MERINO&CO
4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

Merino & Co. Limited (formerly Merino & Co Pty Ltd)

ABN 74 162 863 121

Annual Report - 30 June 2023

MERINO&Cº

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

Merino & Co. Limited
Contents
30 June 2023

MERINO&Cº
4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

Directors	Fang (Fiona) Yue (Executive Director) Jack Hanrahan (Non-Executive Director) Boxiang (Peter) Zhao (Non-Executive Director)
Company secretary	Alan Thomas
Registered office	4 Gould Street Osborne Park WA 6017
Principal place of business	4 Gould Street Osborne Park WA 6017
Contact details	www.merinosnug.com.au 08 9302 2659
Share register	Advanced Share Registry 110 Stirling Highway Nedlands WA 6009
Solicitor	HWL Ebsworth Lawyers Level 20/ 240 St Georges Terrace Perth WA 6000
Auditor	William Buck Audit (WA) Pty Ltd Level 3 / 15 Labouchere Road South Perth WA 6151

MERINO&Cº

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

The directors of Merino & Co. Limited ("Merino & Co." or "the Company") submit herewith the financial statements of the Company for the financial year ended 30 June 2023. The Company was previously known as Merino & Co Pty Ltd and was converted to a public company on 29 September 2022.

These financial statements cover the period from 1 July 2022 to 30 June 2023. In order to comply with the provisions of the *Corporations Act 2001*, the directors' report is as follows:

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

Name: Ms Fang (Fiona) Yue (appointed 19 September 2022)

Title: Ms

Experience and expertise: Ms Yue has grown Merino & Co into one of the largest wool products manufacturers in Australia. She helped Merino & Co establish retail, wholesale, and e-commerce business channels. Prior to migrating to Australia and establishing Merino & Co, Ms Yue led her own cashmere products manufacturing and distribution business in Inner Mongolia, China. Ms Yue holds 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.

Other current directorships: Nil

Former directorships (in the last 3 years): Nil

Interests in shares: 10,200,000 shares

Interests in options: Nil

Name: Mr Jack Hanrahan (appointed 19 September 2022)

Title: Mr

Experience and expertise: Mr Hanrahan has over 30 years of experience across various sectors with both publicly listed and private companies. Mr Hanrahan was head of retailer relations at Westfield for 9 years. Mr Hanrahan was also the 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 Degree in Management from Macquarie University.

Other current directorships: Nil

Former directorships (in the last 3 years): The Invigor Group Ltd (ASX:IVO) until 2020

Interests in shares: Nil

Interests in options: Nil

MERINO&Cº
4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

Name: Mr Garry Johnson (appointed 1 June 2023, resigned 30 November 2023)

Title: Mr

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

Other current directorships: Nil

Former directorships (in the last 3 years): Nil

Interests in shares: Nil

Interests in options: Nil

Name: Mr Bill WeiPing Lee (appointed 1 September 2022, resigned 1 June 2023)

Title: Mr

Experience and expertise: Mr Lee is a professional lawyer with over 21 years of practising experience. He is now a partner of a Sydney-based corporate and commercial firm – LWPG & Partners, and used to work as a Counsel in Ashurst, Senior Associate in King & Wood Mallesons, Associate in Hogan Lovells and Apple. He has been focusing on the equity, capital markets and risk management.

Other current directorships: Nil

Former directorships (in the last 3 years): Nil

Interests in shares: Nil

Interests in options: Nil

Name: Mr TaiZong (Tim) Kang (resigned 23 September 2022, re-appointed 27 December 2023, resigned 22 January 2024)

Title: Mr

Experience and expertise: TaiZong (Tim) Kang is a qualified electromechanical engineer whose primary expertise lies in the trading, manufacturing and 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 original equipment manufacturer (OEM) partner during his tenure in China. In the last 10 years, Mr Kang has led Merino & Co to become a premium Australian brand and has created value for both its clients and shareholders through consistent innovation in manufacturing products and distribution.
Other current directorships:	Nil
Former directorships (in the last 3 years):	Nil
Interests in shares:	9,800,000 shares
Interests in options:	Nil

Name:	Mr Boxiang (Peter) Zhao (appointed 23 January 2024)
Title:	Mr
Experience and expertise:	Mr. Zhao is an accomplished Business and Finance Leader equipped with comprehensive financial management expertise, robust business strategy implementation capability, and proven leadership capabilities. Offering more than 15 years of experience delivering financial services and corporate financial management within various sectors, including government internal audit, leading accounting firms, Australian listed companies, and globally recognized retail brands in Australia. Known for utilizing strong analytical and interpersonal skills to effectively interpret and communicate financial information to diverse stakeholders. Proficient in presenting practical business solutions designed to enhance operational efficiency and meet strategic objectives. In the past five years, held the position of Chief Financial Officer in both online and offline retail sectors, including FMCG, within an ASX listed company and a global retail brand.
Other current directorships:	Nil
Former directorships (in the last 3 years):	Nil
Interests in shares:	Nil
Interests in options:	Nil

Company Secretary

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

Principal activities

During the financial year, the principal continuing activities of the Company consisted of the design, manufacturing and sale of variety of wool products.

There were no significant changes in the nature of the Company's principal activities during the year ended 30 June 2023.

Dividends

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

Review of Operations

Corporate:
The net profit of the Company after providing for income tax amounted to $486,214 (30 June 2022: Profit of $446,729). The Company had a net surplus of assets as at 30 June 2023 of $1,703,449 (2022: $88,235).

Operations:
Merino & Co is a vertically integrated Company, involving the manufacturing, 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.

Significant changes in state of affairs

There were no significant changes in the state of affairs of the Company's during the financial year.

Matters subsequent to the end of the financial year

On 2 February 2024, Merinosnug (Shanghai) Wool Products Co. Ltd was established, as a wholly owned foreign subsidiary, based in Shanghai, China.

Apart from the above, no other matters or circumstances have arisen since 30 June 2023 that has 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.

Likely developments and expected results of operations

In the opinion of the Directors, it would prejudice the interests of the Company to provide additional information, beyond that which is reported in this Annual Report, relating to likely developments in the operations of the Company and the expected results of those operations in financial years subsequent to 30 June 2023.

MERINO&Cº
4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

Environmental regulation

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

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each board committee held during the year ended 30 June 2023, and the number of meetings attended by each director were:

	Board Meetings		Resolutions	
Director	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended
Fang Yue	2	2	4	4
Jack Hanrahan	2	2	3	3
Garry Johnson	1	1	0	0
Bill WeiPing Lee	1	1	3	3
TaiZong Kang	1	0	1	1

The Board of Directors also approved 4 circular resolutions during the year ended 30 June 2023 which were signed by all Directors of the Group. The audit, compliance and corporate governance committee functions are performed by the Board of Directors.

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

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

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Company

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

MERINO&Cº
4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

Non-audit services

There were no non-audit services provided during the financial year by the current auditor, William Buck WA (Audit) Pty Ltd.

Remuneration paid to the Company's auditors is detailed in Note 25 of this report.

There are no officers of the Company who are former audit partners of William Buck WA (Audit) Pty Ltd.

Auditor's independence declaration

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

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

On behalf of the directors

Fang (Fiona) Yue

Director

11 March 2024

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

To the directors of Merino & Co. Limited

As lead auditor for the audit of Merino & Co. Limited during the year ended 30 June 2023, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Merino & Co. Limited during the year.

William Buck

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

Amar Nathwani

Amar Nathwani
Director
Dated this 11th day of March 2024

Level 3, 15 Labouchere Road, South Perth WA 6151
PO Box 748, South Perth WA 6951
+61 8 6436 2888
wa.info@williambuck.com
williambuck.com

MERINO&Cº
4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

Merino & Co. Limited
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2023

	Note	2023 $	2022 $
Revenue	3	7,515,417	5,076,039
Other income		32,709	-
Interest revenue		2,180	367
Foreign exchange (loss)		(77,992)	(21,915)
Expenses			
Changes in inventories		(782,377)	1,509,574
Purchase of inventories		(3,812,718)	(4,565,531)
Employee benefits expense		(573,186)	(608,809)
Depreciation expense		(290,351)	(229,937)
Allowance for expected credit loss		89,783	(286,725)
Interest expense		(258,141)	(56,005)
Marketing expense		(463,338)	(96,721)
Consulting expense		(223,722)	(83,500)
Listing expense		(126,554)	-
Research and development expense		(284,499)	-
Rental expense		(127,296)	(98,680)
Other expenses		(281,062)	(284,723)
Profit before income tax expense		338,853	253,434
Income tax benefit/(expense)	4	147,361	193,295
Profit after income tax expense for the year		486,214	446,729
Other comprehensive income		-	-
Total comprehensive income for the year attributable to the owners of Merino & Co. Limited		486,214	446,729
		Cents	**Cents**
Basic earnings cents per share	26	2.01	1.86
Diluted earnings cents per share	26	2.01	1.86

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

MERINO&Cº

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

Merino & Co. Limited
Statement of Financial Position
As at 30 June 2023

	Note	2023 $	Restated* 2022 $
Assets			
Current assets			
Cash and cash equivalents	5	480,562	735,827
Trade and other receivables	6	2,991,703	23,367
Inventories	7	1,378,373	2,439,556
Other assets	8	344,731	23,779
Income tax refundable	14	-	83,359
Total current assets		5,195,369	3,305,888
Non-current assets			
Property, plant and equipment	9	889,463	991,580
Intangible assets	10	167,992	216,943
Right-of-use assets	11	610,148	748,294
Other assets	8	103,503	100,828
Deferred tax assets	4 & 12	94,073	-
Total non-current assets		1,865,179	2,057,645
Total assets		7,060,548	5,363,533
Liabilities			
Current liabilities			
Trade and other payables	13	1,116,696	258,683
Income tax payable	14	136,080	-
Employee benefits	15	80,653	52,966
Borrowings	16	1,092,302	1,839,873
Lease liabilities	17	112,148	100,712
Total current liabilities		2,537,879	2,252,234
Non-current liabilities			
Borrowings	16	2,236,729	2,328,425
Lease liabilities	17	582,491	694,639
Total non-current liabilities		2,819,220	3,023,064
Total liabilities		5,357,099	5,275,298
Net assets		1,703,449	88,235
Equity			
Issued capital	18	800,100	800,100
Reserves	19	1,950,430	821,430
Accumulated losses	20	(1,047,081)	(1,533,295)
Total equity		1,703,449	88,235

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

**Refer to note 1(z)*

MERINO&Cº

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

Merino & Co. Limited
Statement of Changes in Equity
For the year ended 30 June 2023

	Issued Capital $	Reserves $	Accumulated Loses $	Total equity $
Balance at 1 July 2021	800,100	800,000	(1,980,024)	(379,924)
Profit for the year	-	-	446,729	446,729
Other comprehensive income for the year net of tax	-	-	-	-
Total comprehensive income for the year	-	-	446,729	446,729
Transactions with owners in their capacity as owners:				
Convertible notes issued	-	21,430	-	21,430
Total contributions by owners	-	21,430	-	21,430
Balance as at 30 June 2022	800,100	821,430	(1,533,295)	88,235

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

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

MERINO&Cº

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

Merino & Co. Limited
Statement of Cash Flows
For the year ended 30 June 2023

	Note	2023 $	2022 $
Cash flows from operating activities			
Receipts from customer		4,669,572	5,512,624
Payments to suppliers and employees		(5,126,814)	(7,001,134)
Interest received		2,180	367
Interest paid		(219,499)	(56,005)
Income tax refund/ (paid)		272,727	(71,541)
Net cash used in operating activities	27	(401,834)	(1,615,689)
Cash flows from investing activities			
Payments for property, plant and equipment		(2,534)	(38,072)
Proceeds on the disposal of property, plant and equipment		1,615	-
Net cash used in investing activities		(919)	(38,072)
Cash flows from financing activities			
Proceeds from issue of convertible notes		-	21,430
Net advanced to/(from) director		99,882	(48,613)
Repayment of hire purchase loan		(57,065)	(55,908)
Proceeds from borrowings		2,566,904	2,789,666
Repayment of borrowings		(2,358,629)	(273,469)
Repayment of lease liabilities		(100,929)	(33,528)
Movement in bank guarantee		-	(100,828)
Borrowing costs		(2,675)	-
Net cash provided by financing activities		147,488	2,298,750
Net (decrease)/ increase in cash and cash equivalents		(255,265)	644,989
Cash and cash equivalents at the beginning of the financial year		735,827	90,838
Cash and cash equivalents at the end of the financial year	5	**480,562**	**735,827**

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

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

1. Summary of Significant Accounting Policies

(a) Basis of preparation

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

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

The financial report was authorised for issue in accordance with a resolution of Directors dated 11 March 2024.

(b) Adoption of new and revised standards

Standards and Interpretations applicable to 30 June 2023

For the year ended 30 June 2023, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to the Company and effective for the current reporting periods beginning on or after 1 July 2022.

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

Standards and Interpretations in issue not yet effective

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet effective for the year ended 30 June 2023.

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

(c) Statement of compliance

The financial report was authorised for issue on 11 March 2024.

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

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

1. Summary of Significant Accounting Policies (continued)

(d) Going Concern

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

As disclosed in the financial statements, the Company had net cash outflows from operating activities of $401,834 for the year ended 30 June 2023. As at that date, the company had net assets of $1,703,449.

The Directors believe that there are reasonable grounds to believe that the company will be able to continue as a going concern, after consideration of the following factors:

- The company is forecasting to be profitable and generate positive cash flow from its operating activities for the period ending 12 months from the date of this report.
- As disclosed in note 16, the company has a loan payable to a shareholder of $714,995, which is classified as a current liability as at 30 June 2023. The shareholder has confirmed that he will not seek repayment of the loan for at least 12 months from the date of signing of these financial statements and will continue to provide financial support to the Company as required;
- The company has the ability to curtail administrative and discretionary overhead cash outflows as and when required; and
- Certain shareholders of Merino & Co Limited have sufficient financial capability and have provided a letter of support to the directors of the company confirming that it will continue to provide further loan funds to the company of up to $1 million as required for working capital purposes to ensure that the company has sufficient funds to continue trading and to pay its debts as and when they fall due for a period of at least 12 months from the date of the approval of the financial report.

Accordingly, the Directors believe that the company will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

(e) Revenue recognition

The company recognises revenue as follows:

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

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

Interest
Interest revenue is recognised as interest accrues.

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

1. Summary of Significant Accounting Policies (continued)

(f) Income tax

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

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

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

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

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

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

(g) Current and non-current classification

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

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

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

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

(h) Cash and cash equivalents

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

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

1. Summary of Significant Accounting Policies (continued)

(i) Trade and other receivables

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

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

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

(j) Inventories

Finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity. 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 purchase and delivery costs, net of rebates and discounts received or receivable.

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

(k) Property, plant and equipment

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

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

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

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

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

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

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

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

1. Summary of Significant Accounting Policies (continued)

(l) Right-of-use assets

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

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

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

(m) 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 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.

(n) 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.

(o) Trade and other payables

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

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

1. Summary of Significant Accounting Policies (continued)

(p) 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.

(q) Lease liabilities

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

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

(r) 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.

(s) Provisions

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

(t) 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.

(u) 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.

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

1. Summary of Significant Accounting Policies (continued)

(u) Fair value measurement (continued)

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.

(v) 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.

(w) Dividends

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

(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 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 Note Accounting Policy

Non-redeemable convertible shares are classified as equity, because 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.

(z) Reclassification of Prior Period Borrowings

The Company entered into a debt facility agreement with its Bank on 24 December 2021. The facility had a 10-year term at inception with monthly repayments of principal and interest. The loan is only callable by the Bank in case of default or a breach of certain conditions.

As at the 30 June 2022, the balance of $2,000,000 drawn down under the facility was classified as current. As the loan is repayable over a 10-year term, the portion of the loan repayable more than 12 months from 30 June 2022 should have been classified as non-current.

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

1. Summary of Significant Accounting Policies (continued)

(z) Reclassification of Prior Period Borrowings (continued)

The following table summarises the impact on the Company's net assets. There was no impact to equity or profit or loss as a result of the change.

Statement of Financial Position (extract)	30 June 2022 (Reported)	Increase/ (Decrease)	30 June 2022 (Restated)
	$	$	$
Borrowings			
Current	3,839,873	(2,000,000)	1,839,873
Non-current	328,425	2,000,000	2,328,425
Net Assets	88,235	-	88,235
Surplus/ (deficit) of current assets over current liabilities	(946,346)	-	1,053,654

2. Critical Accounting Judgements, Estimates and Assumptions

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

Determination of Expected Credit Loss:

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.

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

3. Revenue

	2023 $	2022 $
Revenue		
Sale of goods	7,515,417	5,076,039

Disaggregation of Revenue

The Company derives its revenue from the sale of goods at a point in time. This is consistent with the revenue information that is disclosed for each reportable segment under AASB 8 *Operating Segments*, refer Note 29.

4. Income Tax

	2023 $	2022 $
Income tax expense		
Current tax	62,561	-
Deferred tax - origination and reversal of temporary differences	(94,073)	-
Adjustment recognised for prior periods	(115,849)	(193,295)
Aggregate income tax (benefit)/expense	(147,361)	(193,295)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	338,853	253,434
Tax at the statutory tax rate of 25% (2022: 25%)	84,713	63,359
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Temporary differences	-	-
Permanent differences	326	-
Recognition of tax assets not previously provided for	(116,551)	-
Current year losses for which no deferred tax asset was recognised	-	(63,359)
Over provided in prior years	(115,849)	(193,295)
Income tax (benefits)/expense	**(147,361)**	**(193,295)**

Deferred tax assets of $94,073 (2022: nil) have been brought to account arising from tax losses, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 occur.

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

5. Cash And Cash Equivalents

	2023 $	2022 $
Cash at bank	480,562	735,827
	480,562	**735,827**

6. Trade And Other Receivables

	2023 $	2022 $
Trade receivables	3,434,965	558,352
Less: Allowance for expected credit losses	(445,202)	(534,985)
Other receivables	1,940	-
	2,991,703	**23,367**

Allowance for expected credit losses

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

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

The Company has recognised a gain of $89,783 in profit or loss in respect of the movement in the expected credit loss provisions for the year ended 30 June 2023.

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

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2023 %	2022 %	2023 $	2022 $	2023 $	2022 $
Not overdue	7.3	0	2,440,540	1,658	178,559	-
0 to 3 months overdue	0	31	59,991	15,772	-	4,886
3 to 6 months overdue	23.3	0	539,727	-	125,685	-
Over 6 months overdue	35.7	98	394,707	540,922	140,958	530,099
			3,434,965	**558,352**	**445,202**	**534,985**

Movements in the allowance for expected credit losses are as follows:	2023 $	2022 $
Opening balance	534,985	248,260
Additional provisions recognised	178,559	286,725
Unused amounts reversed	(268,342)	-
Closing balance	**445,202**	**534,985**

7. Inventory

	2023 $	2022 $
Finished goods	1,378,373	2,439,556
	1,378,373	**2,439,556**

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

8. Other Assets

	2023 $	2022 $
Current		
Prepayments	344,731	23,779
	344,731	**23,779**
Non-current		
Rental deposit	100,828	100,828
Borrowing costs	2,675	-
	103,503	**100,828**

9. Property, Plant And Equipment

	2023 $	2022 $
Buildings and improvements – at cost	543,373	543,373
Less: Accumulated depreciation	(109,925)	(99,058)
	433,448	444,315
Motor vehicles – at cost	166,189	166,189
Less: Accumulated depreciation	(110,466)	(89,692)
	55,723	76,497
Plant and equipment – at cost	621,334	620,461
Less: Accumulated depreciation	(221,042)	(149,693)
	400,292	470,768
Total	**889,463**	**991,580**

Reconciliations

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

	Buildings and improvements $	Motor Vehicles $	Plant and equipment $	Total $
Balance at 1 July 2021	455,183	97,270	509,897	1,062,350
Additions	-	-	29,904	29,904
Disposals	-	-	-	-
Depreciation expense	(10,868)	(20,773)	(69,033)	(100,674)
Balance at 1 July 2022	444,315	76,497	470,768	991,580
Additions	-	-	873	873
Disposals	-	-	-	-
Depreciation expense	(10,867)	(20,774)	(71,349)	(102,990)
Balance at 30 June 2023	**433,448**	**55,723**	**400,292**	**889,463**

MERINO&Cº
4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

10. Intangible Assets

	2023 $	2022 $
Intangible assets	290,929	290,929
Less: Accumulated amortisation	(130,453)	(81,965)
	160,476	208,964
Trademarks – at cost	3,858	3,858
Less: Accumulated amortisation	-	-
	3,858	3,858
Software – at cost	4,355	4,310
Less: Accumulated amortisation	(697)	(189)
	3,658	4,121
Total	**167,992**	**216,943**

Reconciliations

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

	Trade Marks $	Software $	Total $
Balance at 1 July 2021	257,452	-	257,452
Additions	3,858	4,310	8,168
Disposals	-	-	-
Amortisation expense	(48,488)	(189)	(48,677)
Balance at 1 July 2022	212,822	4,121	216,943
Additions	-	1,661	1,661
Disposals	-	(1,616)	(1,616)
Amortisation expense	(48,488)	(508)	(48,996)
Balance at 30 June 2023	**164,334**	**3,658**	**167,992**

11. Right-Of-Use Assets

	2023 $	2022 $
Land and buildings – right-of-use	828,880	828,880
Less: Accumulated depreciation	(218,732)	(80,586)
	610,148	**748,294**

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

The company leases land and buildings for its office under agreement of three years with an option to extend. The leases have various escalation clauses.

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

12. Deferred Tax

	2023 $	2022 $
Deferred tax asset	94,073	-
	94,073	**-**

13. Trade and Other Payables

	2023 $	2022 $
Trade payables	934,366	76,421
Other payables	182,330	182,262
	1,116,696	**258,683**

14. Income Tax

	2023 $	2022 $
Provision for income tax/(Income tax refundable)	136,080	(83,359)
	136,080	**(83,359)**

15. Employee Benefits

	2023 $	2022 $
Provision for annual leave	80,653	52,966
	80,653	**52,966**

16. Borrowings

	2023 $	2022 $
Current		
Loan from directors[1]	714,995	615,113
Loan from related party[1]	-	40,000
Hire purchase loan[2]	26,296	23,186
Loan from bank[3a]	-	32,574
Loan from bank[3b]	191,011	-
Loan[3c]	160,000	-
Loan from investors[4]	-	1,129,000
	1,092,302	1,839,873
Non-current		
Hire purchase loan[2]	20,837	42,370
Loan from bank[3a]	-	286,055
Loan from bank[3b]	-	2,000,000
Loan from bank[3d]	403,000	-
Loan from bank[3e]	1,812,892	-
	2,236,729	2,328,425
	3,329,031	**4,168,298**

[1] Unsecured, interest free and no fixed term of repayment.

[2] Secured, interest charge between 6.31% p.a. Final repayment in April 2025.

[3a] Secured over the company's land and buildings and director personal guarantee, interest charge at 5.12% p.a. (2022: 5.12%). Final repayment in December 2029.

[3b] Secured over the company's present and future rights, property and undertaking and director personal guarantee, interest charge at 8.20% p.a. (2022: 4.70%). Final repayment in December 2031.

[3c.] Secured over undertaking and director personal guarantee, interest charge at 6.20% p.a.

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

[3e] Secured over the company's present and future rights, property and undertaking and director personal guarantee, interest charge at 8.20% p.a. (2022: 4.70%). Final repayment in December 2031.

[4] Loans from investors were interest free, unsecured with no fixed term of repayment. In August 2022, they were converted into convertible notes (refer Note 19) and reclassified to reserves.

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

17. Lease Liabilities

	2023 $	2022 $
Current lease liabilities	112,148	100,712
Non-current lease liabilities	582,491	694,639

18. Issued Capital

	2023 Shares	2022 Shares	2023 $	2022 $
Ordinary shares – fully paid	24,000,000	24,000,000	800,100	800,100

Movements in ordinary share capital

Details	Date	Shares	Issue Price	$
Opening balance	1 July 2021	24,000,000	-	800,100
Closing balance	30 June 2022	24,000,000	-	800,100
Opening balance	1 July 2022	24,000,000	-	800,100
Closing balance	30 June 2023	24,000,000	-	800,100

Ordinary shares

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

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

19. Reserves

	2023 $	2022 $
Convertible notes reserves	1,950,430	821,430
	1,950,430	**821,430**

The reserve is used to recognise the convertible notes issued during the year ended 30 June 2023.

In 2022, the company issued 200,000 convertible notes with a face value of $0.10 each, for total proceeds of $21,430.

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

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

20. Accumulated Losses

	2023 $	2022 $
Accumulated losses at the beginning of the financial year	(1,533,295)	(1,980,024)
Profit after income tax expense for the year	486,214	446,729
Accumulated losses at the end of the financial year	**(1,047,081)**	**(1,533,295)**

21. Dividends

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

22. Financial Instruments

Financial risk management objectives

The company's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company.

Market risk

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

Foreign currency risk

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

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

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

	Assets		Liabilities	
	2023 $	2022 $	2023 $	2022 $
Chinese Yuan	2,884,475	256,356	366,403	23,123
	2,884,475	256,356	366,403	23,123

The company had net assets denominated in foreign currencies of $2,518,072 (assets of $2,884,475 less $366,403 liabilities) as at 30 June 2023 (2022: net assets $233,233 (assets of $256,356 less liabilities of $23,123). Based on this exposure, had the Australian dollar weakened by 5%/strengthened by 5% (2022: weakened by 5%/strengthened by 5%) against these foreign currencies with all other variables held constant, the company's profit before tax for the year would have been $125,904 lower/ higher (2022: $11,662 lower/ higher). The percentage change is the expected overall volatility of the significant currencies, which is based on management’s assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 30 June 2023 was $77,992 (2022: loss of $21,915).

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

22. Financial Instruments (continued)

Price risk

The company is not exposed to significant price risk.

Interest rate risk

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

The company's loan from bank, totalling $2,566,903 (2022: $2,318,629), are principal and interest payment loans based on variable interest rate. An official increase/decrease in interest rates of 100 (2022: 100) basis points would have an adverse/favourable effect on profit before tax of $25,669 (2022: $23,186) per annum. The percentage change is based on the expected volatility of interest rates using market data and analyst forecasts.

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

Credit risk

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

Liquidity risk

2023	**Weighted average interest rate %**	**1 year or less $**	**Between 1 and 2 years $**	**Between 2 and 5 years $**	**Over 5 years $**	**Remaining contractually maturities $**
Non-derivatives						
Non-interest bearing						
Trade and other payables		1,116,696	-	-	-	1,116,696
Loan from directors		714,995	-	-	-	714,995
Loan from investor		-	-	-	-	-
Loan from related party		-	-	-	-	-
Interest-bearing – fixed rate						
Hire purchase loan	6.31%	26,296	20,837	-	-	47,133
Lease liabilities	5.15%	112,148	143,762	438,729	-	694,639
Interest-bearing – floating rate						
Loan from bank	5.40% - 10.32%	351,011	294,540	1,286,620	634,732	2,566,903
Total non-derivatives		**2,321,146**	**459,139**	**1,725,349**	**634,732**	**5,140,366**

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

22. Financial Instruments (continued)

2022	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractually maturities $
Non-derivatives						
Non-interest bearing						
Trade and other payables	-	258,683				258,683
Loan from directors	-	615,113				615,113
Loan from investor	-	1,129,000				1,129,000
Loan from related party	-	40,000				40,000
Interest-bearing – fixed rate						
Hire purchase loan	6.31% - 7.53%	28,616	28,616	21,470	-	78,702
Lease liabilities	5.15%	139,354	145,338	556,109	82,384	923,185
Interest-bearing – floating rate						
Loan from bank	4.70% - 5.12%	205,629	319,498	958,494	1,362,929	2,846,550
Total non-derivatives		**2,416,395**	**493,452**	**1,536,073**	**1,445,313**	**5,891,233**

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

Fair value of financial instruments

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

23. Commitments

	2023 $	2022 $
Capital commitments		
Committed at the reporting date but not recognised as liabilities payable:		
Research project funding	410,000	400,000

24. Key Management Personnel Disclosures

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

	2023 $	2022 $
Short-term employee benefits	424,500	355,846
Post-employment benefits	37,800	35,585
	462,300	391,431

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

25. Remuneration Of Auditors

During the financial year the following fees were paid or payable for services provided by the auditors of the company:

	2023 $	2022 $
Audit services – RSM Australia Partners (resigned 22 November 2023)	80,156	45,000
Other services – RSM Australia Partners	-	-
Audit services – William Buck (Accrual)	35,000	-
Other services – William Buck (Accrual)	-	-
	115,156	45,000

26. Earnings Per Share (EPS)

	2023	2022
Basic and diluted earnings per share	2.01 cents	1.86 cents

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

	2023 $	2022 $
Profit for the year	486,214	446,729
	Number	**Number**
Weighted average number of ordinary shares	24,000,000	24,000,000

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

	2023 $	2022 $
Profit after income tax expense for the year	486,214	446,729
Adjustments for:		
Depreciation and amortisation	290,351	229,937
Allowance for expected credit loss	(89,783)	286,725
Change in operating assets and liabilities		
- Trade and other receivables	(2,878,552)	436,585
- Inventories	1,061,183	(1,509,574)
- Other assets	(320,952)	(23,779)
- Deferred tax assets	(94,073)	-
- Trade and other payables	896,651	(1,238,217)
- Income tax	219,439	(264,836)
- Employee benefits	27,688	20,741
Net cash used in operating activities	(401,834)	(1,615,689)

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

28. Related Party Transactions

Key management personnel

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

Transactions with related parties

The following transactions occurred with related parties:

	2023 $	2022 $
Loans to/from related parties	714,995	615,113
Loan advanced due to director	-	40,000
Loan advanced due to related party	-	80,000

Terms and conditions

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

29. Operating Segments

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

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

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

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

30 June 2022	Australia $	China $	Total $
Revenue	1,186,081	3,889,958	5,076,039
Profit/(loss) before income tax	(776,781)	1,223,510	446,729
Total segment assets	5,107,177	256,356	5,363,533
Total segment liabilities	5,252,175	23,123	5,275,298

MERINO&Cº
4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

30. Contingent Assets And Liabilities

The Company has given bank guarantees as at 30 June 2023 of $100,828 (2022: $100,828) to the lessor.

The Company has no contingent assets as at 30 June 2023 and 30 June 2022.

31. Events After The Reporting Period

On 2 February 2024, Merinosnug (Shanghai) Wool Products Co. Ltd was established, as a wholly owned foreign subsidiary, based in Shanghai, China.

No other matters or circumstance has arisen since 30 June 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.

MERINO&Cº

4 Gould Street, Osborne Park, WA 6017, Australia
P 1300 030 718 E support@merinoandco.com.au W merinosnug.com.au
Merino & Co · ACN 162 863 121 · ABN 74 162 863 121

In the directors' opinion:

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the Entity's financial position as at 30 June 2023 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the directors

Fang (Fiona) Yue

Director

11 March 2024

WilliamBuck
ACCOUNTANTS & ADVISORS

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

Report on the audit of the financial report

Our opinion on the financial report

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

giving a true and fair view of the Company's financial position as at 30 June 2023 and of its financial performance for the year then ended; and

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

What was audited?

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

— the statement of financial position as at 30 June 2023,

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

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

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

— notes to the financial statements, including significant accounting policy information and other explanatory information, and

— the directors' declaration.

Basis for opinion

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

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

Level 3, 15 Labouchere Road, South Perth WA 6151
PO Box 748, South Perth WA 6951

+61 8 6436 2888

wa.info@williambuck.com
williambuck.com

WilliamBuck
ACCOUNTANTS & ADVISORS

Other Matters

The financial report of the Company for the year ended 30 June 2022, were audited by the predecessor auditing firm whose opinion, dated 3 November 2022 was unmodified.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

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

https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf

This description forms part of our auditor's report.

William Buck

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

Amar Nathwani

Amar Nathwani
Director

Dated this 11th day of March 2024