

Merino & Co. Limited

ABN 74 162 863 121

Interim Report - 31 December 2023

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Merino & Co. Limited
Directors' report
31 December 2023

The directors present their report, together with the financial statements, on Merino & Co. Limited (referred to hereafter as the 'Company') during the half-year ended 31 December 2023.

Directors

The following persons were directors of Merino & Co. Limited during the whole of the half-year and up to the date of this report, unless otherwise stated:

Fang (Fiona) Yue

Jack Hanrahan

Gary Johnson (resigned 30 November 2023)

TaiZong (Tim) Kang (appointed 27 December 2023, resigned 22 January 2024)

Boxiang (Peter) Zhao (appointed 23 January 2024)

Principal activities

During the half-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 period ended 31 December 2023.

Review of operations

The loss for the Company after providing for income tax amounted to \$177,732 (December 2022: \$462,597).

The Company is a trading company focused on the sales of wool products predominantly in China.

Significant changes in the state of affairs

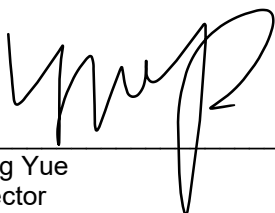
There were no significant changes in the state of affairs of the Company during the half-year.

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 immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors


Fang Yue
Director

13 June 2024
Perth

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 review of Merino & Co. Limited for the half-year ended 31 December 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 review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Merino & Co. Limited during the half-year ended 31 December 2023.

William Buck

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

Amar Nathwani

Amar Nathwani
Director

Dated this 13th day of June 2024

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Merino & Co. Limited

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General information

The financial statements cover Merino & Co. Limited as an individual entity. The financial statements are presented in Australian dollars, which is Merino & Co. Limited functional and presentation currency.

Merino & Co. Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

4 Gould Street
Osborne Park WA 6017

Principal place of business

4 Gould Street
Osborne Park WA 6017

A description of the nature of the Company's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors.

Merino & Co. Limited
Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 31 December 2023

	Note	31 Dec 2023 \$	31 Dec 2022 \$
Revenue	3	2,436,514	2,768,563
Other income	4	1,063	42,843
Interest revenue		265	14
Expenses			
Changes in inventories		608,762	(662,355)
Purchase of inventories		(2,246,099)	(990,540)
Employee benefits expense		(331,402)	(294,615)
Depreciation and amortisation expense		(145,858)	(145,865)
Impairment of receivables		(32,661)	(137,941)
Interest expense	5	(114,278)	(127,387)
Marketing expense		(133,178)	(61,185)
Rental expense	5	(95,381)	(84,135)
Other expenses		(338,606)	(326,222)
Research and development cost		-	(284,499)
Foreign exchange gain	5	33,158	11,176
Share based payments		-	(174,500)
Loss before income tax expense		(357,701)	(466,648)
Income tax benefit		179,969	4,051
Loss for the half-year representing total comprehensive income for the half-year		<u>(177,732)</u>	<u>(462,597)</u>

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Merino & Co. Limited
Statement of Financial Position
As at 31 December 2023

	Note	31 Dec 2023 \$	30 Jun 2023 \$
Assets			
Current assets			
Cash and cash equivalents		468,974	480,562
Trade and other receivables		1,745,500	2,991,703
Inventories		1,987,136	1,378,373
Other assets		673,499	344,731
Total current assets		<u>4,875,109</u>	<u>5,195,369</u>
Non-current assets			
Property, plant and equipment		837,468	889,463
Intangible assets		144,820	167,992
Right of use assets		541,074	610,148
Other financial assets		105,309	103,503
Deferred tax assets		174,143	94,073
Total non-current assets		<u>1,802,814</u>	<u>1,865,179</u>
Total assets		<u>6,677,923</u>	<u>7,060,548</u>
Liabilities			
Current liabilities			
Trade and other payables		1,350,794	1,116,696
Borrowings		901,669	1,092,302
Lease liabilities		120,869	112,148
Income tax liabilities		(5,558)	136,080
Employee benefits		100,692	80,653
Total current liabilities		<u>2,468,466</u>	<u>2,537,879</u>
Non-current liabilities			
Borrowings		2,164,067	2,236,729
Lease liabilities		519,673	582,491
Total non-current liabilities		<u>2,683,740</u>	<u>2,819,220</u>
Total liabilities		<u>5,152,206</u>	<u>5,357,099</u>
Net assets		<u>1,525,717</u>	<u>1,703,449</u>
Equity			
Issued capital	7	800,100	800,100
Reserves		1,950,430	1,950,430
Accumulated losses		(1,224,813)	(1,047,081)
Net equity		<u>1,525,717</u>	<u>1,703,449</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

Merino & Co. Pty Ltd
Statement of Changes in Equity
For the half-year ended 31 December 2023

	Issued capital \$	Reserves \$	Accumulated losses \$	Total Equity \$
Balance at 1 July 2022	800,100	821,430	(1,533,295)	88,235
Loss after income tax expense for the half-year	-	-	(462,597)	(462,597)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive loss for the half-year	-	-	(462,597)	(462,597)
<i>Transactions with owners in their capacity as owners:</i>				
Convertible notes issued	-	174,500	-	174,500
Balance at 31 December 2022	<u>800,100</u>	<u>995,930</u>	<u>(1,995,892)</u>	<u>(199,862)</u>
	Issued capital \$	Reserve \$	Accumulated losses \$	Total Equity \$
Balance at 1 July 2023	800,100	1,950,430	(1,047,081)	1,703,449
Loss after income tax expense for the half-year	-	-	(177,732)	(177,732)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive loss for the half-year	-	-	(177,732)	(177,732)
<i>Transactions with owners in their capacity as owners:</i>	-	-	-	-
Balance at 31 December 2023	<u>800,100</u>	<u>1,950,430</u>	<u>(1,224,813)</u>	<u>1,525,717</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Merino & Co. Limited
Statement of Cash Flows
For the half-year ended 31 December 2023

	Note	31 Dec 2023 \$	31 Dec 2022 \$
Cash flows from operating activities			
Receipts from customers		3,650,052	2,029,256
Payments to suppliers and employees		(3,186,124)	(2,699,748)
		<u>463,928</u>	<u>(670,492)</u>
Government grant received		1,063	22,308
Rental income received		-	15,973
Interest received		265	14
Other income received		-	4,475
Interest and other finance costs paid		(112,912)	(25,706)
Income taxes refund / (paid)		<u>(41,739)</u>	<u>112,832</u>
Net cash from / (used in) operating activities		<u>310,605</u>	<u>(540,596)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		-	(873)
Payments for intangible assets		(1,619)	(1,661)
Proceeds from disposal of intangible assets		<u>-</u>	<u>1,616</u>
Net cash used in investing activities		<u>(1,619)</u>	<u>(918)</u>
Cash flows from financing activities			
Net proceeds from / (repayment to) director		(15,542)	6,109
Repayment of borrowings		(234,822)	(83,193)
Repayment of lease liabilities		(54,097)	(48,477)
Repayment of hire purchases loans		(14,308)	(14,308)
Borrowing costs		<u>(1,805)</u>	<u>-</u>
Net cash used in financing activities		<u>(320,574)</u>	<u>(139,869)</u>
Net decrease in cash and cash equivalents		(11,588)	(681,383)
Cash and cash equivalents at the beginning of the financial half-year		<u>480,562</u>	<u>735,827</u>
Cash and cash equivalents at the end of the financial half-year		<u><u>468,974</u></u>	<u><u>54,444</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

Note 1. Material accounting policy information

These general purpose financial statements for the interim half-year reporting period ended 31 December 2023 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2023 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

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 ('AASB') 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.

Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

The Company reported a pre-tax loss of \$357,701 for the six months ended 31 December 2023 and a surplus of current assets over current liabilities of \$2,406,643. Included in current liabilities is a loan from a related party of \$699,454 and the Board have received a letter from the related party that the loan will not be called upon for repayment in the 12-month period to May 2025.

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

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

The Company's reliance on meeting the forecast revenue and the reliance on funding from the providers of the letter of the financial support should revenue forecast not be achieved, indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

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

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

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

Pinnacle Listed Practical Interim Limited
Notes to the financial statements
31 December 2022

Note 2. Operating segments

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

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.

31 December 2023	Australia	China & Other	Total
	\$	\$	\$
Revenue	1,555,882	880,632	2,436,514
Profit/(loss) before income tax	(716,677)	358,976	(357,701)

31 December 2022			
Revenue	88,885	2,679,678	2,768,563
Profit/(loss) before income tax	(1,349,040)	882,392	(466,648)

31 December 2023			
Total segment assets	4,035,033	2,642,890	6,677,923
Total segment liabilities	5,145,578	6,628	5,152,206

30 June 2023			
Total segment assets	4,176,073	2,884,475	7,060,548
Total segment liabilities	4,990,696	366,403	5,357,099

Note 3. Revenue

	31 Dec 2023	31 Dec 2022
	\$	\$
<i>Revenue from contracts with customers</i>		
Sale of goods	<u>2,436,514</u>	<u>2,768,563</u>

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

Geographical regions

Australia	1,555,882	87,469
China	880,632	2,679,678
Rest of the world	-	1,416
	<u>2,436,514</u>	<u>2,768,563</u>

Timing of revenue recognition

Goods transferred at a point in time	<u>2,436,514</u>	<u>2,768,563</u>
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Merino & Co. Limited
Notes to the Financial Statements
31 December 2022

Note 4. Other income

	31 Dec 2023 \$	31 Dec 2022 \$
Net gain on disposal of property, plant and equipment	-	86
Government grants	1,063	22,308
Rental income	-	15,974
Insurance recoveries	-	4,475
	<u>1,063</u>	<u>42,843</u>
Other income	<u>1,063</u>	<u>42,843</u>

Note 5. Expenses

	31 Dec 2023 \$	31 Dec 2022 \$
Loss before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	96,964	107,419
Interest and finance charges paid/payable on lease liabilities	17,314	19,968
Finance costs expensed	<u>114,278</u>	<u>127,387</u>
<i>Net foreign exchange (gain) / loss</i>		
Net foreign exchange (gain) / loss	<u>(33,158)</u>	<u>(11,176)</u>
<i>Leases</i>		
Variable lease payments	70,381	59,135
Short-term lease payments	25,000	25,000
	<u>95,381</u>	<u>84,135</u>
<i>Superannuation expense</i>		
Defined contribution superannuation expense	<u>30,856</u>	<u>26,529</u>

Note 6. Cash and cash equivalents

\$140,400 (30 June 2023 \$269,143) of the cash balance represents RMB balances held in China. Merino & Co has not repatriated any Chinese RMB to Australia and has instead used the RMB to purchase materials or inventory and pay expenses incurred in China.

Subsequent to 31 December 2023, the Company established a subsidiary in China which has received the necessary regulatory approvals to operate in China and repatriate monies to Australia.

Note 7. Equity - issued capital

	31 Dec 2023 Shares	30 Jun 2023 Shares	31 Dec 2023 \$	30 Jun 2023 \$
Ordinary shares - fully paid	<u>24,000,000</u>	<u>24,000,000</u>	<u>800,100</u>	<u>800,100</u>

Note 8. Equity - dividends

There were no dividends paid in respect of the half-year ended 31 December 2023.

Note 9. Contingent Assets and Liabilities

The Company has given bank guarantees as at 31 December 2023 of \$102,902 (30 June 2023: \$100,828) to the lessor.

The Company has no contingent assets as at 31 December 2023 and 30 June 2023.

Note 10. Commitments

	31 Dec 2023	30 Jun 2023
	\$	\$
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Research project funding	-	410,000
	<u> </u>	<u> </u>

Note 11. Events after the reporting period

Apart from the Company establishing a subsidiary in China, as detailed in Note 6, there are no other 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.

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Merino & Co. Limited
Directors' Declaration
31 December 2023

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Company's financial position as at 31 December 2023 and of its performance for the half-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.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Fang Yue
Director

13 June 2024
Perth

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

Report on the half-year financial report



Our conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Merino & Co. Limited (the Company) does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 31 December 2023 and of its financial performance for the half-year then ended; and
- complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

What was reviewed?

We have reviewed the accompanying half-year financial report of the Company, which comprises:

- the statement of financial position as at 31 December 2023,
- the statement of profit or loss and other comprehensive income for the half-year then ended,
- the statement of changes in equity for the half-year then ended,
- the statement of cash flows for the half-year then ended,
- notes to the financial statements, including a summary of material accounting policy information, and
- the directors' declaration.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's responsibilities for the review of the financial report* section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which indicates that the Company incurred a pre-tax loss of \$357,701 for the half-year period ended 31 December 2023. This event or condition, along with other matters as set out in Note 1, indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Other matter

The half-year financial report of the Company for the half year ended 31 December 2022 was reviewed by another auditor who expressed an unmodified conclusion on the half-year financial report on 26 May 2023.

Responsibilities of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report 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 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.

William Buck

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

Amar Nathwani

Amar Nathwani
Director

Dated this 13th day of June 2024