



(Company Reg. No. PQ 187)

LANKA ALUMINIUM INDUSTRIES PLC

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28th May 2020.

Mr. Renuka Wijayawardhane,
Chief Regulatory Officer,
Colombo Stock Exchange,
04-01, West Block,
World Trade Center,
Echelon Square,
Colombo – 1.

Dear Sir,

Submission of Statements and Enforcement Action

We refer to the Circular No: 03.04.2020 dated 10th April 2020 and Circular No: 06.05.2020 dated 14th May 2020 issued by the Colombo Stock Exchange on "Extension of Timelines for Submission of Financial Statements and Enforcement Action".

The Impact of COVID-19 on the Business

Due to the unprecedented situation arising from the Covid-19 virus, the government imposed a curfew on the 19th of March 2020, and allowed businesses in the Colombo and Gampaha districts to recommence operations only on the 11th of May 2020.

Our company's factory as well as the sales outlets have been closed in compliance with the curfew regulations, thus the company had virtually no sales in the month of April 2020 and first week of May 2020.

As you are aware, the company's main product line is the manufacture of aluminium extrusions which are used primarily by the construction industry which too was closed with little or no activity in most of the construction/building sites in the country.

Majority of the larger construction sites which are located within the Western Province were allowed to start operations from the 11th of May 2020, with restrictions, but has yet not fully returned to normalcy.

Some of our dealers located island wide has opened for business, but reports a reduction in demand and sales.

Due to the coronavirus -

- ❖ The company's 4th quarter (31st March 2020) turnover is Rs. 397 Million (unaudited) compared to Rs. 463 Million in 4th quarter 2019.
- ❖ The 11 days production and sales lost during March 2020, will no doubt, have a negative impact on the company's profits for the year ended 31st March 2020.

In summary, the impact of the coronavirus and the subsequent steps taken to contain the spread of the virus, such as the curfew, social distancing, etc., has totally shut down the construction industry in the country. This, in turn, will reduce the demand and sales for our products quite substantially during the 1st quarter of 2020/2021 resulting in a significant reduction in profitability compared to the previous years.

This will also have negative impact on the cashflow of the company as many customers have delayed their payments.

Sales/Market Demand – Impact

We estimate the market size for aluminium extrusions to reduce by approx. 40% and remain so until such time a permanent solution for the coronavirus is found. We believe that this will happen when an effective treatment or a vaccine has been found.

We are estimating this drastic reduction in demand after discussions with our customers, especially house and apartment builders, who feel that the overall demand for housing products will reduce with the downturn in the economy.

Steps Taken to Minimize the Impact on the COVID-19

- ❖ Firstly, our priority was to ensure the safety of the employees and others who physically interact with us and all necessary precautions have been taken.
- ❖ Our main focus is to reduce fixed costs, so that we can bring down our breakeven sales volume to prevent losses.
- ❖ As a first step, the company has negotiated with banks and lending institutions to restructure short-term loans and other payments which were falling due in the month of April.
- ❖ We, unfortunately, are not eligible for any of the concessions offered by the government, since we are not coming under the SME sector.
- ❖ During the month of April, we have negotiated and obtained reductions to some of our overhead expenses. The directors & senior management consented to a reduction of salaries and the workforce also consented for a reduction in wages which was kept to a bare minimum.
- ❖ Our marketing team has been regularly in contact with customers, with a view to maintaining customer base.
- ❖ Periodic maintenance and upkeep of the machinery was carried out.
- ❖ We are planning to operate our plant & machinery in such a manner to reduce costs, increase efficiencies in spite of carrying out small runs to meet the reduced demand for our products. Our intention is to reduce inventories, settle bank dues and ultimately to reduce interest cost.
- ❖ We plan to improve our cash flow by concentrating on cash sales as well as obtaining more favourable terms from creditors.

- ❖ We plan to continue our search for export markets, which may take time to materialize.

We are happy to report that the factory restarted operations on Monday, 11th May 2020 with the guidelines set by the public health inspectors. We are, wherever possible, rotating staff, maintain social distances and taking safety measures to safeguard all employees.

Cash Flow

Managing the cash flow has become quite challenging. The company has substantial debtors, of which some are covered by bank guarantees. Most customers are requesting for extension for their credit terms. In spite of this, we are focusing on collections quite successfully and we believe that the monies received together with the facilities available, would be enough to meet our expenses during the 1st quarter 2020/2021.

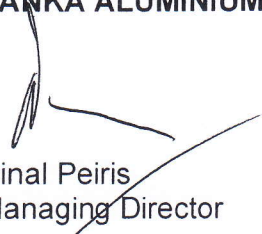
However, if the market conditions do not improve thereafter, we will be compelled to increase our borrowings.

Submission of Interim Financial Statements for the Last Quarter Ended 31st March 2020

• We also wish to state that according to CSE Circular No: 03-04-2020 dated 10th April 2020, an extension period up to 3rd September 2020 has been granted for the submission of interim financial statements for the last quarter ended 31st March 2020. Accordingly, we will be submitting the financial statements on or before 3rd September 2020 in accordance with the extended timeframe.

Yours faithfully,

LANKA ALUMINIUM INDUSTRIES PLC



Dinal Peiris
Managing Director