

H.P. COTTON TEXTILE MILLS LIMITED

Policy on Materiality of and Dealing with Related Party Transactions

Approved by Board : 10.08.2022
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1. PURPOSE

Related Party Transactions (“**RPT**”) can present a potential or actual conflict of interest which may be against the best interest of the Company and its shareholders. Considering the requirements for approval of related party transactions as prescribed under the Companies Act, 2013 (“**Act**”) read with the Rules framed there under and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time, (“**SEBI Listing Regulations**”), H.P. Cotton Textile Mills Limited (“**Company or HP Cotton**”) has formulated guidelines to ensure high standards of Corporate Governance while dealing with Related Parties (as defined below) and sets forth the procedures under which the RPT must be reviewed, approved or ratified and reported.

2. TERMS AND DEFINITIONS

- a) “**Act**” means the Companies Act, 2013, as amended from time to time.
- b) “**Arm’s length transaction**” means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.
- c) “**Board**” means Board of Directors of H.P. Cotton Textile Mills Limited.
- d) “**Company**” or “**HP Cotton**” means H.P. Cotton Textile Mills Limited.
- e) “**Related Party**” means a related party as defined under the Companies Act, 2013 and SEBI Listing Regulations, as amended from time to time.
- f) “**Related Party Transactions**” or “**RPT**” means a transaction envisaged as a related party transaction defined under the Companies Act, 2013 and SEBI Listing Regulations, including any amendment or modification thereof, as may be applicable.
- g) “**SEBI Listing Regulations**” means Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time.

Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013, the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 or any other applicable law or regulation.

3. KEY PRINCIPLES

3.1 Materiality Threshold for RPT’s

Regulation 23 of the SEBI Listing Regulations requires a company to provide materiality thresholds for transactions beyond which the shareholder’s approval will be required by way of a resolution.

HP Cotton has fixed its materiality thresholds at the level prescribed under SEBI Listing Regulations as under:

- In case of Transaction either individually or taken together with previous transactions during a financial year, involving payments made to a Related Party with respect to brand usage or royalty, if it exceeds five percent (5%) of the annual consolidated turnover of the Company as per its last audited financial statements.
- In case of any other Transaction either individually or taken together with previous transactions during a financial year, the amount exceeds Rs. 1000 Crores or ten percent (10%) of the annual consolidated turnover of the Company as per last audited financial statements of the Company, whichever is lower.

3.2 Material Modification(s) to Related Party Transaction

Material Modification(s) to Related Party Transaction means any modification(s) to the Related Party Transaction, approved by the Audit Committee or the Board of Directors or the Shareholders, that has an adverse financial impact on the Company of 20% or more of the originally approved transaction.

3.3 Ordinary Course of Business

“Ordinary course of business” means a transaction which/wherein:

- is carried out in the normal course of business envisaged in accordance with the Memorandum of Association ('MoA') of the Company as amended from time to time, or
- is as per historical practice with a pattern of frequency, or
- is in connection with the normal business carried on by the Company, or
- the income, if any, earned from such activity/transaction is assessed as business income in the Company's books of accounts and hence is a business activity, or
- is common commercial practice, or
- meets any other parameters/criteria as decided by the Board/Audit Committee.

3.4 Arm's Length Pricing

The Arm's Length Pricing ('ALP') is the condition or the fact that the parties to a RPT are independent (un-related) and on an equal footing from one or more of the following aspects namely quality, realization, commercial terms etc. Such a transaction is known as an arm's-length transaction.

In the absence of any prescriptive guidelines on Arm's Length Pricing in the Companies Act, 2013, the Audit Committee/Board will exercise its own judgement based on its assessment from the information furnished and the relevant factors concerning each such transaction. The Audit Committee may also rely on third party professional certifications including latest available reports on pricing carried out by independent consultants to ascertain whether the transaction is at arm's length. For new transactions, the Committee may determine the appropriate methods.

4. REVIEW AND APPROVAL OF RELATED PARTY TRANSACTIONS

4.1 Approval of Audit Committee

- i. Prior approval of the Audit Committee shall be taken for all related party transactions and subsequent modifications including material modifications, as per the requirements of the Act and the SEBI Listing Regulations.
- ii. A related party transaction to which the subsidiary of the Company is a party but the Company is not a party, shall require prior approval of the audit committee of the Company if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year, exceeds ten per cent of the annual standalone turnover, as per the last audited financial statements of the subsidiary.
- iii. Remuneration and sitting fees paid by the Company or its subsidiary to its director, key managerial personnel or senior management, except who is part of promoter or promoter group, shall not require approval of the audit committee provided that the same is not material in terms of the provisions of Regulation 23(1) of SEBI Listing Regulations.
- iv. The members of the audit committee, who are independent directors, may ratify related party transactions, subject to the compliance of conditions contained in SEBI Listing Regulations and / or under the Act read with the Rules.
- v. The Audit Committee may grant omnibus approval for certain Related Party Transactions proposed to be entered into by the Company or its subsidiary, subject to the compliance

of conditions contained in SEBI Listing Regulations and / or under the Act read with the Rules including the following:

- ✓ The Audit Committee shall lay down the criteria/Framework and Guidelines for granting the omnibus approval in line with this Policy and such approval shall be applicable in respect of transactions which are repetitive in nature (either in the past or in the future);
- ✓ The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the Company;
- ✓ The omnibus approval shall specify (i) the name/s of the related party, nature of transaction, period of transaction, maximum amount of transactions, in aggregate, that can be entered into in a year, maximum value per transaction which can be allowed (ii) the indicative base price / current contracted price and the formula for variation in the price if any (for ex: +/- 5%), (iii) transactions which cannot be subject to the omnibus approval by the Audit Committee and (iv) such other conditions as the Audit Committee may deem fit.

Provided that where the need for RPT cannot be foreseen and the aforesaid details are not available, Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding ₹ 1 crore per transaction;

- ✓ The Audit Committee shall review, at least on a quarterly basis, the details of RPTs entered into by the Company or its subsidiaries pursuant to each of the omnibus approvals given;
- ✓ Such omnibus approvals shall be valid for a period not exceeding 1(one) financial year and shall require fresh approvals after the expiry of such financial year.

The Audit Committee shall review with the management, the annual financial statements and auditors' report thereon before submission to the Board for approval, with particular reference to disclosure of any Related Party Transactions or subsequent modification of the same.

4.2 Approval of the Board of Directors

Prior approval of the Board of Directors shall be taken for entering into Related Party Transactions or modifications of the same which are not in the ordinary course of business or not on an arm's length basis or Material Related Party Transaction(s) or its subsequent material modifications, as per the requirements of the Act and the SEBI Listing Regulations. Where any director is interested in any contract or arrangement with a Related Party, such director shall not participate nor vote thereon in the meeting during discussions on the subject matter of the resolution relating to such contract or arrangement.

4.3 Approval of Shareholders

Wherever required, prior approval of the shareholders shall be taken for entering into Related Party Transactions and/or subsequent Material Modifications, as per the requirements and limits of the Act and/or the SEBI Listing Regulations. The voting on resolutions pertaining to such transactions shall be in accordance with the provisions of the Act and the SEBI Listing Regulations, as amended, both read with the respective circulars/clarifications or notifications issued in this regard by the Ministry of Corporate Affairs and the SEBI.

If permitted by the Act read with the Rules and the SEBI Listing Regulations, the aforesaid audit committee, Board and shareholders' approval shall not be required for following related party transactions and/or subsequent modifications including material modifications:

- a. transactions entered into between the Company and its wholly owned subsidiary, whose accounts are consolidated with the Company and placed before the shareholders at the general meeting for approval.

- b. transactions entered into between two wholly owned subsidiaries of the Company, whose accounts are consolidated with the Company and placed before the shareholders at the general meeting for approval.
- c. transactions which are in the nature of payment of statutory dues, statutory fees or statutory charges entered into between the Company on one hand and the Central Government or any State Government or any combination thereof on the other hand.

5. INTERPRETATION

In any circumstance where the terms of this policy differ from any existing or newly enacted law, rule, regulation or standard governing the Company, the law, rule, regulation or standard will take precedence over these policies and procedures until such time as this policy is changed to conform to the law, rule, regulation or standard.

6. DISCLOSURES

- 6.1 The Company shall disclose the contract or arrangements entered into with the Related Party in the Board's Report to the shareholders along with the justification for entering into such contract or arrangement.
- 6.2 The Company shall disclose this Policy relating to Related Party Transactions on its website and a web link thereto shall also be provided in the Annual Report.

7. REVIEW AND AMENDMENT

The Board will review the Policy from time to time as prescribed under the Act or SEBI Listing Regulations.

The Board may also establish further rules and procedures from time to time to give effect to the Policy.

This policy is approved by the Board of Directors at their meeting held on February 03, 2025 and shall be effective from February 03, 2025.
