.

The Company is committed to ensuring that appropriate checks are undertaken before the appointment of a Director and has in place written agreements with each Director which detail the terms of their appointment.

(b) Composition of the Board

Election of Board members is substantially the province of the Shareholders in general meeting. The Board currently consists of 1 Executive Director and 2 Non-Executive Directors (2 of whom the Company considers independent). As the Company's activities develop in size, nature and scope, the composition of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

(c) Identification and management of risk

The Board's collective experience will assist in the identification of the principal risks that may affect the Company's business. Key operational risks and their management will be recurring items for deliberation at Board meetings.

5. BOARD, MANAGEMENT & CORPORATE GOVERNANCE

(d) **Conflicts of interest and related party transactions**

Any potential conflicts of interest or entry into related party transactions are governed by the Company's Corporate Governance Plan and Board Charter, which provides inter alia that Directors must disclose to the Board potential or actual conflicts that may or might reasonably be thought to exist between the interests of the Director and interests of the Company.

While related party transactions are largely governed by the Corporations Act, under the Company's Corporate Governance Plan and Board Charter the Board has also resolved that where applications are made by a related party to a Director or officer of the Company then the Director or officer shall exclude himself/herself from the approval process.

(e) **Ethical standards**

The Board is committed to the establishment and maintenance of appropriate ethical standards.

(f) **Independent professional advice**

Subject to the Chairman's approval (not to be unreasonably withheld), the Directors, at the Company's expense, may obtain independent professional advice on issues arising in the course of their duties.

(g) **Remuneration arrangements**

The remuneration of any Executive Director will be decided by the Board, without the affected Executive Director participating in that decision-making process.

In addition, subject to any necessary Shareholder approval, a Director may be paid fees or other amounts as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director (eg non-cash performance incentives such as options).

Directors are also entitled to be paid reasonable travel and other expenses incurred by them in the course of the performance of their duties as Directors.

The Board reviews and approves the Company's remuneration policy in order to ensure that the Company is able to attract and retain executives and Directors who will create value for Shareholders, having regard to the amount considered to be commensurate for an entity of the Company's size and level of activity as well as the relevant Directors' time, commitment and responsibility.

The Board is also responsible for reviewing any employee incentive and equity-based plans including the appropriateness of performance hurdles and total payments proposed.

(h) **Continuous disclosure policy**

The Board has adopted a continuous disclosure policy that sets out the key obligations of the Directors, officers, employees and contractors in relation to continuous disclosure, as well as the Company's obligations under the Listing Rules and the Corporations Act. The policy also establishes a process for internal notification and external disclosure, as well as procedures for monitoring and promoting understanding of compliance with the disclosure requirements.

(i) **Securities trading policy**

The Board has adopted a policy that sets out the guidelines on the sale and purchase of securities in the Company by its key management personnel (ie Directors and, if applicable, any employees reporting directly to the Executive Directors). The policy generally provides that the written acknowledgement of the Chairman (or the Board in the case of the Chairman) must be obtained prior to trading.

(j) **Diversity policy**

The Board values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly, the Company has set in place a diversity policy. This policy outlines the Company's diversity objectives in relation to gender, age, cultural background and ethnicity. It includes requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the Company's progress in achieving them.

(k) **Audit and risk**

The Company will not have a separate audit or risk committee until such time as the Board is of a sufficient size and structure, and the Company's operations are of a sufficient magnitude for a separate committee to be of benefit to the Company. In the meantime, the full Board will carry out the duties that would ordinarily be assigned to that committee under the written terms of reference for that committee, including but not limited to, monitoring and reviewing any matters of significance affecting financial reporting and compliance, the integrity of the financial reporting of the Company, the Company's internal financial control system and risk management systems and the external audit function.

(l) **External audit**

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

5. BOARD, MANAGEMENT & CORPORATE GOVERNANCE

(m) **Social media policy**

The Board has adopted a social media policy to regulate the use of social media by people associated with the Company or its subsidiaries to preserve the Company's reputation and integrity. The policy outlines requirements for compliance with confidentiality, governance, legal, privacy and regulatory parameters when using social media to conduct Company business.

(n) **Whistleblower policy**

The Board has adopted a whistleblower protection policy to ensure concerns regarding unacceptable conduct including breaches of the Company's code of conduct can be raised on a confidential basis, without fear of reprisal, dismissal or discriminatory treatment. The purpose of this policy is to promote responsible whistle blowing about issues where the interests of others, including the public, or of the organisation itself are at risk.

(o) **Anti-bribery and anti-corruption policy**

The Board has a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all business dealings. The Board has adopted an anti-bribery and anti-corruption policy for the purpose of setting out the responsibilities in observing and upholding the Company's position on bribery and corruption provide information and guidance to those working for the Company on how to recognise and deal with bribery and corruption issues.



5. BOARD, MANAGEMENT & CORPORATE GOVERNANCE

5.11 DEPARTURES FROM RECOMMENDATIONS

Following Admission, the Company will be required to report any departures from the Recommendations in its annual financial report.

The Company's compliance and departures from the Recommendations as at the date of this Prospectus are detailed in the table below.

Principles and Recommendations	Explanation for Departures
<p>Recommendation 1.5</p> <p>A listed entity should:</p> <ul style="list-style-type: none">(a) have and disclose a diversity policy;(b) through its board or a committee of the board, set measurable objectives for achieving gender diversity in the composition of its board, senior executives and workforce generally; and(c) disclose in relation to each reporting period:<ul style="list-style-type: none">(i) the measurable objectives set for that period to achieve gender diversity;(ii) the entity's progress towards achieving those objectives; and(iii) either:<ul style="list-style-type: none">(A) the respective proportions of men and women on the board, in senior executive positions and across the whole workforce (including how the entity has defined "senior executive" for these purposes); or(B) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under the Act.	<p>While the Company does have in place a diversity policy, due to the current size and composition of the organisation, the Board does not consider it appropriate to provide measurable objectives in relation to gender diversity. The Company is committed to ensuring that the appropriate mix of skills, expertise, and diversity are considered when employing staff at all levels of the organisation and when making new senior executive and Board appointments and is satisfied that the composition of employees, senior executives and members of the Board is appropriate.</p>

5. BOARD, MANAGEMENT & CORPORATE GOVERNANCE

Principles and Recommendations	Explanation for Departures
<p>Recommendation 2.1</p> <p>The board of a listed entity should:</p> <ul style="list-style-type: none"> (a) have a nomination committee which: <ul style="list-style-type: none"> (i) has at least three members, a majority of whom are independent directors; and (ii) is chaired by an independent director, and disclose: <ul style="list-style-type: none"> (iii) the charter of the committee; (iv) the members of the committee; and (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meeting; or (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively. 	<p>Due to the size of the Board, the Company does not have a separate nomination committee. The roles and responsibilities of a nomination committee are currently undertaken by the Board.</p> <p>The duties of the full Board in its capacity as a nomination committee are set out in the Company's Remuneration and Nomination Committee Charter.</p> <p>When the Board meets as a remuneration and nomination committee it carries out those functions which are delegated to it in the Company's Remuneration and Nomination Committee Charter. Items that are usually required to be discussed by a Remuneration and Nomination Committee are marked as separate agenda items at Board meetings when required.</p> <p>The Board has adopted a Remuneration and Nomination Committee Charter which describes the role, composition, functions and responsibilities of a Nomination Committee.</p> <p>The Board as a whole reviews the size, structure and composition of the Board including competencies and diversity, in addition to reviewing Board succession plans and continuing development.</p>
<p>Recommendation 2.2</p> <p>A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership</p>	<p>The Company's objective is to have an appropriate mix of expertise and experience on its Board so that it can effectively discharge its corporate governance and oversight responsibilities. It is the Board's view that the current directors possess an appropriate mix of relevant skills, experience, expertise and diversity to enable the Board to discharge its responsibilities and deliver the Company's strategic objectives. This mix is subject to review on a regular basis as part of the Board's performance review process.</p> <p>The Board does not maintain a formal matrix of Board skills and experience, however the diversity of experience and assessment of any gaps in skills and experiences are a key consideration for any proposed appointment to the Board.</p>

5. BOARD, MANAGEMENT & CORPORATE GOVERNANCE

Principles and Recommendations	Explanation for Departures
<p>Recommendation 4.1</p> <p>The board of a listed entity should have an audit committee</p>	<p>As a consequence of the size and composition of the Board (comprising the Non-Executive Chairman, Managing Director and Non-Executive Director) the Board does not have a stand-alone audit committee.</p> <p>The Board as a whole has responsibilities typically assumed by an audit committee, including but not limited to:</p> <ul style="list-style-type: none"> (a) verifying and safeguarding the integrity of the Company's stakeholder reporting; (b) reviewing and approving the audited annual and reviewed half-yearly financial reports; (c) reviewing the appointment of the external auditor, their independence and performance, the audit fee, any questions of their resignation or dismissal and assessing the scope and adequacy of the external audit; and (d) a risk management function. <p>That is, matters typically dealt with by an audit committee are dealt with by the full Board.</p> <p>Information on the Company's procedures for the selection and appointment of the external auditor and the rotation of external audit partners is set out in the Policy on Selection, Appointment and Rotation of External Auditors, which is available on the Company's website, www.merinosnug.com.au.</p>
<p>Recommendation 7.1</p> <p>The board of a listed entity should have a committee or committees to oversee risk.</p>	<p>As a consequence of the size and composition of the Company's Board, the Board does not have a stand-alone risk committee.</p> <p>The Board as a whole has responsibilities typically assumed by a risk committee, including but not limited to:</p> <ul style="list-style-type: none"> (a) ensuring that an appropriate risk-management framework is in place and is operating properly; and (b) reviewing and monitoring legal and policy compliance systems and issues. <p>That is, matters typically dealt with by a risk committee are dealt with by the full Board.</p>

5. BOARD, MANAGEMENT & CORPORATE GOVERNANCE

Principles and Recommendations	Explanation for Departures
<p>Recommendation 8.1</p> <p>The board of a listed entity should have a remuneration committee.</p>	<p>As a consequence of the size and composition of the Board, the Board does not have a standalone remuneration committee.</p> <p>The Board as a whole has responsibilities typically assumed by a remuneration committee, including but not limited to:</p> <ul style="list-style-type: none"> (a) reviewing the remuneration (including short- and long-term incentive schemes and equity-based remuneration, where applicable) and performance of Directors; (b) setting policies for senior executive remuneration, setting the terms and conditions of employment for senior executives, undertaking reviews of senior executive performance, including setting goals and reviewing progress in achieving those goals; and (c) reviewing the Company's senior executive and employee incentive schemes (including equity-based remuneration) (where applicable) and making recommendations to the Non-Executive Chair on any proposed changes. <p>That is, matters typically dealt with by a remuneration committee are dealt with by the full Board. The Company has adopted a Remuneration and Nomination Committee Charter available on the Company's website, www.merinosnug.com.au.</p>

6. FINANCIAL INFORMATION

6.1 INTRODUCTION

The financial information in this Section 6 consists of:

- (a) the historical statements of profit or loss and other comprehensive income and statements of cash flows of the Company for the years ended 30 June 2022 and 30 June 2023 and for the six months ended 31 December 2023 (with comparative for the six months ended 31 December 2022); and
 - (b) the historical statement of financial position of the Company as at 31 December 2023,
- (together, the **Historical Financial Information**); and
- (c) the pro forma statement of financial position of the Company as at 31 December 2023, including the pro forma adjustments applied to the Historical Financial Information of the Company to illustrate the events and transactions related to the Offer as if they had occurred at 31 December 2023 (**Pro Forma Statement of Financial Position**),

(collectively referred to as the **Financial Information**).

The Directors are responsible for the preparation and inclusion of the Financial Information in the Prospectus. William Buck Consulting has prepared an Independent Limited Assurance Report in respect of the Financial Information. A copy of this report, which includes an explanation of the scope and limitations of the Investigating Accountant's work is attached as Annexure A.

The information presented in this Section 6 should be read in conjunction with the Independent Limited Assurance Report contained in Annexure A, the risk factors detailed in Section 4 and other information included in this Prospectus. Investors are urged to read the Independent Limited Assurance Report in full.

6.2 BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL INFORMATION

The Historical Financial Information is presented in Australian dollars and has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards and the accounting policies adopted by the Company (as detailed in Section 6.8). The Pro Forma Statement of Financial Position has been derived from the Historical Financial Information and includes pro forma adjustments for certain subsequent events and transactions associated with the Offers (as detailed in Section 6.7) as if those events and transactions had occurred as at 31 December 2023.

The Financial Information detailed in this Section 6 is presented in an abbreviated form and does not include all the presentation and disclosures, statements or comparative information required by Australian Accounting Standards and other mandatory reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

The Historical Financial Information of the Company has been extracted from its general purpose financial statements for the year ended 30 June 2022, which were audited by RSM Australia Partners in accordance with applicable Australian Auditing Standards, its general purpose financial statements for the year ended 30 June 2023, which were audited by William Buck Audit (WA) Pty Ltd in accordance with applicable Australian Auditing Standards, and its general purpose interim financial statements for the six months ended 31 December 2023 (including comparative financial information for the six months ended 31 December 2022), which were reviewed by William Buck in accordance with Australian Auditing Standards applicable to review engagements.

The review report issued by William Buck with respect to the financial statements for the six months ended 31 December 2023 included an emphasis of matter in relation to material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. However, the review conclusion was not modified in this regard. The Directors are of the view that, following receipt of the proceeds of the Offer (assuming the Minimum Subscription is raised), the Company will have sufficient funding to pursue its planned activities and continue as a going concern.

6. FINANCIAL INFORMATION

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6.3 FORECAST FINANCIAL INFORMATION

There are significant uncertainties associated with forecasting future revenues and expenses of the Company. In light of uncertainty as to the timing and outcome of the Company's growth strategies and the general nature of the industry in which the Company operates, as well as uncertain macro-market and economic conditions in the Company's markets, the Company's performance in any future period cannot be reliably estimated. On these bases and after considering ASIC Regulatory Guide 170, the Directors do not believe that they have a reasonable basis to reliably forecast future earnings and accordingly forecast financial information is not included in this Prospectus.

6. FINANCIAL INFORMATION

6.4 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The table below sets out the Historical Statement of Profit or Loss and Other Comprehensive Income of the Company for the years ended 30 June 2022 and 30 June 2023 and the six months ended 31 December 2023.

	Year ended 30-Jun-22 Audited \$	Year ended 30-Jun-23 Audited \$	Six months ended 31-Dec-23 Reviewed \$	Six months ended 31-Dec-22 Reviewed \$
Revenue	5,076,039	7,515,417	2,436,514	2,768,563
Other income	-	32,709	1,063	42,843
Interest revenue	367	2,180	265	14
Foreign exchange gain/(loss)	(21,915)	(77,992)	33,158	11,176
Expenses				
Changes in inventories	1,509,574	(782,377)	608,762	(662,355)
Purchase of inventories	(4,565,531)	(3,812,718)	(2,246,099)	(990,540)
Employee benefits expense	(608,809)	(573,186)	(331,402)	(294,615)
Depreciation and amortisation expense	(229,937)	(290,351)	(145,858)	(145,865)
Impairment/writeback of receivables	(286,725)	89,783	(32,661)	(137,941)
Interest expense	(56,005)	(258,141)	(114,278)	(127,387)
Marketing expense	(96,721)	(463,338)	(133,178)	(61,185)
Rental expense	(98,680)	(127,296)	(95,381)	(84,135)
Listing expense	-	(126,554)	(146,160)	-
Research and development costs	-	(284,499)	-	(284,499)
Share-based payments	-	-	-	(174,500)
Other expenses	(368,223)	(504,784)	(192,446)	(326,222)
Profit/(loss) before income tax expense	253,434	338,853	(357,701)	(466,648)
Income tax benefit/(expense)	193,295	147,361	179,969	4,051
Profit/(loss) after income tax expense	446,729	486,214	(177,732)	(462,597)
Other comprehensive income	-	-	-	-
Total comprehensive profit/(loss) for the period	446,729	486,214	(177,732)	(462,597)

Notes:

- The Company incurred expenses in connection with the planned initial public offering and ASX listing of \$126,554 in the year ended 30 June 2023 and a further \$146,160 in the six months ended 31 December 2023. These amounts were expensed in full to the statement of profit or loss.
- The share-based payment expense relates to an issue of Options to a third party in September 2022 for the provision of services. These Options were subsequently cancelled in March 2023.

Investors are warned that past performance is not a guide to future performance.

6. FINANCIAL INFORMATION

6.5 STATEMENT OF CASH FLOWS

The table below sets out the Historical Statement of Cash Flows of the Company for the years ended 30 June 2022 and 30 June 2023 and the six months ended 31 December 2023.

	Year ended 30-Jun-22 Audited \$	Year ended 30-Jun-23 Audited \$	Six months ended 31-Dec-23 Reviewed \$	Six months ended 31-Dec-22 Reviewed \$
Cash flows from operating activities				
Receipts from customers	5,512,624	4,669,572	3,650,052	2,029,256
Payments to suppliers and employees	(7,001,134)	(5,126,814)	(3,186,124)	(2,699,748)
Government grant received	-	-	1,063	22,308
Rental income received	-	-	-	15,973
Other income received	-	-	-	4,475
Interest received	367	2,180	265	14
Interest and other finance costs paid	(56,005)	(219,499)	(112,912)	(25,706)
Income tax refund / (paid)	(71,541)	272,727	(41,739)	112,832
Net cash used in operating activities	(1,615,689)	(401,834)	310,605	(540,596)
Cash flows from investing activities				
Payments for property, plant and equipment	(38,072)	(2,534)	-	(873)
Proceeds from sale of property, plant and equipment	-	1,615	-	-
Payments for intangible assets	-	-	(1,619)	(1,661)
Proceeds from disposal of intangible assets	-	-	-	1,616
Net cash used in investing activities	(38,072)	(919)	(1,619)	(918)
Cash flows from financing activities				
Proceeds from issue of convertible notes	21,430	-	-	-
Net proceeds from/(repayment of) loans from director	(48,613)	99,882	(15,542)	6,109
Repayment of hire purchase loan	(55,908)	(57,065)	(14,308)	(14,308)
Proceeds from borrowings	2,789,666	2,566,904	-	-
Repayment of borrowings	(273,469)	(2,358,629)	(234,822)	(83,193)
Repayment of lease liabilities	(33,528)	(100,929)	(54,097)	(48,477)
Movement in bank guarantee deposit	(100,828)	-	-	-
Borrowing costs	-	(2,675)	(1,805)	-
Net cash from financing activities	2,298,750	147,488	(320,574)	(139,869)
Net increase/(decrease) in cash and cash equivalents	644,989	(255,265)	(11,588)	(681,383)
Cash and cash equivalents at the beginning of the period	90,838	735,827	480,562	735,827
Cash and cash equivalents at the end of the period	735,827	480,562	468,974	54,444



6. FINANCIAL INFORMATION

6.6 HISTORICAL AND PRO FORMA STATEMENT OF FINANCIAL POSITION

The table below sets out the Historical Statement of Financial Position of the Company as at 31 December 2023, extracted from the reviewed interim financial statements, and the Pro Forma Statement of Financial Position as at that date.

	Note	Merino Reviewed 31-Dec-23	Subsequent events Unaudited 31-Dec-23	Pro forma adjustments (Maximum Subscription) Unaudited 31-Dec-23	Pro forma Minimum Subscription Unaudited 31-Dec-23	Pro forma adjustments (Maximum Subscription) Unaudited 31-Dec-23	Pro forma Maximum Subscription Unaudited 31-Dec-23
		\$	\$	\$	\$	\$	\$
Assets							
Current assets							
Cash and cash equivalents	6.9	468,974	716,081	5,339,794	6,524,849	6,747,909	7,932,964
Trade and other receivables		1,745,500	-	-	1,745,500	-	1,745,500
Inventories		1,987,136	-	-	1,987,136	-	1,987,136
Other assets		673,499	-	-	673,499	-	673,499
Total current assets		4,875,109	716,081	5,339,794	10,930,984	6,747,909	12,339,099
Non current assets							
Property, plant and equipment		837,468	-	-	837,468	-	837,468
Intangible assets		144,820	-	-	144,820	-	144,820
Right of use assets		541,074	-	-	541,074	-	541,074
Deferred tax assets		174,143	-	-	174,143	-	174,143
Other financial assets		105,309	-	-	105,309	-	105,309
Total non current assets		1,802,814	-	-	1,802,814	-	1,802,814
Total assets		6,677,923	716,081	5,339,794	12,733,798	6,747,909	14,141,913

6. FINANCIAL INFORMATION

	Note	Merino Reviewed 31-Dec-23	Subsequent events Unaudited 31-Dec-23	Pro forma adjustments (Maximum Subscription) Unaudited 31-Dec-23	Pro forma Minimum Subscription Unaudited 31-Dec-23	Pro forma adjustments (Maximum Subscription) Unaudited 31-Dec-23	Pro forma Maximum Subscription Unaudited 31-Dec-23
		\$	\$	\$	\$	\$	\$
Liabilities							
Current liabilities							
Trade and other payables		1,350,794	-	-	1,350,794	-	1,350,794
Borrowings	10(a)	901,669	-	(699,454)	202,215	(699,454)	202,215
Lease liabilities		120,869	-	-	120,869	-	120,869
Income tax liabilities		(5,558)	-	-	(5,558)	-	(5,558)
Employee benefits		100,692	-	-	100,692	-	100,692
Total current liabilities		2,468,466	-	(699,454)	1,769,012	(699,454)	1,769,012
Non current liabilities							
Borrowings	6.10(b)	2,164,067	716,081	-	2,880,148	-	2,880,148
Lease liabilities		519,673	-	-	519,673	-	519,673
Total non current liabilities		2,683,740	716,081	-	3,399,821	-	3,399,821
Total liabilities		5,152,206	716,081	(699,454)	5,168,833	(699,454)	5,168,833
Net assets		1,525,717	-	6,039,248	7,564,965	7,447,363	8,973,080
Equity							
Issued capital	6.11	800,100	-	8,137,290	8,937,390	9,544,543	10,344,643
Reserves	6.12	1,950,430	-	(1,929,206)	21,224	(1,929,206)	21,224
Accumulated losses	6.13	(1,224,813)	-	(168,836)	(1,393,649)	(167,974)	(1,392,787)
Total equity		1,525,717	-	6,039,248	7,564,965	7,447,363	8,973,080

The unaudited Pro Forma Statement of Financial Position represents the reviewed statement of financial position of the Company as at 31 December 2023, adjusted for the subsequent event and pro forma transactions outlined below. It should be read in conjunction with the notes to the Financial Information.

6. FINANCIAL INFORMATION

6.7 INTRODUCTION

Historical Statement of Financial Position

The Historical Statement of Financial Position of the Company as at 31 December 2023 detailed above has been extracted without adjustment from the reviewed financial statements of the Company for the six months ended 31 December 2023.

Pro Forma Statement of Financial Position

The Pro Forma Statement of Financial Position has been compiled by extracting the Historical Statement of Financial Position of the Company as at 31 December 2023 and reflecting the Directors' pro forma adjustments for the impact of the following subsequent events and other transactions which are proposed to occur before or following completion of the Offer.

The following adjustment has been made with respect to a subsequent event after 31 December 2023:

- (a) the provision of a further loan to the Company from Operations General Manager, Mr Taizong (Tim) Kang (i.e. the Second Management Loan), in the amount of \$716,081, bearing interest at the rate of 5% per annum and repayable in monthly instalments over a period of five years, commencing on the date 12 months after the date that the independent auditor's report on the Company's financial statements for the year ended 30 June 2024 is signed (or such other date agreed by the parties in writing). See Section 2.11(b) for further details regarding the Second Management Loan;

The following pro forma adjustments have been made in relation to events which are expected to occur immediately before or following completion of the Offer:

- (b) the issue of between 30,000,000 Shares at \$0.20 each, to raise \$6,000,000 (i.e. the Minimum Subscription), and 37,500,000 Shares at \$0.20 each to raise \$7,500,000 (i.e. the Maximum Subscription) before costs pursuant to the Offer;
- (c) the payment of cash costs related to the Offer of between \$660,206 (assuming the Minimum

Subscription is raised) and \$752,091 (assuming the Maximum Subscription is raised);

- (d) the issue of between 500,000 Shares (assuming the Minimum Subscription is raised) and 750,000 Shares (assuming the Maximum Subscription is raised) to the Lead Manager (or its nominees), pursuant to the Lead Manager Mandate, at a deemed issue price of \$0.20 per Share, which has been treated as a capital raising cost. See Section 7.1 for further details regarding the issue of Shares to the Lead Manager (or its nominees);
- (e) the issue of 300,000 unlisted options (i.e. Lead Manager Options) to the Lead Manager (or its nominees), having a \$0.30 exercise price and expiry date 3 years from the date of their issue, pursuant to the Lead Manager Mandate. See Section 7.1 for further details regarding the issue of the Lead Manager Options;
- (f) the issue of 200,000 Shares at a deemed issue price of \$0.20 per Share to EMPF, a consultant to the Company, in consideration for the provision of investor engagement and communication services. See Section 1.8 for further details regarding the issue Shares to EMPF;
- (g) the conversion of the loan of \$699,454 owing to Operations General Manager, Mr Taizong (Tim) Kang (i.e. Management Loan) into 3,497,270 Shares at a deemed issue price of \$0.20 per Share. See Section 2.11(a) for further details relating to the Management Loan; and
- (h) the conversion of Convertible Notes valued at \$1,950,430 into 13,809,300 Shares, to be issued to the noteholders at a conversion price of between \$0.10 and \$0.20, upon the later of: (a) ASX granting conditional listing approval for the Company to be admitted to the Official List and for the Shares to be quoted on the ASX on terms reasonably acceptable to the Company; and (b) the Board resolving to allot the Shares pursuant to this Prospectus. See Section 8.3 of the Prospectus for further details.

6. FINANCIAL INFORMATION

6.8 MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policies adopted in the preparation of the Financial Information are detailed below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) **New or amended Accounting Standards and interpretations adopted**

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

(b) **Foreign currency translation**

The Financial Information is presented in Australian dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(c) **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 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.

(d) **Government grants**

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

(e) **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:

6. FINANCIAL INFORMATION

- (i) 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
- (ii) 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 is 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.

(f) **Current and non-current classification**

Assets and liabilities are presented in the Historical 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.

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.

(g) **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and 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 Historical Statement of Financial Position.

(h) **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.

(i) **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.

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(j) **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:

- | | |
|--------------------------------|-------------|
| (i) Buildings and improvements | 20-50 years |
| (ii) Motor vehicles | 5-15 years |
| (iii) 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.

(k) **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 remeasurement 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.

(l) **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 amortised over a period of 6 years.

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.

(m) **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.

(n) **Trade and other payables**

These amounts represent liabilities for goods and services provided to the entity prior to the end of the accounting period 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.

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(o) **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.

(p) **Lease liabilities**

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.

(q) **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.

(r) **Provisions**

Provisions are recognised when the Company has a present (legal or constructive) obligation as a result of a past event, it is probable the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

(s) **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.

(t) **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 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.

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(u) **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.

(v) **Dividends**

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

(w) **Share-based payment transactions**

The Company provides benefits to employees (including senior executives) of the Company in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

When provided, the cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model or the binomial option valuation model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the Company's shares (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant participants become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects: (i) the extent to which the vesting period has expired; and (ii) the Company's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms

had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(x) **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 Historical 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.

(y) **Convertible notes**

Non-redeemable convertible notes are classified as equity if they do not contain any obligations to deliver cash or other financial assets and do not require settlement in a variable number of the Company's equity instruments.

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(z) **Critical accounting judgements, estimates and assumptions**

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts in the Financial Information. 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 which 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.

Determination of expected credit losses

The Company assesses expected credit losses on financial assets measured at amortised cost, including

trade receivables, using the simplified approach prescribed in AASB 9 Financial Instruments. Expected credit losses are based on historical credit loss experience, current conditions, and reasonable and supportable forecasts of future economic conditions. The Company considers both quantitative and qualitative factors in determining expected credit losses, including default probabilities, loss given default, and exposure at default.

Net realisable value of inventories

Inventories are valued at the lower of cost and net realisable value in accordance with AASB 102 Inventories. Cost is determined using the weighted average cost method, and net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion, disposal and transportation. The Company regularly reviews inventories for obsolescence, damage or other factors that may indicate a decline in net realisable value, and any necessary write-downs are recognised as an expense in the period incurred.



6. FINANCIAL INFORMATION

6.9 CASH AND CASH EQUIVALENTS

	Note	Pro forma Minimum Subscription Unaudited 31-Dec-23 \$	Pro forma Maximum Subscription Unaudited 31-Dec-23 \$
Cash and cash equivalents as at 31 December 2023		468,974	468,974
Adjustments made for subsequent events:			
Proceeds from Second Management Loan	6.7(a)	716,081	716,081
<i>Adjustments arising in the preparation of the Pro Forma Statement of Financial Position are summarised as follows:</i>			
Proceeds from the Offer	6.7(b)	6,000,000	7,500,000
Costs associated with the Offer	6.7(c)	(660,206)	(752,091)
		5,339,794	6,747,909
Pro forma cash and cash equivalents		6,524,849	7,932,964



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6.10 BORROWINGS

(a) Borrowings (current)

	Note	Pro forma Minimum Subscription Unaudited 31-Dec-23 \$	Pro forma Maximum Subscription Unaudited 31-Dec-23 \$
Borrowings as at 31 December 2023		901,669	901,669
<i>Adjustments arising in the preparation of the Pro Forma Statement of Financial Position are summarised as follows:</i>			
Conversion of Management Loan	6.7(g)	(699,454)	(699,454)
		(699,454)	(699,454)
Pro forma borrowings (current)		202,215	202,215

(b) Borrowings (non-current)

	Note	Pro forma Minimum Subscription Unaudited 31-Dec-23 \$	Pro forma Maximum Subscription Unaudited 31-Dec-23 \$
Borrowings as at 31 December 2023		2,164,067	2,164,067
<i>Adjustments made for subsequent events:</i>			
Second Management Loan	6.7(a)	716,081	716,081
Pro forma borrowings (non-current)		2,880,148	2,880,148

6. FINANCIAL INFORMATION

(c) Borrowings note

	Merino & Co Reviewed 31-Dec-23	Subsequent events Unaudited 31-Dec-23	Pro forma adjustments Unaudited 31-Dec-23	Pro forma Unaudited 31-Dec-23
	\$	\$	\$	\$
Borrowings (current)				
Bank loan ¹	179,509	-	-	179,509
Management Loan ³	699,454	-	(699,454)	-
Other borrowings	22,706	-	-	22,706
	901,669	-	(699,454)	202,215
Borrowings (non-current)				
Bank loan ¹	1,754,031	-	-	1,754,031
Bank loan ²	403,000	-	-	403,000
Second Management Loan ⁴	-	716,081	-	716,081
Other non-current borrowings	7,037	-	-	7,037
	2,164,067	716,081	-	2,880,148
Lease liabilities⁵				
Current	120,869	-	-	120,869
Non-current	519,673	-	-	519,673
	640,542	-	-	640,542

Notes:

1. This secured bank loan is provided for working capital purposes and is repayable by way of monthly principal and interest repayments over a term of 10 years to 2032. The loan bears interest at a variable rate comprising a business lending indicator rate plus a margin of 0.35% per annum.
2. The secured bank loan in the amount of \$403,000 at 31 December 2023 bears interest at the applicable business lending rate plus a margin of 4.11% per annum and is repayable in full on 30 April 2026.
3. The Company has entered into a loan agreement with Operations General Manager, Taizong (Tim) Kang, further details of which are set out in Section 2.11(a). The amount outstanding under this loan at 31 December 2023 (and at the date of this Prospectus) is \$699,454. This loan will automatically be converted into Shares upon the later of (a) ASX granting conditional listing approval for the Company to be admitted to the Official List and for the Shares to be quoted on the ASX on terms reasonably acceptable to the Company and (b) the Board resolving to allot Shares pursuant to a prospectus in respect of the Company's initial public offering and listing on the ASX.
4. Subsequent to 31 December 2023 Mr Kang provided the Company with a further unsecured loan in the amount of \$716,081 (the Second Management Loan). This loan bears interest at the rate of 5% per annum and is repayable in monthly instalments over a period of five years, commencing on the date 12 months after the date that the independent auditor's report on the Company's financial statements for the year ended 30 June 2024 is signed (or such other date agreed by the parties in writing). See Section 2.11(b) for further details regarding the Second Management Loan.
5. The lease liabilities are recognised in accordance with AASB 16 Leases and relate to the lease on the Company's premises.

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6.11 ISSUED CAPITAL

	Note	Pro forma Minimum Subscription Unaudited 31-Dec-23 No. of Shares	Pro forma Maximum Subscription Unaudited 31-Dec-23 No. of Shares	Pro forma Minimum Subscription Unaudited 31-Dec-23 \$	Pro forma Maximum Subscription Unaudited 1-Dec-23 \$
Issued share capital as at 31 December 2023		24,000,000	24,000,000	800,100	800,100
		-	-	-	-
<i>Adjustments arising in the preparation of the Pro Forma Statement of Financial Position are summarised as follows:</i>					
Proceeds from the Offer	6.7(b)	30,000,000	37,500,000	6,000,000	7,500,000
Costs associated with the Offer (equity portion)	6.7(c)	-	-	(531,370)	(624,117)
Issue of Shares to Lead Manager	6.7(d)	500,000	750,000	100,000	150,000
Cost of Shares to Lead Manager	6.7(d)	-	-	(100,000)	(150,000)
Cost of Lead Manager Options	6.7(e)	-	-	(21,224)	(21,224)
Issue of Shares to EMPF	6.7(f)	200,000	200,000	40,000	40,000
Conversion of Management Loan	6.7(g)	3,497,270	3,497,270	699,454	699,454
Conversion of Convertible Notes	6.7(h)	13,809,300	13,809,300	1,950,430	1,950,430
		48,006,570	55,756,570	8,137,290	9,544,543
Pro forma issued share capital		72,006,570	79,756,570	8,937,390	10,344,643

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6.12 RESERVES

	Note	Pro forma Minimum Subscription Unaudited 31-Dec-23 \$	Pro forma Maximum Subscription Unaudited 31-Dec-23 \$
Reserves as at 31 December 2023		1,950,430	1,950,430
<i>Adjustments arising in the preparation of the Pro Forma Statement of Financial Position are summarised as follows:</i>			
Issue of Lead Manager Options	6.7(e)	21,224	21,224
Conversion of Convertible Notes	6.7(h)	(1,950,430)	(1,950,430)
		(1,929,206)	(1,929,206)
Pro forma reserves		21,224	21,224

(a) **Unlisted Options**

In conjunction with the Offer, the Company will issue 300,000 Options to the Lead Manager (or its nominees). The Options will each be convertible into one Share in the Company.

The Lead Manager Options have been valued using a standard binomial pricing model on the assumption that the Offer Price represents the fair value of a Share at the grant date, using the following assumptions:

Assumptions	Lead Manager Options
Stock price	\$0.20
Exercise price	\$0.30
Expiry	3 years from date of issue
Expected future volatility	70%
Risk free rate	4.07%
Dividend yield	0%
Valuation	
Number of instruments	300,000
Valuation per instrument	\$0.0707
Valuation per tranche	\$21,224

6. FINANCIAL INFORMATION

6.13 ACCUMULATED LOSSES

	Note	Pro forma Minimum Subscription Unaudited 31-Dec-23	Pro forma Maximum Subscription Unaudited 31-Dec-23
		\$	\$
Accumulated losses as at 31 December 2023		(1,224,813)	(1,224,813)
<i>Adjustments arising in the preparation of the pro forma statement of financial position are summarised as follows:</i>			
Costs associated with the Offer (expense portion)	6.7(c)	(128,836)	(127,974)
Cost of Shares issued to EMPF	6.7(f)	(40,000)	(40,000)
		(168,836)	(167,974)
Pro forma accumulated losses		(1,393,649)	(1,392,787)

6.14 CONTINGENT ASSETS AND LIABILITIES

As at 31 December 2023, Merino & Co has given bank guarantees of \$102,902 in respect of a premises lease. The Company had no contingent assets as at 31 December 2023.

6.15 EVENTS AFTER THE REPORTING DATE

In January 2024, the Company secured a term loan of \$600,000 from Export Finance Australia. This loan bears interest at the rate of 6.20% per annum plus a commitment fee of 1.00% per annum. The principal amount is repayable in monthly instalments of \$75,000 commencing in March 2024, with the final instalment payable in October 2024.

Other than as disclosed above or elsewhere in the Prospectus, no other material matter or circumstance has arisen since 31 December 2023 that has significantly affected or may significantly affect the Company's operations, the results of those operations or the Company's state of affairs in future financial years.



7. MATERIAL CONTRACTS

The Directors consider that certain contracts entered into by the Company are material to the Company or are of such a nature that an investor may wish to have particulars of them when making an assessment as to whether to apply for Shares under the IPO Offer. The provisions of such material contracts are summarised in this Section.

7.1 LEAD MANAGER MANDATE

The Company has entered into a mandate agreement appointing Lodge Corporate to act as sole and exclusive lead manager to the IPO Offer (**Lead Manager Mandate**).

Under the Lead Manager Mandate, the Lead Manager will provide services and assistance to the Company customarily provided in connection with the marketing and execution of an initial public offer.

The Company will pay the following fees to the Lead Manager (or its nominees) pursuant to the Lead Manager Mandate, subject to Admission:

- (a) \$150,000 (plus GST);
- (b) a fee of 6% (plus GST) on all amounts raised by Lodge Corporate under the Offer;
- (c) 500,000 Shares if the Minimum Subscription is raised, and an additional 250,000 Shares if the Maximum Subscription is raised (i.e. 750,000 Shares in aggregate); and
- (d) the Lead Manager Options.

For 12 months following Admission:

- (a) Lodge Corporate will provide equity capital raising and transaction services to the Company for 12 months, for which it will be paid \$8,000 (plus GST) per month; and
- (b) Lodge Corporate will be paid a fee of 6% on any investment (including a debt, equity or hybrid investment) made in the Company by a party introduced to the Company by Lodge Corporate.

Please see Section 1.7 for further information regarding the interests of Lodge Corporate in the IPO Offer.

Either party may terminate the Lead Manager Mandate on seven days written notice.

The Lead Manager Mandate contains additional provisions considered customary for agreements of this nature.

7.2 LETTERS OF ENGAGEMENT AND LETTERS OF APPOINTMENT

(a) Letter of Engagement - Fang (Fiona) Yue

The Company has entered into a letter of engagement with Ms Fang (Fiona) Yue dated 1 November 2020 pursuant to which Ms Yue will serve as Managing Director of the Company on a full-time basis (**MD Agreement**).

The remuneration payable to Ms Yue from 1 November 2020 is \$160,000 per annum (excluding superannuation). In addition, Ms Yue is entitled to participate in the Company's Employee Securities Incentive Plan.

The MD Agreement is for an indefinite term, continuing until terminated by either Ms Yue or the Company giving not less than 1 month's written notice of termination.

Ms Yue is also subject to restrictions in relation to the use of confidential information during and after her employment with the Company.

The MD Agreement contains additional provisions considered customary for agreements of this nature.

(b) Letter of Engagement - Taizong (Tim) Kang

The Company has entered into a letter of engagement with Mr Taizong (Tim) Kang dated 23 September 2023 pursuant to which Mr Kang will serve as Operations General Manager of the Company on a full-time basis (**GM Agreement**).

The remuneration payable to Mr Kang from 23 September 2022 is \$200,000 per annum (excluding superannuation). In addition, Mr Kang is entitled to participate in the Company's Employee Securities Incentive Plan.

The GM Agreement is for an indefinite term, continuing until terminated by either Mr Kang or the Company giving not less than 1 month's written notice of termination.

Mr Kang is also subject to restrictions in relation to the use of confidential information during and after his employment with the Company.

The GM Agreement contains additional provisions considered customary for agreements of this nature.

7. MATERIAL CONTRACTS

(c) **Letters of Appointment - Naha Holdings Pty Ltd (Jack Hanrahan)**

The Company has entered into an agreement with Naha Holdings Pty Ltd, an entity controlled by Jack Hanrahan, by way of a letter of appointment, pursuant to which Mr Hanrahan is appointed as a Non-Executive Director and Non-Executive Chairman of the Company. From 19 September 2022, Naha Holdings Pty Ltd will be paid \$54,000 per annum, exclusive of GST and compulsory superannuation.

Subject to receipt of all necessary shareholder approvals, to be sought at the Company's first annual general meeting following Admission, the Company shall issue Mr Hanrahan (or his nominee) 300,000 Shares. Subject to receipt of all necessary shareholder approvals, to be sought no later than the first anniversary following Admission, the Company shall issue Mr Hanrahan (or his nominee) 300,000 Shares.

In addition, Mr Hanrahan is entitled to participate in the Company's Employee Securities Incentive Plan.

The term of Mr Hanrahan's appointment is subject to provisions of the Constitution relating to retirement by rotation and re-election of Directors and will automatically cease at the end of any meeting at which the Non-Executive Director is not re-elected by Shareholders.

Mr Hanrahan is also subject to restrictions in relation to the use of confidential information during and after his employment with the Company.

The agreement contains additional provisions considered customary for agreements of this nature.

(d) **Letter of appointment - Boxiang (Peter) Zhao as the Trustee for The Madeley Family Trust**

The Company has entered into an agreement with Boxiang (Peter) Zhao as the Trustee for The Madeley Family Trust, pursuant to which Mr Zhao is appointed a Non-Executive Director of the Company. From 23 January 2024 until Admission, Mr Zhao will be paid a director's fee of \$24,000 per annum, exclusive of GST. Following Admission, Mr Zhao will be paid \$42,000 per annum, exclusive of GST and compulsory superannuation.

Subject to receipt of all necessary shareholder approvals, to be sought at the Company's first annual general meeting following Admission, the Company shall issue Mr Zhao (or his nominee) 150,000 Shares.

In addition, Mr Zhao is entitled to participate in the Company's Employee Securities Incentive Plan.

The term of Mr Zhao's appointment is subject to provisions of the Constitution relating to retirement by rotation and re-election of Directors and will automatically cease at the end of any meeting at which the Non-Executive Director is not re-elected by Shareholders.

Mr Zhao is also subject to restrictions in relation to the use of confidential information during and after his employment with the Company.

The agreement contains additional provisions considered customary for agreements of this nature.

7.3 ARMADA ACCOUNTANTS CONSULTING AGREEMENT

The Company has entered into a services agreement with Armada Accountants, pursuant to which Armada Accountants will provide Chief Financial Officer and company secretarial services to the Company (**Armada Accountants Consulting Agreement**).

The services that Armada will provide include:

- (a) Chief Financial Officer services, including:
 - (i) overall overview of internal accounting function, internal controls, reporting cycle and budgeting;
 - (ii) quarterly high-level review of financial statements;
 - (iii) other accounting and bookkeeping assistance;
 - (iv) general overview of compliance with financial and taxation regulatory obligations, including in relation to GST, fringe benefits tax and payroll tax.
- (b) corporate compliance, including preparation of year-end and half-year end financial reports and income tax reports; and
- (c) company secretarial services (excluding corporate actions, takeovers, capital raising and issuing of capital) which will be provided by Mr Alan Thomas.

The Company will pay an hourly fee to Armada that will vary based on the position of staff member that performs the services. Armada estimate that the annual fee will be \$55,000 plus GST.

The Armada Accountants Consulting Agreement has an indefinite term and may be terminated by mutual agreement of the parties.

The Armada Accountants Consulting Agreement contains additional provisions considered customary for agreements of this nature.

7. MATERIAL CONTRACTS

7.4 AUZWOOL MARKETING AGREEMENT

The Company has entered into a marketing agreement with Auzwool, a company incorporated in China, for the provision of promotional, sales and marketing services. The Company considers the Auzwool Marketing Agreement to be important for the generation of income and growth for shareholders.

Pursuant to the Auzwool Marketing Agreement, Auzwool will provide promotional, sales and marketing services to the Company which include, but are not limited to:

- (i) market development and research;
- (ii) maintaining display centres;
- (iii) attending trade shows;
- (iv) developing marketing material;
- (v) visiting potential customers; and
- (vi) maintaining existing customers.

The Company must pay Auzwool \$15,000 per month in consideration for the provision of the services.

The Auzwool Marketing Agreement will expire on 15 July 2026 unless extended by the parties, and can be terminated by agreement at any time.

7.5 DISTRIBUTION AGREEMENTS

(a) Beijing Jiayu Agreement

The Company has entered into a distribution agreement with Beijing Jiayu, a company incorporated in China, for the wholesale supply of Company products to Beijing Jiayu, who will act as an agent and distributor for the Company in Beijing, mainland China. The Company considers the Beijing Jiayu Agreement to be important for the generation income and growth for Shareholders.

Pursuant to the Beijing Jiayu Agreement, Beijing Jiayu will act as an agent for the sale of the Company's Merinosnug products through its e-commerce platforms and offline sales networks in designated districts and cities in mainland China. Beijing Jiayu is required to market and promote Company products. In addition, Beijing Jiayu is under an obligation to purchase no less than CNY10 million worth of Company products, with an express sales target of CNY20 million worth of Company products.

If Beijing Jiayu achieves the target sales within the term of the Beijing Jiayu Agreement, Beijing Jiayu is entitled to a 10% commission on the overall sales revenue that

have cleared the Company's designated bank account. If Beijing Jiayu does not achieve the target sales within the term of the Beijing Jiayu Agreement, Beijing Jiayu is not entitled to a commission.

The price and range of Company products to be sold under the Beijing Jiayu Agreement is to be agreed by the Company and Beijing Jiayu from time to time. Those products must meet the relevant product specifications required in the Chinese market.

The Beijing Jiayu Agreement will terminate on 31 December 2025 unless extended by mutual agreement of the parties.

(b) Shanghai Tongsheng Agreement

The Company has entered into a similar distribution agreement to the Beijing Jiayu Agreement with Shanghai Tongsheng, a company incorporated in China, for the wholesale supply of Company products to Shanghai Tongsheng, who will act as an agent and distributor for the Company in Shanghai, mainland China. The Company considers the Shanghai Tongsheng Agreement to be important for the generation income and growth for Shareholders.

Pursuant to the Shanghai Tongsheng Agreement, Shanghai Tongsheng will act as an agent for the sale of the Company's Merinosnug products through its e-commerce platforms and offline sales networks in the designated districts and cities in mainland China. Shanghai Tongsheng is required to market and promote Company products. In addition, Shanghai Tongsheng is under an obligation to purchase no less than CNY10 million worth of Company products.

If Shanghai Tongsheng achieves the target sales within the term of the Shanghai Tongsheng Agreement, Shanghai Tongsheng is entitled to a 10% commission on the overall sales revenue that have cleared the Company's designated bank account. If Shanghai Tongsheng does not achieve the target sales within the term of the Shanghai Tongsheng Agreement, Shanghai Tongsheng is not entitled to a commission.

The price and range of Company products to be sold under the Shanghai Tongsheng Agreement is to be agreed by the Company and Shanghai Tongsheng from time to time. Those products must meet the relevant product specifications required in the Chinese market.

The Shanghai Tongsheng Agreement will terminate on 31 December 2025 unless extended by mutual agreement of the parties.

7. MATERIAL CONTRACTS

(c) Wooliwooli Agreement

The Company has entered into a distribution agreement with Wooliwooli for the wholesale supply of the Company's Merinosnug range products to Wooliwooli, who will act as a non-exclusive agent, promoter and distributor for those products in Australia and in mainland China. The Company considers the Wooliwooli Agreement to be important for the generation of income and growth for Shareholders.

Pursuant to the Wooliwooli Agreement, Wooliwooli is to purchase and act as agent for the sale of the Company's products through its e-commerce sales channels and offline sales networks. The minimum quantum of Company Merinosnug products to be purchased by Wooliwooli is no less than \$2,000,000 worth of Company products by 28 February 2025.

The price and range of Company products sold under the Wooliwooli Agreement are as notified by the Company and agreed by Wooliwooli from time to time. The Company must, however, give not less than 30 days' notice of any changes to the Company's products or prices thereof. Wooliwooli must agree to any change in price, only after which will the new pricing regime take effect. Notwithstanding any changes to the Company's products subject of the Wooliwooli Agreement, it is a term of the Wooliwooli Agreement that all products supplied by the Company must meet the relevant product specification requirements for both Australian and Chinese markets.

The Wooliwooli Agreement will automatically renew for a further one-year period on and from 28 February 2025, unless mutually terminated or varied by agreement of the parties, or if there is an objection by either party within 30 days prior to 28 February 2025. The Company is not aware of any reason why the Wooliwooli Agreement will not be automatically renewed for a further one-year period. However, there is no guarantee that such renewal will occur. Refer to Section 4.1(e) for further details relating to the key risks associated with the non-renewal of contracts.

(d) Lagardere/AWPL Agreement

The Company has entered into an agreement with Lagardere/AWPL, a company incorporated in Australia, for the wholesale supply of Company products to Lagardere/AWPL, who will act as a distributor for the Company in their Australian stores. The Company considers the Lagardere/AWPL Agreement to be important for the generation of income and growth for Shareholders.

Pursuant to the Lagardere/AWPL Agreement, Lagardere/AWPL may order the Company's products and the Company will arrange for delivery of the ordered products to Lagardere/AWPL's Australian stores. The pricing of the products is determined with reference to the wholesale price list or as otherwise agreed between the parties in writing.

The Company notes that Lagardere/AWPL is guaranteed a minimum 60% margin on the Company's products. The Lagardere/AWPL Agreement is also subject to exclusivity provisions preventing the Company from supplying its products to non-Lagardere/AWPL stores in Australian airports.

The Lagardere/AWPL Agreement was in place for an initial term of 12 months commencing on 27 January 2023 and was automatically renewed for a further period of 12 months until 26 January 2025. The Lagardere/AWPL Agreement will continue to automatically renew for further 12 month periods unless either party gives the other a termination notice at least three months prior to the expiry of the 12 month period.

Lagardere/AWPL is also entitled to terminate the Lagardere/AWPL Agreement if an event of default occurs, which includes events such as the Company becoming insolvent.

The Lagardere/AWPL Agreement contains additional provisions, including warranties and indemnities, considered customary for agreements of this nature.

7. MATERIAL CONTRACTS

7.6 SUPPLY AGREEMENTS

(a) Jiaxing Agreement

The Company has entered into an agreement with Jiaxing, a company incorporated in China, for the supply of wool and wool-blend yarn necessary for the manufacture of Company products. In accordance with the Jiaxing Agreement, the Company may (by written notice to Jiaxing) order wool and wool-blend yarn, and Jiaxing must fulfill such orders, in such quantities as determined by the Company, at a set price to be agreed between the Company and Jiaxing at the time of the relevant order. The Company must agree to any increase in the price of goods being acquired from Jiaxing.

The Company is under no obligation or requirement to place orders for any minimum quantity of product during the term of the agreement. Jiaxing is under no obligation or requirement to supply any minimum quantity of product during the term of the agreement. Title and risk in the goods supplied will only pass to the Company once the Company has accepted the goods.

The Jiaxing Agreement was in place for an initial term of 12 months commencing on 26 May 2023, and has been renewed and extended by the parties until 26 May 2025. The Company is not aware of any reason why the Jiaxing Agreement will not be extended for a further 12 month period. However, there is no guarantee that such extension will occur. Refer to Section 4.1(e) for further details relating to the key risks associated with the non-extension of contracts.

The Company may terminate the Jiaxing Agreement without cause with 90 days' written notice.

Jiaxing may only terminate the Jiaxing Agreement if the Company:

- (i) subject to (ii) below, fails to pay an invoice;
- (ii) fails to remedy such a breach in (i) above within 60 days of notice from Jiaxing; or
- (iii) the Company becomes insolvent, goes into administration, receivership or liquidation, or enters into an any arrangement with its creditors.

The Jiaxing Agreement contains additional provisions considered customary for agreements of this nature.

(b) Nantong Agreement

The Company has entered into an agreement with Nantong, a company incorporated in China, for the supply of wool and wool-blend fabrics necessary for the manufacture of Company products. In accordance with the Nantong Agreement, the Company may (by written notice to Nantong) order wool fabrics, and Nantong must fulfill such orders, in such quantities as determined by the Company, at a set price to be agreed between

the Company and Nantong at the time of the relevant order. The Company must agree to any increase in the price of goods being acquired from Nantong.

The Company is under no obligation or requirement to place orders for any minimum quantity of product during the term of the agreement. Nantong is under no obligation or requirement to supply any minimum quantity of product during the term of the agreement. Title and risk in the goods supplied will only pass to the Company once the Company has accepted the goods.

The Nantong Agreement was in place for an initial term of 12 months commencing on 20 March 2023, and has been renewed and extended by the parties until 20 March 2025. The Company is not aware of any reason why the Nantong Agreement will not be extended for a further 12 month period. However, there is no guarantee that such extension will occur. Refer to Section 4.1(e) for further details relating to the key risks associated with the non-extension of contracts.

The Company may terminate the Nantong Agreement without cause with 90 days' written notice.

Nantong may only terminate the Nantong Agreement if the Company:

- (i) subject to (ii) below, fails to pay an invoice;
- (ii) fails to remedy such a breach in (i) above within 60 days of notice from Nantong; or
- (iii) the Company becomes insolvent, goes into administration, receivership or liquidation, or enters into an any arrangement with its creditors.

The Nantong Agreement contains additional provisions considered customary for agreements of this nature.

(c) Woolyarns Agreement

The Company has entered into an agreement with Woolyarns, a company incorporated in New Zealand, for the supply of possum wool yarn necessary for the manufacture of Company products.

Owing to the nature of the product, and its manner of sourcing, the pricing and other particulars of each respective order are to be determined by the parties prior to the manufacture of each order.

The Company is under no obligation or requirement to place orders for any minimum quantity of product during the term of the agreement. Woolyarns is under no obligation or requirement to supply any minimum quantity of product during the term of the agreement.

The Woolyarns Agreement is for an indefinite term and may only be terminated by agreement between the parties.

The Woolyarns Agreement contains additional provisions, including warranties and indemnities, considered customary for agreements of this nature.

7. MATERIAL CONTRACTS

7.7 CONVERTIBLE NOTE DEEDS

The Company is a party to 8 convertible note deeds with 8 convertible note holders, entered into between 10 August 2020 and 1 August 2022, which raised \$1,950,430 (before costs) pursuant to the issue of Convertible Notes **(Convertible Note Deeds)**.

See Section 8.3 for the terms and conditions of the Convertible Notes, each issued pursuant to the Convertible Note Deeds. In addition to the terms and conditions of the Convertible Notes, the Convertible Note Deeds contain additional provisions considered customary for agreements of this nature.

7.8 DEEDS OF INDEMNITY, INSURANCE AND ACCESS

The Company is party to a deed of indemnity, insurance and access with each of the Directors and the Company Secretary. Under these deeds, the Company indemnifies each Director and officer to the extent permitted by law against any liability arising as a result of the Director acting as a director of the Company. The Company is also required to maintain insurance policies for the benefit of the relevant Director and must allow the Directors to inspect board papers in certain circumstances. The deeds are considered customary for deeds of this nature.



8. ADDITIONAL INFORMATION

8.1 RIGHTS ATTACHING TO SHARES

A summary of the rights attaching to the Shares is detailed below. This summary is qualified by the full terms of the Constitution (a full copy of the Constitution is available from the Company on request free of charge) and does not purport to be exhaustive or to constitute a definitive statement of the rights and liabilities of Shareholders. These rights and liabilities can involve complex questions of law arising from an interaction of the Constitution with statutory and common law requirements. For a Shareholder to obtain a definitive assessment of the rights and liabilities which attach to the Shares in any specific circumstances, the Shareholder should seek legal advice.

- (a) **(Ranking of Shares):** At the date of this Prospectus, all Shares are of the same class and rank equally in all respects. Specifically, the Shares issued pursuant to this Prospectus will rank equally with existing Shares.
- (b) **(Voting rights):** Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of shareholders or classes of shareholders:
 - (i) each shareholder entitled to vote may vote in person or by proxy, attorney or representative;
 - (ii) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and
 - (iii) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares shall have such number of votes as bears the same proportion to the total of such shares registered in the shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited).
- (c) **(Dividend rights):** Shareholders will be entitled to dividends, distributed among members in proportion to the capital paid up, from the date of payment. No dividend carries interest against the Company and the declaration of Directors as to the amount to be distributed is conclusive.

Shareholders may be paid interim dividends or bonuses at the discretion of the Directors. The Company must not pay a dividend unless the Company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend.
- (d) **(Variation of rights):** The rights attaching to the Shares may only be varied by the consent in writing of the holders of three-quarters of the Shares, or with the sanction of a special resolution passed at a general meeting.

- (e) **(Transfer of Shares):** Shares can be transferred upon delivery of a proper instrument of transfer to the Company or by a transfer in accordance with the ASX Settlement Operating Rules. The instrument of transfer must be in writing, in the approved form, and signed by the transferor and the transferee. Until the transferee has been registered, the transferor is deemed to remain the holder, even after signing the instrument of transfer.

In some circumstances, the Directors may refuse to register a transfer if upon registration the transferee will hold less than a marketable parcel. The Board may refuse to register a transfer of Shares upon which the Company has a lien.

- (f) **(General meetings):** Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

The Directors may convene a general meeting at their discretion. General meetings shall also be convened on requisition as provided for by the Corporations Act.
- (g) **(Unmarketable parcels):** The Constitution provides for the sale of unmarketable parcels subject to any applicable laws and provided a notice is given to the minority Shareholders stating that the Company intends to sell their relevant Shares unless an exemption notice is received by a specified date.
- (h) **(Rights on winding up):** If the Company is wound up, the liquidator may, with the authority of a special resolution of the Company, divide among the shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the shareholders or different classes of shareholders. The liquidator may, with the authority of a special resolution of the Company, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no shareholder is compelled to accept any shares or other securities in respect of which there is any liability. Where an order is made for the winding up of the Company or it is resolved by special resolution to wind up the Company, then on a distribution of assets to members, shares classified by ASX as restricted securities at the time of the commencement of the winding up shall rank in priority after all other shares (subject to, and assuming that the Company becomes admitted to the Official List).
- (i) **(Restricted securities):** a holder of restricted securities (as defined in the Listing Rules) must comply with the requirements imposed by the Listing Rules in respect of restricted securities.

8. ADDITIONAL INFORMATION

8.2 RIGHTS ATTACHING TO LEAD MANAGER OPTIONS

The following terms and conditions apply to the Lead Manager Options:

- (a) **(Entitlement):** Each Option entitles the holder to subscribe for one Share upon exercise of the Option.
- (b) **(Issue Price):** The issue price of the Options is nil.
- (c) **(Exercise Price):** The Options are exercisable at \$0.30.
- (d) **(Expiry Date):** Each Option will expire at 5:00pm (WST) on the date that is three (3) years from the date of issue **(Expiry Date)**. An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (e) **(Exercise Period):** The Options are exercisable at any time and from time to time on or prior to the Expiry Date.
- (f) **(Notice of Exercise):** The Options may be exercised by notice in writing to the Company in the manner specified on the Option certificate **(Notice of Exercise)** and payment of the Exercise Price for each Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

Any Notice of Exercise of an Option received by the Company will be deemed to be a notice of the exercise of that Option as at the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each Option being exercised in cleared funds.
- (g) **(Timing of issue of Shares and quotation of Shares on exercise):** within 10 Business Days after the valid exercise of an Option, the Company will:
 - (i) issue, allocate or cause to be transferred to the Participant the number of Shares to which the Participant is entitled;
 - (ii) issue a substitute certificate for any remaining unexercised Options held by the Participant;
 - (iii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act; and
 - (iv) do all such acts, matters and things to obtain the grant of quotation of the Shares by ASX in accordance with the Listing Rules.
- (h) **(Restrictions on transfer of Shares):** If the Company is unable to give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, Shares issued on exercise of the Options may not be traded until 12 months after their issue unless the Company, at its sole discretion, elects to issue a prospectus pursuant to section 708A(11) of the Corporations Act.
- (i) **(Dividend and voting rights):** The Options do not confer on the holder an entitlement to vote at general meetings of the Company or to receive dividends.
- (j) **(Transferability of the Options):** The Options are not transferable, except with the prior written approval of the Company and subject to compliance with the Corporations Act.
- (k) **(Quotation of the Options):** The Company will not apply for quotation of the Options on any securities exchange.
- (l) **(Adjustments for reorganisation):** If there is any reorganisation of the issued share capital of the Company, the rights of the Option holder will be varied in accordance with the Listing Rules.
- (m) **(Participation in new issues):** There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.
- (n) **(Adjustment for bonus issues of Shares):** If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment):
 - (i) the number of Shares which must be issued on the exercise of an Option will be increased by the number of Shares which the Option holder would have received if the Option holder had exercised the Option before the record date for the bonus issue; and
 - (ii) no change will be made to the Exercise Price.

All Shares issued upon the exercise of Options will upon issue rank equally in all respects with the then issued Shares.

8. ADDITIONAL INFORMATION

8.3 RIGHTS ATTACHING TO CONVERTIBLE NOTES

The following terms and conditions apply to the Convertible Notes:

Noteholder	Subscription Amount (Nominal Value)	Shares to be Issued on Conversion
Butterfly Trading ¹	\$50,000	500,000
Chenling & Zi Huang ²	\$300,000	1,500,000
Hongwen Bo ²	\$50,000	250,000
Shufeng Bai ¹	\$21,430	214,300
Yuhui Wang ³	\$200,000	1,200,000
Yuhu Sun ¹	\$100,000	1,000,000
Xiaoyong Qiang ¹	\$100,000	1,000,000
Baoye Zhang ⁴	\$1,129,000	8,145,000
Total	\$1,950,430	13,809,300

Notes:

1. Conversion price of \$0.10.
 2. Conversion price of \$0.20.
 3. Conversion price of \$0.10 in respect of 25% of the Shares to be issued on conversion and \$0.20 in respect of 75% of the Shares to be issued on conversion.
 4. Conversion price of \$0.10 in respect of 44.29% of the Subscription Amount to be converted into Shares and \$0.20 in respect of 55.71% of the Subscription Amount to be converted into Shares.
- (a) **(Interest):** the Convertible Notes do not bear interest.
- (b) **(Conversion):** the Convertible Notes will convert into Shares upon the later of:
- (i) ASX granting conditional listing approval for the Company to be admitted to the Official List and for the Shares to be quoted on the ASX on terms reasonably acceptable to the Company; and
 - (ii) the Board resolving to allot the Shares pursuant to this Prospectus.
- (c) **(Security):** the Convertible Notes are unsecured.
- (d) **(Shares):** the Shares to be issued upon conversion of the Convertible Notes will be of the same class and will rank equally in all respects with existing Shares on issue.
- (e) **(Unquoted):** the Convertible Notes are unquoted.

8. ADDITIONAL INFORMATION

8.4 SUMMARY OF THE PLAN

The Merino & Co Employee Securities Incentive Plan (**Plan**) was adopted by the Board on or about the date of this Prospectus. The full terms of the Plan may be inspected at the registered office of the Company during normal business hours. A summary of the terms of the Plan is set out below. It is intended that both the Executive and Non-Executive Directors will participate in the Plan. As at the date of this Prospectus no Director currently participates.

- (a) **(Eligible Participant):** Eligible Participant means a person that:
- (i) is an “ESS participant”, as that term is defined in s 1100L of the Corporations Act in relation to the Company or an associated entity of the Company, where that associated entity is a body corporate (and where associated entity has the meaning given by section 50AAA of the Corporations Act); and
 - (ii) has been determined by the Board to be eligible to participate in the Plan from time to time.
- (b) **(Maximum allocation)**
- (i) The Company must not make an offer of Securities under the Plan in respect of which monetary consideration is payable (either upfront, or on exercise of convertible securities) where the total number of Plan Shares (as defined in paragraph (m) below) that may be issued, or acquired upon exercise of securities exercisable for Plan Shares (Convertible Securities) offered, when aggregated with the number of Shares issued or that may be issued as a result of offers made under the Plan at any time during the previous 3 year period would exceed 5% of the total number of Shares on issue at the date of the offer, or such other limit as may be specified by the relevant requirements of the Constitution from time to time.
 - (ii) The maximum number of equity securities proposed to be issued under the Plan for the purposes of Listing Rule 7.2, Exception 13 is 7,800,000 equity securities (**ASX Limit**). This means that, subject to the following paragraph, the Company may issue up to the ASX Limit under the Plan, without seeking Shareholder approval and without reducing its placement capacity under Listing Rule 7.1.

- (iii) The Company will require prior Shareholder approval for the issue of Securities under the Plan to Directors, their associates, and any person whose relationship with the Company or a Director or a Director's associate is such that, in ASX's opinion, the acquisition should be approved by Shareholders. The issue of Securities with Shareholder approval will not count towards the ASX Limit.
- (c) **(Purpose):** The purpose of the Plan is to:
- (i) assist in the reward, retention and motivation of Eligible Participants;
 - (ii) link the reward of Eligible Participants to Shareholder value creation; and
 - (iii) align the interests of Eligible Participants with shareholders of the Group (being the Company and each of its Associated Bodies Corporate), by providing an opportunity to Eligible Participants to receive an equity interest in the Company in the form of Securities.
- (d) **(Plan administration):** The Plan will be administered by the Board. The Board may exercise any power or discretion conferred on it by the Plan rules in its sole and absolute discretion, subject to compliance with applicable laws and the Listing Rules. The Board may delegate its powers and discretion.
- (e) **(Eligibility, invitation and application):** The Board may from time to time determine that an Eligible Participant may participate in the Plan and make an invitation to that Eligible Participant to apply for Securities on such terms and conditions as the Board decides. An invitation issued under the Plan will comply with the disclosure obligations pursuant to Division 1A of Part 7.12 of the Corporations Act (**Division 1A of Part 7.12**).

On receipt of an Invitation, an Eligible Participant may apply for the Securities the subject of the invitation by sending a completed application form to the Company. The Board may accept an application from an Eligible Participant in whole or in part. If an Eligible Participant is permitted in the invitation, the Eligible Participant may, by notice in writing to the Board, nominate a party in whose favour the Eligible Participant wishes to renounce the invitation.

A waiting period of at least 14 days will apply to acquisitions of Securities for monetary consideration as required by the provisions of Division 1A of Part 7.12.

8. ADDITIONAL INFORMATION

- (f) **(Grant of Securities):** The Company will, to the extent that it has accepted a duly completed application, grant the successful applicant (**Participant**) the relevant number of Securities, subject to the terms and conditions set out in the invitation, the Plan rules and any ancillary documentation required.

- (g) **(Terms of Convertible Securities):** Each 'Convertible Security' represents a right to acquire one or more Shares (for example, under an option or performance right), subject to the terms and conditions of the Plan.

Prior to a Convertible Security being exercised a Participant does not have any interest (legal, equitable or otherwise) in any Share the subject of the Convertible Security by virtue of holding the Convertible Security. A Participant may not sell, assign, transfer, grant a security interest over or otherwise deal with a Convertible Security that has been granted to them. A Participant must not enter into any arrangement for the purpose of hedging their economic exposure to a Convertible Security that has been granted to them.

- (h) **(Vesting of Convertible Securities):** Any vesting conditions applicable to the grant of Convertible Securities will be described in the invitation. If all the vesting conditions are satisfied and/or otherwise waived by the Board, a vesting notice will be sent to the Participant by the Company informing them that the relevant Convertible Securities have vested. Unless and until the vesting notice is issued by the Company, the Convertible Securities will not be considered to have vested. For the avoidance of doubt, if the vesting conditions relevant to a Convertible Security are not satisfied and/or otherwise waived by the Board, that Convertible Security will lapse.

- (i) **(Exercise of Convertible Securities and cashless exercise):** To exercise a Convertible Security, the Participant must deliver a signed notice of exercise and, subject to a cashless exercise of Convertible Securities (see below), pay the exercise price (if any) to or as directed by the Company, at any time prior to the earlier of any date specified in the vesting notice and the expiry date as set out in the invitation.

At the time of exercise of the Convertible Securities, and subject to Board approval, the Participant may elect not to be required to provide payment of the exercise price for the number of Convertible Securities specified in a notice of exercise, but that on exercise of those Convertible Securities the Company will transfer or issue to the Participant that number of Shares equal in value to the positive difference between the Market Value of the Shares at the time of exercise and the exercise price that would otherwise be payable to exercise those Convertible Securities.

Market Value means, at any given date, the volume weighted average price per Share traded on the ASX over the 5 trading days immediately preceding that given date, unless otherwise specified in an invitation.

A Convertible Security may not be exercised unless and until that Convertible Security has vested in accordance with the Plan rules, or such earlier date as set out in the Plan rules.

- (j) **(Delivery of Shares on exercise of Convertible Securities):** As soon as practicable after the valid exercise of a Convertible Security by a Participant, the Company will issue or cause to be transferred to that Participant the number of Shares to which the Participant is entitled under the Plan rules and issue a substitute certificate for any remaining unexercised Convertible Securities held by that Participant.

- (k) **(Forfeiture of Convertible Securities):** Where a Participant who holds Convertible Securities ceases to be an Eligible Participant or becomes insolvent, all unvested Convertible Securities will automatically be forfeited by the Participant, unless the Board otherwise determines in its discretion to permit some or all of the Convertible Securities to vest.

Where the Board determines that a Participant has acted fraudulently or dishonestly, or wilfully breached his or her duties to the Group (as defined above), the Board may in its discretion deem all unvested Convertible Securities held by that Participant to have been forfeited.

Unless the Board otherwise determines, or as otherwise set out in the Plan rules:

- (i) any Convertible Securities which have not yet vested will be forfeited immediately on the date that the Board determines (acting reasonably and in good faith) that any applicable vesting conditions have not been met or cannot be met by the relevant date; and
 - (ii) any Convertible Securities which have not yet vested will be automatically forfeited on the expiry date specified in the invitation.
- (l) **(Change of control):** If a change of control event occurs in relation to the Company, or the Board determines that such an event is likely to occur, the Board may in its discretion determine the manner in which any or all of the Participant's Convertible Securities will be dealt with, including, without limitation, in a manner that allows the Participant to participate in and/or benefit from any transaction arising from or in connection with the change of control event.

8. ADDITIONAL INFORMATION

(m) **(Rights attaching to Plan Shares):** All Shares issued under the Plan, or issued or transferred to a Participant upon the valid exercise of a Convertible Security, **(Plan Shares)** will rank *pari passu* in all respects with the Shares of the same class. A Participant will be entitled to any dividends declared and distributed by the Company on the Plan Shares and may participate in any dividend reinvestment plan operated by the Company in respect of Plan Shares. A Participant may exercise any voting rights attaching to Plan Shares.

(n) **(Disposal restrictions on Securities):** If the invitation provides that any Plan Shares or Convertible Securities are subject to any restrictions as to the disposal or other dealing by a Participant for a period, the Board may implement any procedure it deems appropriate to ensure the compliance by the Participant with this restriction.

For so long as a Plan Share or Convertible Security is subject to any disposal restrictions under the Plan, the Participant will not:

- (i) transfer, encumber or otherwise dispose of, or have a security interest granted over that Plan Share; or
- (ii) take any action or permit another person to take any action to remove or circumvent the disposal restrictions without the express written consent of the Company.

(o) **(Adjustment of Convertible Securities):** If there is a reorganisation of the issued share capital of the Company (including any subdivision, consolidation, reduction, return or cancellation of such issued capital of the Company), the rights of each Participant holding Convertible Securities will be changed to the extent necessary to comply with the Listing Rules applicable to a reorganisation of capital at the time of the reorganisation.

If Shares are issued by the Company by way of bonus issue (other than an issue in lieu of dividends or by way of dividend reinvestment), the holder of Convertible Securities is entitled, upon exercise of the Convertible Securities, to receive an allotment of as many additional Shares as would have been issued to the holder if the holder held Shares equal in number to the Shares in respect of which the Convertible Securities are exercised.

Unless otherwise determined by the Board, a holder of Convertible Securities does not have the right to participate in a pro rata issue of Shares made by the Company or sell renounceable rights.

(p) **(Participation in new issues):** There are no participation rights or entitlements inherent in the Convertible Securities and holders are not entitled to participate in any new issue of Shares of the Company during the currency of the Convertible Securities without exercising the Convertible Securities.

(q) **(Amendment of Plan):** Subject to the following paragraph, the Board may at any time amend any provisions of the Plan rules, including (without limitation) the terms and conditions upon which any Securities have been granted under the Plan and determine that any amendments to the Plan rules be given retrospective effect, immediate effect or future effect.

No amendment to any provision of the Plan rules may be made if the amendment materially reduces the rights of any Participant as they existed before the date of the amendment, other than an amendment introduced primarily for the purpose of complying with legislation or to correct manifest error or mistake, amongst other things, or is agreed to in writing by all Participants.

(r) **(Plan duration):** The Plan continues in operation until the Board decides to end it. The Board may from time to time suspend the operation of the Plan for a fixed period or indefinitely, and may end any suspension. If the Plan is terminated or suspended for any reason, that termination or suspension must not prejudice the accrued rights of the Participants.

If a Participant and the Company (acting by the Board) agree in writing that some or all of the Securities granted to that Participant are to be cancelled on a specified date or on the occurrence of a particular event, then those Securities may be cancelled in the manner agreed between the Company and the Participant.

8. ADDITIONAL INFORMATION

8.5 EFFECTS OF THE OFFER ON CONTROL AND SUBSTANTIAL SHAREHOLDERS

The substantial Shareholders of the Company as at the date of this Prospectus are as follows:

Name	Number of Shares ⁽¹⁾	Voting Power ⁽²⁾
AWN	4,000,000	16.67%
Fang (Fiona) Yue ⁽³⁾	20,000,000	83.33%
Taizong (Tim) Kang ⁽⁴⁾	20,000,000	83.33%

Notes:

1. This column records the number of Shares that the Shareholder and its Associates have a Relevant Interest in.
2. Based on 24,000,000 Shares being on issue.
3. Fang (Fiona) Yue is the legal holder of 10,200,000 Shares as at the date of this Prospectus. Fang (Fiona) Yue is the spouse of Taizong (Tim) Kang and is also an associate of Taizong (Tim) Kang in accordance with section 12(2)(c) of the Corporations Act. Taizong (Tim) Kang is the legal holder of 9,800,000 Shares as at the date of this Prospectus.
4. Taizong (Tim) Kang is the legal holder of 9,800,000 Shares as at the date of this Prospectus. Taizong (Tim) Kang is the spouse of Fang (Fiona) Yue and is also an associate of Fang (Fiona) Yue in accordance with section 12(2)(c) of the Corporations Act. Fang (Fiona) Yue is the legal holder of 10,200,000 Shares as at the date of this Prospectus.

Based on the information known as at the date of this Prospectus, on Admission, the substantial Shareholders of the Company are as follows:

Name	Number of Shares ⁽¹⁾		Voting Power	
	Minimum Subscription ⁽²⁾	Maximum Subscription ⁽³⁾	Minimum Subscription ⁽²⁾	Maximum Subscription ⁽³⁾
AWN	4,000,000	4,000,000	5.56%	5.02%
Fang (Fiona) Yue ⁽⁴⁾	20,000,000	20,000,000	27.78%	25.08%
Taizong (Tim) Kang ⁽⁵⁾	20,000,000	20,000,000	27.78%	25.08%

Notes:

1. This column records the number of Shares that the Shareholder and its Associates have a Relevant Interest in.
2. Assuming the Minimum Subscription and 72,006,570 Shares being on issue.
3. Assuming the Maximum Subscription and 79,756,570 Shares being on issue.
4. Fang (Fiona) Yue will be the legal holder of 10,200,000 Shares on Admission. Fang (Fiona) Yue is the spouse of Taizong (Tim) Kang and is also an associate of Taizong (Tim) Kang in accordance with section 12(2)(c) of the Corporations Act. Taizong (Tim) Kang will be the legal holder of 9,800,000 Shares on Admission.
5. Taizong (Tim) Kang will be the legal holder of 9,800,000 Shares on Admission. Taizong (Tim) Kang is the spouse of Fang (Fiona) Yue and is also an associate of Fang (Fiona) Yue in accordance with section 12(2)(c) of the Corporations Act. Fang (Fiona) Yue will be the legal holder of 10,200,000 Shares on Admission.

8. ADDITIONAL INFORMATION

8.6 INTERESTS OF PROMOTERS, EXPERTS AND ADVISERS

(a) **No interest except as disclosed**

Other than as set out below or elsewhere in this Prospectus, no:

- (i) persons or entity named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- (ii) promoter of the Company; or
- (iii) underwriter (but not a sub-underwriter) to the issue or a financial services licensee named in this Prospectus as a financial services licensee involved in the issue,

holds at the date of this Prospectus, or has held at any time during the last 2 years, any interest in:

- (iv) the formation or promotion of the Company;
- (v) property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or the Offer; or
- (vi) the Offer,

and the Company has not paid any amount or provided any benefit, or agreed to do so, to any of those persons for services rendered by them in connection with the formation or promotion of the Company or the Offer.

(b) **Auditor**

William Buck has been appointed to act as auditor to the Company for the year ended 30 June 2023 and the half year ended 31 December 2023. The Company estimates it will pay William Buck a total of \$45,000 (excluding GST) for these services. During the 24 months preceding lodgement of this Prospectus with ASIC, William Buck has not provided any other services to the Company.

RSM Australia Partners has been appointed to act as auditor to the Company for the year ended 30 June 2022 and the half year ended 31 December 2022. The Company has paid RSM Australia Partners a total of \$80,000 (excluding GST) for these services. During the 24 months preceding lodgement of this Prospectus with ASIC, a related entity of RSM Australia Partners has provided other services to the Company. The Company estimates that it will pay a total of \$35,000 (excluding GST) for these services.

(c) **Australian legal adviser**

HWL Ebsworth Lawyers has acted as the Australian solicitors to the Company in relation to the Offer. The Company estimates it will pay HWL Ebsworth Lawyers \$190,000 (excluding GST) for these services. During the 24 months preceding lodgement of this Prospectus with ASIC, HWL Ebsworth Lawyers has not provided any other services to the Company.

(d) **Investigating Accountant**

William Buck Consulting has acted as Investigating Accountant and has prepared the Independent Limited Assurance Report which is included in Annexure A of this Prospectus. The Company estimates it will pay William Buck Consulting a total of \$18,000 (excluding GST) for these services. During the 24 months preceding lodgement of this Prospectus with ASIC, William Buck Consulting has not provided any other services to the Company.

(e) **Lead Manager**

Lodge Corporate has been appointed to act as the lead manager to the IPO Offer. Details of the payments to be made to Lodge Corporate are set out in Sections 1.7 and 7.1. During the 24 months preceding lodgement of this Prospectus with ASIC, Lodge Corporate has not provided any other services to the Company.

(f) **Industry Expert**

Frost & Sullivan has prepared the Industry Expert Report which is included in Annexure B of this Prospectus. The Company estimates that it will pay Frost & Sullivan a total of \$17,150 (excluding GST) for these services. During the 24 months preceding lodgement of this Prospectus with ASIC, Frost & Sullivan has not provided any other services to the Company.

8. ADDITIONAL INFORMATION

8.7 CONSENTS

(a) Each of the parties referred to below:

- (i) does not make the Offer;
- (ii) does not make, or purport to make, any statement that is included in this Prospectus, or a statement on which a statement made in this Prospectus is based, other than as specified below or elsewhere in this Prospectus;
- (iii) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and a statement contained in this Prospectus with the consent of that party as specified below; and
- (iv) has given and has not, prior to the lodgement of this Prospectus with ASIC, withdrawn its consent to the inclusion of the statements in this Prospectus that are specified below in the form and context in which the statements appear.

(b) **Auditor**

William Buck has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to being named in this Prospectus as auditor of the Company for the year ended 30 June 2023 and the half year ended 31 December 2023, in the form and context in which it is named.

RSM Australia Partners has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to being named in this Prospectus as auditor of the Company for the year ended 30 June 2022 and the half year ended 31 December 2022, in the form and context in which it is named.

(c) **Australian legal adviser**

HWL Ebsworth Lawyers has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to being named in this Prospectus as the Australian legal adviser to the Company in the form and context in which it is named.

(d) **Investigating Accountant**

William Buck Consulting has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to being named in this Prospectus as the Investigating Accountant to the Company in the form and context in which it is named and has given and not withdrawn its consent to the inclusion of the Independent Limited Assurance Report in the form and context in which it is included.

(e) **Lead Manager**

Lodge Corporate has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to being named in this Prospectus as the lead manager to the IPO Offer in the form and context in which it is named.

(f) **Industry Expert**

Frost & Sullivan has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to being named in this Prospectus as the Industry Expert in the form and context in which it is named and has given and not withdrawn its consent to the inclusion of the Industry Expert Report in the form and context in which it is included.

8. ADDITIONAL INFORMATION

8.8 EXPENSES OF OFFER

The total approximate expenses of the Offer payable by the Company are:

Item	\$	
	Minimum Subscription	Maximum Subscription
ASIC Lodgement Fee	3,206	3,206
ASX Quotation Fee	95,708	97,593
Legal Fees	190,000	190,000
Investigating Accountant Fees	18,000	18,000
Industry Expert Fees	17,150	17,150
Audit Fees	10,000	10,000
Payment to Lead Manager ¹	510,000	600,000
Administration and Miscellaneous Fees	14,410	14,410
Total	858,474³	950,359³

Notes:

1. Details of the payments to be made to the Lead Manager are set out in Section 7.1.
2. All amounts are exclusive of GST.
3. The expenses of the Offer set out above include \$198,268 which was incurred prior to 31 December 2023. The remaining costs of between \$660,206 (assuming the Minimum Subscription is raised) and \$752,091 (assuming the Maximum Subscription is raised) will be paid from the proceeds of the Offer and are included in the Pro Forma Statement of Financial Position set out in Section 6.6.

8. ADDITIONAL INFORMATION

8.9 CONTINUOUS DISCLOSURE OBLIGATIONS

Following Admission, the Company will be a 'disclosing entity' (as defined in section 111AC of the Corporations Act) and, as such, will be subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company will be required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Shares (unless a relevant exception to disclosure applies). Price sensitive information will be publicly released through ASX before it is otherwise disclosed to Shareholders and market participants. Distribution of other information to Shareholders and market participants will also be managed through disclosure to ASX. In addition, the Company will post this information on its website after ASX confirms that an announcement has been made, with the aim of making the information readily accessible to the widest audience.

8.10 LITIGATION

So far as the Directors are aware, there is no current or threatened civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature in which the Company (or any other member of the Group) is directly or indirectly concerned which is likely to have a material adverse effect on the business or financial position of the Company or the Group.

8.11 ASIC RELIEF AND ASX WAIVERS

No ASIC relief or ASX waivers have been obtained and relied upon in relation to the Offer.

8.12 ELECTRONIC PROSPECTUS

Pursuant to Regulatory Guide 107, ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an Electronic Prospectus on the basis of a paper Prospectus lodged with ASIC and the issue of Shares in response to an electronic application form, subject to compliance with certain provisions. If you have received this Prospectus as an Electronic Prospectus please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please email the Company and the Company will send to you, for free, either a hard copy or a further electronic copy of this Prospectus or both.

The Company and the Lead Manager reserve the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the relevant electronic Application Form, it was not provided together with the Electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered. In such a case, the Application Monies received will be dealt with in accordance with section 722 of the Corporations Act.

8.13 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the registered office of the Company:

- (a) this Prospectus;
- (b) the Constitution; and
- (c) the consents referred to in Section 8.7 of this Prospectus.

8.14 STATEMENT OF DIRECTORS

The Directors report that after due enquiries by them, in their opinion, since the date of the financial statements referred to in Section 6 and Annexure A, there have not been any circumstances that have arisen or that have materially affected or will materially affect the assets and liabilities, financial position, profits or losses or prospects of the Company, other than as disclosed in this Prospectus.

9. AUTHORISATION

The Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with section 720 of the Corporations Act, each Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

This Prospectus is signed for and on behalf of the Company by:



Jack Hanrahan
Non-Executive Chairman
Dated: 2 August 2024



10. GLOSSARY OF TERMS

These definitions are provided to assist persons in understanding some of the expressions used in this Prospectus.

Glossary	
AASB	means Australian Accounting Standards Board.
A\$, AUD or \$	means Australian dollars.
Aclink	means Aclink International Pty Ltd.
Admission	means admission of the Company to the Official List, following completion of the Offer.
Annexure	means an annexure to this Prospectus.
Applicant	means a person who submits an Application Form.
Application	means a valid application for Securities pursuant to this Prospectus.
Application Form	means the application form for the Offer.
Application Monies	means application monies for Securities under the Offer received and banked by the Company.
Armada Accountants	means Armada Accountants Pty Ltd ABN 79 009 298 542.
Armada Accountants Consulting Agreement	has the meaning given in Section 7.3.
ASIC	means the Australian Securities and Investments Commission.
Associate	has the meaning given in the Corporations Act.
ASX	means ASX Limited ACN 008 624 691 or, where the context requires, the financial market operated by it.
ASX Limit	has the meaning given in Section 8.4(b)(ii).
ASX Settlement	means ASX Settlement Pty Limited ACN 008 504 532.
ASX Settlement Operating Rules	means ASX Settlement Operating Rules of ASX Settlement.
Australian Made	means a product registered with Australian Made Campaign Ltd in accordance with the AMAG Logo Code of Practice.
Auzwool	Auzwool Story (Beijing) Imp. & Exp. Co. Ltd.
Auzwool Marketing Agreement	has the meaning given in Section 2.8(a).
AWN	means AWN Food & Fibre Holdings Pty Ltd ACN 627 193 104.
Beijing Jiayu	has the meaning given in Section 2.8(c)(i).
Beijing Jiayu Agreement	has the meaning given in Section 2.8(c)(i).
Board	means the board of Directors of the Company.

10. GLOSSARY OF TERMS

Glossary	
CHESS	means the Clearing House Electronic Subregister System operated by ASX Settlement.
China or PRC	means the People's Republic of China.
Closing Date	means the date that the Offer closes, which is 5.00pm (WST) on Friday, 20 September 2024 or such other time and date as the Board determines.
CNY	means Chinese Yuan.
Collecting Parties	has the meaning given in Section 1.21.
Company or Merino & Co	means Merino & Co. Limited ACN 162 863 121.
Constitution	means the constitution of the Company.
Convertible Notes	means the convertible notes issued pursuant to the Convertible Note Deeds, issued on the terms and conditions set out in Section 8.3.
Convertible Note Deeds	has the meaning given in Section 7.7.
Corporations Act	means the Corporations Act 2001 (Cth).
Directors	means the directors of the Company.
Division 1A of Part 7.12	has the meaning given in Section 8.4(e).
Electronic Prospectus	means the electronic copy of this Prospectus located at the Company's website www.merinosnug.com.au .
EMPF	means EMPF Investment Pty Ltd ACN 641 766 403.
Enterprise Income Tax Law	has the meaning given in Section 2.13.
Executive Directors	means the executive directors of the Company, as appointed from time to time.
Expiry Date	has the meaning given in Section 8.2(d).
Exposure Period	means the period of seven days after the date of lodgement of this Prospectus, which period may be extended by the ASIC by not more than seven days pursuant to section 727(3) of the Corporations Act.
Financial Information	has the meaning given in Section 6.1.
Frost & Sullivan or Industry Expert	means Frost & Sullivan Australia Pty Limited ACN 096 869 108.
GM Agreement	has the meaning given in Section 7.2(b).
Group	means the Company and its subsidiaries.
Historical Financial Information	has the meaning given in Section 6.1.
Independent Limited Assurance Report	means the report contained in Annexure A.
Indicative Timetable	means the indicative timetable for the Offer on page ix of this Prospectus.
Industry Expert Report	means the industry expert report contained in Annexure B.

10. GLOSSARY OF TERMS

Glossary	
Institutional Investors	means investors who are: <ul style="list-style-type: none"> (a) persons in Australia who are wholesale clients under section 761G of the Corporations Act and either "professional investors" or "sophisticated investors" under sections 708(8), 708(10) and 708(11) of the Corporations Act; or (b) institutional investors in certain other jurisdictions, as agreed by the Company and the Lead Manager, to whom offers of Shares may lawfully be made without the need for a lodged or registered prospectus or other form of disclosure document or filing with, or approval by, any government agency (except one with which the Company is willing in its discretion to comply).
Investigating Accountant	means William Buck Consulting.
IPO Offer or Offer	means the initial public offer by the Company, pursuant to this Prospectus, of up to 37,500,000 Shares at the Offer Price to raise up to \$7,500,000 (before costs).
Issue Date	means the date, as determined by the Directors, on which the Securities offered under this Prospectus are allotted, which is anticipated to be the date identified in the Indicative Timetable.
Jiaying	has the meaning given in Section 2.8(b)(i).
Jiaying Agreement	has the meaning given in Section 2.8(b)(i).
Lagardere/AWPL	has the meaning given in Section 2.8(c)(iv).
Lagardere/AWPL Agreement	has the meaning given in Section 2.8(c)(iv).
Lead Manager	means Lodge Corporate.
Listing Rules	means the listing rules of the ASX.
Lodge Corporate	means Lodge Corporate Pty Ltd ACN 125 323 168.
Lead Manager Mandate	has the meaning given in Section 7.1.
Lead Manager Options	means 300,000 Options issued to the Lead Manager in accordance with the Lead Manager Mandate, on the terms set out in Section 8.2.
Management Loan	has the meaning given in Section 2.11(a).
Market Value	has the meaning given in Section 8.4(i).
Maximum Subscription	means the raising of \$7,500,000 (before costs) pursuant to the Offer.
MD Agreement	has the meaning given in Section 7.2(a).
Merino	refers to the Merino breed of sheep and classification of wool derived thereof.
Merino Subsidiary	has the meaning given in Section 2.12.
Minimum Subscription	means the raising of \$6,000,000 (before costs) pursuant to the Offer.
Nantong	has the meaning given in Section 2.8(b)(ii).
Nantong Agreement	has the meaning given in Section 2.8(b)(ii).
Non-Executive Director	means a non-executive director of the Company, as appointed from time to time.

10. GLOSSARY OF TERMS

Glossary	
Noteholder	means a holder of Convertible Notes.
Notice of Exercise	has the meaning given in Section 8.2(f).
NPD	means new product development.
Offer Period	means the period of time commencing on the Opening Date and ending on the Closing Date.
Offer Price	means \$0.20 per Share under the Offer.
Official List	means the official list of ASX.
Official Quotation	means official quotation by ASX in accordance with the Listing Rules.
Opening Date	means the date specified as the opening date in the Indicative Timetable.
Option	means an option to acquire a Share.
Participant	has the meaning given in Section 8.4(f).
Personal Information	has the meaning given in Section 1.21.
Plan	means the Merino & Co Employee Securities Incentive Plan.
Plan Shares	has the meaning given in Section 8.4(m).
Pro Forma Statement of Financial Position	has the meaning given in Section 6.1.
Prospectus	means this prospectus dated 2 August 2024.
R&D Project	has the meaning given in Section 2.5(c)(iii).
Recommendations	has the meaning given in Section 5.10.
Related Bodies Corporate	has the meaning given in the Corporations Act.
Relevant Interest	has the meaning given in the Corporations Act.
Restricted Securities	has the meaning given in Section 1.17.
RSM Australia Partners	means RSM Australia Partners ABN 36 965 185 036.
SAFE	has the meaning given in Section 2.12.
Second Management Loan	has the meaning given in Section 2.11(b).
Section	means a section of this Prospectus.
Securities	means any securities, including Shares, Options, convertible notes or performance rights issued or granted by the Company.
Shanghai Tongsheng	has the meaning given in Section 2.8(c)(ii).
Shanghai Tongsheng Agreement	has the meaning given in Section 2.8(c)(ii).
Share	means a fully paid ordinary share in the capital of the Company.

10. GLOSSARY OF TERMS

Glossary	
Shareholder	means a holder of one or more Shares.
USD	means United States Dollars.
William Buck	means William Buck Audit (WA) Pty Ltd ABN 67 125 012 124.
William Buck Consulting	means William Buck Consulting (WA) Pty Ltd ABN 74 125 178 734.
Wooliwooli	has the meaning given in Section 2.8(c)(iii).
Wooliwooli Agreement	has the meaning given in Section 2.8(c)(iii).
Woolyarns	has the meaning given in Section 2.8(b)(iii).
Woolyarns Agreement	has the meaning given in Section 2.8(b)(iii).
WST	means Western Standard Time, being the time in Perth, Western Australia.



ANNEXURE A

INDEPENDENT LIMITED
ASSURANCE REPORT

1 August 2024

The Board of Directors
Merino & Co. Limited
4 Gould Street
Osbourne Park, WA 6017

Dear Directors,

INDEPENDENT LIMITED ASSURANCE REPORT ON MERINO & CO. LIMITED HISTORICAL FINANCIAL INFORMATION AND PRO FORMA HISTORICAL STATEMENT OF FINANCIAL POSITION

Introduction

William Buck Consulting (WA) Pty Ltd have been engaged by Merino & Co. Limited ("the Company") to report on the Historical Financial Information and Pro Forma Historical Statement of Financial Position of the Company as at 31 December 2023 for inclusion in the prospectus ("Prospectus") dated on or about 2 August 2024. The Prospectus is in connection with the Company's proposed capital raising and listing on the Australian Securities Exchange ("ASX") pursuant for an initial public offer of up to 37,500,000 Shares at an issue price of \$0.20 each to raise up to \$7,500,000 (before costs). The Offer is subject to a minimum subscription requirement to raise at least \$6,000,000.

Expressions and terms defined in the Prospectus have the same meaning in this Report.

Background

Established in 2013, Merino & Co is a branded lifestyle clothing and accessories company based in Perth, Western Australia. The Company manufactures, markets, and sells wool apparel and accessories, predominately featuring fine Merino wool, to both Australian and international markets.

Scope

Historical Financial Information

You have requested William Buck Consulting (WA) Pty Ltd to review the following Historical Financial Information of the Company included in Section 6 of the Prospectus comprising:

- The Historical Statements of Profit or Loss and Other Comprehensive Income for the financial years ended 30 June 2022 and 30 June 2023 and for the six months ended 31 December 2022 and 31 December 2023;
- The Statements of Cash Flows for the financial years ended 30 June 2022 and 30 June 2023 and for the six months ended 31 December 2022 and 31 December 2023; and

— The Historical Statement of Financial Position as at 31 December 2023;

Together referred to as the “Historical Financial Information”.

The Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Company’s adopted accounting policies.

The Historical Financial Information of the Company has been extracted from its general purpose financial statements for the year ended 30 June 2022, which were audited by RSM Australia Partners in accordance with applicable Australian Auditing Standards, its general purpose interim financial statements for the six months ended 31 December 2022, which were reviewed by RSM Australia Partners in accordance with Australian Auditing Standards applicable to review engagements, its general purpose financial statements for the year ended 30 June 2023, which were audited by William Buck Audit (WA) Pty Ltd (William Buck) in accordance with applicable Australian Auditing Standards, and its general purpose interim financial statements for the six months ended 31 December 2023, which were reviewed by William Buck in accordance with Australian Auditing Standards applicable to review engagements.

The review report issued by William Buck with respect to the financial statements for the six months ended 31 December 2023 included an emphasis of matter in relation to material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. However, the review conclusion was not modified in this regard.

The Financial Information detailed in Section 6 is presented in an abbreviated form and does not include all the presentation and disclosures, statements or comparative information required by Australian Accounting Standards and other mandatory reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

Pro Forma Historical Statement of Financial Position

You have requested William Buck Consulting (WA) Pty Ltd to review the pro forma historical statement of financial position as at 31 December 2023 referred to as “the Pro Forma Historical Statement of Financial Position” as set out in section 6.6 of the Prospectus.

The Pro Forma Historical Statement of Financial Position has been derived from the Historical Statement of Financial Position of the Company as at 31 December 2023, after adjusting for the effects of the pro forma transactions and subsequent events described in section 6.7 of the Prospectus.

The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the Historical Financial Information and the events or transactions to which the pro forma transactions relate, as described in section 6.7 of the Prospectus, as if those events or transactions had occurred as at the date of the Historical Statement of Financial Position. Due to its nature, the Pro Forma Historical Statement of Financial Position does not represent the Company’s actual or prospective financial position.

Directors’ responsibility

The Directors of the Company are responsible for the preparation of the Historical Financial Information and Pro Forma Historical Statement of Financial Position, including the selection and determination of pro forma adjustments made to the Historical Financial Information and included in the Pro Forma Historical

Statement of Financial Position. This includes responsibility for such internal controls as the Directors determine are necessary to enable the preparation of Historical Financial Information and Pro Forma Historical Statement of Financial Position that are free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the Historical Financial Information and the Pro Forma Historical Statement of Financial Position based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standards on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

Conclusions

Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Historical Financial Information, as set out in section 6 of the Prospectus, and comprising:

- The Historical Statements of Profit or Loss and Other Comprehensive Income for the financial years ended 30 June 2022 and 30 June 2023 and for the six months ended 31 December 2022 and 31 December 2023;
- The Statements of Cash Flows for the financial years ended 30 June 2022 and 30 June 2023 and for the six months ended 31 December 2022 and 31 December 2023; and
- The Historical Statement of Financial Position of the Company as at 31 December 2023;

are not presented fairly, in all material respects, in accordance with the stated basis of preparation as described in section 6 of the Prospectus.

Pro Forma Historical Statement of Financial Position

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Statement of Financial Position of the Company as set out in section 6 of the Prospectus as at 31 December 2023 is not presented fairly in all material respects, in accordance with the stated basis of preparation as described in section 6 of the Prospectus.

Subsequent Events

To the best of our knowledge and belief, there have been no other material items, transactions or events subsequent to 31 December 2023 not otherwise disclosed in this Report or the Prospectus that have come

to our attention during the course of our review which would cause the information included in this Report to be misleading.

Restriction on Use

Without modifying our conclusions, we draw attention to section 6 of the Prospectus which describes the purpose of the Historical Financial Information and Pro Forma Historical Statement of Financial Position, being for inclusion in the Prospectus. As a result, the Historical Financial Information and Pro Forma Historical Statement of Financial Position, may not be suitable for use for another purpose. We disclaim any assumptions of responsibility for any reliance on this Report or on the financial information to which this report relates for any purpose other than the purpose for which it was prepared. This Report should be read in conjunction with the Prospectus.

Consent

William Buck Consulting (WA) Pty Ltd has consented to the inclusion of this Independent Limited Assurance Report in the Prospectus in the form and context in which it is so included. At the date of this Report our consent has not been withdrawn. William Buck Consulting (WA) Pty Ltd makes no representation regarding, and takes no responsibility for any other statements, or material in, or omissions from, the Prospectus.

William Buck Consulting (WA) Pty Ltd has not authorised the issue of the Prospectus and our report should not be taken as an endorsement of the Company or a recommendation by William Buck Consulting (WA) Pty Ltd of any participation in the share issue by any intending investors.

General Advice Limitation

This report has been prepared and included in the Prospectus to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on this information contained in this report. Before acting or relying on information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Disclosure of Interest

William Buck Consulting (WA) Pty Ltd does not have any interest in the outcome of the issue of shares other than in connection with the preparation of this report for which normal professional fees will be received.

William Buck Audit (WA) Pty Ltd is the auditor of the Company.

Yours faithfully



William Buck Consulting (WA) Pty Ltd
ABN 74 125 178 734



Conley Manifis

Director

Dated this 1st day of August 2024

A man with a beard and mustache, wearing a light-colored cowboy hat, a grey ribbed cardigan over a grey zip-up sweater, and blue jeans, stands in a field. He is looking off to the side. A large, white, stylized lasso graphic is overlaid on the left side of the image. In the background, there are trees and a white fence.

ANNEXURE B

INDUSTRY EXPERT REPORT

Market Report

The Merino Apparel Market

1 August 2024

This report has been commissioned from Frost & Sullivan by Merino & Co. Pty. Ltd. (hereafter referred to as Merino & Co. or the Company) to support its initial public offering (IPO) process.

1. Background, Definitions and Methodology

1.1 Background

Merino & Co. is a leading Australian-based manufacturer of Merino and Possum Merino apparel, manufacturing products including jumpers (for men and women) and accessories such as scarves, shawls, beanies and throws sold under the Merinosnug brand. The Company is one of the few Merino apparel brands that manufactures products in Australia ('Australian-made'). Merino & Co. sells via retail outlets and online channels principally in Australia and China.

1.2 Definitions

1.2.1 Merino Wool

The Merino is a breed of sheep that produces a very fine, soft wool generally 18.5 micron and finer. Merino sheep were introduced to Australia in the 19th century, and now dominate the Australian sheep flock, with 75% of the 75 million sheep in Australia being pure Merino,¹ and Merino accounting for over 80% of Australian wool production by volume.² Merino wool is used in the manufacture of various types of apparel, offering advantages including softness, durability, odour resistance and thermo-regulation. Additionally, it is washable, non-creasing and quick drying, making it suitable for use in a range of types of apparel, including jumpers, outdoor and active wear, and accessories such as scarves and shawls, as well as in home textile products such as blankets and throws. Given its light weight, Merino wool is widely used in layering apparel, making it ideal for base layers and mid-layers in outdoor and active wear.

1.2.2 Possum Merino

Possum Merino products are manufactured from a blend of possum fur and Merino wool, giving apparel products with high levels of thermal insulation.

1.3 Methodology

Data provided in this report is based on publicly available data sources, including governmental statistics and reports, company reports and presentations, articles and press reports, and analyst reports.

¹ Meat & Livestock Australia, Over 90% of producers to increase or maintain flock, December 2020, accessed July 2024 from <https://www.mla.com.au/prices-markets/market-news/2020/whats-in-store-for-the-flock-in-2021/>

² Australian Wool Innovation, Australian Wool Production Forecast Report, December 2023, accessed July 2024 from <https://www.wool.com/globalassets/wool/market-intelligence/wool-production-forecasts/australian-wool-production-forecast-report--december-2023.pdf>

All financial data in the report is in Australian dollars (\$) unless otherwise stated. Where values have been converted from other currencies, the exchange rate at July 8 2024 has been used.

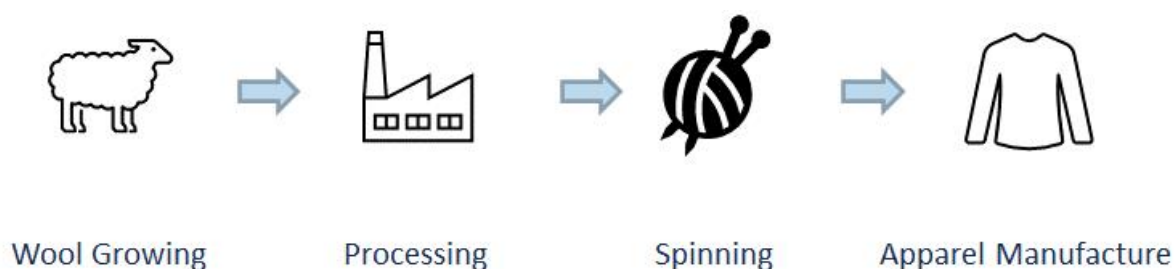
2. Industry Structure

Australia is the largest producer globally of Merino wool, producing an estimated 80% of the global total of 304 million kg in 2023.³ Australia is the only significant exporter of superfine grades of wool, estimated to account for over 60% of the global wool trade by value, with South Africa the largest competitor.⁴

Wool is significantly more expensive than cotton and man-made fibres such as nylon, acrylic and polyester, and Merino wool is more expensive than coarser wool grades. Consequently, Merino wool is primarily used in the manufacture of premium apparel, including knitwear, outdoor/active wear and accessories such as scarves, shawls, socks, hats etc.

The structure of the Merino apparel industry is illustrated in Figure 1 and described in more detail below.

Figure 1: Merino Apparel Industry Structure, Australia, 2024



Source: Frost & Sullivan

Wool is grown on many sheep farms in Australia across all states and territories except the Northern Territory (NT). Shearing typically occurs on farm, with greasy wool (so called because it contains lanolin as well as other contaminants such as dirt and sand) collated into bales ready for sale following shearing, based on 'lines' (wool with common characteristics such as length, strength, and colour).

Wool is sold to principal buyers (exporters) who acquire wool on behalf of their clients, or for themselves. The next stage in the value chain is wool processing which includes scouring, carding, combing, and gilling. Following this, it is spun into yarn. Yarn may then be knitted or weaved into fabrics or used directly by textile manufacturers for manufacture of apparel which involves knitting/weaving into apparel or accessories followed by post-treatment (e.g., dyeing).

³ International Wool Textile Organisation (IWTO), Market Information, 2023

⁴ Commodity.com, Wool In 2023: What Drives This Commodity's Market Value? accessed July 2024 from <https://commodity.com/soft-agricultural/wool/>

Most processing, spinning and fabric production now occurs in China, with Australian processors and spinners having exited the industry over recent years due to competitive pressure associated with other country subsidies and relatively high labour and energy costs. Most Merino wool is therefore exported from Australia in greasy form and processed into yarn in China, which accounts for over 80% of Australian raw wool exports. Approximately 40% of this wool remains in China, with the balance exported in the form of yarn, fabric or finished apparel.⁵

Major yarn manufacturers in China include King Deer (King Deer Group), Zhejiang Xinao Textiles Inc., Suedwolle, Zhangjiagang Yangzi Spinning Co., Ltd. and UPW. Some yarn manufacturing, including Possum Merino blends, also occurs in New Zealand (e.g., by Woolyarns, Design Spun and Zealana) with some small-scale yarn production also in Australia (e.g., Australian Yarn Company).

Apparel manufacturers purchase yarn and manufacture products through a knitting/weaving process in mills. A significant portion of apparel manufacture also occurs in China, however countries such as Bangladesh and several European countries also have significant apparel manufacturing industries.

Many apparel brands outsource manufacturing to third parties under contract, often located in China. For example, leading global Merino apparel brand Icebreaker outsources all garment manufacture to garment makers in China, Vietnam and Bangladesh.⁶ Merino & Co. is one of the few Australian brands that manufactures apparel at its mill in Australia from Australian Merino wool, although the yarn is currently sourced from Chinese yarn suppliers. Use of automation in the manufacturing process (e.g., through automated knitting machines) helps to offset the much higher labour costs in Australia when compared to locations such as China. In-house manufacture also allows greater control, visibility, security, and transparency across the supply chain.

Merino apparel brands sell their products via channels including company-owned/mill shops, online (via company-owned online stores and third-party stores) and via third-party offline retailers such as department stores, clothing stores and other types of retail outlet, including duty-free and souvenir stores, mainly targeting tourists.

Availability and price of Merino yarn is largely driven by conditions in the Australian wool industry as this is the largest source of Merino wool. In its most recent wool production forecast (April 2024), Australian Wool Innovation (AWI) anticipates Australia shorn wool production of 306 million kg in 2024/25, down from 328 million kg in 2022/23.⁷ There is therefore likely to be slightly reduced availability of Merino yarn over the coming 1-2 years, with wool prices forecast to remain roughly stable in real terms over this period. Over the longer term, wool production and pricing is impacted by weather conditions, especially rainfall, which drives pasture growth. In its longer-term projections (to 2028-29), the Australian Bureau of Agricultural and Resource Economics and

⁵ Australian Wool Innovation (AWI), AWI – Market Intelligence, March 2023, accessed July 2024 from <https://www.wool.com/market-intelligence/monthly-market-reports/>

⁶ Icebreaker, Nature has the answers, Transparency report, 2021/22, accessed July 2024 from <https://www.icebreaker.com/en-au/transparency.html>

⁷ Australian Wool Innovation (AWI), Wool Production Forecast Report, April 2024

Sciences (ABARES) is forecasting that Australian wool production will remain in a range of 323 to 333 million kg from 2023-24 to 2028-29, with wool prices in a range of 1,175 to 1,497 cents/kg.⁸⁹

3. Market Size and Growth

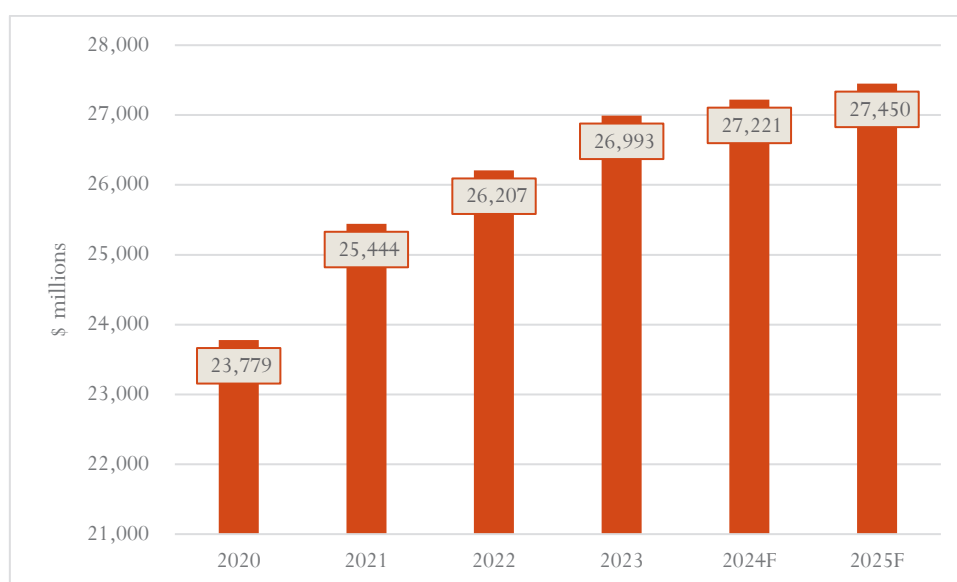
3.1 Apparel Retail Market

Merino apparel represents only a small portion of the broader apparel retail market, which is dominated by products made from man-made fibres and cotton. Globally, the apparel retail market (including footwear) is estimated at US\$1.79 trillion (\$2.58 trillion) at retail prices in 2024, forecast to increase by 11.7% to reach US\$2.0 trillion (\$2.96 trillion) in 2028.¹⁰

3.1.1 Australia

In Australia, the total apparel retail market (including footwear) was estimated at \$27 billion at retail prices in 2023 and is forecast to increase to \$27.4 billion in 2025 with a compound annual growth rate (CAGR) of 3.7% between 2020 and 2025.¹¹

Figure 2: Apparel Retail Market Size, Retail Prices (original), Australia, 2020 to 2025F



Source: Frost & Sullivan

Apparel is sold via offline and online retail channels. Offline includes various types of apparel retailers, including department stores, mass merchandisers (retailers that sell a broad range of goods at competitive prices), apparel and footwear specialists, and others (such as duty free and souvenir stores mainly targeting tourists). Online includes direct-to-consumer (DTC) sales by manufacturers, the online stores of multi-channel retailers, as well as online-only retailers.

⁸ ABARES, Agricultural Commodities, March quarter 2024: Outlook tables, accessed July 2024 from <https://www.agriculture.gov.au/abares/research-topics/agricultural-outlook/data#agricultural-commodities>

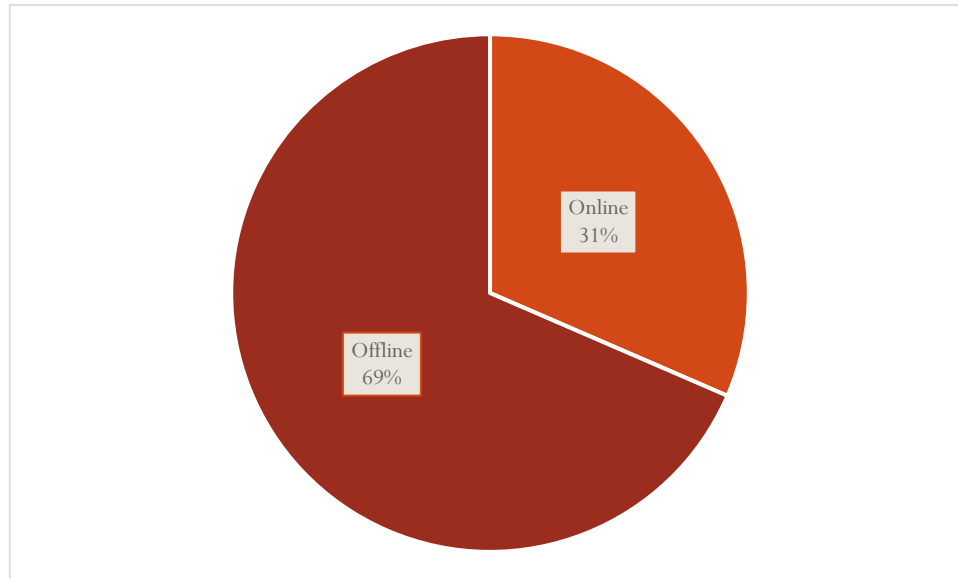
⁹ Prices are Eastern Market Indicator (EMI), a price benchmark based on a basket of 124 grades of wool

¹⁰ Uniform Market, Global Apparel Industry Statistics (2024), accessed July 2024 from <https://www.uniformmarket.com/statistics/global-apparel-industry-statistics>

¹¹ Frost & Sullivan estimate, July 2024

Online penetration of apparel retail is high relative to other retail product categories. In 2023, approximately 31% of apparel retail sales were estimated to be made online.

Figure 3: Apparel Retail Market by Sales Channel, Australia, 2023

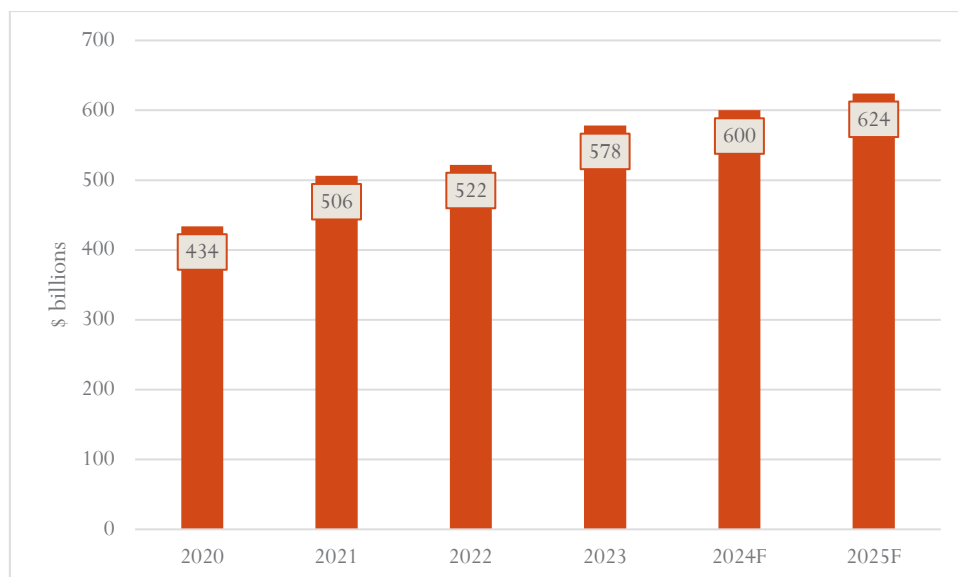


Source: Frost & Sullivan

3.1.2 China

In China, the total apparel retail market is estimated at \$578 billion at retail prices in 2023 and is forecast to increase to \$624 billion in 2025 with a growth rate of 9.5% CAGR between 2020 and 2025.¹²

Figure 4: Apparel Retail Market Size, Retail Prices, China, 2020 to 2025F

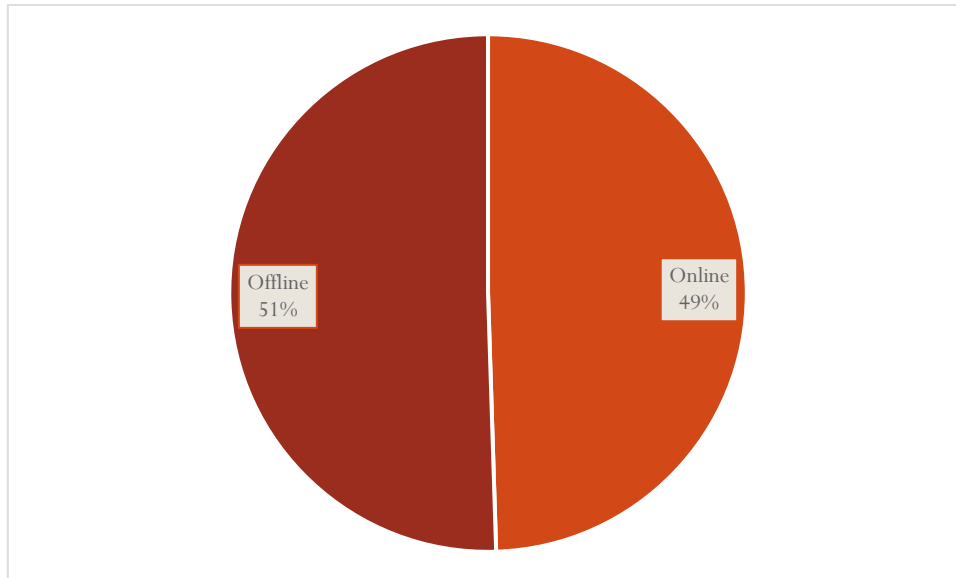


Source: Frost & Sullivan

¹² Frost & Sullivan estimate, July 2024

The online share of retail apparel sales in China is one of the highest in the world and is estimated at almost 50% in 2023.

Figure 5: Apparel Retail Market Sales by Channel, China, 2023



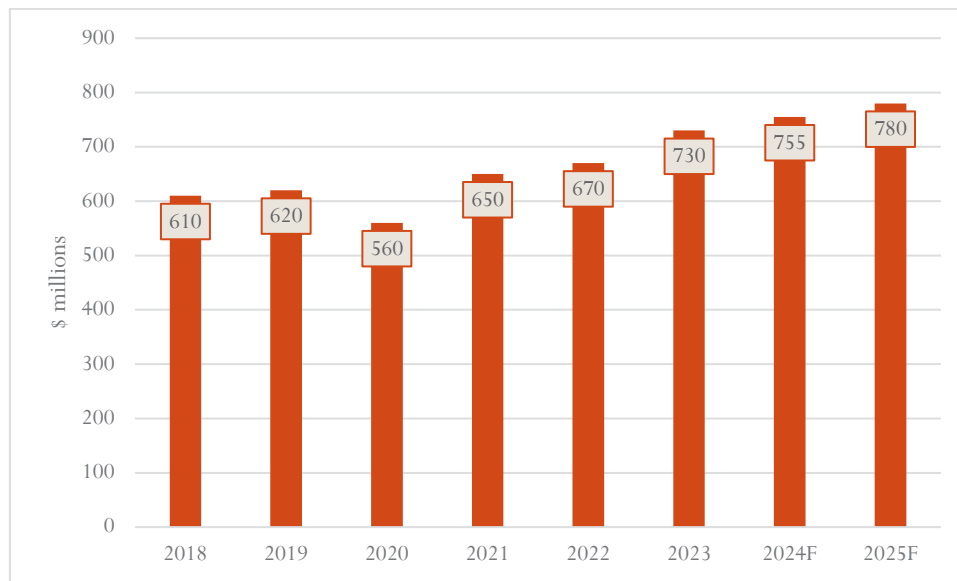
Source: Frost & Sullivan

3.2 Global Merino Apparel Retail Market

There is limited data on the size and growth specifically of the Merino apparel retail market, however Frost & Sullivan has made estimations based on available industry and supplier data. Data includes pure Merino products, and Merino blends (e.g., Possum Merino).

In 2023, the global Merino apparel retail market (at retail prices) was estimated at \$730 million, having grown from \$610 million in 2018, and forecast to reach \$780 million in 2025 with a CAGR of 3.6% between 2018 and 2025.¹³

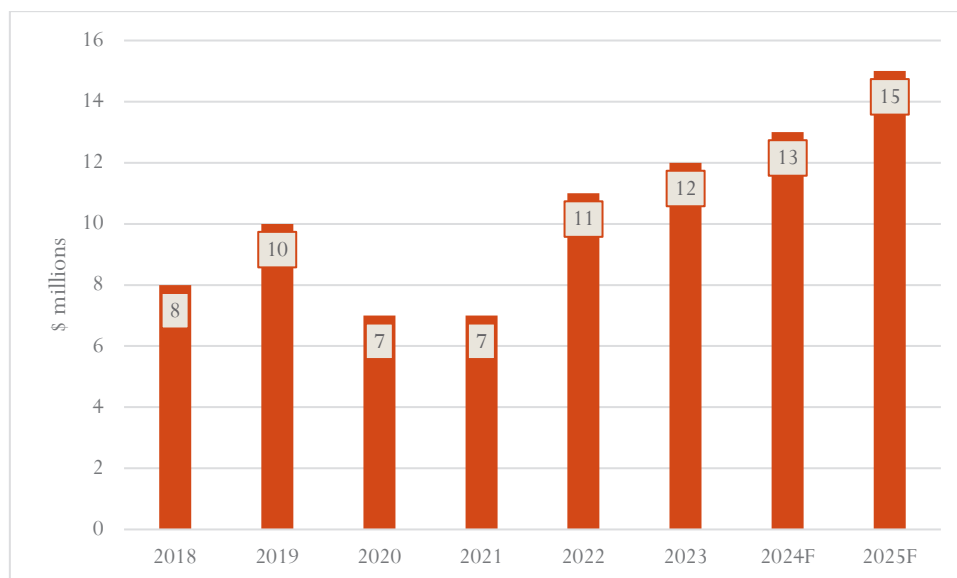
¹³ Frost & Sullivan estimates, July 2024

Figure 6: Merino Apparel Retail Market, Global (retail prices), 2018 to 2024F

Source: Frost & Sullivan

3.3 Australian-made Merino Apparel Retail Market

The sale of Merino apparel in Australia is currently relatively small-scale, with estimated global retail sales of Australian-made Merino apparel being \$12 million in 2023 (including domestic sales in Australia both online and offline, and international sales). This is forecast to increase to \$15 million by 2025, with a CAGR of 9.4% between 2018 and 2025.¹⁴

Figure 7: Australian-made Merino Apparel Retail Market, Global (retail prices), 2018 to 2025F

Source: Frost & Sullivan

¹⁴ Frost & Sullivan estimates, April 2023

4. Market Trends and Drivers

4.1 Apparel Retail Market Drivers

The demand for apparel is influenced by several factors including disposable income, household wealth, household debt, household savings and consumer sentiment. These drivers are further impacted by general economic conditions including Australian gross domestic product growth, the level of employment, wages growth, inflation and interest rates.

The apparel retail market in Australia is strongly influenced by international tourism, with tourists a major market segment for many apparel categories, particularly for products that are seen as 'Australian'. Following the end of the Covid-19 pandemic, international travel has rebounded strongly with global travel flows expected to exceed the pre-pandemic level in 2024. Based on consumer research, 80% of travellers expect to shop for apparel and accessories while travelling in coming year, and 28% expect to spend more than the previous year while travelling. In particular international travel from China is expected to recover strongly in 2024 (see section 4.3), with Chinese travellers increasingly focused on niche and differentiated products, as well as the in-store experience.¹⁵

4.2 Market Drivers for Merino Apparel

In addition to the general economic factors set out above, a range of factors are driving growth specifically in the Merino apparel retail market. These are summarised below.

- Trend to natural materials: consumers are increasingly favouring natural rather than synthetic fibres with growing consumer interest in areas such as sustainability of production and biodegradability of products.
- Growing consumer demand for sustainably produced products:
 - There is growing demand for apparel made from fibres that are sourced sustainably, with a focus on animal welfare and regenerative farming.
 - It is general industry practice that Merino apparel brands often use certification marks such as ZQ/ZQRX or Woolmark (see Section 4.3) to indicate quality and sustainability of production of the raw materials required.
- Performance and comfort of Merino apparel when compared to synthetic alternatives such as nylon as well as traditional wool: Merino apparel offers advantages such as comfort and softness, and benefits from trends such as the 'casualisation' of clothing, with individuals increasingly preferring to wear comfortable, casual clothing, even in situations where more formal clothing would previously have been worn. Merino wool is softer, less itchy and lighter weight than traditional wool, and additionally is machine washable.
- Growth in the outdoor wear and active wear segments of the apparel market: growing involvement in sports and other outdoor activities, as well as the increasing use of 'athleisure wear' (i.e., wearing active wear in everyday life), is driving growth in Merino apparel, as Merino is increasingly used in these products, offering advantages of breathability, resilience, odour resistance, biodegradability and comfort.

¹⁵ McKinsey & Company, the State of Fashion, 2024

- Growth in household incomes in countries such as China: consumption of wool-based apparel is higher in wealthier markets.¹⁶ Hence, as household incomes rise in these markets this is driving growth in consumption of Merino apparel.
- Increased interest in premium/luxury apparel: over recent years, the luxury segment of the apparel market has grown at a faster rate than the non-luxury segment. This reflects interest among consumers in higher quality apparel with improved performance, resilience and comfort.

4.3 Inbound Tourism Trends

A significant market segment for Merino apparel is sales to inbound international tourists to Australia who shop at airport outlets and other retail stores targeting tourists and who are looking to purchase distinctly Australian items. Hence, growth in inbound tourism to Australia is a major factor underpinning the market opportunity for the Company. In 2019, inbound tourists to Australia spent \$31.4 billion on travel, accommodation, shopping etc.¹⁷

Short-term visitor arrivals (STVAs) are inbound visitors to Australia who intend to stay for 12 months or less. These primarily comprise inbound tourists.¹⁸

In 2019, the last full year before the Covid-19 pandemic, there were 9.46 million STVAs to Australia, including 1.95 million from China (including from HK, Macau and Taiwan). From March 2020 through to December 2021, with the Australian international border largely closed, STVAs fell to virtually zero.¹⁹

In January 2022, the international border was reopened and, in the whole of 2022, STVAs reached 3.69 million. In 2023, STVAs increased to 7.19 million, and in the first four months of 2024 reached 2.82 million, approximately 30% ahead of the equivalent period in 2023 and indicating (assuming this growth continues) that STVAs in 2024 will reach 9.35 million. Whilst the total number of STVAs is therefore anticipated to recover to close to the pre-pandemic level in 2024, the number from China is still well down on pre-Covid 19, with 842,000 in 2023, as the China market has been slower to recover from the pandemic.²⁰ However, significant growth in tourism from China is expected, with 1.89 million tourists forecast in 2028, accounting for 16% of total STVAs.²¹ With Chinese tourists a major target for Merino apparel, this is likely to boost the market.

¹⁶ Wilcox et al., Australian Wool Innovation Ltd. (AWI), Wool 2030 – a Strategic Plan for Australian Woolgrowers, May 2020

¹⁷ Tourism Research Australia (TRA), National Tourism Forecast Tables, Tourism Forecast Overview, accessed July 2024 from <https://www.tra.gov.au/economic-analysis/tourism-forecasts-australia/tourism-forecasts-for-australia-2022-2027>

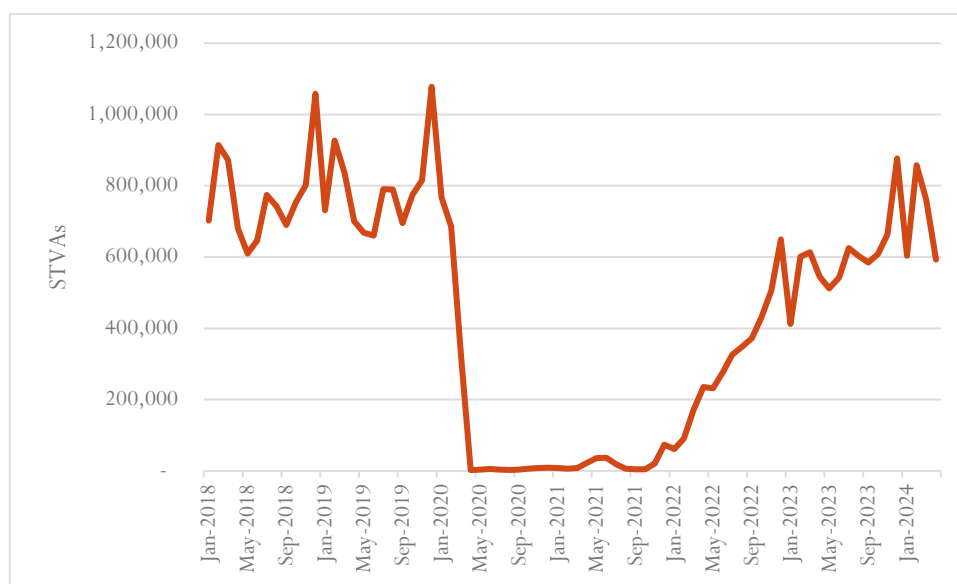
¹⁸ Australian Bureau of Statistics (ABS), 3401.0 Overseas Arrivals and Departures, Australia, April 2024

¹⁹ ABS, 3401.0 Overseas Arrivals and Departures, Australia, April 2024

²⁰ ABS, 3401.0 Overseas Arrivals and Departures, Australia, April 2024

²¹ TRA, Tourism Forecasts for Australia, 2023 to 2028, accessed July 2024 from <https://www.tra.gov.au/en/economic-analysis/tourism-forecasts>

Figure 8: STVAs, Australia, January 2018 to April 2024



Source: ABS, 3401.0 Overseas Arrivals and Departures, Australia, April 2024

4.4 Certification Schemes

Certification schemes exist in the Merino apparel industry that offer consumers assurance on the quality, durability, and performance of the products. In Australia, the Woolmark logo is owned by the Woolmark Company, which is owned indirectly by Australian woolgrowers. The Woolmark logo may be used by apparel brands following testing and certification. Since its establishment in 1964, over 5 billion products have used the Woolmark logo.²²

A similar certification scheme, ZQ, exists in New Zealand managed by the New Zealand Merino Company and which was established in 2007.

5. Competitive Landscape

The competitive landscape as described below includes global Merino apparel brands (although several of these produce apparel in different product categories to Merino & Co. and hence do not compete directly) as well as Australian-based brands some of which also manufacture in Australia.

Leading global Merino apparel brands include Icebreaker, Woolpower, Mons Royale and Darn Tough, as summarised below.

Figure 9: Leading Merino Apparel Brands, Global, 2024

Brand	Headquarters	Products	Comments
Icebreaker	NZ	Jumpers T-shirts Outdoor/active wear Socks Gloves Underwear	Established in 1995 Acquired by VF Corporation (US) for approximately \$280 million

²² Woolmark, About us, accessed July 2024 from <https://www.woolmark.com/about/>

Brand	Headquarters	Products	Comments
		Accessories	Icebreaker revenue is approximately US\$173 million
Woolpower	Sweden	Outdoor wear including socks and accessories	Products are manufactured in Sweden
Mons Royale	NZ	Outdoor/active wear	Established in 2009. Employs 40 staff
Darn Tough	US	Socks	Products manufactured at three mills in Vermont, US

Source: company websites and reports

In addition to Merino & Co. some of the other Australian-based Merino apparel brands are listed below. This list is not comprehensive, and other Australian Merino apparel brands include Ktena Knitting Mills, Merino Country and ioMerino. Market participants are all privately owned and available data is limited.

Figure 10: Australian-based Merino Apparel Brands, Australia, 2024

Brand	Location	Products	Comments
Creswick Woollen Mills	Creswick, Victoria	Jumpers Ponchos Thermals Accessories	Also provides products in cashmere and other fibres
Smitten Merino	Hobart, Tasmania	Jumpers Cardigans Dresses Scarves Leggings T-shirts Underwear	Established in 2007
Waverley Mills	Launceston, Tasmania	Scarves, shawls Blankets Throws	Currently employs 20 staff
Woolerina	Forbes, NSW	T-shirts Jumpers Sleepwear Leggings Accessories	Established in 2005

Source: company websites

6. Regulatory Framework

6.1 Australian Regulations

There are no regulations specific to the manufacture of Merino apparel in Australia, although Merino & Co. is subject to general business regulations in areas such as minimum wages/awards, employee health and safety and consumer law.

Apparel sold in the Australian market is required to adhere to Australian standards which are managed by the Australian Competition and Consumer Commission (ACCC). Standards include mandatory labelling requirements which include the position and content of labels on items of apparel.

As an Australian-owned and located manufacturer, Merino & Co. can utilise the 'Australian Made' logo, which can be applied to a product which has undergone its last substantial transformation in Australia, and/or the Australian Made and Grown (AMAG) logo for products whose ingredients are grown in Australia. The logo is currently used on more than 16,000 products by more than 2,600 businesses. The Australian Made logo can only be used on products that are registered with the not-for-profit Australian Made Campaign Ltd (AMCL), and which meet the criteria set out in the Australian Consumer Law and the AMAG Logo Code of Practice.²³ Research indicates that Australian consumers have a strong preference for Australian made products, with 86% saying this is important to them.²⁴ Purchasing authentically Australian made products is also likely to be important for many overseas tourists and international consumers.

6.2 China Regulations

Textile and apparel products sold in China must adhere to China's Guobiao (GB) Standards and are required to be tested to ensure compliance. GB 18401 establishes three classes of product for textile products, of which Class 2 (products with direct skin contact) is applicable to Merino apparel. The standard lays down requirements for formaldehyde content, pH value, colourfastness, odour, and azo dyes, with compliance levels depending on the class of textile. Additionally, apparel products are required to be labelled in accordance with GB/T 5296.4 which lays out a series of requirements regarding a permanently attached label, including country of origin, fibre content and care instructions.²⁵ Product testing to ensure compliance with relevant standards is usually undertaken by third-party testing laboratories.

Under the China Australia Free Trade Agreement (ChAFTA), since 2019 there has been zero tariff in China on imports of apparel from Australia.

7. Sales and Distribution Channels

Sales and distribution channels for Merino apparel include offline and online. Offline outlets include fashion stores, stores targeting tourists (e.g., duty free and airport stores) and retail outlets/mill stores owned/operated by manufacturers. The online channel includes manufacturers' online stores (DTC) and third party retailer online stores, as well as online platforms such as Amazon and eBay. In Australia, 9.5 million households purchased online in 2023, with total online

²³ Australian Made, About the logo, accessed July 2024 from <https://australianmade.com.au/why-buy-australian-made/about-the-logo/>

²⁴ Roy Morgan, Four in five shoppers believe buying Australian-made is important, February 2023, accessed July 2024 from <https://www.roymorgan.com/findings/9161-australian-made-feb-2023>

²⁵ QIMA, GB 18401: Reaching China's growing consumer market for textiles and apparel, accessed from <https://www.qima.com/lab-testing/GB-18401-textile-testing-labeling-china>

expenditure on apparel of \$9.6 billion.²⁶ Online penetration in the fashion & apparel retail category is amongst the highest of all product categories. This is due to several factors:

- High penetration of smartphones with the convenience offered when shopping online.
- Advancements in e-commerce technology by online retailers, such as responsive site design to improve the user experience.
- Increasing levels of customer service in e-commerce, such as free shipping, free returns, and other initiatives, offering a low-risk substitute for in-store shopping.
- The convenience of 24/7 access to online stores.
- Younger consumers being 'digital natives' with growing disposable incomes.
- Shorter delivery times as distribution infrastructure has improved.

The online channel also represents a platform for Australian brands to sell internationally through cross-border eCommerce (CBEC) into markets such as China, which has an established infrastructure to support overseas brands selling to Chinese consumers. This includes the use of online marketplaces such as Tmall and JD.com. The total value of CBEC sales in China (across all product categories) is forecast to reach US\$1.45 trillion (A\$2.16 trillion) in 2025, growing at a CAGR of 20.9% from 2020 to 2025.²⁷

Disclosure

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²⁶ Australia Post, Inside Australian Online Shopping, 2024, July 2024 from <https://auspost-report.s3.ap-southeast-2.amazonaws.com/eCommerce+Industry+Report+2024+-+Trends+in+eCommerce+section.pdf>

²⁷ Davy Huang, Azoya, China Cross-border E-commerce Import Market in 2023: Trends, Opportunities, and Challenges, February 2023, accessed July 2024 from <https://www.azoyagroup.com/blog/view/china-cross-border-e-commerce-import-market-in-2023-trends-opportunities-and-challenges/>

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