

QUANTUM CLOTHING GROUP Limited

Annual Report and Financial Statements

For the year ended 31 March 2023



QUANTUM CLOTHING GROUP LIMITED (Company Registration No. 0001812)

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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QUANTUM CLOTHING GROUP LIMITED (Company Registration No. 0001812)

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A Omar
H Premaratne
D Gooneratne

REGISTERED OFFICE

Mohan Business Centre
Tamworth Road
Long Eaton
Nottingham
NG10 1BE
United Kingdom

BANKERS

HSBC Bank plc
62-76 Park Street
London
SE1 5AB

INDEPENDENT AUDITORS

BDO LLP
Water Court, 116-118 Canal St
Nottingham
NG1 7HF

QUANTUM CLOTHING GROUP LIMITED (Company Registration No. 0001812)

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023

The directors present their annual report and the audited financial statements of Quantum Clothing Group Limited for the year ended 31 March 2023.

REVIEW OF THE BUSINESS AND PRINCIPAL ACTIVITIES

The directors aim to present a balanced and comprehensive review of the development and performance of the business during the year and its position at the year end. This review is consistent with the size and nature of the business and is written in the context of the risks and uncertainties that the business faces.

The Company's principal activities are to provide designing services to its Group companies based in Sri Lanka and Hong Kong.

During the last financial year Sri Lanka faced a balance of payment crisis and declared a soft default on its sovereign and bilateral debt portfolios. Ever since the default the country has been going through a severe economic crisis. This has resulted in hyperinflation, essential shortages, day to day disruptions to life, etc. As the wider group is mainly operated out of Sri Lanka, the manufacturing operations in Sri Lanka were disrupted to a certain extent with shortages in fuel, power cuts, etc. However as the apparel industry is one of the main export revenue generators of Sri Lanka, the government has supported the industry and the group has been able to carry out the operations without any interruptions. With strong debt restructuring measures, government policy & institute reforms Sri Lanka is planning to quickly turnaround the situation. Also with the world opening its borders after the pandemic, the country is seeing increased number of tourists arriving which will further strengthen the countries' Forex reserves.

The wider group has also experienced difficulties in procuring the necessary raw materials for production as the suppliers are refusing to accept letter of credits issued by Sri Lankan banks, etc. However the main trading business of the group "Incube Global" has a strong financial position and was able to fund the procurement through cash advances in the short term and through supply chain financing arrangements with the customers in the longer term.

The company operates as the apparel design expert to the wider group. The main trading and manufacturing arms of the wider group operates out of Sri Lanka. The success of the company depends on the success of the wider group and the situation of the apparel industry in Sri Lanka.

As a design service provider to the group the company is therefore dependent upon the fortunes of the wider group for its business. As such the directors, who also have access to financial information relating to the trading and prospects of the wider group, continue to monitor closely the impact of unfolding events across the group in order to respond swiftly to any consequential implications on the business.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)**REVIEW OF THE BUSINESS AND PRINCIPAL ACTIVITIES (CONTINUED)**

The directors consider that the key financial performance indicators are those that communicate the financial performance of the company as a whole, these being revenue, the operating profit/(loss) and profit/(loss) for the year, which are as follows:

	2023 USD '000	2022 USD '000	Change %
Continuing operations			
Revenue	1,673	1,276	31.10%
Operating profit	97	97	0.00%
Profit (before tax) for the financial year	94	74	27.03%

The operations of the company shows a 31.1% increase in revenue compared to the previous year. The operating profit remains consistent with the previous year, totalling \$97,000 in profit.

The increase in revenue is mainly due to the increase in operating expenses of the company. QCGL earns an arm's length margin on operating costs as QCGL provides its design services to group companies. Hence if there is an increase in operating expenses the revenue also increases.

As at the 31 March 2023 the Company had net assets of \$1,793,000 (2022: net assets \$1,625,000).

PRINCIPAL RISKS AND UNCERTAINTIES

The company has a senior management committee that meets monthly and which evaluates the company's risks and considers the mitigating actions required to manage risk within the agreed risk appetite.

The principal risks and uncertainties facing the company are broadly considered to relate to competitive risk (which is directly linked to the success of the wider group) and financial risk management, which covers exposure to foreign currency, credit and liquidity risk.

Competitive risks

Being a design provider, the company is mainly providing design services to other group entities under an agreement which provides for a mark-up on operating costs, minimizing the previously associated competitive risks. The service provided to third parties are comparatively minimal further decreasing the competitive risks.

Financial risk management

The principal financial instruments used by the company comprise trade payables, intercompany balances, and bank balances. The main purpose of these financial instruments are to manage working capital and maintain liquidity for the company's operations.

The company is exposed to a variety of financial risks including currency, credit and liquidity risk.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)
PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

- **Foreign exchange risk**

The company is exposed to foreign currency exchange risk as its UK payroll and certain expenses are denominated in GBP and EUR. A senior management committee, which has been in place for several years, considers this exposure on a regular basis. The foreign exchange markets are reviewed on a daily basis by reference to various institutional reports which are considered alongside weekly reviews with the bankers and independent foreign exchange advisors.

- **Credit risk**

Credit risk is the risk that one party to a financial instrument will default causing a financial loss for that other party by failing to discharge an obligation. Being a design service provider, primarily to other group companies, most of the customers are group entities and the credit risk becomes comparatively low when compared to previous years. However, in the case of third party sales, credit risks will remain in respect of amounts due, and this risk is managed by the group treasury function.

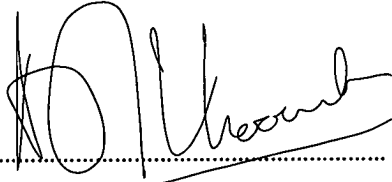
- **Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company manages liquidity risk via the support provided by other group companies through intercompany payables.

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)
POST BALANCE SHEET EVENTS

No circumstances have been arisen since the balance sheet date which would require adjustments to, or disclosure in the financial statements.

Approved by the Board of Directors and signed on their behalf:

A handwritten signature in black ink, appearing to read 'Dilan Gooneratne', is written over a horizontal dotted line.

Dilan Gooneratne

Director

Date : 22/03/2024

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2023

The directors present their annual report and the audited financial statements for the year ended 31 March 2023.

GOING CONCERN

In the opinion of directors, it is appropriate to prepare the financial statements on the going concern basis as, the company is now making profits by providing apparel design services to the group. (retaining a fixed margin on services provided as per the transfer pricing agreement between the company and the related parties) and is expected to continue to do so for the foreseeable future.

This arrangement supports the directors' assessment that the company will generate profits and, will be able to settle its obligations as and when they fall due.

In forming this judgement, the directors recognise that there continues to be uncertainty related to the impact of the economic crisis in Sri Lanka on the wider group, including the company. The operations of the company and provision of design services is dependent on the success of the wider group, including to the extent of orders it receives from external customers, securing enough inventory to facilitate orders and remittances to suppliers.

On the basis of their enquiries, the directors consider that the potential impact of the Sri Lankan economic crisis on the trading prospects and cash flows of the wider group will be mitigated by strict cost control initiatives and the recovery of the country from the economic crisis through national policy reforms and cuts in government spending, privatization, etc fairly quickly. Also global events such as the Russia/Ukraine war, Israel/Palestine conflict and their impacts on the group were considered in forming the going concern assessment for the company. Accordingly, the directors are satisfied that the wider group will continue to require the services of the company, will be able to fund them and it is appropriate to prepare these financial statements on a going concern basis.

FUTURE DEVELOPMENTS

As the competition in the industry gets tougher, the company and the wider group's focus is on continued innovation and new product introduction beyond intimates wear, with focus on sportswear and athleisure business, which is expected to drive sales outside the European market with significant focus on US & Canadian customers. The shift in portfolio towards US & Canadian markets and the new products with higher margin is expected to drive increased group profitability.

DIRECTORS

The directors who held office during the year and up to the date of signing the financial statements were as follows:

A Omar
H Premaratne
D Gooneratne

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

ENVIRONMENTAL POLICY

Quantum Clothing Group Limited recognise the importance of minimising the environmental impact of its business and requires local management to take responsibility for environmental performance. Customers and the general public can feel confident that this is happening as the company adheres to its Environmental Policy at all levels.

The company will:

- Minimise the use of resources and the creation of waste wherever possible and practical.
- Re-cycle and re-use materials wherever possible.
- Communicate its environmental policy and best practice to all its employees for implementation.

ETHICAL POLICY

The company, as part of the wider group, has embarked upon a course to establish itself as a world leader in implementing and driving ethical standards and high standards of labour practices. Our policy is to exceed international standards, as we believe we have a social responsibility to help educate and personally develop all of our employees. We go to great lengths to ensure that all local and international ethical standards are achieved and maintained.

DONATIONS

During the year the company made no charitable donations (2022: \$nil).

DIVIDENDS

There was no interim or final dividend declared or paid during the year (2022: \$nil).

DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each director in office at the date the directors' report is approved:

- (a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework" and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

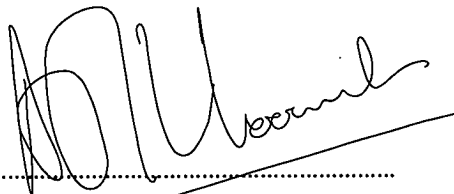
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS (CONTINUED)

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors and signed on their behalf:



.....
Dilan Gooneratne

Director

Date : 22/03/2024

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QUANTUM CLOTHING GROUP LIMITED

Qualified opinion on the financial statements

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Quantum Clothing Group Limited ("the Company") for the year ended 31 March 2023 which comprise the income statement, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

Basis for qualified opinion

We were unable to obtain sufficient and appropriate evidence to support the classification of \$356,813 legal and professional fees recognised as operating expenses. We were unable to satisfy ourselves by alternative means concerning the classification of these fees by using other audit procedures. Consequently, we were unable to determine whether any adjustment to this amount was necessary or whether there was any consequential adjustment to creditors or related balances.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QUANTUM CLOTHING GROUP LIMITED (CONTINUED)

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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.

As described in the basis for qualified opinion section of our report, we were unable to satisfy ourselves concerning the classification of legal and professional fees recognised as operating expenses as at 31 March 2023. We have concluded that where the other information refers to the operating expenses balance or related balances such as creditors, it may be materially misstated for the same reason.

Other Companies Act 2006 reporting

Except for the possible effects of the matter described in the basis for qualified opinion section of our report, in our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Except for the possible effects of the matter described in the basis for qualified opinion section of our report, in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

Arising solely from the limitation on the scope of our work relating to operating expenses, referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records have been kept.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QUANTUM CLOTHING GROUP LIMITED (CONTINUED)

- returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities in respect of the Financial Statements, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 ISAs (UK) 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 these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Non-compliance with laws and regulations

Based on:

- Our understanding of the Company and the industry in which it operates;
- Discussion with management and those charged with governance;
- Obtaining and understanding of the Company's policies and procedures regarding compliance with laws and regulations; and

we considered the significant laws and regulations to be the applicable accounting framework, the Companies Act 2006, corporate taxes, VAT legislation and employment taxes.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QUANTUM CLOTHING GROUP LIMITED (CONTINUED)

The Company is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be health and safety legislation and the Bribery Act 2010.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation;
- Involvement of tax specialists in the audit;
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Company's policies and procedures relating to:
 - Detecting and responding to the risks of fraud; and
 - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override of controls and revenue recognition, specifically the manipulation of revenue using fraudulent journals.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;
- Reviewed the Company's accounting policies for non-compliance with relevant standards. Our work also included considering significant accounting estimate for evidence of misstatement or possible bias and testing any significant transactions that appeared to be outside the normal course of business.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QUANTUM CLOTHING GROUP LIMITED (CONTINUED)

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.


Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it. In addition, the extent to which the audit was capable of detecting irregularities, including fraud was limited by the matter described in the basis for qualified opinion section of our report.

A further description of our responsibilities is available on the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

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Cindy Hrkalovic (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Nottingham

26 March 2024

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

QUANTUM CLOTHING GROUP LIMITED (Company Registration No. 0001812)**INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2023**

	Note	Total 2023 USD '000	Total 2022 USD '000
Turnover	4	1,673	1,276
Operating expenses		(1,576)	(1,179)
Operating profit	5	97	97
Interest payable and similar expenses	7	(3)	(23)
Profit before taxation		94	74
Tax on profit	8	74	-
Profit for the financial year		168	74

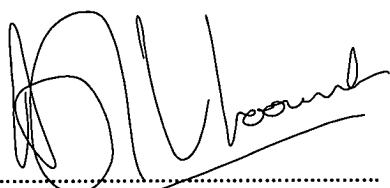
There are no amounts to be recognised in other comprehensive income other than those included in the income statement, therefore no separate statement of comprehensive income has been presented.

The notes on pages 17 to 30 form part of these financial statements

QUANTUM CLOTHING GROUP LIMITED (Company Registration No. 0001812)**STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2023**

	Note	2023 USD '000	2022 USD '000
Fixed assets			
Intangible assets	10	-	-
Property, plant and equipment	11	38	108
		38	108
Current assets			
Trade and other receivables	12	1,804	2,205
Cash and cash equivalents		38	1,244
Deferred tax assets	8	74	-
		1,916	3,449
Creditors: - amounts falling due within one year	13	(161)	(1,922)
Net current assets		1,755	1,527
Total assets less current liabilities		1,793	1,635
Non current liabilities	17	-	(10)
Net assets		1,793	1,625
Equity			
Ordinary shares	15	1,008	1,008
Share premium		13	13
Other reserves	16	12,784	12,784
Accumulated losses		(12,012)	(12,180)
Total shareholders' funds		1,793	1,625

The financial statements on pages 14 to 30 were authorised for issue by the board of directors on 22nd March 2024 and were signed on its behalf.



.....
Dilan Gooneratne
Director
Date : 22/03/2024

The notes on pages 17 to 30 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2023**

	Ordinary shares	Share premium	Other reserves	Accumulated losses	Total Shareholders' fund/(deficit)
	USD '000	USD '000	USD '000	USD '000	USD '000
Balance at 31 March 2021	1,008	13	1,650	(12,254)	(9,583)
Profit for the financial year	-	-	-	74	74
Total comprehensive income	-	-	-	74	74
Intercompany debt released	-	-	11,134	-	11,134
Balance at 31 March 2022	1,008	13	12,784	(12,180)	1,625
Profit for the financial year	-	-	-	168	168
Total comprehensive income	-	-	-	168	168
Balance as at 31 March 2023	1,008	13	12,784	(12,012)	1,793

1. Ordinary shares represent, the par value of the capital that is subscribed for by the owners of the business. In the case of QCGL this is 100% contributed by the immediate parent Quantum Clothing Lanka (Pvt) Ltd.
2. Share premium represent the amount subscribed for ordinary shares in excess of their par value.
3. Other reserves include a capital contribution of USD 1,497,000 received during financial year ended 31 December 2000 and a reserve brought forward of USD 153,000. In the financial year ended 31 March 2022 the Parent Company released the company of an intercompany debt of USD 11,134,000 which was classified as a part of other reserves in equity.
4. Accumulated losses represent accumulated losses/profit for the year and prior periods.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023**

1 General information

Quantum Clothing Group Limited ("the company") is a design service provider to group companies and third-party customers. The company is a private company limited by shares and is incorporated and domiciled in United Kingdom. The address of its registered office is Mohan Business Centre, Tamworth Road, Long Eaton, Nottingham, NG10 1BE.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of Quantum Clothing Group Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006, as applicable to companies using FRS 101. The presentation currency used is United States Dollars and amounts have been presented in round thousands ("'\$000s").

Disclosure exemptions adopted

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IAS1, '*Presentation of financial statements*'.
- IAS7, '*Statement of cash flows*'.
- IFRS10, '*Consolidated financial statements*'.
- Paragraph 17 of IAS 24, '*Related party disclosures*' (*key management compensation*).
- The requirements in IAS 24, '*Related party disclosures*' to disclose related party transactions entered into between two or more members of a group.
- IFRS7 '*Financial Instruments: Disclosures*'.
- a statement of compliance with IFRS (a statement of compliance with FRS 101 is provided instead).
- Additional comparative information for narrative disclosures and information, beyond IFRS requirements.
- Certain disclosures required under IFRS 15 *Revenue from Contracts with Customers*, including disaggregation of revenue, details of changes in contract assets and liabilities, and details of incomplete performance obligations.
- Disclosure of the effect of future accounting standards not yet adopted.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Quantum Clothing Lanka (Pvt) Limited is the immediate parent company of the group and it is incorporated in Sri Lanka. Quantum Clothing Group Limited has a wholly owned subsidiary namely Quantum Apparel Cambodia Limited which is incorporated in Cambodia. The Company has applied Companies Act 2006 section 401 "exemption from the obligation to prepare and deliver group accounts". Both Quantum Clothing Group Limited and Quantum Apparel Cambodia Limited are being consolidated at Quantum Clothing Lanka (Pvt) Limited level. These consolidated financial statements are prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRSs and LKASs) which falls under "Other GAAP closely related to IFRS". Copies of consolidated financial statements are available to the public and may be obtained from Companies House, Crown Way, Cardiff CF14 3UZ.

Going concern

The Company made a profit before tax for the year of \$94,000 (2022 profit: \$74,000) and has net assets of \$1,793,000 (2022: net assets \$1,625,000) at the financial year end.

The directors have prepared detailed trading forecasts for the Company for a period of more than 12 months from the date of approval of the financial statements (going concern assessment period is 1st April 2023 to 31st March 2027).

The business model (receiving a fixed margin on services provided to group companies as per the transfer pricing agreement between the company and the related parties) supports the directors' assessment that the Company will generate profits and will be able to settle its obligations as and when they fall due.

In forming this judgement, the directors recognise that there continues to be uncertainty related to the impact of the economic crisis in Sri Lanka on the wider group, including the company. The operations of the company and provision of design services is dependent on the success of the wider group, including the extent of orders it receives from external customers. On the basis of their enquiries, the directors consider that the potential impact of the Sri Lankan economic crisis on the trading prospects and cash flows of the wider group will be mitigated by strict cost control initiatives and the recovery of the country from the economic crisis through national policy reforms and cuts in government spending, privatization, etc fairly quickly. Accordingly, the directors are satisfied that the wider group will continue to require the services of the company, will be able to fund them and it is appropriate to prepare these financial statements on a going concern basis.

Accordingly, as at the date of approval of these financial statements, the directors have a reasonable expectation that the Company will be able to continue to operate and settle its debts as they fall due and therefore the adoption of the going concern basis of preparation is considered appropriate.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)**

2 Summary of significant accounting policies (continued)

2.2 Foreign currency translation

(a) Functional and presentational currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in United States Dollar (USD), which is also the company's functional currency.

(b) Transactions and balances

Transactions denominated in foreign currencies are translated into United States Dollar at the rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into United States Dollar at the rates ruling at that date. Translation differences are dealt with in the profit and loss account.

A sterling exchange rate of 1.2002 USD/GBP has been used for translation purposes within the statement of financial position as at 31 March 2023 (2022: 1.3579 USD/GBP).

2.3 Property plant and equipment

Tangible assets are stated at historic cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended life.

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Leasehold improvements	10% per annum
Vehicles and machinery	10% - 25% per annum
Fixtures, fittings, tools and equipment	10% per annum
Right of use assets	Based on the shorter of the lease period and the useful life

2.4 Trade and other receivables

Trade receivables are measured at amortised cost. Impairment provisions for trade receivables are recognised based on the simplified approach within the IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. This assessment includes the consideration of historic trends together with the current and expected future performance of the counterparties. The probability of non-payment of trade receivables is assessed and then multiplied by the amount expected loss to determine lifetime of ECL.

2.5 Creditors

Creditors are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

2 Summary of significant accounting policies (continued)

2.6 Borrowings

Any interest-bearing borrowings are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over period of repayment is at a constant rate.

2.7 Borrowing costs

All finance costs are recognised in profit and loss in the period in which they are incurred.

2.8 Current and deferred income tax

Corporation tax payable is provided on taxable profits at the rate prevailing in the year.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company's subsidiaries operate and generate taxable income.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded, as more likely than not that they will be recovered.

Deferred tax assets and liabilities are not discounted.

2.9 Revenue recognition

Provision of design services

Revenue generated from the provision of design services is measured at the fair value of the consideration received or receivable when performance obligations are satisfied and represents the amount receivable for services provided, net of value added taxes. Performance obligations are satisfied, when the standards and specifications of designs provided to the customer are met and the pre-agreed timelines are met by the company.

Most of the company's design service revenue is derived from fixed price contracts and therefore the amount of revenue to be earned from each contract is determined by reference to those fixed prices. There is no significant judgement made in determining the point at which control transfers and there are no arrangements that would give rise to variable consideration.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)**

2 Summary of significant accounting policies (continued)

2.10 Pensions

The company operates a defined contribution pension plan for certain employees. A defined contribution plan is a pension plan under which the company pays contributions to a separate entity in accordance with the terms of the plan. Once paid, the company has no legal or constructive obligations to make any further contributions.

2.11 Impairment

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly. Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income.

2.12 Leases and right of use assets

At inception of a contract, the company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

When a lease is identified the company recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease prepayments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of right of use assets are determined on the same basis as those of property, plant and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, or if the company changes its assessment of whether it will exercise a purchase, extension or termination option.

The company does not present right of use assets and lease liabilities separately in the statement of financial position. The company has elected not to recognise right of use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****3 Critical accounting estimates and judgments**

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The directors have not made any estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4 Revenue

All the company's turnover, profit before taxation arise from the company's principal activity.

	2023	2022
	USD	USD
	'000	'000
Sri Lanka	1,338	1,276
Hong Kong	335	-
	1,673	1,276

5 Operating profit

	2023	2022
	USD	USD
	'000	'000
Operating profit is stated after charging/(crediting):		
Wages and salaries	683	720
Social security costs	64	63
Other pension costs	30	27
Staff costs	777	810
Depreciation and amortisation (see notes 10 and 11)	72	88
Operating lease charges	(1)	6
Legal and professional fees	430	83
Audit fees payable to the Company's auditor	64	29
Other operating expenses	234	163
Grand Total	1,576	1,179

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****5 Operating profit (Continued)**

The Company operates purely as a service based entity, providing clothing design services to other group entities. Due to the nature of business, cost of sales and administrative expenses are closely inter-related and have therefore been combined and presented as operating expenses with further details of the nature of the expenses incurred presented above. The comparative numbers have been presented on a consistent basis, with no changes being reported for revenue, operating profit or profit before tax.

6 Employees and directors**Employees**

The average monthly number of persons (including executive directors) employed by the company during the year was:

	2023 No.	2022 No
By activity		
Design services	13	12
Administration	1	1
	14	13

Directors

The directors' emoluments were as follows:

	2023 USD '000	2022 USD '000
Aggregate emoluments	90	-

During the year the directors were remunerated for their work as directors of Quantum Clothing Group Limited amounting to \$90,045 (2022: \$nil).

7 Finance costs

	2023 USD '000	2022 USD '000
Finance expense		
Bank charges	(4)	(3)
Foreign exchange losses	2	(17)
Lease interest	(1)	(3)
	(3)	(23)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)**

8 Income tax

Tax included in profit

	2023	2022
	USD	USD
	'000	'000
Current tax:		
UK Corporation tax on profits for the year	-	-
Deferred tax:		
Recognition of a previously unrecognised deferred tax asset	74	-
Income tax credit	74	-

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19.00% (2022 - 19.00%). The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below:

	2023	2022
	USD	USD
	'000	'000
Profit before taxation	94	74
Profit multiplied by the standard rate of tax in the UK of 19% (2022: 19%)	18	14
Effects of:		
Utilisation of losses brought forward	-	(14)
Movement in deferred tax asset not previously recognised	(92)	-
Tax credit	(74)	-

The company has unrecognised tax losses carried forward amounting to \$10,468,814 (2022 - \$10,437,066).

With the business model change from entrepreneur to design service provider, the nature of the company's trade has gone through a major change and there is significant uncertainty over the utilization of the carried forward losses.

During the financial year ended 31 March 2021 an evaluation on the carried forward losses has been carried out by the company together with a 3rd party consultant and, as a result, the post-acquisition losses of \$10,445,068 has been carried forward while the balance has been forfeited under the provisions of CTA 2010 s673. Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2022: 19%).

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is probable that these assets will be recovered based upon business forecasts.

A deferred tax asset of \$74,000 (2023: \$nil) has been recognised in respect of other temporary differences.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****8 Income tax (continued)****Factors affecting current and future tax changes**

The main rate of corporate tax in force at the Balance Sheet date was 19%. A resolution to retain corporation tax rate from 1 April 2020 at 19% was passed on 17 March 2020 and is enacted from this date.

The March 2021 Budget announced a proposed increase to the main rate of corporation tax to 25% from April 2023. Management have assessed the impact of applying the changes in long term tax rates that have been announced but were not substantively enacted at 31 March 2023 and consider that the impact is not significant.

9 Impact of Intercompany debt release

On 2nd August 2021, the parent company of QCGL, "Quantum Clothing Lanka Pvt Ltd" issued a formal deed of waiver in respect of the payable balance of \$11,134,000. This waiver has restored the company's solvency with net current and net assets now being reported.

The resultant credit is not taxable under the provisions of s358 CTA 2009 as the debt between the company and Quantum Clothing Lanka (Pvt) Ltd is considered to be a connected company RNLr. (Relevant non-lending relationship).

10 Intangible assets

	Software
	\$'000
Cost	
At 1 April 2022	1,286
At 31 March 2023	1,286
Amortization	
At 1 April 2022	(1,286)
At 31 March 2023	(1,286)
Net book value	
At 31 March 2023	-
At 31 March 2022	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)**

11 Property, plant and equipment

	Leasehold improvements \$' 000	Right of use asset \$' 000	Vehicles and machinery \$' 000	Fixtures, fittings, tools and equipment \$' 000	Total \$' 000
Cost					
At 1 April 2022	43	114	574	148	879
Additions	-	-	2	1	3
At 31 March 2023	43	114	576	149	882
Depreciation					
At 1 April 2022	(38)	(48)	(554)	(131)	(771)
Charge for the year	(1)	(57)	(8)	(7)	(73)
At 31 March 2023	(39)	(105)	(562)	(138)	(844)
Net book value					
At 31 March 2023	4	9	14	11	38
At 31 March 2022	5	66	20	17	108

12 Trade and other receivables

	2023 USD '000	2022 USD '000
Amounts owed by group undertakings	1,752	2,127
Other receivables	9	14
Prepayments and accrued income	43	64
	1,804	2,205

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

During the financial year, a tri-party agreement was entered into between Inqube Global (Pvt) Ltd, Inqube Solutions (Pvt) Ltd and the company to set off related companies balances of \$1,071,000 payable (2022: \$2,619,000) by the company to Inqube Solutions (Pvt) Ltd shown in amounts owed to related companies against a receivables balance owed to the Company from Inqube Global (Pvt) Ltd shown within amounts owed by related undertakings.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)**

13 Creditors: amounts falling due within one year

	2023	2022
	USD	USD
	'000	'000
Accounts payable	40	62
Amounts owed to group undertakings	-	1,745
Lease liability	11	58
Taxation and social security	16	21
Accruals	94	36
	161	1,922

14 Post-employment benefits - defined contribution pension scheme

	2023	2022
	USD	USD
	'000	'000
The company operates a defined contribution pension scheme.		
Current period contributions	30	27

Outstanding contributions at 31 March 2023 amounted to \$nil (2022: \$nil).

15 Called up share capital

Allotted, called up and fully paid	No.	USD
Ordinary shares of £10 each		'000
At 31 March 2022 and 31 March 2023	60,600	1,008

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)**

16 Other reserves

	2023	2022
	USD	USD
	'000	'000
At 31 March 2022 and 31 March 2023	12,784	12,784

During the financial year 2021/22 the intercompany creditor "Quantum Clothing Lanka (Pvt) Ltd" has released the company of its long outstanding debt balance of \$11,134,000 by way of a "formal deed of debt release". This has been classified under other reserves.

17 Leases and right of use assets

The company leases assets comprising land and buildings as presented below:

	2023	2022
	USD	USD
	'000	'000
Land and buildings		
Net book value of right of use assets		
Opening Balance	66	19
Additions	-	114
Depreciation	(57)	(67)
Closing Balance	9	66

	2023	2022
	USD	USD
	'000	'000
Land and buildings		
lease liabilities		
Opening Balance	68	20
Additions	-	114
Interest expense	1	3
Lease payments	(58)	(69)
Closing Balance	11	68

	2023	2022
	USD	USD
	'000	'000
Amounts recognised in the income statement		
Interest on lease liabilities	1	3
Depreciation on right of use assets	57	67
Total	58	70

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)****17 Leases and right of use assets (Continued)**

	2023 USD '000	2022 USD '000
Lease liabilities included in the statement of financial position		
Current	11	58
Non-current	-	10
Total	11	68

18 Related party transactions

The company has taken advantage of the exemption provided in IAS 24, 'Related party disclosures' not to disclose related party transactions entered in to between two or more members of the Quantum Clothing Lanka (Private) Limited Group.

Below are the related party transactions which are not part of Quantum Clothing Lanka (Private) Group.

	USD '000
Incube Global (Pvt) Ltd	
At 1 April 2022	630
Sales of Services / Goods	739
Cash Receipts	(200)
Cost Recharges	35
Settlement	(1,071)
At 31st March 2023	133

	USD '000
Incube Solutions (Pvt) Ltd	
At 1 April 2022	(536)
Sales of Services / Goods	598
Cash Receipts	(780)
Cost Recharges	0
Settlement	1,071
At 31st March 2023	353

	USD '000
Clover Global Limited	
At 1 April 2022	-
Sales of Services / Goods	335
Cash Receipts	(302)
Cost Recharges	-
Settlement	-
At 31st March 2023	33

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (CONTINUED)

18 Related party transactions (Continued)

The Company has investment in Quantum Apparel Cambodia Limited ("QAC") which has been fully impaired in the previous years. The Company has taken exemption in Companies Act 2006 section 401 for not presenting consolidated financial statements as;

- (i) QAC is a wholly owned subsidiary and the shareholders do not object to, the parent not presenting consolidated financial statements;
- (ii) its debt or equity instruments are not traded in a public market;
- (iii) it did not file, nor is it in process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market and;
- (iv) it's intermediate parent produces consolidated financial statements that are available for public use and comply with "Other GAAP closely related to IFRS".

19 Controlling parties

Quantum Clothing Lanka (Private) Limited incorporated in Sri Lanka is the immediate parent company of Quantum Clothing Group Limited. Quantum Clothing Lanka (Private) Limited is domiciled in Sri Lanka at 59, Gregory's Road, Colombo 07.

The ultimate parent of the Quantum Clothing Group Limited is Phoenix Ventures (Private) Limited (a company incorporated in Sri Lanka) which owns 60% of the shares of Quantum Clothing Lanka (Private) Limited. Dilan Gooneratne (a business entrepreneur domiciled in Sri Lanka) also owns 40% shares of Quantum Clothing Lanka (Private) Limited.

The consolidated financial statements of Phoenix Ventures (Private) Limited form the largest group in which this company is consolidated.

The smallest group is headed by Quantum Clothing Lanka (Private) Limited.

**QUANTUM CLOTHING LANKA (PRIVATE) LIMITED
AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
31 MARCH 2023**



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**QUANTUM CLOTHING LANKA (PRIVATE) LIMITED
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS - 31 MARCH 2023

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QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Annual Report of the Board of Directors for the year ended 31 March 2023

1 The Board of Directors present herewith the audited the consolidated financial statements of Quantum Clothing Lanka (Private) Limited and Its Subsidiaries ("the Group") for the year ended 31 March 2023 as set out on pages 6 to 59.

Formation

2 Quantum Clothing Lanka (Private) Limited ("the Company") was incorporated and registered in Sri Lanka on 09 September 1999 under the Companies Act, No.17 of 1982, as a private limited liability company under the name of Quantum Clothing Lanka (Private) Limited. Pursuant to the requirements of the new Companies Act, No. 07 of 2007, the Company was re-registered on 12 December 2007. The Company is domiciled in Sri Lanka and bears the registration number PV 1423.

Nature of the business of the Company

3 The nature of the business of the Company and Its Subsidiaries is given in Note 19 to the financial statements on page 46.

Financial statements

4 The financial statements of the Company and the Group for the year ended 31 March 2023 which include the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, the Company's statement of changes in equity, consolidated statement of cash flows and the notes to the financial statements are set out on pages 6 to 59.

Independent auditor's report

5 The independent auditor's report is set out on page 4 and 5.

Accounting policies

6 The accounting policies adopted by the Group are consistent with the Sri Lanka Accounting Standards (LKAS/ SLFRS).

Statement of Directors' responsibility

7 The Directors are responsible for preparing and presenting the consolidated financial statements of the Group to reflect a true and fair view of the state of affairs. The Directors are of the view that these financial statements have been prepared in conformity with the requirements of Sri Lanka Accounting Standards (LKAS/ SLFRS) and the Companies Act, No. 07 of 2007.

Review of business

8 The state of affairs of the Company and the Group as at 31 March 2023 is set out in the balance sheet on page 8.

Property, plant and equipment

9 The movements in property, plant and equipment during the year are set out in Note 5(a) to the financial statements.

Dividends

10 No dividends have been proposed by the Directors of the Company and Group for the year ended 31 March 2023.

Reserves

11 Total reserves and their composition are set out in the statements of changes in equity on pages 9 and 10 of the financial statements.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Annual Report of the Board of Directors for the year ended 31 March 2023 (Contd)

Substantial shareholdings

12 The Company's shareholdings are as stated below.

	Holding percentage (%)
Phoenix Ventures (Private) Limited	60.00%
Mr. Dilan Gooneratne	40.00%
	<u>100.00%</u>

Directors

13 The names of the Directors who held office during the year and as at the balance sheet date are given below:

Mr. Ashroff Omar
Mr. Hasitha Premaratne
Mr. Dilan Gooneratne
Mrs. Natasha Boralessa

Mr. Hasitha Premaratne ceased to be a director from 01 March 2023, Mrs. Natasha Boralessa has been appointed as Director of the Company in place of Mr. Hasitha Premaratne effective from 01 March 2023.

Director's interest in contracts and proposed contracts with the Company

14 The Directors' interests in contracts and proposed contracts with the Company, both direct and indirect, are set out in Note 16 to the financial statements. Where necessary, the Directors have disclosed to the Board the nature of their interests in contracts and proposed contracts.

Remuneration and other benefits of Directors

15 The remuneration and other benefits of the Directors are given in Note 2(b) to the financial statements on page 14.

Director's interests in shares of the Company

16 As per the share registers', one director is holding 40% shares in issue as at 31 March 2023.

	Number of shares	
	2023	2022
Mr. Dilan Gooneratne	31,851,774	31,851,774

Amounts payable to the firm holding office as an independent auditor

17 The remuneration payable by the Company and the Group to the independent auditors is given in Note 2(b) to the financial statements on page 14.

Auditor's relationship or any interest with the Company

18 Messrs PricewaterhouseCoopers Sri Lanka, Chartered Accountants, served as the independent auditor during the year. The Directors are satisfied that, based on representations made by the independent auditors to the Board, the auditors did not have any relationship or any interest with the Company that would impair their independence and objectivity.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Annual Report of the Board of Directors for the year ended 31 March 2023 (Contd)

Corporate governance

19 The business and affairs of the Company and the Group are managed and directed with the objective of balancing the attainment of corporate objectives with the alignment of corporate behavior within the legal and good governance framework of the industry and Sri Lanka, the accountability to shareholders and responsibility to other stakeholders.

Statutory payments

20 All statutory payments due to the Government of Sri Lanka and on behalf of employees have been made or accrued as at the balance sheet date.

Environmental protection

21 After making adequate enquiries from management, the Directors are satisfied that the Company and the Group operate in a manner that minimises the detrimental effects on the environment and provides products and services that have a beneficial effect on the customers and the communities within which the Company its subsidiaries operate.

Donations

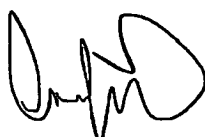
22 The Company and the Group have made no donations for charitable purposes for the year ended 31 March 2023.

Events after the reporting period

23 Events after the reporting year are given in Note 15 to the financial statements on page 42.

Appointment of independent auditors

24 A resolution to re-appoint the auditors, Messrs PricewaterhouseCoopers, Chartered Accountants, who have expressed their willingness to continue, will be proposed at the forthcoming Annual General Meeting.



DIRECTOR

COLOMBO

DATE 16 August 2023



DIRECTOR

BY ORDER OF THE BOARD
P. R. SECRETARIAL SERVICES (PRIVATE) LIMITED
(PV2631)

Company Secretary / Director / Authorised Signatory
Company Secretary Reg. No. SEC/12/96-25



Independent auditor's report

To the Shareholders of Quantum Clothing Lanka (Private) Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements of Quantum Clothing Lanka (Private) Limited ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group") give a true and fair view of the financial position of the Company and the Group as at 31 March 2023, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

What we have audited

The financial statements of the Company and the consolidated financial statements of the Group, which comprise:

- the balance sheet as at 31 March 2023;
- the statement of 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; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company and the Group in accordance with the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka ("CA Sri Lanka Code of Ethics"), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Board of Directors but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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.

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Partners D T S H Mudalige FCA, C S Manoharan FCA, Ms S Hadgie FCA, N R Gunasekera FCA, T U Jayasinghe FCA, H P V Lakdeva FCA,
M D B Boyagoda FCA, Ms W D A S U Perera ACA, Ms L A C Tillekeratne ACA, Ms K M D R P Manatunga ACA

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Independent auditor's report

To the Shareholders of Quantum Clothing Lanka (Private) Limited

Report on the audit of the financial statements (Contd)

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate/consolidated financial statements, management is responsible for assessing the Company's/Group'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 management either intends to liquidate the Company/Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 SLAuSs 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 these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's/Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate/consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company/Group to cease to continue as a going concern.



Independent auditor's report

To the Shareholders of Quantum Clothing Lanka (Private) Limited

Report on the audit of the financial statements (Contd)

Auditor's responsibilities for the audit of the financial statements (Contd.)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

As required by section 163 (2) of the Companies Act, No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

A handwritten signature in black ink, appearing to read 'R. Anuradha', written over a horizontal line.

CHARTERED ACCOUNTANTS

COLOMBO

16 August 2023

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Annual Financial Report - 31 March 2023

Consolidated financial statements	
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Statement of changes in equity	10
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Notes to the financial statements	13

These financial statements are the consolidated financial statements of Quantum Clothing Lanka (Private) Limited and its Subsidiaries. The financial statements are presented in USD.

The Company is a limited liability Company incorporated under the Companies Act No 07 of 2007 and is domiciled in Sri Lanka. The address of the registered office and principal place of the business is,

Registered office:
Quantum Clothing Lanka (Private) Limited
59,
Gregory's Road,
Colombo 7.

Principal place of business:
Quantum Clothing Lanka (Private) Limited
Moragahahena,
Millewa,
Horana.

The financial statements were authorised for issue by the directors on16 August 2023. The directors have the power to amend and reissue the financial statement.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Statement of comprehensive income

(all amounts in US Dollars)

	Notes	Group Year ended 31 March		Company Year ended 31 March	
		2023	2022	2023	2022
Revenue from contracts with customers	1	21,009,769	20,689,641	8,113,933	9,093,384
Cost of sales of providing services	2(c)	(2,675,691)	(3,201,506)	(2,675,691)	(3,201,506)
Gross profit		18,334,078	17,488,135	5,438,242	5,891,878
Distribution costs	2(c)	(971,525)	(313,545)	-	-
Administrative expenses	2(c)	(16,358,871)	(16,367,990)	(5,140,542)	(5,523,227)
Net impairment loss on financial and contract assets	9(b)	-	-	-	-
Other income	2(a)	-	349,331	-	-
Other (losses)/ gains- net	2(b)	(10,230)	356,248	(3,109)	345,262
Operating profit		993,452	1,512,179	294,591	713,913
Finance income	2(d)	419	937	-	-
Finance cost	2(d)	(260,856)	(144,971)	(123,153)	(74,234)
Net finance cost		(260,437)	(144,034)	(123,153)	(74,234)
Profit before income tax		733,015	1,368,145	171,438	639,679
Income tax expense	3(a)	(202,213)	(714,459)	(202,213)	(714,459)
Profit/ (loss) for the year		530,802	653,686	(30,775)	(74,780)
Other comprehensive income					
<i>Items that will not be reclassified to profit or loss</i>					
Remeasurements of post-employment benefit obligations - gratuity	5(f)	41,822	(104,449)	41,822	(104,449)
Deferred tax on remeasurements of post-employment benefit obligations	5(e)	(12,547)	(14,623)	(12,547)	(14,623)
Other comprehensive income for the year, net of tax		29,275	(119,072)	29,275	(119,072)
Total comprehensive income for the year		560,077	534,614	(1,499)	(193,852)
Basic earnings/ (loss) per share attributable to the equity shareholders of the Company during the year	17	0.007	0.008	(0.000)	(0.001)
Dividend per share attributable to the equity shareholders of the Company during the year	18	-	-	-	-

The notes on pages 12 to 55 form an integral part of these financial statements.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

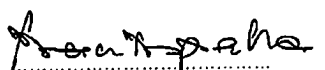
Balance sheet

(all amounts in US Dollars)

		Group As at 31 March		Company As at 31 March	
	Notes	2023	2022	2023	2022
ASSETS					
Non-current assets					
Property, plant and equipment	5(a)	7,983,021	7,027,525	6,279,567	4,854,378
Right-of-use assets	5(b)	724,928	726,064	258,620	-
Intangible assets	5(c)	6,227	13,033	6,227	13,033
Investments in subsidiaries	4(a)	-	-	100,000	100,000
Deferred tax assets	5(d)	-	181,223	-	181,223
Total non-current assets		8,714,176	7,947,845	6,644,414	5,148,635
Current assets					
Trade receivables	4(b)	2,820,611	4,137,843	3,824	1,220,486
Income tax receivables		48,432	53,014	48,432	53,014
Other current assets	5(f)	1,178,502	1,316,506	352,296	413,641
Cash and cash equivalents (excluding bank overdrafts)	4(c)	537,318	1,874,742	2,696	47,475
Total current assets		4,584,863	7,382,105	407,248	1,734,616
Total assets		13,299,039	15,329,950	7,051,662	6,883,251
LIABILITIES					
Non-current liabilities					
Borrowings	4(f)	-	272,222	-	272,222
Deferred tax liabilities	5(e)	33,537	-	33,537	-
Defined benefit obligations	5(e)	330,565	351,840	330,565	351,840
Lease liabilities	5(b)	435,382	548,943	125,940	-
Total non-current liabilities		799,484	1,173,005	490,042	624,062
Current liabilities					
Trade and other payables	4(d)	8,201,124	9,626,001	4,249,387	3,262,478
Other current liabilities	5(g)	71,991	150,452	63,482	56,543
Lease liabilities	5(b)	332,530	263,496	93,028	-
Borrowings	4(f)	1,281,960	2,065,124	1,281,193	2,064,139
Total current liabilities		9,887,605	12,105,073	5,687,090	5,383,159
Total liabilities		10,687,089	13,278,078	6,177,132	6,007,221
Net assets		2,611,950	2,051,873	874,530	876,030
EQUITY					
Stated capital	6(a)	8,956,898	8,956,898	8,956,898	8,956,898
Revaluation reserve	6(b)	370,517	370,517	370,517	370,517
Accumulated losses	6(c)	(6,715,465)	(7,275,542)	(8,452,885)	(8,451,385)
Total equity		2,611,950	2,051,873	874,530	876,030

The notes on pages 12 to 55 form an integral part of these financial statements.

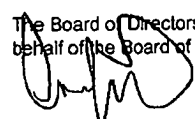
I certify that these financial statements have been prepared in compliance with the requirements of the Companies Act, No. 07 of 2007.



Chief Financial Officer

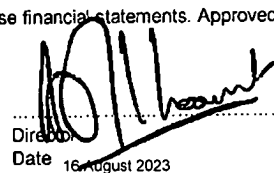
Date 16 August 2023

The Board of Directors is responsible for the preparation and presentation of these financial statements. Approved and signed for and on behalf of the Board of Directors.



Director

Date 16 August 2023



Director

Date 16 August 2023

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Statement of changes in equity

(all amounts in US Dollars)

(i) Group

	Notes	Stated capital	Accumulated losses	Revaluation reserve	Total
Balance at 1 April 2021		8,956,898	(7,810,156)	370,517	1,517,259
Profit for the year	6(c)	-	653,686	-	653,686
Other comprehensive income for the year, net of tax	6(c)	-	(119,072)	-	(119,072)
Total comprehensive income for the year		-	534,614	-	534,614
Balance at 31 March 2022		8,956,898	(7,275,542)	370,517	2,051,873
Balance at 1 April 2022		8,956,898	(7,275,542)	370,517	2,051,873
Profit for the year	6(c)	-	530,802	-	530,802
Other comprehensive income for the year, net of tax	6(c)	-	29,275	-	29,275
Total comprehensive income for the year		-	560,077	-	560,077
Balance at 31 March 2023		8,956,898	(6,715,465)	370,517	2,611,950

The notes on pages 12 to 55 form an integral part of these financial statements.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Statement of changes in equity (Contd.)

(all amounts in US Dollars)

(ii) Company

	Notes	Stated capital	Accumulated losses	Revaluation reserve	Total
Balance at 1 April 2021		8,956,898	(8,257,533)	370,517	1,069,882
Loss for the year	6(c)	-	(74,780)	-	(74,780)
Other comprehensive income for the year, net of tax	6(c)	-	(119,072)	-	(119,072)
Total comprehensive income for the year		-	(193,852)	-	(193,852)
Balance at 31 March 2022		8,956,898	(8,451,385)	370,517	876,030
Balance at 1 April 2022		8,956,898	(8,451,385)	370,517	876,030
Loss for the year	6(c)	-	(30,775)	-	(30,775)
Other comprehensive income for the year, net of tax	6(c)	-	29,275	-	29,275
Total comprehensive income for the year		-	(1,499)	-	(1,499)
Balance at 31 March 2023		8,956,898	(8,452,884)	370,517	874,531

The notes on pages 12 to 55 form an integral part of these financial statements.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Statement of cash flows

(all amounts in US Dollars)

		Group		Company	
	Notes	2023	2022	2023	2022
Cash flows from operating activities					
Cash generated from operations	7(a)	2,252,784	4,545,757	3,071,183	2,824,348
Interest received	2(c)	419	937	-	-
Retirement benefits obligations paid	5(f)	(35,820)	(55,379)	(35,820)	(55,379)
Interest paid		(260,856)	(74,234)	(123,153)	(74,234)
Income taxes paid		-	(25,585)	-	(25,585)
Net cash inflow / (outflow) from operating activities		1,956,527	4,391,496	2,912,211	2,669,150
Cash flows from investing activities					
Purchase of property, plant and equipment	5(a)	(1,244,562)	(113,801)	(1,219,299)	(40,637)
Purchase of intangible assets	5(c)	-	(13,611)	-	(13,611)
Proceeds from disposals of property, plant and equipment		-	946,557	-	36,775
Additions to capital work-in-progress	5(b)	(659,389)	(1,067,531)	(659,389)	(507,262)
Net cash outflow from investing activities		(1,903,951)	(248,386)	(1,878,688)	(524,736)
Cash flows from financing activities					
Proceeds from borrowings		-	-	-	-
Proceeds from borrowings - related parties		-	-	-	-
Repayment of borrowings		(1,088,888)	(2,084,822)	(1,088,888)	(2,084,822)
Repayment of borrowings - related parties		-	(1,456,804)	-	-
Principal element of lease liability	5(d)	(334,613)	(304,995)	(23,133)	-
Net cash (outflow)/ inflow from financing activities		(1,423,501)	(3,846,621)	(1,112,021)	(2,084,822)
Net increase in cash and cash equivalents		(1,370,926)	296,489	(78,498)	59,592
Cash and cash equivalents at the beginning of the financial year		898,507	602,018	(927,775)	(987,366)
Cash and cash equivalents at end of year	4(c)	(472,419)	898,507	(1,006,274)	(927,775)

The notes on pages 12 to 55 form an integral part of these financial statements.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

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QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

How numbers are calculated

This section provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of the entity, including:

- (a) accounting policies that are relevant for an understanding of the items recognised in the financial statements. These cover situations where the accounting standards either allow a choice or do not deal with a particular type of transaction.
- (b) analysis and sub-totals, including segment information
- (c) information about estimates and judgements made in relation to particular items.

1	Revenue from contracts with customers	15
2	Other income and expense items	15
3	Income tax expense	16
4	Financial assets and financial liabilities	17
5	Non-financial assets and non-financial liabilities	19
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QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

1 Revenue from contracts with customers

The Group derives the following types of revenue:

	Group		Company	
	2023	2022	2022	2022
Direct exports	-	1,276,317	-	-
Export intercompany sales	12,214,965	8,526,653	-	-
Local intercompany sales	8,786,879	10,880,186	8,113,933	9,093,384
Local sales - others	7,925	6,485	-	-
Total revenue	21,009,769	20,689,641	8,113,933	9,093,384

The accounting policies on recognition of revenue are outlined in note 20 (c).

2 Other income and expense items

This note provides a breakdown of the items included in 'other income', 'other gains / (losses)', 'finance income and costs' and an analysis of expenses by nature. Information about specific profit and loss items (such as gains and losses in relation to financial instruments) is disclosed in the related balance sheet notes.

(a) Other income

	Group		Company	
	2023	2022	2023	2022
Other items	-	349,331	-	-
	-	349,331	-	-

(b) Other (losses)/ gains

	Group		Company	
	2023	2022	2023	2022
Gain on disposals of property, plant and equipment	-	-	-	-
Write back of unclaimed wages	6,254	8,415	6,254	8,415
Net foreign exchange (losses)/ gains	(16,484)	347,833	(9,363)	336,847
	(10,230)	356,248	(3,109)	345,262

(c) Breakdown of expenses by nature

	Notes	Group		Company	
		2023	2022	2023	2022
Directors' emoluments		-	-	-	-
Auditor's remuneration					
- audit		85,836	52,422	3,723	4,534
- non audit		2,363	78,788	2,363	2,809
Raw materials and consumables used		-	135,334	-	-
Staff costs	2(e)	12,193,922	14,027,282	4,428,026	5,975,181
Depreciation of property, plant and equipment	5(a)	948,455	987,814	453,501	407,442
Amortisation of intangible assets	5(c)	6,806	8,438	6,806	8,438
Amortisation of right-of-use assets	5(b)	273,655	270,347	13,899	-
Repair and maintenance		633,712	399,249	494,811	280,043
Utility expenses		1,234,663	954,664	897,217	713,865
Legal/ professional fees		559,554	152,621	3,035	10,863
Travelling and advertising expenses		914,881	761,167	875,110	602,419
Entertainment		318,343	301,779	-	82
Distribution costs		971,525	161,663	-	-
Other expenses		1,862,372	1,591,473	637,742	719,057
Total Cost of sales, distribution costs, and administrative expenses		20,006,087	19,883,041	7,816,233	8,724,733

(d) Finance income and costs

	Group		Company	
	2023	2022	2023	2022
Finance income	419	937	-	-
Finance income	419	937	-	-
Finance cost				
Interest expense	(120,411)	(47,044)	(39,487)	(47,044)
Lease interest [Note 5 (b)]	(74,371)	(70,737)	(17,592)	-
Overdraft interest	(66,074)	(27,190)	(66,074)	(27,190)
Finance cost	(260,856)	(144,971)	(123,153)	(74,234)
Net finance cost	(260,437)	(144,034)	(123,153)	(74,234)

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

2 Other income and expense items (Contd)

	Notes	Group 2023	2022	Company 2023	2022
(e) Employee benefit expense					
Salaries, wages and other staff related costs		11,540,747	13,324,170	3,961,818	5,299,457
Defined contribution plans cost		567,126	588,770	380,159	561,382
Defined benefit plan cost	5(f)	86,049	114,342	86,049	114,342
		<u>12,193,922</u>	<u>14,027,282</u>	<u>4,428,026</u>	<u>5,975,181</u>
Average number of persons employed by the Company and the Group during the year					
Workers and staff		3,038	3,077	2,147	2,200
Executives		130	118	86	74
		<u>3,168</u>	<u>3,195</u>	<u>2,233</u>	<u>2,274</u>

3 Income tax expense

(a) Income tax expense

This note provides an analysis of the Company's and the Group's income tax expense, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Company's and the Group's tax position.

The business profit of the Company is subject to a corporate tax under following rates.

The Inland Revenue Act, No. 24 of 2017, as amended, with effect on December 19, 2022. As of that day, profits from local sales are subject to a 30% income tax rate, and portion of the profits also subject to a 14% rate of tax.

	Notes	Group 2023	2022	Company 2023	2022
<i>Current tax :</i>					
Current tax on profits for the year		-	-	-	-
Adjustments for current tax of prior periods		-	-	-	-
Total current tax expense		-	-	-	-
<i>Deferred income tax</i>					
(Increase)/ decrease in deferred tax assets	5(e)	(825,057)	521,423	(825,057)	521,423
Increase in deferred tax liabilities	5(e)	1,027,270	193,036	1,027,270	193,036
Total deferred tax expense		<u>202,213</u>	<u>714,459</u>	<u>202,213</u>	<u>714,459</u>
Income tax expense		<u>202,213</u>	<u>714,459</u>	<u>202,213</u>	<u>714,459</u>
		Group	2022	Company	2022
Income tax expense charge					
to profit or loss		202,213	714,459	202,213	714,459
to other comprehensive income		12,547	14,623	12,547	14,623
Total income tax expense		<u>214,760</u>	<u>729,082</u>	<u>214,760</u>	<u>729,082</u>

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Company 2023	2022
(Loss) / profit from continuing operations before income tax expense	171,438	639,679
Income taxable at different rates		
Tax calculated at tax rate of 14%	12,001	89,555
Tax calculated at tax rate of 30%	25,716	-
Tax effects of:		
- Expenses not deductible for tax purposes	129,671	130,633
- Tax effect of amounts which are deductible (taxable) in calculating	(100,212)	(83,535)
- Previously unrecognised tax losses now recouped to reduce current tax expense	(67,175)	(136,653)
Deferred tax expense [Note 05(f)]	<u>202,213</u>	<u>714,459</u>
Income tax expense	<u>202,213</u>	<u>714,459</u>

(all amounts in the notes are in US Dollars unless otherwise stated)

This note provides information about the Group's financial instruments, including:

- The Company and the Group hold the following financial instruments:

		Group		Company	
	Notes	2023	2022	2023	2022
Financial liabilities					
Liabilities at amortised cost					
Trade and other payables	4(d)	8,201,124	9,626,001	4,249,387	3,262,478
Borrowings	4(f)	1,281,960	2,337,346	1,281,193	2,336,361
Lease liabilities	5(d)	767,912	812,439	218,968	-
		10,250,996	12,775,786	5,749,548	5,598,839

(a) Investment in subsidiaries

See note 11 and 12 for other information regarding the investments in subsidiaries.

See note 20(i) for the other accounting policies relevant to investment in subsidiaries

(b) Trade receivables	Notes	Group		Company	
		2023	2022	2023	2022
Receivables from related parties	16(c)	2,820,611	4,137,843	3,824	1,220,486
		2,820,611	4,137,843	3,824	1,220,486

(i) **Classification as trade and other receivables**

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Company and the Group hold the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Company's and the Group's impairment policies and the calculation of the provision for impairment is provided in note 9(b). The Company's and the Group's impairment and other accounting policies for trade and other receivables are outlined in notes 20(g).

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value. For the majority of the non-current receivables, the fair values are also not significantly different to their carrying amounts.

Information about the impairment of trade and other receivables, their credit quality and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 9(b).

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

4 Financial assets and financial liabilities (Contd)

(c) Cash and cash equivalents

	Group 2023	2022	Company 2023	2022
Current assets				
Cash at bank	534,261	1,869,778	2,696	47,427
Cash in hand	3,057	4,964	-	48
Cash and cash equivalents	537,318	1,874,742	2,696	47,475

(i) Classification as cash equivalents

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours' notice with no loss of interest. See note 20(f) for the Company and the Group accounting policies on cash and cash equivalents.

(ii) Reconciliation to cash flow statement

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:

	Notes	Group 2023	2022	Company 2023	2022
Balances as above		537,318	1,874,742	2,696	47,475
Bank overdrafts	4(d)	(1,009,737)	(976,235)	(1,008,970)	(975,250)
Cash and cash equivalents as per the statement of cash flows		(472,419)	898,507	(1,006,274)	(927,775)

(d) Trade and other payables

	Notes	Group 2023	2022	Company 2023	2022
Trade payables		617,795	887,360	180,448	55,991
Amounts due to related parties	16(c)	6,587,643	7,181,708	3,402,740	2,335,435
Other payables		995,686	1,556,933	666,199	871,052
		8,201,124	9,626,001	4,249,387	3,262,478

Trade payables are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short term nature.

(f) Borrowings

	Group 2023	2022	Company 2023	2022
Non-current				
Bank borrowings	-	272,222	-	272,222
	-	272,222	-	272,222
Current				
Bank overdrafts	1,009,737	976,235	1,008,970	975,250
Bank borrowings	272,223	1,088,889	272,223	1,088,889
	1,281,960	2,065,124	1,281,193	2,064,139
Total borrowings	1,281,960	2,337,346	1,281,193	2,336,361

(i) Secured liabilities and assets pledged as security

There is no financial and non financial assets pledged as security for current and non current borrowings.

(ii) Compliance with loan covenants

The Company and Group not complied with the financial covenants of its borrowing facilities during the 2023 and 2022 reporting period, see note 10 for details.

(iii) Fair value

For the majority of the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

(iv) Risk exposures

Details of the Company and the Group exposure to risks arising from current and non-current borrowings are set out in note 9(c).

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

4 Financial assets and financial liabilities(Contd)

(f) Borrowings(Contd)

(i) Details of all outstanding balances at the balance sheet date are set out below:

		Group		Company	
		2023	2022	2023	2022
(a)	Effective rates of interest	Term loan	1 MONTH	1 MONTH	1 MONTH
			LIBOR+2.25%	LIBOR+2.25%	LIBOR+2.25%
		Overdraft	1 MONTH	1 MONTH	1 MONTH
			LIBOR+2.0%	LIBOR+2.0%	LIBOR+2.0%
		Import bills	3 MONTH	3 MONTH	3 MONTH
			LIBOR+2.0%	LIBOR+2.0%	LIBOR+2.0%

(b) The carrying amounts of the Company's and the Group's borrowings are denominated in following currencies:

		Group		Company	
		2023	2022	2023	2022
United States Dollars		1,281,960	2,337,346	1,281,193	2,336,361
		1,281,960	2,337,346	1,281,193	2,336,361

(c) The exposure of the Company's and the Group's borrowings to interest rate changes and the contractual re-pricing dates at the end of the reporting period are less than three months.

(d) The carrying amount of the borrowings approximates their fair value.

5 Non-financial assets and liabilities

This note provides information about the Group's non-financial assets and liabilities, including:

Specific information about each type of non-financial asset and non-financial liability

- property, plant and equipment [note 5(a)]
- leases [note 5(b)]
- intangible assets [note 5(c)]
- deferred tax balances [note 5(d)]
- defined benefit obligations [note 5(e)]
- other current assets [note 5(f)]
- other current liabilities [note 5(g)]

Information about determining the fair value of the assets and liabilities, including judgements and estimation uncertainty involved.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

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Contents of the notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

5 Non-financial assets and liabilities (Contd)

(a) Property, plant and equipment (Contd)

(i) Group

	Freehold land	Building	Furniture and fittings	Plant and machinery	Other equipment	Office equipment	Leasehold improvements	IT equipment	Motor vehicles	Capital work-in-progress	Total
At 1 April 2021											
Cost	393,343	2,556,432	1,096,298	13,484,427	117,667	78,418	1,638,037	1,129,157	220,990	111,352	20,826,121
Accumulated depreciation	-	(633,486)	(796,668)	(8,772,829)	(79,480)	(49,161)	(1,474,450)	(1,019,969)	(219,493)	-	(13,045,556)
Net book amount	393,343	1,922,946	299,630	4,711,598	38,187	29,257	163,587	109,167	1,497	111,352	7,780,564
Year ended 31 March 2022											
Opening net book value	393,343	1,922,946	299,630	4,711,598	38,187	29,257	163,587	109,167	1,497	111,352	7,780,564
Additions	-	-	1,413	41,393	762	5,475	-	64,758	-	1,364,024	1,477,825
Transfers from CWIP	-	-	4,594	487,211	1,533	4,462	52,780	33,948	-	(584,528)	-
Transferred to intarcompanies	-	-	-	-	-	-	-	-	-	(296,493)	(296,493)
Disposals	-	-	(28,115)	(1,223,644)	-	(1,025)	-	-	-	-	(1,252,784)
Depreciation on disposals	-	-	12,716	293,020	-	491	-	-	-	-	306,227
Depreciation charge for the year [Note 2(b)]	-	(53,819)	(50,861)	(705,678)	(7,640)	(11,680)	(100,715)	(55,925)	(1,497)	-	(987,814)
Closing net book amount	393,343	1,869,127	239,377	3,603,900	32,842	26,980	115,652	151,948	-	594,355	7,027,525
At 31 March 2022											
Cost	393,343	2,556,432	1,074,190	12,789,387	119,962	87,330	1,690,817	1,227,863	220,990	594,355	20,754,669
Accumulated depreciation	-	(687,305)	(834,812)	(9,185,487)	(87,120)	(60,350)	(1,575,165)	(1,075,914)	(220,990)	-	(13,727,143)
Net book amount	393,343	1,869,127	239,377	3,603,900	32,842	26,980	115,652	151,948	-	594,355	7,027,525
Year ended 31 March 2023											
Opening net book amount	393,343	1,869,127	239,377	3,603,900	32,842	26,980	115,652	151,948	-	594,355	7,027,525
Additions	-	205,783	6,577	979,477	15,624	1,935	5,812	29,354	-	1,878,688	3,123,250
Transfers from CWIP	-	-	-	-	-	-	-	-	-	(1,219,299)	(1,219,299)
Disposals	-	-	-	-	-	-	-	-	-	-	-
Depreciation on disposals	-	-	-	-	-	-	-	-	-	-	-
Depreciation charge for the year [Note 2(b)]	-	(53,267)	(42,345)	(702,606)	(7,963)	(13,761)	(71,554)	(56,959)	-	-	(948,455)
Closing net book amount	393,343	2,021,643	203,609	3,880,771	40,503	15,154	49,910	124,344	-	1,253,744	7,983,021
At 31 March 2023											
Cost	393,343	2,762,215	1,080,767	13,768,864	135,586	89,265	1,696,629	1,257,217	220,990	1,253,744	22,658,620
Accumulated depreciation	-	(740,572)	(877,158)	(9,888,093)	(95,083)	(74,111)	(1,646,719)	(1,132,873)	(220,990)	-	(14,676,599)
Net book amount	393,343	2,021,643	203,609	3,880,771	40,503	15,154	49,910	124,344	-	1,253,744	7,983,021

The cost of fully depreciated assets still in use at the balance sheet date amounted to USD 7,713,088 (2022 - USD 7,367,049).

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Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

5 Non - Financial assets and financial liabilities (Contd)

(a) Property, plant and equipment (Contd)

(ii) Company

Notes	Freehold land	Building	Furniture and fittings	Plant and machinery	Other equipment	IT equipment	Motor vehicles	Capital work-in-progress	Total
At 31 March 2021									
Cost	393,343	2,513,619	485,996	7,299,046	99,254	408,211	129,337	92,057	11,420,863
Accumulated depreciation	-	(595,570)	(309,720)	(5,220,677)	(79,480)	(335,384)	(129,337)	-	(6,670,168)
Net book amount	393,343	1,918,049	176,276	2,078,369	19,774	72,827	-	92,057	4,750,695
Year ended 31 March 2022									
Opening net book amount	393,343	1,918,049	176,276	2,078,369	19,774	72,827	-	92,057	4,750,695
Additions	-	-	653	-	762	39,223	-	803,755	844,393
Transfers from CWIP	-	-	-	-	1,533	3,430	-	(4,963)	-
Transferred to intercompanies	-	-	-	-	-	-	-	(296,493)	(296,493)
Disposals	-	-	(10,123)	(104,403)	-	-	-	-	(114,526)
Depreciation on disposals	-	-	6,580	71,171	-	-	-	-	77,751
Depreciation charge for the year [Note 2(b)]	-	(52,527)	(22,507)	(303,869)	(7,640)	(20,899)	-	-	(407,442)
Closing net book amount	393,343	1,865,522	150,878	1,741,268	14,429	94,581	-	594,356	4,854,378
At 31 March 2022									
Cost	393,343	2,513,619	476,526	7,194,643	101,549	450,864	129,337	594,356	11,854,237
Accumulated depreciation	-	(648,097)	(325,647)	(5,453,375)	(87,120)	(356,283)	(129,337)	-	(6,999,859)
Net book amount	393,343	1,865,522	150,878	1,741,268	14,429	94,581	-	594,356	4,854,378
Year ended 31 March 2023									
Opening net book amount	393,343	1,865,522	150,878	1,741,268	14,429	94,581	-	594,356	4,854,378
Additions	-	-	-	-	-	-	-	1,878,688	1,878,688
Transfers from CWIP	-	205,783	4,440	971,572	15,624	21,881	-	(1,219,299)	-
Disposals	-	-	-	-	-	-	-	-	-
Depreciation on disposals	-	-	-	-	-	-	-	-	-
Depreciation charge for the year [Note 2(b)]	-	(51,975)	(22,496)	(345,915)	(7,963)	(25,152)	-	-	(453,501)
Closing net book amount	393,343	2,019,330	132,822	2,366,925	22,091	91,310	-	1,253,745	6,279,565
At 31 March 2023									
Cost	393,343	2,719,402	480,965	8,166,215	117,174	472,745	129,337	1,253,745	13,732,927
Accumulated depreciation	-	(700,072)	(348,143)	(5,799,290)	(95,083)	(381,435)	(129,337)	-	(7,453,360)
Net book amount	393,343	2,019,330	132,822	2,366,925	22,091	91,310	-	1,253,745	6,279,567

The cost of fully depreciated assets still in use at the balance sheet date amounted to USD 3,518,003 (2022 - USD 3,171,964).

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

5 Non-financial assets and liabilities (Contd)

(b) Leases

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	Group 2023	2022	Company 2023	2022
Net book value of right of use assets				
At 1 April 2022	726,064	882,113	-	-
Additions	272,519	114,298	272,519	-
Amortisation [Note 2(b)]	(273,655)	(270,347)	(13,899)	-
At 31st March 2023	724,928	726,064	258,620	-
	Group 2023	2022	Company 2023	2022
Lease liabilities				
At 1 April 2022	812,439	933,285	-	-
Additions	215,715	113,411	215,714	-
Interest charged for the period	74,371	70,737	17,592	-
Lease rental paid during the year	(334,613)	(304,995)	(14,338)	-
At 31 March 2023	767,912	812,439	218,968	-
	Group 2023	2022	Company 2023	2022
Lease liabilities included in the balance sheet				
Current	332,530	263,496	93,028	-
Non-Current	435,382	548,943	125,940	-
Total	767,912	812,439	218,968	-
	Group 2023	2022	Company 2023	2022
(ii) Amounts recognised in the statement of comprehensive income				
Amortisation charge of right-of-use assets	273,655	270,347	13,899	-
Interest expense (included in finance costs)	74,371	70,737	17,592	-
	348,026	341,084	31,491	-

The total cash outflow for leases in 2022/23 was USD 334,613 (2021/22 USD - 304,995)

(iii) The Company's leasing activities and how these are accounted for;

The Group leases building typically for a fixed period of 10 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

5 Non-financial assets and liabilities (Contd)

(b) Leases (Contd)

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise with any lease asset which value is less than USD 50,000.

(iv) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

(v) Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

(c) Intangible assets

	Group		Company	
	Computer software	Total	Computer software	Total
Non-current assets				
At 31 March 2021				
Cost	1,553,387	1,553,387	221,535	221,535
Accumulated amortisation	(1,545,526)	(1,545,526)	(213,674)	(213,674)
Net book amount	7,860	7,860	7,860	7,860
Year ended 31 March 2022				
Opening net book amount	7,861	7,861	7,860	7,860
Additions	13,611	13,611	13,611	13,611
Amortisation charge [Note 2(b)]	(8,438)	(8,438)	(8,438)	(8,438)
Closing net book amount	13,033	13,033	13,033	13,033
At 31 March 2022				
Cost	1,566,997	1,566,997	235,146	235,146
Accumulated amortisation	(1,553,964)	(1,553,964)	(222,112)	(222,112)
Net book amount	13,033	13,033	13,033	13,033
Year ended 31 March 2023				
Opening net book amount	13,033	13,033	13,033	13,033
Additions	-	-	-	-
Amortisation charge [Note 2(b)]	(6,806)	(6,806)	(6,806)	(6,806)
Closing net book amount	6,227	6,227	6,227	6,227
At 31 March 2023				
Cost	1,566,997	1,566,997	235,146	235,146
Accumulated amortisation	(1,560,770)	(1,560,770)	(228,918)	(228,918)
Net book amount	6,227	6,227	6,227	6,227

* The total amortisation expense is included under administrative expenses [Note 2(b)].

(l) Amortisation methods and useful lives

The Company and the Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

- Computer software	2 years - 4 years
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QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

5 Non-financial assets and liabilities (Contd)

(d) Deferred tax balances

	Company / Group	
	2023	2022
Deferred tax assets	1,706,309	893,799
Deferred tax liabilities	(1,739,846)	(712,576)
Net deferred tax assets	(33,537)	181,223

(i) Deferred tax assets

The balance comprises temporary differences attributable to:

	2023	2022
Provision for Bonus	56,999	42,575
Employee benefit obligations	99,170	49,258
Lease liabilities	65,690	-
Carried forward unused tax losses	1,484,450	801,966
Total deferred tax assets	1,706,309	893,799

	Provision for Bonus	Employee benefits	Lease liabilities	forward unused tax losses	Total
Movements					
At 1 April 2021	-	50,378	-	1,379,467	1,429,845
Credited / (charged)					
- to profit or loss	42,575	13,503	-	(577,501)	(521,423)
- to other comprehensive income	-	(14,623)	-	-	(14,623)
At 31 March 2022	42,575	49,258	-	801,966	893,799
Credited / (charged)					
- to profit or loss	14,424	62,459	65,690	682,484	825,057
- to other comprehensive income	-	(12,547)	-	-	(12,547)
At 31 March 2023	56,999	99,170	65,690	1,484,450	1,706,309

(ii) Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2023	2022
Property, plant and equipment	1,533,010	652,259
Deferred tax on revaluation reserves	129,250	60,317
Right of assets	77,586	-
Total deferred tax liabilities	1,739,846	712,576

	Revaluation reserves	Property, plant and equipment	Right of use assets	Total
Movements				
At 1 April 2021	60,317	459,223	459,223	519,540
Charged / (credited)				
- to profit or loss	-	193,036	193,036	193,036
- to other comprehensive Income	-	-	-	-
At 31 March 2022	60,317	652,259	652,259	712,576
Charged / (credited)				
- to profit or loss	68,933	880,751	77,586	1,027,270
- to other comprehensive income	-	-	-	-
At 31 March 2023	129,250	1,533,010	729,845	1,739,846

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

5 Non-financial assets and liabilities (Contd)

(e) Defined benefit obligations

Balance sheet amounts

The amounts recognised in the balance sheet and the movements in the net defined benefit obligation over the year are as follows:

	Group		Company	
	2023	2022	2023	2022
At 1 January	351,840	359,843	351,840	359,843
Opening balance of employees transferred to InQube Solutions (Private) Limited	-	-	-	-
	351,840	359,843	351,840	359,843
Current service cost	49,950	74,332	49,950	74,332
Past service cost	-	11,428	-	11,428
Interest expense	36,099	28,582	36,099	28,582
Total amount recognised in profit or loss (Note 2(d))	86,049	114,342	86,049	114,342
Remeasurements				
- (Gain)/loss from change in financial assumptions	(37,593)	147,391	(37,593)	147,391
- (Gain)/loss from change in demographic assumptions	(11,615)	79,116	(11,615)	79,116
- Loss/ (Gain) from change in experience adjustments	7,385	(122,058)	7,385	(122,058)
Total amount recognised in other comprehensive income	(41,822)	104,449	(41,822)	104,449
Exchange differences	(29,681)	(171,415)	(29,681)	(171,415)
Benefit paid during the year	(35,820)	(55,379)	(35,820)	(55,379)
At 31 March	330,565	351,840	330,565	351,840

The gratuity liability of the Group is related to the Company and it is based on an actuarial valuation carried out by Actuarial and Management Consultants (Private) Limited, based on the details provided for the year ended 31 March 2023 whose principal place of the business is located at 1st floor, 434 R. A. De Mel Mawatha, Colombo, Sri Lanka.

Significant actuarial assumptions were as follows:

	2023	2022
Financial assumptions		
Discount rate	15.0%	12.2%
Future salary increase rate		
- Executive staff	15.0%	15%
- Factory staff	15.0%	15%
Demographic assumption		
Retirement age	60 years	60 years
Mortality table		
	A 1967/70 Mortality Table	A 1967/70 Mortality Table
Staff turnover rate		
- Executive staff	11.00%	6.00%
- Other staff	43.00%	40.00%

The current yield rate of applicable government bond was adjusted for the market risk premium and the country rating default spread in deriving the discount rate.

In addition to the above, demographic assumptions, inflation, seniority, promotions and other relevant factors such as supply and demand factors in the employee market were considered for the actuarial valuation. The estimate of future salary increases was taken into consideration for the valuation.

The discount rate was determined by adjusting the existing and pre covid default risks premiums to the government bond rate.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

5 Non-financial assets and liabilities (Contd)

(e) Defined benefit obligations (Contd)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

Impact on defined benefit obligation								
	Change in assumption		Change in obligation		Change in obligation			
	2023	2022		2023	2022		2023	2022
Discount rate	15.0%	12.2%	Decrease by 1%	342,904	370,668	Increase by 1%	319,291	335,212
Salary growth rate	15.0%	15.0%	Decrease by 1%	317,833	(334,563)	Increase by 1%	344,246	370,993
Attrition rate								
Executive staff	11.0%	6.0%	Decrease by 1%			Increase by 1%		
Other staff	43.0%	40.0%						

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the balance sheet.

Risk exposure

Through its defined benefit pension plans, the Company is exposed to a number of risks, the most significant of which are detailed below:

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

Changes in bond yields	A decrease in high quality government bond yields will increase plan liabilities.
Inflation risks	Some of the Company's pension obligations are linked to salary inflation, and higher inflation will lead to higher liabilities.
Life expectancy	The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

The defined benefit plan comprises the gratuity provided under the payment of Gratuity Act, No.12 of 1983.

The weighted average duration of the defined benefit obligation is 4 years (2022 – 5 years). The expected maturity analysis of pension and post-employment medical benefits is as follows:

	Less than a year	Between 1 - 2 years	Between 2 - 5 years	Between 5 - 10 years	Over 10 years	Total
31 March 2023						
Defined benefit obligation	86,324	108,646	82,599	43,308	31,687	330,565
Total	86,324	108,646	82,599	43,308	31,687	330,565
31 March 2022						
Defined benefit obligation	78,577	103,475	61,602	44,887	63,299	351,840
Total	78,577	103,475	61,602	44,887	63,299	351,840

(f) Other Current assets

	Group		Company	
	2023	2022	2023	2022
Prepayments	412,241	546,986	352,296	413,641
Deposits and advances	-	-	-	-
Other receivables	766,261	769,520	-	-
	1,178,502	1,316,506	352,296	413,641

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

5 Non-financial assets and liabilities (Contd)

(g) Other Current liabilities

	Group 2023	2022	Company 2023	2022
Payroll tax and other statutory liabilities	71,991	150,452	63,482	56,543
	71,991	150,452	63,482	56,543

6 Equity

(a) Stated capital

	2023 Shares	2022 Shares	2023 Value	2022 Value
Ordinary shares	79,629,435	79,629,435	8,956,898	8,956,898
Total stated capital	79,629,435	79,629,435	8,956,898	8,956,898

(i) Movements in ordinary shares:

	Number of shares	Value
Details		
Balance at 1 April 2021	79,629,435	8,956,898
Balance 31 March 2022	79,629,435	8,956,898
Balance at 1 April 2022	79,629,435	8,956,898
Balance 31 March 2023	79,629,435	8,956,898

(ii) Ordinary shares

All shares issued by the Company are fully paid.

(b) Revaluation reserve

	Group 2023	2022	Company 2023	2022
Balance at 1 April	370,517	370,517	370,517	370,517
Deferred tax on revaluation reserves	-	-	-	-
Balance at 31 March	370,517	370,517	370,517	370,517

(i) Nature and purpose of other reserves

Revaluation surplus – property, plant and equipment

The property, plant and equipment revaluation surplus is used to record increments and decrements on the revaluation of non-current assets. In the event of a disposal / transfer of an asset, any balance in the reserve in relation to the asset is transferred to retained earnings, see accounting policy note 20(j) for details.

(c) Accumulated losses

Movements in retained earnings were as follows:

	Group 2023	2022	Company 2023	2022
Balance 1 April	(7,275,542)	(7,810,156)	(8,451,385)	(8,257,533)
Net profit/ (loss) for the year	530,802	653,686	(30,775)	(74,780)
Other comprehensive income for the year, net of tax	29,275	(119,072)	29,275	(119,072)
Balance at 31 March	(6,715,465)	(7,275,542)	(8,452,885)	(8,451,385)

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

7 Cash flow information

(a) Cash generated from operations

Reconciliation of profit before tax to cash used in operations:

	Notes	Group 2023	2022	Company 2023	2022
Profit before income tax		733,015	1,368,145	171,438	639,679
Adjustments for:					
Depreciation on property, plant and equipment	5(a)	948,455	987,814	453,501	407,442
Amortisation on right-of-use assets	5(d)	273,655	270,347	13,899	-
Amortisation of intangible assets	5(c)	6,806	8,438	6,806	8,438
Employee benefit obligations	5(f)	86,049	114,342	86,049	114,342
Exchange gain on employee benefit obligations	5(f)	(29,681)	(171,415)	(29,681)	(171,415)
Interest expenses	2(d)	260,856	74,234	123,153	74,234
Write back of unclaimed wages	2(h)	(6,254)	(8,415)	(6,254)	(8,415)
Net impairment losses on financial and contract assets	9(b)	-	-	-	-
Interest income	2(d)	(419)	(937)	-	-
Changes in working capital					
- Decrease / (increase) in trade and other receivables		1,459,819	(507,499)	1,005,484	(223,262)
- (Decrease)/ Increase in trade and other payables		(1,479,517)	2,410,703	1,246,788	1,983,305
Cash generated from operations		2,252,784	4,545,757	3,071,183	2,824,348

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Notes	Group 2022	2021	Company 2022	2021
Cash and cash equivalents	4(c)	537,318	1,874,742	2,696	47,475
Borrowings – repayable within one year (including overdraft)	4(f)	(1,281,960)	(2,065,124)	(1,281,193)	(2,064,139)
Borrowings – repayable after one year	4(f)	-	(272,222)	-	(272,222)
Lease liabilities		(767,912)	(812,439)	(218,968)	-
Net debt		(1,512,554)	(1,275,043)	(1,497,465)	(2,288,886)
Cash and cash equivalents		537,318	1,874,742	2,696	47,475
Gross debt – variable interest rates		(2,049,872)	(3,149,785)	(1,500,161)	(2,336,361)
Net debt		(1,512,554)	(1,275,043)	(1,497,465)	(2,288,886)

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES**Contents of the notes to the financial statements****Risk**

This section of the notes discusses the Company's and the Group's exposure to various risks and shows how these could affect the respective financial position and performance.

8 Critical estimates, judgements and errors	30
9 Financial risk management	30
10 Capital management	36

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

8 Critical estimates, judgements and errors

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is included in notes 1 to 7 together with information about the basis of calculation for each affected line item in the financial statements. In addition, this note also explains where there have been actual adjustments this year as a result of an error and of changes to previous estimates.

(a) Significant estimates and judgements

The areas involving significant estimates or judgements are:

- recognition of revenue – note 1
- estimation of current tax payable and current tax expense – note 3(a)
- estimated useful life of property plant and equipment assets – note 5(a)
- estimation uncertainties & judgements made in relation to lease accounting - note 5(b)
- estimated useful life of intangible asset - note 5(c)
- estimation of defined benefit pension obligations – note 5(e)
- expected credit loss provision for trade receivables – note 9(b)

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

9 Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Risk	Exposure	Measurement	Management
Market risk – foreign exchange	Future commercial transactions recognised financial assets and liabilities not denominated in USD	Cash flow forecasting Sensitivity analysis	Leading and lagging – timing payments in foreign currencies to try and take advantage of currency movements.
Credit risk	Cash and	Aging analysis Credit ratings	Diversification of bank deposits, credit limits and letters of credit
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

The Group's risk management is carried out by the treasury department under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the operating units. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Company and the Group is sensitive to the fluctuations in exchange rates and is principally exposed to fluctuations in the value of the Sri Lankan Rupee (LKR), the British pound sterling (GBP) and the Cambodian riel (KHR) against US Dollar (USD) and, to a lesser extent, the Euro (EUR). The Group's functional currency is USD in which most of the transactions are denominated, and all other currencies are considered foreign currencies for reporting purposes. Certain bank balances, trade and other receivables, trade and other payables and borrowings are denominated in foreign currencies. Foreign currencies are used to settle material suppliers and certain other expenses.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

9 Financial risk management (Contd)

9 (a) Market risk (Contd)

(i) Foreign exchange risk (Contd)

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in US Dollars, was as follows:

	31 March 2023			31 March 2022		
	USD	LKR	Others	USD	LKR	Others
Amounts due from related parties	-	-	-	4,059,520	-	78,323
Bank loans (including bank overdraft)	1,281,960	-	-	2,337,346	-	-
Trade payables	617,795	-	-	874,524	12,628	209
Amounts due to related parties	6,587,643	-	-	7,181,708	-	-
Other payables	995,686	-	-	1,500,390	56,543	-
Lease liabilities	-	-	767,912	-	-	812,439

The Company's exposure to foreign currency risk at the end of the reporting period, expressed in US Dollars, was as follows:

	31 March 2023			31 March 2022		
	USD	LKR	Others	USD	LKR	Others
Amounts due from related parties	3,824	-	-	1,220,486	-	-
Bank loans (including bank overdraft)	1,281,193	-	-	2,336,361	-	-
Trade payables	63,193	102,072	15,183	43,154	12,628	209
Amounts due to related parties	3,402,740	-	-	2,335,435	-	-

Sensitivity

The table below shows the Group's sensitivity to reasonable possible change in the exchange rate of LKR against USD, while all other variables are held constant. In this table, financial instruments are only considered sensitive to foreign exchange rates where they are not in the functional currency of the entity that holds them. The movement in exchange rate is not deemed to have a material effect on equity.

	Impact on post tax profit	
	2023	2022
USD / LKR		
USD / LKR exchange rate – increase 1%	(1,021)	(692)
USD / LKR exchange rate – decrease 1%	1,021	692

Amounts recognised in profit or loss and other comprehensive income

During the year, the following foreign-exchange related amounts were recognised in profit or loss and other comprehensive income:

Amounts recognised in profit or loss	Notes	Group		Company	
		2023	2022	2023	2022
Net foreign exchange (loss) / gain included in other income / other expenses	2 (a)	(16,484)	347,833	(9,363)	336,847
Total net foreign exchange (loss) / gain recognised in profit before income tax for the period		(16,484)	347,833	(9,363)	336,847

(ii) Interest rate risk

The borrowings are periodically contractually repriced (see below) and to that extent are also exposed to the risk of future changes in market interest rates.

The Company's borrowings are mostly in terms of US Dollars, and the Company's interest rate risk arises from fluctuations in LIBOR. Based on our outlook on LIBOR, the Company takes decisions centrally on whether to swap floating interest rates for fixed interest rates through interest rate swaps agreements based on recommendations made to the board of directors by the group Treasury.

The exposure of the Company's borrowing to interest rate changes and the contractual re-pricing dates of the fixed interest rate borrowings at the end of the reporting period are as follows:

An analysis of maturities is provided in note 9(o)

	Group		Company	
	2023	2022	2023	2022
Variable rate borrowings	1,281,980	2,337,346	1,281,193	2,336,361
	1,281,960	2,337,346	1,281,193	2,336,361

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

9 Financial risk management

(a) Market risk (Contd.)

(ii) Interest rate risk (Contd.)

As at the end of the reporting period, the Group and Company had the following variable rate borrowings outstanding:

	31 March 2023			31 March 2022		
	Weighted average interest rate	Balance	% of total loans	Weighted average interest rate	Balance	% of total loans
	%			%		
Bank loans (including bank overdraft)						
1 MONTH LIBOR+2.25%		272,223	21%	1 MONTH LIBOR+2.25%	1,361,111	58%
1 MONTH LIBOR+2.0%		1,008,970	78%	1 MONTH LIBOR+2.0%	975,250	42%
3 MONTH LIBOR+2.0%		-	0%	3 MONTH LIBOR+2.0%	-	0%
Net exposure to cash flow interest rate risk		1,281,193	100%		2,336,361	100%

Sensitivity

The table below shows the Group's sensitivity to reasonable possible change in interest rate of LKR and USD borrowings while all other variables are held constant.

	Impact on post tax profit	
	2023	2022
USD / LKR		
USD / LKR interest rate – increase 1%	(37,148)	(14,788)
USD / LKR interest rate – decrease 1%	37,148	14,788

(iii) Price risk

The Company and the Group are not exposed to price risk.

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

(i) Risk management

Credit risk is managed on a group basis. For bank and financial institutions, only independently rated parties with sound financial background are accepted.

If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The compliance with credit limits by customers is regularly monitored by line management.

(ii) Security

For some trade receivables the Company may obtain security in the form of guarantees or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

9 Financial risk management

(b) Credit risk (Contd)

(iii) Impairment of financial assets

The Company has the below financial assets that are subject to the expected credit loss model:

(a) Impaired of trade receivables

The Company applies the SLFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss model for all trade receivables. To measure the expected credit losses, trade receivables and related party receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 March 2023 or 1 April 2022 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The closing loss allowances for trade receivables as at 31 March 2023 reconcile to the opening loss allowances as follows:

	Trade receivables			
	Group 2023	2022	Company 2023	2022
Opening loss allowance at 1 April	-	-	-	-
Increase amount in loss allowance recognised in profit and loss during the year	-	-	-	-
Unused amount reversed [Note 2(b)]	-	-	-	-
Closing loss allowance at 31 March	-	-	-	-

*Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 120 days past due.

	Note	Amount due from related parties			
		Group 2023	2022	Company 2023	2022
Receivables written off during the year as uncollectable	16(c)	-	-	-	-
		-	-	-	-

(iii) Credit quality

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	2023	2022	2023	2022
Cash at bank and short-term bank deposits	-	1,821,366	-	-
AA	-	20,241	-	20,241
AA-	2,601	70	2,601	70
A	64	-	64	-
A-	496,670	-	-	-
B2	(974,811)	(948,134)	(1,008,939)	(948,134)
Counterparties without external credit rating	(475,476)	893,543	(1,006,274)	(927,823)

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

9 Financial risk management (Contd)

(b) Credit risk(Contd)

(v) Past due but not impaired

As at 31 March 2023, trade receivables of USD 1,165,895 (2022 - USD 1,577,456) past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2023	2022	2023	2022
Up to 3 months	1,249,679	2,158,110	2,282	560
3 to 6 months	405,037	402,276	-	607
Over 6 months	1,165,895	1,577,456	1,542	1,219,319
	2,820,611	4,137,843	3,824	1,220,486

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Company and the Group does not hold any collateral in relation to these receivables.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions. At the end of the reporting period the Group held deposits at call of USD Nil (2022 - USD Nil) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Company's and the Group's liquidity reserve (comprising the drawn borrowing facilities below) and cash and cash equivalents [(note 4(c))] on the basis of expected cash flows.

(i) Financing arrangements

The Company and Group had access to the following drawn borrowing facilities at the end of the reporting period:

		Group		Company	
	Notes	2023	2022	2023	2022
- Expiring within one year (bank overdraft and bill facility)	4(f)	1,281,960	2,065,124	1,281,193	2,064,139
- Expiring beyond one year (bank loans)	4(f)	-	272,222	-	272,222
		1,281,960	2,337,346	1,281,193	2,336,361

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

9 Financial risk management(Contd)

(c) Liquidity risk (Contd)

(ii) Maturities of financial liabilities

The tables below analyses the Company's and the Group's non derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for understand the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	Less than 6 months	6 – 12 months	More than 12 months	Total contractual cash flows	Carrying amount (assets)/ liabilities
Contractual maturities of financial liabilities					
At 31 March 2023					
Non-derivatives					
Trade payables	537,954	72,810	7,031	617,795	617,795
Amount due to related parties	2,045,126	1,885,360	2,657,158	6,587,643	6,587,643
Borrowings	275,479	-	-	275,479	272,223
Lease liabilities	170,542	172,779	648,759	992,080	767,912
Accrued expense, provision and other payables	995,686	-	-	995,686	995,686
Total non-derivatives	4,024,787	2,130,948	3,312,948	9,468,683	9,241,259
At 31 March 2022					
Non-derivatives					
Trade payables	792,295	33,974	61,090	887,359	887,360
Amount due to related parties	924,173	3,090,479	3,167,056	7,181,708	7,181,708
Borrowings	565,548	562,828	275,479	1,403,855	1,361,111
Lease liabilities	134,794	134,794	606,572	876,159	812,439
Accrued expense, provision and other payables	685,880	871,053	-	1,556,933	1,556,933
Total non-derivatives	3,102,690	4,693,127	4,110,197	11,906,014	11,799,551
Company					
	Less than 6 months	6 – 12 months	More than 12 months	Total contractual cash flows	Carrying amount (assets)/ liabilities
Contractual maturities of financial liabilities					
At 31 March 2023					
Non-derivatives					
Trade payables	101,084	72,810	6,554	180,448	180,448
Amount due to related parties	1,468,922	1,313,135	620,683	3,402,740	3,402,740
Borrowings	275,479	-	-	275,479	272,223
Lease liabilities	35,749	37,985	311,775	385,509	218,968
Accrued expense, provision and other payables	666,199	-	-	666,199	666,199
Total non-derivatives	2,547,433	1,423,930	939,012	4,910,375	4,740,578
At 31 March 2022					
Non-derivatives					
Trade payables	-	18,954	37,036	55,990	55,990
Amount due to related parties	-	2,198,052	137,383	2,335,435	2,335,435
Borrowings	565,548	562,828	275,479	1,403,855	1,361,111
Accrued expense, provision and other payables	-	871,053	-	871,053	871,053
Total non-derivatives	544,444	3,632,503	446,641	4,623,588	4,623,588

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

10 Capital management

(a) Risk management

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the following gearing ratio:

Net debt as per note 7(b)
divided by
Total 'equity' (as shown in the balance sheet).

Gearing ratio as at 31 March is as follow:

	Group		Company	
	2023	2022	2023	2022
Net debt	1,512,554	1,275,043	1,497,465	2,288,886
Total equity	2,611,950	2,051,873	874,530	876,030
Net debt to equity ratio	58%	62%	171%	261%

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Contents of the notes to the financial statements

Group structure

This section provides information which will help users understand how the Group structure affects the financial position and performance of the group as a whole.

A list of significant subsidiaries is provided in note 11. This note also discloses details about the Group's equity accounted investments.

11 Interests in other entities

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QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in US Dollars unless otherwise stated)

11 Interests in other entities

(a) Immediate subsidiary

The Group's principal subsidiaries as at 31 March 2023 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business/ country of incorporation	Ownership interest held by the Company		Principal activities	Cost
		2023	2022		
Quantum Clothing Group Limited	United Kingdom	100%	100%	Apparel design service provider to the wider group in Sri Lanka	100,000

(b) Fellow subsidiary

The Company is the ultimate parent to the below entity which is a subsidiary of Quantum Clothing Group Limited.

Name of entity	Place of business / country of incorporation	Ownership interest held by the Company		Principal activities
		2023	2022	
Quantum Apparel Cambodia Limited	Cambodia	100%	100%	Manufacturing underwear and related textile products for export.

See note 20(l) for the other accounting policies relevant to investments in subsidiaries.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES**Contents of the notes to the financial statements****Unrecognised items**

This section of the notes provides information about items that are not recognised in the financial statements as they do not (yet) satisfy the recognition criteria.

12	Contingent liabilities and contingent assets	40
13	Commitments	40
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QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

12 Contingent liabilities and contingent assets

There were no material contingent liabilities and contingent assets outstanding as at the balance sheet date.

13 Commitments

13 (a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities as follows,

	2023	2022
Capital work in progress	386,000	817,834

13 (b) Financial commitments

There were no material financial commitments as at the balance sheet date.

14 Events occurring after the reporting period

There were no events have occurred since the balance sheet date and the approval of these financial statements, which would require adjustments to or disclosure

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES**Other information**

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

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QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

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(all amounts in the notes are in US Dollars unless otherwise stated)

15 Related party transactions

(a) Key management personnel compensation

	Group		Company	
	2022	2021	2022	2021
Short-term employee benefits	-	-	-	-
Post-employment benefits	-	-	-	-
Long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments	-	-	-	-

(b) Transactions with related parties

The following transactions occurred with related parties:

		Group		Company	
		2023	2022	2023	2022
<i>(i) Sales of goods and services</i>					
InQube Solution (Private) Limited	Affiliate	598,084	670,877	-	-
Brandix Apparel Solutions (Private) Limited	Affiliate	-	-	-	-
Seeds Garments (Cambodia) Co Ltd	Affiliate	-	1,786,802	-	-
Brandix Apparel Limited	Affiliate	-	1,452,445	-	-
Clover Global Limited	Affiliate	336,021	307,093	-	-
InQube Global (Private) Limited	Affiliate	8,853,517	16,465,939	8,113,933	9,093,384
<i>(ii) Raw material transfers (from) / to</i>					
InQube Global (Private) Limited	Affiliate	-	-	-	-
<i>(iii) Receipt of reimbursable expenses</i>					
Quantum Clothing Group Limited UK	Subsidiary	-	-	-	-
Quantum Apparel Cambodia Limited	Subsidiary	57,556	-	57,556	-
Clover Global Limited	Affiliate	-	71,000	-	-
Brandix Apparel Solutions (Private) Limited	Affiliate	-	156,380	-	156,380.0
InQube Global (Private) Limited	Affiliate	5,609	4,704,511	-	-
Brandix Apparel Limited	Affiliate	-	3,478,715	-	-
InQube Solutions (Private) Limited	Affiliate	456	84,738	-	-
<i>(iv) Settlements of reimbursable expenses</i>					
Quantum Clothing Group Limited UK	Subsidiary	-	-	-	-
BrandM Apparel Haiti Limited	Affiliate	-	-	-	-
Brandix Lanka (Private) Limited	Affiliate	-	-	-	-
InQube Global (Private) Limited	Affiliate	-	-	-	-
Brandix Apparel Solutions (Private) Limited	Affiliate	-	-	-	-
<i>(v) Cost incurred on services obtained</i>					
Brandix Apparel Solutions (Private) Limited	Affiliate	-	-	-	-
Brandix Apparel (Private) Limited	Affiliate	-	27,435	-	-
Quantum Clothing Group Limited	Subsidiary	-	57,556	-	-
BrandM Apparel Haiti Limited	Affiliate	-	2,087	-	-
InQube Solutions (Private) Limited	Affiliate	-	877,926	-	96,137
InQube Global (Private) Limited	Affiliate	-	676,472	-	37,043
Quantum Apparel Cambodia Limited	Subsidiary	-	20,781	-	20,781
Seeds Garments (Cambodia) Co Ltd	Affiliate	-	9,732	-	-
<i>(vi) Any other related party transactions - gratuity liability transferred</i>					
InQube Global (Private) Limited	Affiliate	-	-	-	-
<i>(vii) Receivable balance write off</i>					
Quantum Clothing Group Limited	Subsidiary	-	-	-	-

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

15 Related party transactions (Contd)

(c) Transactions with other related parties (contd)

	Relationship	Group 2023	2022	Company 2023	2022
<i>(vii) Capex Transferred</i>					
Quantum Apparel Cambodia Limited	Subsidiary	-	36,775	-	36,775
InQube Global (Private) Limited	Affiliate	388,447	274,851	388,447	274,851
InQube Solutions (Private) Limited	Affiliate	-	98,859	-	98,859

(c) Outstanding balances arising from sales / purchases of goods and services

(i) Current receivables (purchases of goods and services)

Quantum Clothing Group Limited UK	Subsidiary	-	-	-	-
InQube Global (Private) Limited	Affiliate	1,426,996	2,715,717	-	-
Quantum Apparel Cambodia Limited	Subsidiary	-	-	-	57,556
Brandix Apparel Solutions Limited	Affiliate	1,542	-	1,542	-
BrandM Apparel Haiti Limited	Affiliate	-	2,067	-	-
Clover Global Limited	Affiliate	622,041	236,093	2,282	-
Seeds Garments (Cambodia) Co Ltd	Affiliate	416,950	21,036	-	-
InQube Solutions (Private) Limited	Affiliate	354,084	1,162,930	-	1,162,930
Brandix Apparel Limited	Affiliate	-	-	-	-
		2,820,611	4,137,843	3,824	1,220,486
Net impairment loss on amounts due from related parties		-	-	-	-
		2,820,611	4,137,843	3,824	1,220,486

(ii) Current payables (purchases of goods and services)

Brandix International Limited	Affiliate	-	1,208,864	-	-
Brand Apparel Limited	Affiliate	5,874	-	-	-
Quantum Apparel Cambodia Limited	Subsidiary	-	-	1,895	-
InQube Global (Private) Limited	Affiliate	3,399,855	2,336,935	3,399,855	2,335,435
InQube Solutions (Private) Limited	Affiliate	990	535,809	990	-
		3,406,719	4,081,708	3,402,740	2,335,435

(iii) Current payables (short term borrowings)

InQube Global (Private) Limited	Affiliate	-	-	-	-
Brandix Asia Holdings Pte Limited	Affiliate	3,180,924	3,100,000	-	-
		3,180,924	3,100,000	-	-
Total payable		6,587,643	7,181,708	3,402,740	2,335,435

(d) Terms and conditions

Transactions relating to dividends were on the same terms and conditions that applied to all shareholders.

Goods were sold to related parties during the year based on the price lists in force and terms that would be available to third parties.

16 Earnings / (loss) per share

Basic earnings / (loss) per share is calculated by dividing the profit / (loss) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

Notes	Group 2023	2022	Company 2023	2022
Profit / (loss) attributable to the ordinary equity holders of the Company	630,802	653,686	(30,775)	(74,780)
Weighted average number of the ordinary shares in issue	6(a) 79,629,435	79,629,435	79,629,435	79,629,435
Basic earnings / (loss) per share (USD per share)	0.007	0.008	(0.000)	(0.001)

The diluted earnings per share is same as the basic earnings per share.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

17 Dividends per share

No dividends were declared or paid by the Company and the Group during the year (2022- USD Nil). Dividend per share is calculated dividing the dividend declared by the number of shares in issue at the time of declaration, and is calculated as follows :

	Notes	Group		Company	
		2023	2022	2023	2022
Dividend declared and paid to ordinary share holders of the Company		-	-	-	-
Weighted average number of ordinary shares in issue	6(a)	79,629,435	79,629,435	79,629,435	79,629,435
Dividend per share (USD per share)		-	-	-	-

18 General Information

Quantum Clothing Lanka (Private) Limited is a limited liability Company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at 59, Gregory's Road, Colombo 7, and the principal place of business is situated at Moragahahena, Millewa, Horana. The Company was incorporated on 9 September 1989. The Company was re-registered on 12 December 2007 and bears the registration No. PV 1423 under the Companies Act, No. 07 of 2007. The principal activity of the Company is the manufacture and export of ladies garments.

Quantum Apparel (Cambodia) Limited is a company licensed and incorporated in the Kingdom of Cambodia and the principle activity is manufacturing underwear and related textile products for export.

Quantum Clothing Group Limited is a company licensed and incorporated in the United Kingdom. Prior to 1st April 2019, the principal activity of the company was the design, sourcing and supply of quality apparel products catering to customers mainly in Europe, UK and North America. From 1st April 2019 onwards Quantum Clothing Group Limited changed its operating model from business entrepreneur to a design service provider to the group.

19 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

(i) Compliance with SLFRS

The financial statements of the Company and the Group have been prepared in accordance with Sri Lanka Accounting Standards, which comprise Sri Lanka Financial Reporting Standards ("SLFRS"s), Sri Lanka Accounting Standards ("LKAS"s), relevant interpretations of the Standing Interpretations Committee ("SIC") and International Financial Reporting Interpretations Committee ("IFRIC"). Sri Lanka Accounting Standards further comprises of Statements of Recommended Practices (SoRPs), Statements of Alternate Treatments (SoATs) and Financial Reporting Guidelines issued by the Institute of Chartered Accountants of Sri Lanka. These financial statements have been prepared under the historical cost convention except for financial assets and liabilities which are measured at fair value. The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's and the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Company's and the Group's financial statements are disclosed in note 8 to the financial statements.

The following amendments to the Sri Lanka Accounting Standards that are relevant for the preparation of the Group's financial statements have been adopted by the Group (iii) new standards and amendments that are effective for the first time for periods commencing on or after 1 April 2022 and (iv) forthcoming requirements, being standards and amendments that will become effective on or after 1 April 2022.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities – measured at fair value.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

19 Summary of significant accounting policies (Contd)

(iii) New standards and interpretations adopted by the group

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 April 2022:

- Property, plant and equipment: Proceeds before intended use – Amendments to IAS 16
- Reference to the Conceptual Framework – Amendments to SLFRS 3 and
- Annual improvements to SLFRS standards 2018-2020
- Onerous Contracts – cost of fulfilling a contract - Amendments to LKAS 37

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 March 2023 reporting periods and have not been early adopted by the group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(iv) Going concern

The net assets of the Company and the Group are less than half of the stated capital of USD. 8,956,898, indicating a serious loss of capital within the meaning of Section 220 of the Companies Act, No. 07 of 2007.

In view of these factors, the Company's and the Group's ability to continue as a going concern, on which the financial statements have been prepared, is dependent on the Company and the Group generating sufficient cash inflows to maintain its operations or continuing to receive financial support from its parent company, Phoenix Ventures (Private) Limited.

The entity does not have a plan or intention to curtail the operations of the Company and Group or to liquidate. The Company and Group expects the current challenges to be temporary with the impact of covid 19 pandemic and will return to profitability with the resumption of business operations and easing out the pandemic.

Accordingly, the Company and Group has prepared the financial statements on a going concern basis in view of the financial support from its ultimate parent, Phoenix Ventures (Private) Limited which has confirmed its intention to provide financial support to the Company and Group to meet its liabilities as and when they fall due to carry on their business without significant curtailment of operations.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

19 Summary of significant accounting policies (Contd)

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company and the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in United State Dollars ('US Dollars'), which is the Group's functional and presentation currency, since the entity uses US Dollars in majority of their transactions and it reflects the economic substance of the underlying events and circumstances relevant to the Group.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through OCI financial assets are recognised in other comprehensive income.

(c) Revenue recognition

Revenue is recognised for the major business activities using the methods outlined below.

The Company and Group recognises the revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company and Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The sales includes providing manufacturing services, which were conducted under a transfer pricing agreement. Further, providing apparel design service provider to the wider group in Sri Lanka

Several types of sales streams have been provided by the Company and Group. Revenue from manufacturing services under local intercompany sales represent the cut and making services provided to its inter companies locally which were conducted under a transfer pricing agreement where the final products are exported by the relevant customers. The revenue from manufacturing services under direct exports represent manufacturing services provided to a foreign affiliate. No significant element of financing is deemed present as the sales are made with a credit term of 30 days,

Revenue is recognised in the accounting period in which the services are rendered and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) Income tax

(i) Current tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction.

The current income tax charge is calculated on the basis of the tax laws enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

19 Summary of significant accounting policies (Contd)

(d) Income tax (Contd)

(ii) Deferred tax (Contd)

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(e) Impairment of assets

Goodwill and 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 assets are tested 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. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(f) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, 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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(g) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(h) Investments and other financial assets

(i) Classification

From 1 April 2020, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable classification at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

19 Summary of significant accounting policies (Contd)

(i) Investments and other financial assets (Contd)

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial assets at its fair value plus, in the case of a financial assets not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

From 1 January 2020, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

19 Summary of significant accounting policies (Contd)

(j) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges).
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

At inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

(k) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under SLFRS 9 Financial Instruments and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of SLFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

19 Summary of significant accounting policies (Contd)

(l) Property, plant and equipment

(i) Initial and subsequent measurement

The Company and Group accounting policy for land and buildings is explained in note 5(a). All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the Group. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Cost of long term capital projects are carried forward in capital work-in-progress until the projects are completed and the related assets are available for use.

(ii) Depreciation

Depreciation is calculated on the straight line method to write off the cost of each asset to their residual values over their estimated useful lives commencing from the month in which the asset is available for use. On disposal of assets depreciation is calculated exclusive of the month in which disposal takes place.

The estimated useful lives are as follows:

	Years
Buildings	50
Lease hold improvements	10 years or life of lease if lower
Plant and machinery	7 to 10
Furniture and fittings	5 - 10
Other equipment	5
Motor vehicles	5
IT equipment	4
Office equipment	5

Land is not depreciated as it is deemed to have an indefinite life.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit.

(m) Intangible assets

(i) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

19 Summary of significant accounting policies (Contd)

(m) Intangible assets(Contd)

(i) Computer software (Contd)

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use, over their estimated useful lives, which does not exceed four years.

(ii) Amortisation methods and periods

	Years
IT equipment - software	2

(n) Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered only if the rights are substantive when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any Non-Controlling Interest ("NCI") in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the NCI's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred.

When initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in the financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the Group also recognises additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. The measurement period shall not exceed one year from the acquisition date.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gain or loss arising from such remeasurement is recognised in the profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognised in accordance with SLFRS 9, in the profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

19 Summary of significant accounting policies (Contd)

(n) Consolidation(Contd)

(i) Subsidiaries (Contd)

The excess of the consideration transferred by the Group, the amount of any NCI in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, NCI recognised and previously held interest measured are less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances, income and expenses on transactions between the Group's entities are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies. The financial periods of the subsidiary undertakings are same as that of the Company.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in consolidated profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised as other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the profit or loss.

Transactions with NCIs that do not result in loss of control are accounted for as equity transactions; i.e. as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gain or loss on disposals to NCIs is also recorded in equity.

(o) Financial liabilities

(a) Classification and initial recognition

Financial liabilities are initially recognised at fair value, net of transaction costs.

The Group's financial liabilities consist of trade and other payables, borrowings and lease liabilities. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

(b) Subsequent measurement

Financial liabilities are subsequently carried at amortised cost using effective interest method.

(c) Derecognition

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

(d) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

19 Summary of significant accounting policies (Contd)

(p) Trade payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within one year or less (or in the normal operating cycle of the business if longer) of recognition. Trade payables are presented as current liabilities unless payment is not due within 12 months after the reporting period, if not they are presented as non-current liabilities.

They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(r) Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

(s) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

19 Summary of significant accounting policies (Contd)

(t) Employee benefits

(i) Defined benefit plans - gratuity

Defined benefit plan defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as years of service and compensation. The defined benefit plan comprises the gratuity provided under the Act No 12 of 1983.

The liability recognised in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the yield rate of the long term government bonds that have terms to maturity approximating to the terms of the related defined benefit obligation.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and included in employee benefit expense in the profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise and will not be reclassified to the profit or loss. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

Past service costs are recognised immediately in the profit or loss.

The assumptions based on which the results of the actuarial valuation was determined, are included in note 5(e) to the financial statements.

(ii) Defined contribution plans

For defined contribution plans, such as the Employees' Provident Fund and Employees' Trust Fund, the Company and the Group contributes 12% and 3% respectively, of the employees' basic or consolidated wage or salary. The Company and the Group have no further payment obligations once the contributions have been paid. The Company and the employees are members of these defined contribution plans.

(iii) Short term employee benefits

Wages, salaries, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company and the Group.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits at the earlier of the following dates:

- (a) when the Company can no longer withdraw the offer of those benefits; and
- (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

QUANTUM CLOTHING LANKA (PRIVATE) LIMITED AND ITS SUBSIDIARIES

Notes to the financial statements

(all amounts in the notes are in US Dollars unless otherwise stated)

19 Summary of significant accounting policies (Contd)

(u) Dividends

Dividends distribution, to the Company and the group shareholders is recognised as a liability in the Company and the group financial statements in the period in which the dividends are approved by the Company and the group shareholders.

(v) Earnings / (loss) per share

Basic earnings / (loss) per share is calculated by dividing:

- the profit / (loss) attributable to owners of the Company.
- by the weighted average number of ordinary shares outstanding during the financial year.

(w) Stated capital

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

Where any Company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

20 Impact on economic crisis

Impact on the recent economic downturn to financial statements are as below.

Adverse movement on the foreign exchange rate

The Sri Lankan rupee has depreciated significantly during the year ended 31 March 2023 and it was under pressure due to the continuous deterioration of the balance of payments and the depletion of foreign reserves. The Company earns its revenues in foreign currency, it is the management's view that the Company is not significantly exposed to the prevailing economic conditions in Sri Lanka in a manner that would impact its ability to continue as a going concern.

Effect of Increase in Inflation rate

Sri Lanka has experienced a significant YoY inflationary impact as per the CCPI. This is mainly due to the increase in import prices and domestic prices resulting from rupee depreciation and excessive money printing by CBSL. The Company earns its revenue in foreign currency and there is no significant effect due to an increase in inflation even though there will be some direct and indirect consequences in the areas of repair maintenance, material purchase, payroll costs and transportation costs etc.

Effect of Increase in Interest rates

The Central Bank of Sri Lanka has tightened the monetary policy by increasing its policy rates in response to the prevailing economic crisis including the depletion of foreign reserves. It is assessed there will be no significant impact as the borrowings are in USD which are at their maturity stage.

Global economic crisis

Global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. The cost-of-living crisis, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook. Global growth is forecasted to slow from 6.0% in 2021 to 3.2% in 2022 and 2.7% in 2023. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic.

Global inflation will rise from 4.1% to 6.5% in 2022 and forecast to decline to 6.5% in 2023 and to 4.1% by 2024.