MANUFACTURED CAPITAL

"We are pragmatic and forward-thinking in our capex initiatives—ensuring that we optimize cost-benefits; and fortify our operational capabilities–for long-term viability and resilience in a dynamic market environment."

Amidst today's challenging business backdrop, be it from markets, productivity constraints and growing impacts from climate change, the imperative to develop, optimize and efficiently manage our manufactured capital is given top priority in our strategic agenda. Comprising tangible assets, this capital is critical to create sustainable value—underscoring our production process and efficiency; adding value; ensuring the quality of our teas; and curtailing our cost of production. In the following section, we will discuss on the best practices we follow in our decision-making process on our capital expenditure (capex) to maintain streamlined operations, consolidate and take forward our expansionary plans.

Input

Our Manufactured Asset Base

- Buildings
- Field
- Equipment: Machinery, Tools & Vehicles
- Infrastructure
- Technology

Our Materiality Focus

- Estate Infrastructure
- Field Development
- Factory Maintenance
- Plant, Machinery & Equipment
- Renewable Energy

Stakeholders Impacted

5.7 Mn Kg
Tea Production
FY 2022/23: 5.1 Mn Kg

69%
Capacity Utilization
FY 2022/23: 63%

2.1MW
Hydro power Capacity
FY 2022/23: 2.1MW

599.43kWp
Solar Power Capacity
FY 2022/23: 599.43kWp

Process	Output	Impact
Capex Planning and Strategy in Action	Processing Premium Quality Teas	Value Creation

Expansionary Capex

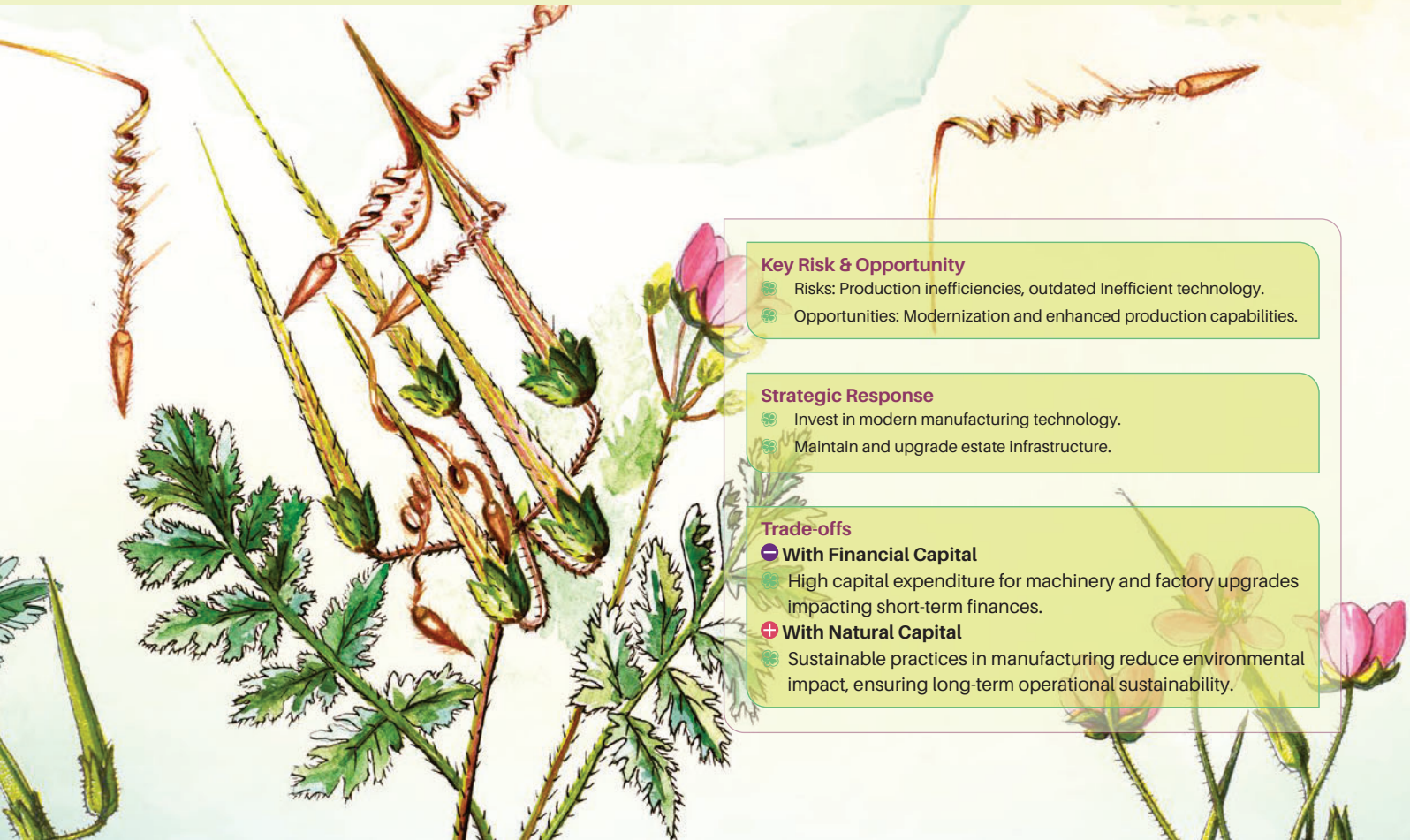
- Invest in estate infrastructure, machinery, equipment and technology to expand operations and boost operational efficiency.
- Adapting to energy efficient technology

Maintenance Capex

- Ensure preventive and timely maintenance of physical assets for seamless operations, safety and optimum costs.
- Follow manufacturing specifications

- Black Orthodox Teas
- Speciality Teas
- Certifications
- Renewable Energy Generation

Strategically planned capex paving the way for organic growth, fortifying the brand for premium quality teas thereby, securing sustainable value creation



Key Risk & Opportunity

- Risks: Production inefficiencies, outdated Inefficient technology.
- Opportunities: Modernization and enhanced production capabilities.

Strategic Response

- Invest in modern manufacturing technology.
- Maintain and upgrade estate infrastructure.

Trade-offs

⊖ With Financial Capital

- High capital expenditure for machinery and factory upgrades impacting short-term finances.

⊕ With Natural Capital

- Sustainable practices in manufacturing reduce environmental impact, ensuring long-term operational sustainability.

Manufactured Capital

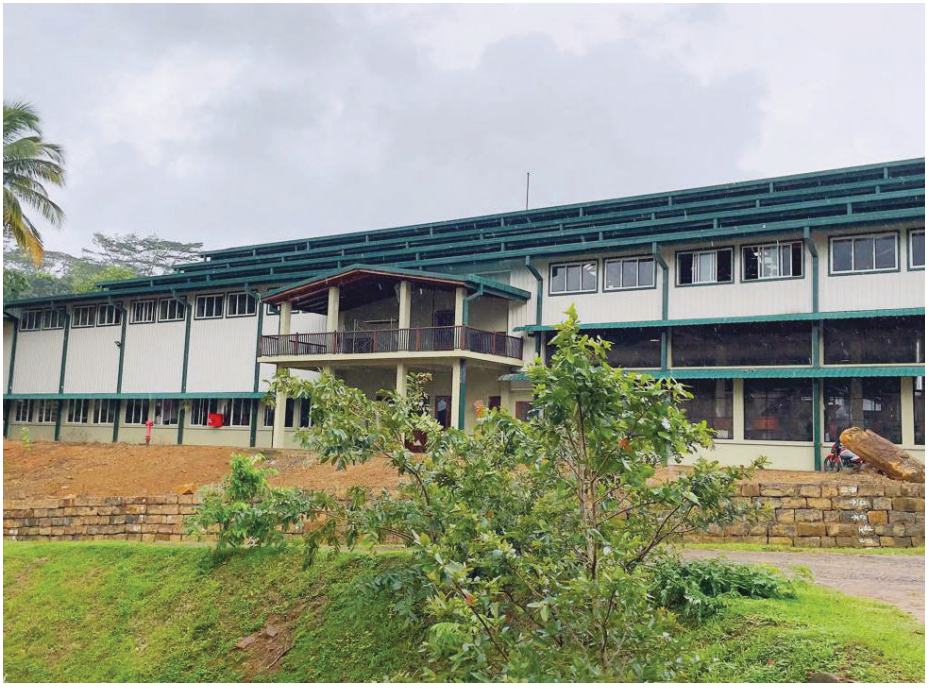
Management Approach

GRI 3-3

Capex Planning Salient Features	Governance	Risk Management
Investment Prioritisation Need-based-analysis and strategic alignment	**Stewardship and Oversight** Board of Directors Corporate Management Committee	**Frameworks, Guidelines and Standards** TRI Guidelines on replanting Hayleys Group directions of capex Annual capital budget
Lifecycle Management Optimise efficiency of asset utilisation		
Tracking and Monitoring Asset condition and performance		
Risk Assessment Potential risks from natural disasters, technological obsolescence, market volatility and regulatory changes		
Financial Feasibility Cost benefit analysis and return on investments		
ESG Alignment Incorporating sustainability considerations		

Operating across16 estates, 12 factories and 3 re-processing centres. Our business model relies heavily on a wide range of manufactured capital covering machinery and equipment, IT hardware to estate infrastructure including factory buildings and community-based assets. Taking a long-term standpoint, our management approach is systematic with a carefully assessed, structured and comprehensive capex plan including realistic budgets, timelines and key performance indicators. Developed annually, during the corporate planning sessions—under the guidance of the Board of Directors—our capex plan is two pronged: on one hand, aligning with our strategic growth plans and goals overtime, and on the other, addressing operational needs at the estate level.

New investments in property, plant and equipment are undertaken with due diligence including a need-based analysis to ensure alignment with our overarching strategic objectives. We closely follow up on such investments with feasibility assessments including cost-benefit analysis to secure sound returns on investments. We also strive to integrate sustainability considerations in keeping with our ESG goals and as guided by our certification programmes.



Region	Estate	No. of Factories	Capability	Crop Distribution	%
High Grown					
Talawakelle	7	6	Orthodox - Rotorvane	2,814,995	49
Nanu Oya	5	3	Orthodox - Rotorvane, Orthodox - Leafy Green Tea	1,649,748	29
Low Grown					
Galle	1	1	Orthodox - Rotorvane	241,657	4
Deniyaya	3	2	Orthodox - Rotorvane	1,013,138	18

Procurement Machinery and Equipment

We have in place standard procedures and guidelines to procure new machinery and equipment. Following best practices, we are pragmatic and systematic in procurement with due consideration to both quality standards and costs. All suppliers are scrutinized for their credentials, quality of the product, certifications from recognized bodies, delivery and after sales services. This includes their social and environmental footprint.

Out of our expansionary capex in the reporting year, we incurred a sum of Rs. 24 Mn on new machinery and equipment.

Fixed Assets 2023/24 Vs 2022/23

Asset Type	2023/24 Carrying Value (Rs.'000)	2022/23 Carrying Value (Rs.'000)
Biological Assets	3,216,999	2,992,357
Buildings	509,738	509,738
Motor Vehicles	408,556	395,953
Plant & Machinery	1,255,035	1,252,492
Furniture & Fittings	21,567	14,666
Equipment & Tools	215,046	212,305
Total	**5,626,941**	**5,377,511**

Maintenance of Factory Infrastructure

As outlined under the natural capital section, we successfully completed the construction work of our new cutting-edge Kiruwanaganga factory in the low grown region in the year under review. Spanning across 37,290 Sq.ft., with an annual capacity of estate green leaf 2Mn/Kg and bought leaf capacity of 1.4 Mn/kg. The cumulative investment of the project is Rs. 597 Mn.

The factory, which is equipped with state-of-the-art equipment, commenced trial operations in January 2024.

This development signifies a significant milestone for our company and opens up new opportunities for growth and success. We have invested time, resources, and expertise into ensuring that the factory meets the highest standards of quality and efficiency.

Estate Infrastructure Development

GRI 203-1

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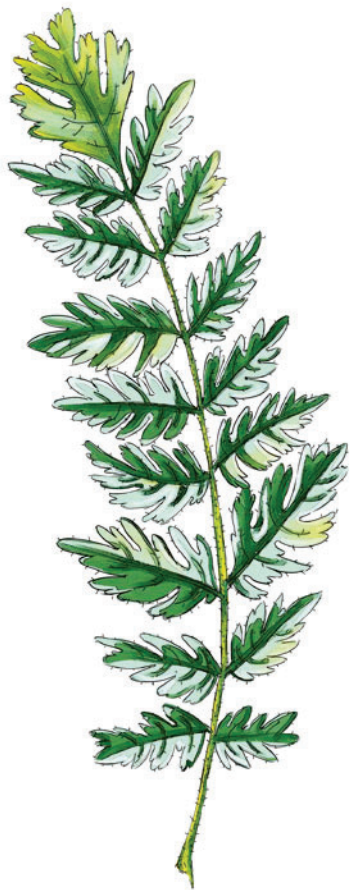
Eco-friendly Female Hygiene Stations

Ensuring the wellbeing and dignity of our female field workers

Fostering a supportive and inclusive work environment, this year, we constructed 83 female hygiene stations units covering 14 estates in the high & low grown regions. We also organized a competition amongst field workers to maintain the cleanliness of these on-site facilities. This initiative proved beneficial and was highly appreciated by our female field workforce.

We invested a sum of Rs 1.27 Mn on this construction project.



Manufactured Capital

Our infrastructure development includes the construction and renovation of factory buildings and processing floors. In addition, we are also focusing on improving the surrounding community by building estate roads, housing, water and sanitation facilities. During this year, we have made a total investment of Rs. 8.3 Mn.

To ensure the highest quality of workmanship, we have reputed architects, contractors, and engineers working on our infrastructure development initiatives. We follow a formal tender process to select these professionals who have proven expertise and experience in their respective fields.

Furthermore, we understand the importance of collaboration with government and non-government organizations in the plantation sector. Therefore, we actively engage with these organizations to carry out community-based infrastructure activities. By partnering with them, we can leverage their knowledge and resources to ensure that our projects are aligned with local needs and regulations.

Through our infrastructure development efforts, we aim to create a sustainable environment for both our employees and the surrounding community.

Renewable Energy Infrastructure

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In alignment with our commitment to sustainability, we continued to prioritize planned investments in developing our renewable asset base, including hydropower and roof-top solar.

This year, we invested a sum of Rs. 90.8 Mn to take up full ownership of the Hydro Power mini plants from a stake of 51%.

We have successfully installed roof-top solar power systems in five of our factories. These projects are operating under the net plus system which have suppled 622,277 Kwh to the National grid.

Additionally, we have also installed rooftop solar power systems in 12 bungalows. However, these projects have not been added to our operational grid yet.

By investing in renewable energy sources, we are able to reduce energy consumption while also enjoying long-term cost savings. These measures not only benefit the environment but also contribute to financial sustainability.

Hydro Power

Plant	Capacity MW	Generation kWh	% Bud.Genration
Radella	0.2	810,457	98
Somerset	1.1	3,592,816	94
Palmerston	0.8	2,457,101	84
Total	**2.1**	**6,860,374**	**91**

Solar Power

Plant	Capacity Kwp	Generation kWh	% Bud.Genration
Bearwell	108.24	103,942	78
Moragalla	149.80	142,851	78
Deniyaya	117.76	131,712	91
Dessford	109.68	129,338	96
Calsay	113.95	114,384	82
Total	**599.43**	**622,227**	**85**

Field Development Programme

GRI 201-4

Our estates are RA™ certified and such as are managed in line with the best practices set out therein for nursery management, harvesting, soil management and replanting.

In the current financial year, we significantly expanded replanting Tea and Timber/ Fuelwood in high grown estates. In our low grown estates, we focused on increasing the cultivation of Cinnamon, Coconut in addition to Tea. Field Development expenditure stood at Rs. 240Mn representing an increase of 22% over 2022/23. During the year our replanting program was supported by government grants of Rs 975,000. Refer Business Review page 101.

Tracking UN Sustainable Development Goals

Goal 07: Affordable and Clean Energy

Target: Investing in renewable energy infrastructure

- Strengthening our hydropower generation and roof-top solar capacities

Goal 09: Industry, Innovation, and Infrastructure

Target: Build resilient infrastructure, promote sustainable factories, and foster innovation

- Investments in quality machinery and equipment
- Investments in green building technology

Goal 11: Sustainable Cities and Communities

Target: Addressing the need for safe and sustainable settlements for estate communities

- Investments in community-based estate infrastructure

Goal 12: Responsible Consumption and Production

Target: Advocating sustainable field and factory processes

- Investments in energy-efficient and quality machinery and equipment to optimise capacity
- Investments in timely maintenance of buildings, machinery and equipment
- Follow best procurement practices for greater accountability and responsibility

Key Performance Indicators	Related UNSDG	FY 2023/24	FY 2022/23
Investment in renewable energy infrastructure (Rs Mn)	**Goal 07:** Affordable and clean energy	Rs. 90.8 Mn	-
Investment in infrastructure development (Rs Mn)	**Goal 09:** Industry, innovation, and infrastructure	Rs. 235.2 Mn	Rs. 300.55 Mn
Investment in quality new machinery and equipment (Rs Mn)			
Investment in annual maintenance of property, plant and equipment (Rs Mn)	**Goal 12:** Responsible consumption and production		
Tea processing facilities – capacity utilisation (%)	**Goal 09:** Industry, innovation, and infrastructure	69%	63%
Investment in community-based infrastructure (Rs Mn)	**Goal 11:** Sustainable cities and communities	Rs. 8.2 Mn	Rs. 5.7 Mn