



Diverse businesses, product portfolios, people and environments fused and operating in a multitude of enterprises form the “World of Hayleys”. A world that is propelled by renewed energy drawn from a rich history, experience and an unparalleled pioneering spirit.

Hayleys stands poised to embark on a new journey. A journey that will expand its horizons. Honing latent energies, sharpening inherent skills and harnessing untapped potential, the company realigns itself to a new vision, and new ambitions.

The promise of Hayleys.

A new Identity

Hayleys adopted a new Brand Identity on 1st January 2007. The "old" identity had served Hayleys well in the past. Yet an identity which better represented Hayleys as it stands today was needed.

This followed a period of consultation with groups of stakeholders. The process began with employees being invited to submit suggestions. The discussion leading to the change captured the "essence" of Hayleys in this statement:

Sri Lankan at its core, Hayleys is multinational in its operations. It takes renowned international brands into the heart of Sri Lanka. It strives to bring out the best from the resources of the country—natural, human and cultural—by converting these to world class products and services. A pioneering spirit that braves uncharted waters, the respect for the individual that engenders commitment and its uncompromising integrity are hallmarks which give Hayleys its unique character.

The identity is two-part. One represents the Corporate Identity of Hayleys PLC and the other, "The World of Hayleys", encompasses the Group and its people.



The Brand Identity reflects the Group's stability and heritage, its diversity, its commitment to the environment and its global reach. A circle, representing the World, encompasses a montage of business activities, above the legend 'Hayleys' in strong typeface and the words 'Since 1878.' The colour Green, reflects the 'Greenness' of Hayleys in its care and concern for the environment through the way it conducts its business, and through several products and services in its portfolio.

The Brand Identity creates a sense of accomplishment in the present, and a strong sense of aspiration for the future. The new identity must inspire employees to live up to the potential of Hayleys in the future.

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With the introduction of the new Companies Act No 7 of 2007 on 3rd May 2007, the abbreviation of the suffix in the company's name has been deemed to change from "Ltd" to "PLC". Accordingly, Hayleys Ltd is Hayleys PLC from that date.

VISION

Hayleys to be looked upon
as Sri Lanka's corporate
inspiration at all times

To harness the creativity and
aspirations of our people to expand
the frontiers of the individual, the
corporate and the Nation

MISSION

Goals

To be:

- Among the leading five
in our global businesses
- The leader in our
local businesses

Values

We believe in:

- Ethics
- Professionalism
- Transparency
- Innovation
- Quality
- Nature
- People
- Communication

Profile

Established in 1878 in the southern port city of Galle by Charles P. Hayley, the conglomerate is today one of the largest Sri Lankan multinationals and is a hallmark of Sri Lankan industry. For 129 years, the conglomerate has contributed to Sri Lanka's economy and its people.

With a portfolio of globally competitive core businesses spanning Global Markets & Manufacturing, Agriculture & Agri Business, Transportation & Infrastructure and Consumer & Leisure, Hayleys is a publicly quoted and a truly broad-based company.

Hayleys today accounts for 2.7 per cent of Sri Lanka's export income, 2.2 per cent of GDP and 3.2 per cent of market capitalization on the Colombo Stock Exchange and is rated AA (lka) by Fitch Ratings.

Composed of one hundred and thirty six companies, thousands of customers and suppliers, stakeholders and employees, Hayleys is an intrinsic element of the socio-economic fabric of the nation.

Strategic Intent

"Harness the collective strengths of the Hayleys community to reap synergies that benefit the conglomerate to perform at its best; in the interest of the individual, the society and the Nation."

Social Responsibility Stance

Hayleys' policy of social responsibility benefits communities in many ways. Widely acknowledged as a corporate that looks at the "big picture", Hayleys is renowned for its efforts and contributions to society and the environment.

International Presence



The Year at a Glance

Summary of Financial Performance Hayleys Group

	2006/07 Rs. mn.	2005/06 Rs. mn.	Change %	2004/05 Rs. mn.
Group turnover	27,639	24,012	15	19,445
Group turnover including associates	50,875	48,664	5	39,037
Group profit before tax	1,608	1,484	8	1,879
Group profit after tax	1,089	980	11	1,409
Profit attributable to ordinary shareholders	534	586	-9	774
Dividends	263	263	-	263
Shareholders' funds	11,700	8,257	42	7,939
Company market capitalization	10,650	7,388	44	8,438
Group market capitalization	27,480	24,210	14	24,904
Group investments *	1,530	1,506	2	2,592
Revenue to the Government (including associates)	3,062	2,924	5	2,111
Group value addition	6,970	6,459	8	5,800
Group employment (persons) (excluding associates)	20,708	20,349	2	19,594
Per share				
Earnings (basic) (Rs.)	7.11	7.82	-9	10.37
Market value (year-end) (Rs.)	142.00	98.50	44	112.50
Net assets (year-end) (Rs.)	156.00	110.10	42	106.35
Dividend (Rs.)	3.50	3.50	-	3.50
Price earnings (year-end) (times)	20.0	12.6	59	10.8
Ratios				
Gross profit (%)	24.9	26.2		29.3
Interest cover (times)	2.5	2.9		5.2
Dividend yield (%)	2.5	3.6		3.1
Current ratio (times)	1.3	1.3		1.3

* Investment in property, plant & equipment and companies other than subsidiaries

Financial Objectives and Achievements

	Objective	Achievement		
		2006/07	2005/06	2004/05
Return on average capital employed (R.O.C.E) (%)	>20	10.5	11	14
Gearing (%)	35 - 40	39.9	46.6	42.9
Return on average shareholders funds (%)	>15	5	7	10
Dividend to attributable profit (%)	45	49.2	44.8	33.9
Dividend to average shareholder funds (%)	8	2.6	3.2	3.5

Chairman's Statement

Directorate

Mr Rajan Yatawara, who served the Group for 41 years, as a Director of Hayleys PLC for 22 years and as Chairman since 1st July 2004, retired on 10th January 2007. My colleagues and I thank him for his dedicated service and commitment to the development of Hayleys during that time, and wish him good health and happiness in retirement.

Mr Asite Talwatte resigned from the Board on 31st December 2006 in order to comply with the global policy of his firm. We thank him for the significant contribution he made during his time as a Director and Chairman of the Audit Committee. He will continue to be a Consultant to that Committee.

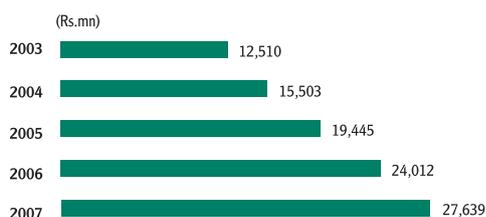
Messrs Trevine Jayasekara and J A G Anandarajah were appointed to the Board on 1st January 2007. Mr Jayasekara, a Non- executive Director, is Group Finance Director of the Brandix Group and will be Chairman of the Audit Committee and a member of the Board's Nomination and Remuneration Committees. Mr Anandarajah, an Executive Director, is the Managing Director of Dipped Products PLC. I am certain both these gentlemen will make very valuable contributions to the Group in the future.

Corporate Results

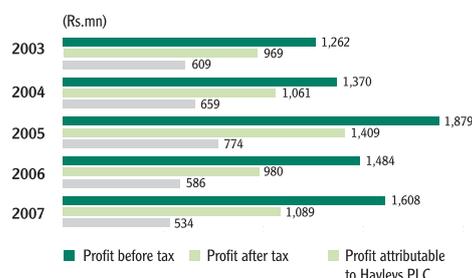
Consolidated turnover rose 15% to Rs 27.6 billion. Profit before tax was Rs 1,608 million, up 8 per cent over the previous year. Profit after tax at Rs 1,089 million was up 11 per cent, but profit attributable to equity holders of the company fell 9 per cent to Rs 534 million.

My predecessor indicated that the Group should target a result in the region of Rs 1 billion or so. In the current year we had expectations of reaching Rs 900 million at the minimum. The final result leaves a lot to be desired. This was the consequence of two adverse events. The first was the total failure of the JV with Onril in the Fibre sector. The second arose from the need to restructure the Consumer Durables Business in the last quarter of the year. The cumulative effect of these setbacks was nearly Rs 380 million. This demonstrates that the targets set were not unrealistic and within the potential of the Group.

Turnover Growth Trend



Profit Trend (Rs. Mn.)



Segmental Results

DPL turned in a record performance during the year, with both its Hand Protection and Plantations businesses doing exceedingly well. The fact that this was despite substantial losses from DPL (Thailand) underscores the great potential this business has in contributing to Group profits.

The Textiles business of Hayleys MGT Knitting Mills also produced good results with a creditable gain in profitability.

The Purification Products business did well to reverse from the losses incurred in the previous year and make a modest profit.

In the Fibre business all the units made worthwhile improvements in performance but these were completely negated by the setback at Onril. The problems in this company, in which we held 49% of the equity and the balance was held by foreign shareholders, arose from irreconcilable differences that emerged as to cost and pricing of its production. The deterioration of the relationship of the joint venture partners has compelled us to sever connection with the joint venture partners as well as with Onril including the resignation of our nominees on the Board of Directors of Onril. We have also taken some of the issues with them to court. Full provision has been made for the investment and other exposures we have carried.

The Purification Products and Fibre businesses have, for some time, encountered difficulties due to excessive local competition for the limited raw material supply available in Sri Lanka, it not being feasible or economical to import these raw materials because of high freight costs. We have been taking robust measures to stave-off these threats in the interest of developing businesses which we have pioneered.

The Plantation business was affected in the latter part of their reporting period due to the go-slow/ strike in November and December. Despite this KVPL was able to turn in a commendable result improving its profits vastly on the back of high rubber prices. Talawakelle Tea Estates, being totally tea- based, did less well but its contribution was still good.

The Agri Input business' profits were much lower than in the previous year due to a poorer Yala season and disruptions to agricultural activity in the Eastern Province, arising out of the security situation.

Chairman's Statement

Performance of our enterprises engaged in Agri Products, including gherkins, flower seeds and exotic vegetables showed a marked improvement over the previous year.

The Transportation business was the second largest contributor to Group profits, though the contribution was below their record achievement in the previous year as a result of a sharp drop in charter rates which affected the ship - owning business. Improvements by other parts of the business however enabled the profit reduction to be contained at 30% - a creditable achievement in the circumstances.

The performance of Hayleys Industrial Solutions, which engages in Industrial Inputs and Power & Energy, was about the same as in the previous year. Significant business volumes continue to be generated offshore, where engineering projects of various types are executed.

The performance of Hayleys Consumer was seriously affected by the inability to generate sufficient sales in the peak selling period leading to the Sinhala/ Tamil New Year. Steps have been taken to strengthen the management of the business and look to address the issues that caused this business to seriously under perform.

The Resorts business, in which we are partners with Jetwing, performed poorly because of the unsatisfactory security situation in the country.

Dividend

We propose to maintain our dividend pay-out at the same level as last year. A dividend of Rs 1/75 per share was paid in May 2007 as an interim dividend, and a final dividend of Rs 1/75 per share is now proposed.

Strategic Initiatives

The Group has made a significant investment of time and money in a specially tailored Change Management Initiative delivered by the Indian School of Business, Hyderabad which commenced in July last year. This programme encompasses the Group's top tier management, with 56 managers following sessions in Hyderabad and Colombo. The final session is to be completed later this month in Hyderabad. Participants have been exposed to strategy evaluation at corporate and sector level. Sessions have also covered general management competencies in Marketing, Operations/ IT, HR and Finance. The final session will deal with transformational leadership and change management. An important benefit of the programme has been its effectiveness in bringing different parts of the Hayleys Group closer together, paving the way for sharing of experience and exchange of best practices now and in the future.

Pursuant to projects undertaken by groups of programme participants, which stressed the need to strengthen management capacity at the centre, the following units have been or are being established:

- Strategic Business Development
- Group Treasury
- Group HR
- Group IT

High calibre personnel are in the process of being recruited to these units.

The Strategic Business Development Unit has been functional from March 2007 and has been engaged in working on corporate strategy and in a dialogue on sector strategies and analysis of new business opportunities.

- The financing of the Group into the future has been a priority area. Discussions are in progress with an international multilateral agency which has expressed interest in funding the Group's development programme.
- Several areas of business need attention and re-structuring. Steps have been taken to re-structure the Consumer Durables business at considerable cost in the final quarter. Other under performing areas will undergo similar scrutiny and we intend disposing of Kinetics in the current year.
- The Group exited from its investment in the Colombo Dockyard early in the year. Disposal of the substantial land holding the Group owns in the North of Colombo continues to engage our attention, but circumstances have not proved conducive for a sale.

The Group IT Unit is already functional. It will be responsible to create the Group's backbone of IT policy and infrastructure, giving the individual businesses within the Hayleys Group flexibility to develop and implement individual IT solutions most suitable to them.

The Group Treasury and Group HR Units will be operational in July 2007. The Group Treasury will seek economies and efficiencies in dealings with foreign exchange and with funding and the Group's banking relationships. The Group HR function will be responsible to enhance human resource management practices throughout the Group in talent management, rewards and recognition, and succession planning.

Business Focus

We see the Group as having four core areas of business. These are:

- **Global Markets & Manufacturing (GM&M)**, which encompasses our businesses in Hand Protection, Purification Products, Fibre and Textiles.
- **Agriculture & Agri Business (A & Ab)**, incorporating our Plantations, Agri Inputs and Agri Products businesses.
- **Transportation & Infrastructure (T&I)**, which includes our businesses in Transportation, Power & Energy and Industry Inputs.
- **Consumer & Leisure (C&L)**.

Chairman's Statement

GM&M has significant technological skills with the proven capability of developing and manufacturing products which enjoy world repute. Added to this is the capability of taking these products into global channels of distribution. GM&M accounts for 40% of the Group's business. The potential to grow in the several areas of this business remains very large and we shall continue to build on our strengths to meet this potential.

In the A&Ab group, the Plantations are involved in tea and rubber and our output accounts for 4- 5% of national crop. We continue to invest in field development to improve yields and are also geared to meet the high processing standards now required by the tea industry to meet international food standards. The Agri Inputs Sector provides vital crop science, fertilizer, chemicals and equipment to the estate sector and the rural farming community in Sri Lanka. The connections we have established with the agricultural community of Sri Lanka give us great capacity to add significant value and improve the incomes of a large sector of the population.

In the T&I grouping, the Transportation sector is currently involved with the logistics of moving goods through the Port of Colombo and the airport. We provide several vital links in this chain, operating distribution facilities, container yards, freight stations and third party logistics. The scope of opportunities for this sector would be increased with the development of the Colombo South Harbour. The Infrastructure Sector of this group engages in projects in hydro and alternate energy sources and other infrastructure projects in lighting as well as in providing vital inputs to industry in the country.

Provincial distribution of GDP & Population

Province	GDP	Population
Western	51%	28%
Southern	9%	12%
Uva	4%	6%
Northern	3%	4%
North Western	9%	12%
Sabaragamuwa	6%	9%
Eastern	5%	8%
Central	8%	13%
North Central	4%	7%

Source : Central Bank Annual Report 2006

In Consumer & Leisure, the Group is associated in minority investments in Dima which is in the automotive industry, Jetwing in the resorts business and Hayleys AIG in Insurance.

Hayleys Group, including associates, has a turnover exceeding Rs 50 billion. More than 50% of the Group's activities are in Manufacturing and Agriculture. Our business in Transportation & Infrastructure accounts for 10%. Consumer & Leisure and other businesses which are involved in Services account for more than a third of turnover.

Our core businesses in Manufacturing and Agriculture which account for half our business, are in the primary sectors of the national economy. The third in Transportation & Infrastructure provides vital services for the passage of goods in and out of Sri Lanka.

These core businesses of the Group mirror the distribution of the country's population in terms of economic activity where 50% are engaged in Agriculture and Manufacturing. The share of these two sectors in the GDP of the country is nearly a third. Sustainable development of the country cannot ignore these vital sectors of the economy and we believe the Group is standing foursquare with the national interest.

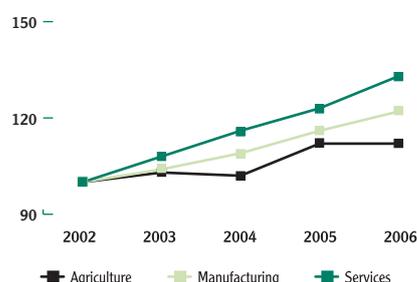
The businesses involved in Consumer & Leisure and other Services, will gain from the maturity and sustainable growth of the economy.

Government and Fiscal Policies

It is perhaps reasonable to ask why the Group's business is not performing better, given the growth in the economy of 7.4%. The unfortunate answer to this is that the contribution of Agriculture and Manufacturing to national growth is barely 13% or in other words these two sectors in which more than half the population is engaged has contributed 1%.

The sectors of the economy that have performed well have been in services, especially telecommunications, financial services and import trade in addition to construction. These sectors have contributed 70% of the growth. Whilst there is no doubt that these sectors do need to accompany growth in the primary areas of the economy it is unsustainable if growth is predominantly in the service sector since we have not developed adequate external demand for our services.

Growth of GDP - Sector wise
(all equated to 100 as at 2002)



Source : Central Bank Annual Report 2006

The type of growth we have had is evident in the disproportionate investment and consumption in urban areas whilst farming communities and industry in the hinterland of the country are in neglect.

Another manifestation is the ballooning trade deficit in the balance of payments as the country consumes much more than it produces. It is necessary for us to rely ever more on the remittances of our migrant workers in the Middle East to satisfy the growing appetite for consumption.

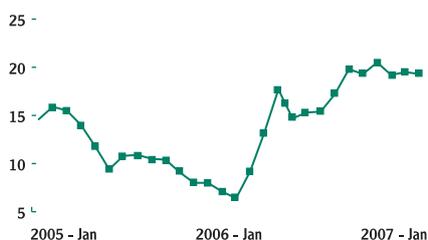
Chairman's Statement

It is our belief that this type of growth will not and cannot continue. Already the monetary and fiscal imbalances are forcing policy towards more sustainable courses of growth. It is indeed for this reason that the structure of our business was set in place. A rationale for agricultural and industrial growth continues to be valid for Hayleys, this country and its people.

The desirable policies that we advocate and have done in the past are neither new nor surprising. In fact some of these are repeatedly echoed by pronouncements of government if the excellent Central Bank Reports are any guide. These bear repetition:

- The sharp rise in inflation since 2005 will undermine long term growth as it deters savings and investment. We are aware that much of this is due to uncontrolled recurrent expenditure of government and a lack of will to staunch this waste bodes ill for the country.
- We have witnessed since 2004 an appreciation of the real exchange rate by more than 15%. We have insisted that in circumstances where inflation is not controlled the exchange rate needs to depreciate to ensure the cost competitiveness of all national production - interestingly these are mainly in Industry and Agriculture.
- Great contribution to productivity improvement requires labour market reforms. Though successive administrations have promised to implement reforms the will to do so seems to wilt in the face of trade union pressure. What is at issue is the absence of job creation which is at the cost of both the unemployed and under employed.
- Wage increases mandated by government are a regressive step in Sri Lanka where collective bargaining has been actively pursued over several decades. Industries already grappling with competitiveness issues will be further burdened and forced into closure.

Movement of Inflation (CCPI)



- VAT refunds which are unpaid are in effect a confiscation by government of the working capital of businesses. This is in direct conflict with the encouragement it seeks to give value addition in the country.

- Tea produced by the Plantations are now unable to recover VAT paid adding to the cost of the industry. It is incomprehensible that the country's most famous export product could be so disadvantaged.

Many successful countries in Asia have followed export led growth following policies which have targeted domestic production and export competitiveness. Some countries have promoted exceptional domestic companies to acquire global market share and technological and marketing prowess. It is unfortunate that Haycarb, which pioneered the manufacture of activated carbon some 30 years ago, is besieged by unfair foreign competition requiring large amounts of management time and effort to defend its manufacturing base in Sri Lanka.

Prospects

We can see the Hand Protection business of DPL continuing the strong growth it has demonstrated in recent years. DPL has the technological base and the marketing skill to forge ahead. We hope to bring the manufacture of medical gloves in Thailand to profit either in the current year or the next. Thereafter, we would expect to expand the plant and move into surgical glove manufacture. The prospect of DPL growing to double its size in the medium term is very real.

We would expect our Purification Products business to perform strongly in the years ahead with several new products they will bring to the market. The completion of the third phase of Recogen will, we expect, create a more stable supply channel for coconut shell carbon in Sri Lanka. Meanwhile, operations in Thailand and Indonesia are being ramped up to supply premium carbon, for markets being developed.

The Fibre business will need to rationalise its activity in the next two years with concentration on key areas such as brushes and bio-engineering products which have great potential.

In our Textiles business, the quality of the output from Hayleys MGT Knitting Mills has been excellent, and with the business' sharp focus on closeness to its customers and a product range which gives it competitive advantage, we expect a full order book for this facility, with a growth of 15 - 20% being achieved in the ensuing year.

The Plantation business has coped reasonably well despite the sharp wage increases that followed the wage settlement in November / December and reasonable returns are expected to continue. The rubber from Kelani Valley Plantations will do well as international prices are expected to continue at current levels into the foreseeable future.

An exciting new opportunity has arisen for KVPL Teas to be marketed as single garden or valley teas. We shall be looking to develop the marketing potential this has not only for this range but also for other Sri Lankan teas, as more and more consumers in the West become aware of ethical products.

Chairman's Statement

Innovations in Agri Products, which will help strengthen existing market connections and enable new connections to be made, augur well for this business.

We expect that in Agri Inputs, the use of bio- technology which we are now beginning to use, will give us an edge domestically, and open access to overseas markets.

Substantial investments are likely to be necessary in the future in taking Hayleys Advantis' logistics management business beyond Sri Lanka in keeping with its aspirations, and in participating in some infrastructure - related projects locally.

The Consumer business, despite the current pall cast by the performance of Consumer Durables, has many activities which have performed well in the past and are capable of continuing to. Our rich portfolio of solid, internationally acclaimed brands provide grounds for enthusiasm.

A major project on the Group's drawing board for now, is a large scale mixed property development venture using land available to the Group.

We believe the Hayleys Group is well positioned to take advantage of the sustainable development that Sri Lanka must attain in the long term and are confident we will therefore provide significant benefits to all our stakeholders, including our shareholders.

Corporate brand identity

Hayleys adopted a new brand identity on 1st January 2007 to replace the earlier depiction which had served the Group well previously. The new identity is more appropriate for the Group as now constituted. While it conveys several elements important to the Group, the process through which it was developed captured the essence of Hayleys. The brand identity importantly recognises the intrinsic and continuing connection that Hayleys has with the country and its future. We expect the new identity to inspire employees to live up to the potential of Hayleys in the future. It is a fact that Hayleys is currently performing far below that potential. The new brand identity, and the motivational impact we expect it will have, are therefore timely.

Recognitions

Hayleys emerged Best Corporate Citizen and winner in the categories of Environment and Community Relations, for the third year running in the Ceylon Chamber of Commerce's competition. This is especially rewarding considering the nature of our Corporate Social Responsibility activity, which is driven not from a desire to win awards but a genuine commitment to meaningful engagement with the Sri Lankan communities we are in touch with, for their benefit and ours.

Hayleys also was runner-up in their sector in the competition run by the Institute of Chartered Accountants, for its last Annual Report.

Hayleys' subsidiary Kelani Valley Plantations and associate Mabroc achieved important recognition by the United Nations Global Compact, for the world's first "ethical tea", embracing and, through its packaging, publicizing the principles espoused by the Global Compact. This was marked by a high profile recognition event at the UN Headquarters in New York in March this year.

The Hayleys Group as a whole has during the year subscribed to the Global Compact and to upholding the principles it enshrines.

Acknowledgments

I thank all our stakeholders - our employees, our customers, our suppliers and our business partners, and shareholders and my colleagues on Group Boards for the unfailing support they have given the Group and me in what has been a challenging year.



N G Wickremeratne
Chairman & CEO

16th May 2007

Board of Directors

N G Wickremeratne

Chairman

Joined Hayleys in 1971. Appointed Group Executive Director in 1983 and to the Board in 1986. Appointed Deputy Chairman in July 2004 and Chairman and Chief Executive in January 2007. Chief Executive of Dipped Products from its inception. Holds a B.Sc. Degree from the University of Ceylon, Peradeniya. Chaired the Sri Lanka Association of Manufacturers and Exporters of Rubber Products. Served as a Committee Member of the Ceylon Chamber of Commerce and has been its representative on the National Labour Advisory Council. President of the Sri Lanka-France Business Council.

A M Pandithage

Deputy Chairman

Joined Hayleys in 1969. Appointed Group Executive Director in 1996 and to the Board in 1998. Appointed Deputy Chairman in 2007. Chief Executive of Hayleys Advantis since its inception. Director Sri Lanka Port Management & Consultancy Services. Former Chairman of the Ceylon Association of Ships' Agents. Former Director of both the Sri Lanka Ports Authority & Jaya Container Terminals.

Has overall responsibility for the Transportation Sector.

R A Ebell

Joined Hayleys in 1977. Appointed Group Executive Director in 1986 and to the Board in 1989. Fellow, Institute of Chartered Accountants, Sri Lanka and Fellow, Chartered Institute of Management Accountants, U.K. Member, Chartered Institute of Marketing, U.K. Past President, CIMA Sri Lanka Division.

Is responsible for the Group Finance and Group Human Resources functions, and other Group services.

L K B Godamunne

(Independent Non-Executive Director)

Appointed to the Board in 1998. Director Haycarb and Hayleys Exports. Currently serves as Chairman of two other, unlisted companies. Retired as Country Director, United Nations World Food Programme in 1995. Former Secretary General and Member, Board of Directors, Mahaweli Authority of Sri Lanka.

P S P S Perera

Joined Hayleys in 1977. Appointed Group Executive Director in 1997 and to the Board in 2001. Holds a B.Sc. (Hons.) Degree from the University of Peradeniya.

Has overall responsibility for the Fibre Sector. Is also responsible for the Group Export Shipping function.

A M Senaratna

(Independent Non-Executive Director)

Appointed to the Board in November 2005. Currently resides in Canada and acts as a Consultant to companies globally. Previously held senior positions with Amsterdam based TNT/TPG in Global Account Development as a member of the Global Business Development Board, as Vice President Acquisitions and Vice President and General Manager TNT Logistics North America and President-designate TNT Indonesia. He has also been associated with Celestica (former IBM Manufacturing), Ryder, Rockwell International, Canada Steamship Lines and Pepsi Cola.

Holds a B.Sc. from the University of Ceylon, Colombo, and is a Certified Management Accountant (CMA - Canada).

J D Bandaranayake

(Independent Non-Executive Director)

Appointed to the Board in July 2004. Deputy Managing Director of Ceylon Tobacco Company. Serves as a Director of Coca Cola Beverages Sri Lanka, Sampath Bank and James Finlay & Company (Colombo). Holds a Law Degree from the Open University of Sri Lanka. Fellow, Institute of Personnel Management, Sri Lanka and Fellow, Institute of Chartered Secretaries & Administrators (UK). Vice Chairman of the Ceylon Chamber of Commerce and Past Chairman of the Employers' Federation of Ceylon.

A Hettiarachchy

Joined Haycarb in 1983. Appointed to the Group Management Committee in 2001. Appointed to the Board in August 2004. Chartered Engineer, Member of the Institute of Production Engineers (UK) and Member of the Institute of Electrical Engineers (UK).

Has overall responsibility for Purification Products and for Recogen in the Power & Energy Sector.

Board of Directors

M R Zaheed

Joined Hayleys in 1981. Appointed to the Group Management Committee in 2001. Appointed to the Board in August 2004. Holds a B.A. (Hons.) Degree from the University of Kelaniya and an MBA Degree from the University of Colombo. Served as Vice Chairman of the Imports Section, Ceylon Chamber of Commerce.

Has responsibility for the Agri Inputs, Agro Products and Consumer sectors.

J A G Anandarajah

Joined DPL in 1980. Director of DPL since 1989. Appointed to the Hayleys Group Management Committee in 2001 and to the Board in January 2007. Holds a B.Sc. (Hons.) Degree in Chemistry from the University of Peradeniya. Associate Member of the Institute of Chemistry, Sri Lanka.

Has responsibility for the Hand Protection Sector and for Kelani Valley Plantations in the Plantations Sector.

T L F Jayasekara

(Independent Non-Executive Director)

Appointed to the Board in 2006. Group Finance Director of Brandix Lanka. Previously held positions including Group Finance Director of Aitken Spence & Co. and General Manager Deutsche Bank. Fellow, Institute of Chartered Accountants of Sri Lanka and Associate, Chartered Institute of Management Accountants, UK. Member of Sri Lanka Accounting and Auditing Standards Monitoring Board as representative of CIMA. Also serves as a director of Lanka Ventures.

Each Director listed above has no immediate family and/or material business relationship with any other Director of the Company.

Executive Directors also serve on Boards of Group Companies and Companies in which the Group has investments. These appointments are not individually disclosed above in the interest of brevity and simplicity. Group Companies and their directorates are separately disclosed on pages 148 & 149.

Audit Committee

T L F Jayasekara - Chairman

L K B Godamunne

J D Bandaranayake

Remuneration Committee

L K B Godamunne - Chairman

N G Wickremeratne

J D Bandaranayake

A M Senaratna

T L F Jayasekara

Nomination Committee

N G Wickremeratne - Chairman

L K B Godamunne

J D Bandaranayake

A M Senaratna

T L F Jayasekara

Group Management Committee

Members

N G Wickremeratne (Chairman & Chief Executive), A M Pandithage (Deputy Chairman), R A Ebell, P S P S Perera, A Hettiarachchy, M R Zaheed, J A G Anandarajah, M M M De Silva, M O Raban, H C S Mendis, G K Seneviratne, D B Weerasinghe

The profiles of Executive Directors are shown under the Board of Directors. Other Group Management Committee Members are

M M M De Silva

Joined Hayleys in 1983. Appointed to the Group Management Committee in 2001. Holds a B.Sc. Degree from the University of Peradeniya. Fellow, Institute of Chartered Accountants, Sri Lanka and Associate, Chartered Institute of Management Accountants, UK. Has a Postgraduate Diploma in Business Management from the Post-graduate Institute of Management, University of Sri Jayawardenapura.

Has responsibility for the Industrial Solutions Sector, for companies other than Recogen in the Power & Energy Sector and for Talawakelle Tea Estates in the Plantation Sector.

M O Raban

Joined Hayleys in 1970. Appointed to the Group Management Committee in 2001 and Managing Director of Hayleys Advantis in April 2007.

Has responsibilities within the Transportation Sector.

H C S Mendis

Joined Hayleys in 1983. Appointed to the Group Management Committee in 2001. Holds a B.Sc. (Hons.) Degree from the University of Colombo. Fellow, Chartered Institute of Management Accountants, UK, Member, Chartered Institute of Marketing, UK, and a Chartered Marketer.

Has responsibilities within the Fibre Sector.

- **Global Markets & Manufacturing Grouping Convenors:**
P S P S Perera (Lead), A Hettiarachchy/
J A G Anandarajah/H C S Mendis/D B. Weerasinghe
- **Agriculture & Agri Business Grouping Convenors:**
M R Zaheed (Lead), M M M De Silva/G K Seneviratne
- **Transportation, Infrastructure & Consumer Grouping Convenors:**
A M Pandithage (Lead), M O Raban/M M M De Silva

G K Seneviratne

Joined DPL Plantations in 1992 and appointed to its Board in 1995. Director of DPL since 1998. Appointed to the Group Management Committee in 2007. Chief Executive of Kelani Valley Plantations since 1984. Chairman of the Planters' Association of Ceylon and Director, Sri Lanka Tea Board, Rubber Research Board, Plantations Trust Board and the Tea Association of Sri Lanka. Served as consultant, Investment Monitoring Board-JEDB/SLSPC Estates.

Has responsibilities within KVPL in the Plantation Sector.

D B Weerasinghe

Joined Hayleys in 1988. Appointed to the Group Management Committee in 2007. Structural Engineer. Holds a B.Sc and an MBA degree from the University of Colombo and a Post Graduate Diploma in Industrial Engineering from the National Institute of Business Management.

Has responsibility for the Textiles Sector.

Management Discussion and Analysis

Global Markets & Manufacturing

- Fibre
- Hand Protection
- Purification Products
- Textiles

Agriculture & Agri Business

- Agri Inputs
- Agri Products
- Plantations

Transportation & Infrastructure

- Industry Inputs
- Power & Energy
- Transportation

Consumer & Leisure

- Consumer Products
- Resorts

Sector

Plantations



Fibre



Industry Inputs



Hand Protection



Power & Energy



Purification Products





Textiles



Agri Inputs



Agri Products



Transportation



Consumer Products



Resorts

Profiles



Fibre

Fibre

Product Portfolio

Hayleys has become a global market leader in value added Coir Fibre and Fibre products over the decades. The range spans Brushware, Floor Coverings, Industrial Fibres and Bedding & Cushioning. The Product range provides eco-friendly solutions, contributing to a greener tomorrow.

Our achievements...

- We are the World's largest producer of natural fibre brushware and account for a 22% share in this segment.
- We are the World's No.1 supplier of coir twine, for agriculture and aqua culture, accounting for 55% of the global market
- We have in our range over 400 patented floor covering products
- We are the largest supplier of curled fibre to the motor car industry.



External Impacts

There was a significant improvement in the coconut crop and thus the availability of husks consequent to favourable weather conditions experienced. The crop for the current financial year is likely to be similar to that of the year being reviewed and should yield an adequate supply of raw fibre.

Fibre prices continued to increase during the year but it was possible to pass the cost increases through to buyers due to steady overseas demand.

The prices of timber, rubber and imported inputs used in value added products escalated sharply. There was a time lag before these increases could be recouped.

Significant appreciation of the currencies of European countries to which a considerable proportion of production is exported, impacted positively. However the combined effects of rising interest rates and inflation still dragged down profitability.

The late onset of winter in European regions changed demand patterns, which affected the Floor Coverings sector adversely.

Key Initiatives for the year

The sector entered the local market for bedding with "Right Comfort" branded mattresses. The product has shown promise, in value and volume. Despite no concerted marketing being undertaken in this first year of operation, a movement of approximately 3,000 units per month was realized, with strong growth potential. The sector will approach regional markets - India, Pakistan and Bangladesh- when production is adequately built-up.

The Mat King branded range of door mats was also introduced to the local market during the year. The product is distributed through leading supermarkets and has performed encouragingly.

A processing unit was set up in Beliatta in the deep South of Sri Lanka after a successful campaign to enhance Fibre production in that area. This will help improve the overall stability in supplies of raw fibre while contributing to socio-economic development of the area.

Fibre

Industrial Fibres

The core business of the segment recorded a significant improvement with trading profits posting a steep increase over the previous year. A surge in exports of bio- engineering products contributed substantially to this profit enhancement.

The losses incurred by Fibre Pith & Felt exports were halved during the year. The segment has taken steps to bring both to profitability during this year.

Bedding & Horticulture

Profits improved with increasing demand for the bedding and horticultural range.

Improvements to production lines increased output and quality. The gains thus realized underpinned this improvement.

The joint venture in China commenced production of bare blocks for mattresses in April 2006. The output achieved is less than expected as deep winter in Northern China lengthened the curing time. Additional machinery to overcome this bottle-neck has been sourced and installed.

Brushware

The segment is the dominant global supplier of natural fibre brush ware to the janitorial and construction industries. It posted a significant improvement in profits. The thrust in the new year will be on capacity expansion and market expansion in the USA.

Floor Covering

The segment recorded a marginal operational profit.

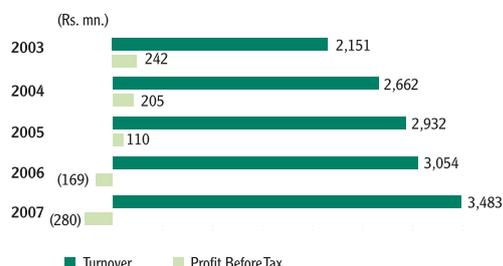
The US market reflected a decline in sales during the year. This necessitated an intensive revitalization effort, which resulted in the identification of two new distribution channels. The results of this will be evident in the current year.

The ethical business practices followed by the segment have set it apart from most competitors from India, Vietnam, Indonesia and China. The segment has been certified by retailers Target, Kmart, Wal-Mart and Japanese retail chain Jusco as a compliant supplier.

Onril the joint venture company promoted by the segment posted disastrous results as it could not produce articles at competitive prices. The input from the foreign shareholders was very disappointing. Due to the deterioration of the relationship between the joint venture partners, we have been compelled to sever connection with the joint venture partners as well as with Onril including the resignation of our nominees on the Board of Directors of Onril. We have also taken some of the issues with them to court. The investment in Onril, and other exposures, were provided for in full during the year.

These provisions plunged the Fibre sector as a whole into a loss.

	2007	2006
Return on capital employed	0.09%	0.4%
Avg. capital employed (Rs. mn.)	2,932	3,235
Investment in property, plant & equipment (Rs. mn.)	99	672





Hand Protection

Hand Protection

Product Portfolio

DPL, an internationally renowned rubber glove manufacturer provides a continuing stream of high value, new product innovations in protective hand wear, true to its promise "Handling you with care".

- A global player servicing up to 5% of demand in developed and emerging markets spanning 63 countries.
- Operates 7 production facilities in Sri Lanka and Thailand.
- "Palmrite", "DPL Occupational" and "DPL Palm-pro" are DPL's power brands for Consumer, Industrial and Healthcare sectors.
- Product portfolio presently extends over 65 glove categories and 284 versions made of natural and synthetic latex.
- ISO 9001: 2000 accredited.
- Certified to British Retail Consortium Global Standard for Consumer Products by SGS UK.
- Impressive clientele ...
Serving the UK National Health Service in the Industrial and Healthcare sectors and present in leading retail chains - Tesco, Sainsbury's, Asda Walmart, Morrisons, COOP, Eroski and Waitrose.



Overview

Manufacturing operations in Sri Lanka turned in a noteworthy performance despite continued turbulence in rubber prices and increases in other input costs. The profit attributable to this segment improved more than 80% on that registered in 2005/06.

Medical glove manufacturing operations in Thailand however experienced another difficult year. Apart from the impact of rubber prices, appreciation of the Thai Baht against the US Dollar affected overall performance.

ICO Guanti SpA recorded satisfactory growth both in sales and profits.

Sri Lankan manufacturing operations

Expanded production of Texnil and the extra capacity from Hanwella Rubber Products (HRPL) since its acquisition in June 2006 largely contributed to the higher sales volume from Sri Lanka. The third dipping line commissioned at Venigros midway in the previous year contributed significantly over a full twelve month period. All local manufacturing operated at optimum levels.

The year witnessed an unprecedented ascent in global rubber prices, pushing these to historical highs. Prices in Sri Lanka passed the Rs. 300 mark for the first time. Exceptional volatility of the rubber market required product prices to be adjusted several times in the year, an occurrence unique to this year. This created a degree of uncertainty in gauging demand and in forecasting production to match order quantities.

The production capacity for seamless knitted gloves was doubled at Texnil, with several technological improvements aimed at upgrading product quality. This allowed attainment of economies of scale and enhanced prices, making the venture profitable. Revenues from the operation tripled over the previous year partly due to introduction of new styles of higher value to this range.

The Group acquired a 70% stake in HRPL in the first half of the year. A production plant was converted to produce "flock free"

Hand Protection

latex gloves primarily for the food industry. HRPL operations were progressively integrated during the year within the manufacturing and management systems of DPL. By the end of the period - in ten months from acquisition - the company recovered more than 50% of its accumulated losses of previous years. It is realistic to expect the turn around to be complete in 2007/08. The takeover of HRPL is of significance and has brought new learnings as DPL added capacity for the first time by acquiring an ongoing operation.

Flock manufacturing of Feltex commenced commercial operations albeit on a limited scale. The project registered a modest profit.

Dipped Products (Thailand)

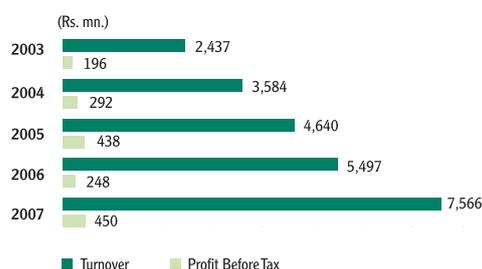
Though DPTL's operations in Thailand registered a sharp increase in turnover, it still performed below potential, utilizing 62% of installed capacity. The problems associated with commissioning of some ancillary equipment persisted and prevented optimum capacity utilization. Softening of orders, particularly in the face of attempts to pass on the impact of rising rubber and energy costs forced the factory to operate under half capacity in October and November 2006. A near 12% appreciation of the Thai Baht in the period worsened the situation in a year that contained many challenges. The strong local currency continues to be a matter of serious concern for all exporters in Thailand. Attempts by the Thai government to remedy the situation have not yet brought results.

	2007	2006
Return on capital employed	14%	12%
Avg. capital employed (Rs. mn.)	3,892	3,459
Investment in property, plant & equipment (Rs. mn.)	148	482

Marketing

DPL entered five new markets in the year, with products now reaching a total of sixty-three countries. During the year, over two dozen new customers came into the company's fold. While Europe and North America remained major destinations, exports to Asia, Africa and South America showed sizeable growth.

The company's own brands Palmrite, DPL Occupational and Palm-Pro are presently available in thirteen countries. It is encouraging that DPL brands are receiving increased acceptance not only in emerging territories but also from established distributors in mature markets.





Purification Products

Purification Products

Product Portfolio

Haycarb is a pioneer in manufacturing eco-friendly coconut shell based activated carbon. Its product range includes standard, washed and impregnated carbons in granular, pellet and powder form. We also have the capability to regenerate and return spent carbon to chemical industries in which it is used.

Activated carbon is used widely in water purification, air and gas purification, and solvent and gold recovery. The Company has been able to widen its portfolio to include high value-added products such as those used in vehicle cabin air filters, point-of-use water filters, military and industrial gas masks, cigarettes and medical applications. The company also provides turnkey solutions for treatment of raw water, liquid effluents, sewage, solid waste management, air pollution control and noise abatement.

The division also provides engineering services to clients for utilization of bio mass for both power generation and thermal energy to counter the ever increasing cost of fossil fuels.

- We are the largest coconut shell based activated carbon manufacturer in the world.
- We account for 15% of global production.
- We have expanded overseas, establishing production centres in Thailand and Indonesia.



External Impacts

Haycarb Group turnover increased and the Group made a return to profit in 2006/07.

The improved performance was helped by increased supplies of raw material (coconut shell charcoal) in Sri Lanka, a result of good weather conditions. It must be emphasised, still, that Sri Lanka's annual charcoal supply barely exceeds 50,000 MT, while the installed capacity of activated carbon producers in Sri Lanka requires more than 60,000 MT of charcoal each year.

The appreciation of currencies and an increase of operational costs in manufacturing operations in Indonesia and Thailand continued to constrain performance.

A positive development for the long run is the countervailing duty imposed by the US on Activated Carbon from China. This provides an opportunity to regain market share lost due to the dumping of coal based activated carbon by China. Oil prices and transportation costs are expected to continue rising, affecting supplies of low cost carbons. This will be aggravated by an increase in the use of charcoal as an energy source. Therefore the demand for Coconut Shell-based Activated Carbon should enlarge, with prices increasing.

Key Initiatives

2006/07 saw a comprehensive recovery plan being implemented to ensure profitability and growth in the future. A manufacturing facility acquired and upgraded in Sulawesi, Indonesia performed commendably, and should continue to.

The sector made progress in moving from demand-based manufacture to pro-active market forecast-based manufacture. Initiatives are in hand to market directly to end-consumers.

The subsidiaries in Europe and Australia were given close attention by Haycarb, to increase their marketing effectiveness. Despite more focused marketing the sector has been unable to combat low-priced competition from the region. It is now re-positioning itself as a provider of high-quality, high-end products in these markets.

Purification Products

Successfully breaking into the cigarette filter carbons market, the sector secured a contract from a leading global manufacturer.

In Europe, progress has been made in catering to new, specialised applications for new market segments. The gestation period for customer acceptance will be long, but by working closely with customers the sector hopes to see benefits before long.

Geared with the know-how and experience to tailor particle size distribution and the surface properties of carbons, the company is developing new products to match specific applications.

Recogen

This wholly-owned subsidiary of Haycarb, created to secure the supply of coconut shell charcoal for Haycarb's Sri Lankan plants and help reduce damage to the environment by traditional charcoaling methods, has run for one and a half years.

Residents in the vicinity of this plant were fearful of the pollution such a large-scale charcoaling facility would cause. Their concerns have been alleviated through close engagement aimed at demonstrating the full impact on the environment.

Puritas

The sector's environmental-engineering company which uses Haycarb expertise and carbon technology to help customers control pollution failed to meet required returns. The company won a considerable number of projects late in the year. The returns from these should flow into 2007/08.

The company produced and launched an activated-carbon face mask for urban pedestrians, farmers and medical workers during the year.

Kinetics

Kinetics is a non-core investment of the Purification sector. The company will be divested during the year.

Overseas Operations

Carbokarn, Haycarb's Thai subsidiary, did well despite appreciation of the Baht, owing to its ability to fetch higher prices in Thailand and a sharper focus on value-added products.

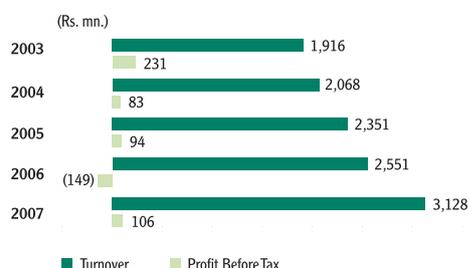
CK Regen Systems is now reaching even small-scale carbon users who need to regenerate spent carbon for environmental reasons.

The Australian subsidiary, Haycarb Holdings (Australia) showed some recovery due to regained market share.

Eurocarb Products was streamlined operationally. The impact will be seen in the medium-term.

Plant modifications have been completed and new kilns commissioned at PT Mapalus Makawanua Charcoal Industry, in Indonesia. Operating at encouraging capacity levels the company increased its productivity. Steps are being aimed at developing the Indonesian market.

	2007	2006
Return on capital employed	9%	-4%
Avg. capital employed (Rs. mn.)	2,370	1,866
Investment in property, plant & equipment (Rs. mn.)	136	88





Textiles

Textiles

Product Portfolio

Hayleys MGT Knitting Mills produces high quality knitted fabric for the Sri Lankan apparel industry and for direct export .

Its product range extends to cotton, 100% polyester and lycra-based fabric, and includes micro fleece and polar fleece, on all of which it has earned an enviable reputation for service and quality.

- Production capacity of 1,000,000 kgs of fabric per month
- 450,000 sq.ft. plant set on 32 acres of land
- ISO 9001: 2000 and ISO 14001 certified production facility
- Accredited by Marks & Spencer, NEXT, Bhs, Tesco, Sainsbury, Adams, Woolworths and Mothercare
- First Company in Sri Lanka to win the Asia Pacific Quality Award at the International Asia Pacific Quality Award Ceremony 2005
- Winners of the National Quality Award and National Industrial Safety Award



External Impacts

The year 2006/07 heralded a change in the regulatory framework for the Generalized System of Preferences (GSP). The GSP scheme consists of a series of unilateral concessions offered by developed countries, including the EU, to developing countries for a predetermined list of industries. In December 2006, the preferential agreement was amended in favour of certain core industries including textiles. The GSP + benefit therefore, was further extended to the textiles and garment industry of Sri Lanka. Whilst the benefit of the preferential trade agreement is yet to be witnessed, it is expected that the full positive impact will be felt in the financial year 2007/08.

Continuous increases in oil prices pushed the Textile Sector's energy costs upwards throughout the year. The cost of furnace oil rose by 80%, above the increase anticipated during the year. Electricity added to the enlarged energy bill until the government issued a subsidy for core industries in January 2007.

Key Initiatives

The sector undertook a capacity expansion initiative during the year in review coupled with supply chain initiatives. Focused on a lean supply chain management strategy, the sector strived to achieve a zero stock vendor management system giving vendors good visibility of the business and its needs.

The only producer of polyester fabric in Sri Lanka and in the region, the textile sector benefited from this competitive advantage but continued to innovate in an effort to maintain pre-eminence in the marketplace. Placing a greater business focus on products such as polyester fabric, polar fleece and micro fleece, the sector looked to enhance the viability of the business in the long term through a value addition process. The sector commenced production of real cool cotton in a bid to enter and explore the finished goods segment of the European market. As Sri Lanka's only producer of wool fabric, the sector was successful in establishing direct exports to the garment manufacturing hub Vietnam. The sector established itself as

Textiles

a growing and recognized supplier of lycra and polar fleece fabric exporting to the EU.

Research and development in stain resistant fabric, moisture control fabric and teflon coated, enzyme finished and recycled polyester fabrics have enabled commencement of production of a new range of products in 2007/08. Aligning production to the design themes and requirements of large scale European and US retailers, the sector successfully positioned itself in a niche market. Establishing itself as a strategic supplier to significant players in garment accessories and value added garments, the sector recorded healthy increases in turnover and profit, resulting from the conjunction of capacity expansion and innovation during 2005/06.

From a market development perspective, the sector approached and garnered buyers of the likes of Reebok, Nike, Decathlon and Umbro in the activewear segment.

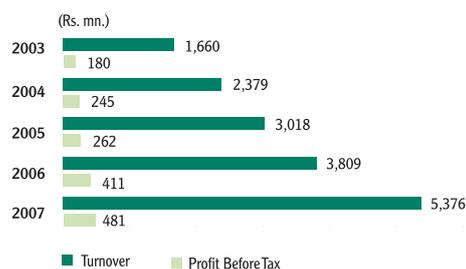
The GSP + benefit provided the sector with an opportunity to approach large scale domestically- based exporters in the local market through other glove and garment producers. Moreover, the preferential tariff was an impetus for customers from the United Kingdom to purchase in larger quantities from Sri Lanka. This benefited the sector given its competitiveness in certain value added products.

The sector moved towards a strategy aimed at reducing the role of the middleman. Approaching retailers directly the sector strived to meet the design, production and ethical specifications of retailers and comply with Fair Trading Certification in keeping with the Group's concern for the environment, sustainability and the overriding practices of responsible commerce.

Future Intent

Reaping positives from ESOP's implemented in 2005/06, the sector posted healthy returns during the year. Looking forward, the sector targets sales revenues of USD 62 million for the year 2007/08, up from USD 51 million in 2006/07 whilst strategically focusing on products that are environmentally friendly.

	2007	2006
Return on capital employed	19%	18%
Avg. capital employed (Rs. mn.)	3,299	2,951
Investment in property, plant & equipment (Rs. mn.)	486	302





Agrotec

Combine Harves

MARKETED & SERVICE BY,
HAYLEYS AGRO
HAYLEYS AGRO PRODUCTS LT
No. 25, Foster Lane, Colombo - 1

Agri Inputs

Agri Inputs

Product Portfolio

Hayleys Agro Products, a prominent player in the country's agro sector, offers a wide array of agri inputs combining Business to Business (B2B) activity involving plantation companies and large agricultural establishments with sales to retail customers (B2C) reaching farmers spread across the entirety of Sri Lanka.

The product range includes crop protection chemicals, vegetable seeds, seed paddy, seed potatoes, fertiliser, agri-equipment, micro-irrigation systems and animal health products.

Our efforts are geared towards introducing a comprehensive model for the improvement of Sri Lanka's economy, sharing R&D knowledge, technology, marketing techniques and best practices. We are also rehabilitating tanks in selected areas to achieve this goal.

- We represent world renowned principals -
Bayer Crop Science, Monsanto, Nufarm, Dow Agro Sciences, Den Hartigh, Dongbu Seeds, Hipra, Detia Degesch to name some.
- Our products are widely available in over 90% of the country's agricultural outlets
- We directly reach out to over 300,000 farmers and growers through a range of extension services.



Innovative Offerings

Innovation is the key to the success of Hayleys Agro. During the year under review, this was again a key competency of the company. The company introduced to the market a new generation crop protection product. The introduction of "Success" (spinosad) from Dow AgroSciences enabled Hayleys Agro to position a low toxicity crop protection product in the market in keeping with the "Integrated Pest Management Concept".

The Agri-Equipment business, was able to actively engage with the farmer community to understand and make available a product fitting the needs of the small scale farmer. The introduction of the mini-thresher, combine harvester and combine thresher have allowed better quality harvesting and threshing and made cost efficiencies available to the farmer community.

To meet the needs of the Sri Lankan farmer and respond to cumbersome importation procedures, Hayley Agro is in the process of developing improved varieties of seed potatoes to meet the total local requirement.

During the year under review, the company has been exploring the potential marketability of herbal medicinal extracts for nutraceuticals. Based on herbal extracts, these phytochemicals will attract considerable demand in overseas markets.

For phytochemicals and horticultural tissue culture plantlets, Hayleys Agro has been aggressively targeting the EU and Australian markets.

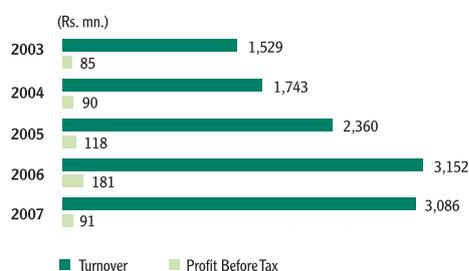
Sectoral Outlook

Agro Fertilizers increased market share whilst in the Agro Farms sector, seed paddy production commenced, with the active participation of outgrower communities. High quality seed production was a key outcome.

In the Animal Health sector performance was commendable, with visible growth in the poultry vitamins and mineral segment. Pet care also shows growth.

Market shares of mixtures and crop specific mixtures of fertilizer saw growth. In Crop Production, despite low cultivation extents, the business posted a stable return.

The trial production of Spanish Peppers and Jalapenos indicated positive trends and are expected to contribute to the strong growth of the processed agri-products sector in 2007/2008.



	2007	2006
Return on capital employed	21%	28%
Avg. capital employed (Rs. mn.)	1,250	1,089
Investment in property, plant & equipment (Rs. mn.)	55	12



Agri Products

Agri Products

Product Portfolio

Our value added agricultural export portfolio includes semi-processed and processed vegetables and fruit with pickled gherkins, silver - skin onions, chillies, bell peppers, relish and mixed vegetables being exported in bulk and retail packages .

- Sri Lanka's sole exporter of gherkins
- Second largest exporter in Asia, processing around 6,000 tonnes of gherkins annually
- FDA approved and HACCP certified
- Major supplier to world renowned brands - McDonalds, Burger King, Unilever and Heinz
- Holds a 50% share of the Japanese market in bottled pickles

In our truly pioneering spirit, Hayleys entered into a joint venture with Syngenta Seeds BV, Netherlands in the early 1980's, to export hybrid flower seeds. Today, we are well poised to capitalise on the world trend towards the use of improved high-yielding seeds in floriculture.

- Sri Lanka's sole exporter of hybrid flower seeds
- Using innovative technologies to improve yields and quality



HJS Condiments

The trial production of Spanish Peppers and Jalapenos was encouraging and operations will be expanded in 2007/08.

Improved performance through diversification into the processed fruits market is expected to propel growth in the long term. With this in mind, the sector explored the viability of a range of special product lines including banana, mango and jak fruit. The sector increased production capacities for processed fruits during the year, with the aim of tapping the large European market.

For gherkin slices, specific market development was initiated with entry into the Middle East and Africa. Relish saw a significant growth in the Asian market.

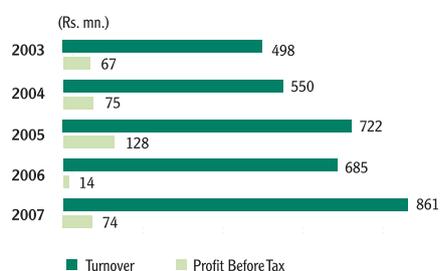
Implementing a lean manufacturing model, the sector adopted concepts and processes that reflect what is commonly known as the 'Toyota way' in production and operations management. The result of this will be evident during 2007/2008.

Quality Seed Company

Quality Seed Company the first and still the only hybrid flower seed producer in Sri Lanka, is making steady headway in producing seeds that achieve stretched international standards of 95 to 99 per cent germination of all its varieties and combinations. By supplying orders on time and adhering to stringent quality standards, the company continued to dominate production for global flower seed giant 'Syngenta seeds B.V.'. Use of new agri- technologies and implementation of productivity measures and practices such as rain water harvesting to meet irrigation water requirements, have helped increase the business' competitiveness in the global market.

Future Outlook

In the processed fruit and vegetable segment the future emphasis will be on diversifying the product and market portfolio. The sector will work closely with farmer communities to understand their specific needs, impart new technologies and know-how and consistently seek innovation.



	2007	2006
Return on capital employed	13%	6%
Avg. capital employed (Rs. mn.)	626	522
Investment in property, plant & equipment (Rs. mn.)	87	57



PEKOE

Plantations

Plantations

Product Portfolio

The Group owns and manages Kelani Valley Plantations (KVPL) and Talawakelle Tea Estates (TTEL). Our tea estates span all four agro-climatic zones, with the unmatched taste and flavour that is synonymous with Pure Ceylon Tea.

KVPL's Oliphant Green Tea, is manufactured at the highest elevation of 1,950 metres above sea level. KVPL and its marketing associate Mabroc Teas have achieved a world first with an international launch of a unique new range of single garden teas complemented by blended teas from KVPL, positioned as "The Ethical Tea Brand of the World".

With quality assurance and eco- friendly practices pursued relentlessly in all our factories, TTEL proudly markets high value teas including "Holyrood", "Great Western", "Somerset" and "Mattakelle" while KVPL enjoys prestige with brands such as "Lovers' Leap", "Mahagastota", "Inverness", "Robgill", "Fordyce", "Ingestre", "Halgolle" and "Kelani".

- We produce 5% of Sri Lanka's tea and 4% of its rubber.
- We own and manage 44 tea and rubber estates covering over 19,500 hectares of land.
- TTEL pioneered the "food factory" concept in the industry with Great Western being the first to obtain the prestigious HACCP certification.
- KVPL became the first plantation company in Sri Lanka to have all its black tea manufacturing facilities awarded HACCP certification and ISO 22000:2005, the international Food Safety Management System and the Tea Association of Sri Lanka's TASL-SGS product certification.
- Our rubber estates are certified under the SGS QUALIFOR Programme as well- managed plantations on having met the ten principles and fifty seven criteria of the FSC's documented quality forest management system. This certification endorses the long-term quality of our rubber properties as environmentally sensitive, socially responsible and economically viable.



Kelani Valley Plantations (KVPL)

KVPL posted a profit growth of 92%. Turnover increased by 21% from tea and rubber, which rose by 11% and 44% respectively. KVPL was able to record a very substantial pre-tax profit despite suffering a considerable loss of production in tea and rubber on account of industry- wide work disruptions spanning a thirty-day period over wage negotiations. However, significant growth was realized due to robust rubber prices that prevailed during the year.

Tea production registered a decline of 6%. Rubber registered a marginal increase despite the exceptional wet conditions experienced in the period preceding the trade union action. Kelani Valley Green Tea increased production by 48% to meet greater demand, and recorded a modest pre-tax profit. The centrifuged latex production at Kiriporuwa grew by 5%. The boron rubber wood plant at Panawatte improved on its 2005 performance in both output and profit. Kalupahana Power Company was handicapped from operating at the planned capacity due to additional restrictions placed by the local authority, over and above the stipulated requirements of the CEA, and ended the year with a loss.

The wage revisions that became effective in November saw the daily basic wage rate rise by 26% for tea and 36% for rubber. The impact of the wage increase was Rs. 64 million for the period under review. The wage rise will substantially affect profits in the ensuing year unless productivity increases are achieved and there are concurrent rises in produce prices.

KVPL's efforts to minimize energy costs continued with conversion of the drying process in three factories, from dependence on liquid fuel to the use of hot water systems, at a cost of Rs. 50 million. Four more locations will be converted in 2007 at an estimated cost of Rs. 55 million. The Kelani Estate mini-hydro power plant was upgraded to generate at its full capacity.

All thirteen black tea factories of KVPL have completed accreditation as per the international food safety management system. These factories have achieved HACCP (Hazard Analysis and Critical Control Points) certification and ISO 22000:2005. In addition, they were

Plantations

certified under the SGS-TASL product certification as compliant with stringent specifications on heavy metal, microbiological and pesticide residues sought by large tea buyers.

KVPL and its marketing associate Mabroc Teas became signatories to the United Nations Charter on the Global Compact, the world's largest CSR network. This UN Charter brings commercial business together with UN agencies, labour and civil society in support of universal environmental and social principles.

The company has initiated "A Home for Every Plantation Worker" programme to pursue its efforts to enhance the living standards of its estate community.

A new range of Mabroc-Kelani Valley teas positioned as "The Ethical Tea Brand of the World", comprising six single-garden teas complemented by a valley range of blended teas of KVPL was launched in March 2007. This was acknowledged as the first product brand in the world to have committed to advocate the ten principles of the Charter in its packaging, at a high profile event in the UN Headquarters in New York on 19th March 2007.

Talawakelle Tea Estates

Primarily in tea producing, with a production of 7.6 million /kgs, for 2006, Talawakelle Tea Estates was impacted by the go-slow /strike and inclement weather during the year. Production in high and low grown elevations recorded a decline from the previous year.

The company was ranked No. 1 on tea prices amongst RPC's for the fifth consecutive year. The company focuses on quality as opposed to volume. Drawing on direct marketing efforts to push niche products

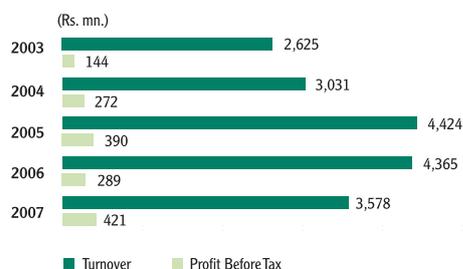
such as unblended, "direct from the garden to the cup" products, the company looked to innovations in marketing and the product portfolio. With ethical marketing being a growing trend, TTEL joined the Ethical Tea Partnership Certification scheme and now have seven tea gardens certified.

A major drive on replanting took place during the year. With Rs. 76 million expended on the initiative, the company is investing in the future of the plantations. Enhancing production facilities to obtain HACCP/ISO certifications in parallel, has raised TTEL's ability to produce better teas. A modern tea factory is to be constructed at Logie estate, to overcome production limitations there. These steps all help direct TTEL towards its goal of being a truly premium tea producer.

The company has entered into a JV with Hayleys Industrial Solutions to develop hydro power resources on Somerset and Palmerston estates to meet its power requirements. The anticipated capacity of 1.8 MW is expected to be commissioned in 2007/08. The company has also converted its petroleum-based fuel-fired driers to fuelwood using hot water boiler systems, thus achieving a major milestone in its energy-cost management strategy.

The company's CSR initiatives for the year included programmes to assist state hospitals in the vicinity of its estates to upgrade their facilities and improve health and social amenities available to its employees. TTEL's agricultural policy and practices promote sustainable agriculture and care for its environment.

	2007	2006
Return on capital employed	14%	11%
Avg. capital employed (Rs. mn.)	3,780	3,794
Investment in property, plant & equipment (Rs. mn.)	469	305





Industry Inputs

Industry Inputs

Product Portfolio

Hayleys Industrial Solutions, providers of engineering solutions for power systems and infrastructure projects, have extended activities beyond Sri Lanka, into the Maldives. In addition they are a longstanding supplier of industrial inputs to the textile and other manufacturing industries.

- We are the sole agents of leading International Principals in Sri Lanka - Volvo Penta, Lister Petter, Tempest, Philips Lighting, Bayer, Dystar, Cabot, Symrise, Polymer Latex, Lanxess and Elementis among others

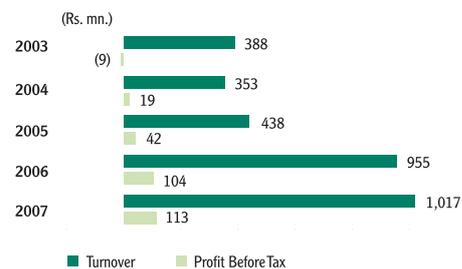


Sectoral Outlook

The sector reviewed its marketing processes and refined them to curtail their costs. It reaped benefits from a concentrated strategy to tap high-end, large-scale and often large-volume customers. Similarly, the product portfolio was structured to create a clear differentiation in the sector's offerings. Taking on a specialist's role, the sector looked to large-scale product offerings to make its business more meaningful and productive.

Currency fluctuations created continuing price variation, helping competitors from countries like India and China to penetrate the market and increase competition.

	2007	2006
Return on capital employed	25%	28%
Avg. capital employed (Rs. mn.)	548	384
Investment in property, plant & equipment (Rs. mn.)	-	7





Power & Energy

Power & Energy

Product Portfolio

The Power & Energy sector covers solar, hydro and bio-mass, and focuses on the recovery of waste energy. We are in the process of exploring other renewable energy opportunities. We intend that our efforts will reduce some of the adverse impacts of continued reliance on conventional energy forms.

Recogen, a subsidiary of Haycarb Group, will eventually add 5.2 MW to the national grid, using waste-heat generated in the production of coconut shell charcoal.

Through Hayleys Hydro Energy, several plants are being developed to eventually provide 15 MW of hydro energy to the national grid.

We have also established dendro/ bio- mass power plants, using the short rotation crop of *Gliricidia sepium*, to develop thermal and electrical energy for commercial and industrial purposes.



Sectoral Outlook

During the year, the sector's emphasis on alternative fuel and energy sources received additional emphasis.

On the bio-diesel front, the sector is focusing on using palm oil for bio-diesel production in the face of rising demand overseas.

The emphasis on solar energy declined as the sector moved away from commoditization in the consumer solar panels market and relinquished its stake in Suryavahini. The company is now examining the prospects of manufacturing larger capacity solar panels.

Hydro power remained the core focus for alternative energy. With three projects under construction, the sector targets completion and commissioning of these in the ensuing year. This will add to the two fully commissioned projects now in place.

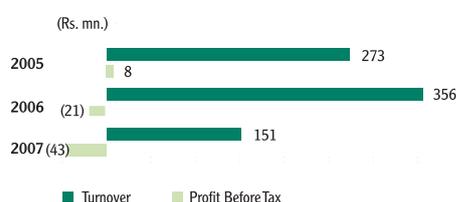
Funding remained a challenge for power and energy related projects. The Government must help ease this difficulty.

The viability of wind power is currently being assessed and will be explored further in 2007 /08.

Key Initiatives

During the year, a major highlight was the success met on a number of projects in the Maldives. Two of these provide electricity to nine of the outer islands there whilst another caters to the power and energy needs of the Malé International Airport.

	2007	2006
Return on capital employed	-2%	-2%
Avg. capital employed (Rs. mn.)	360	255
Investment in property, plant & equipment (Rs. mn.)	410	252





Transportation

Transportation

Product Portfolio

Hayleys Advantis Group's business portfolio offers comprehensive integrated end-to-end logistic solutions. Counting over four decades of expertise in related industries, it has diversified to provide a comprehensive range of transport and logistics services. The Group's airline division represents some of the world's leading cargo and passenger airlines. It also ventured into ship - owning and management, with two medium-sized container vessels. The introduction of Air India Express flights to Colombo - the budget airline of Air India - strengthened the Group's Airline division. The provision of Auto Logistics services to the motor car industry in Sri Lanka expanded the scope of Transport and Logistics services of the Group. The Group also ventured overseas in the provision of Logistics and Supply Chain Management (SCM) services in India and Fiji.

Some of our accomplishments ...

- Being one of the largest shipping agency houses in Sri Lanka
- Accounting for approximately 12.5% of the container throughput of the Port of Colombo
- Having a 34% share of car carrier imports in 2005/06
- Being one of the largest Freight Forwarder groups in Sri Lanka
- Owning the most modern multi-user warehousing and distribution facility in South Asia with over 340,000 sq.ft. of managed space
- Having the first Container Depot in Sri Lanka to be accredited with ISO certification



Sectoral Outlook

The financial year 2006/07 witnessed an increase in the handling of transshipment containers by the Group. The increase in the vessel capacities of container lines servicing Sri Lanka's export/import trade, resulting in a significant deterioration in rates, had a double effect on Group businesses- a reduction in agency commissions of the shipping sector and a reduction in margins of the International Freight Forwarding sector. Rising energy costs affected Third Party Logistics (3PL) and distribution centre activities.

The re-branding exercise carried out in the previous financial year allowed Hayleys Advantis to reap the benefits of a cohesive brand identity. Pushing the image of the transportation sector upwards, the brand positioned the services of the sector at least on par, if not above, that of both local and global competitors.

Logistics

The Third Party Logistics Operator (3PL), Logiwiz based in Kelaniya, in the year under review secured a series of multinational clients of the likes of Unilever and Mead Johnson. Entering India, the company currently operates 40,000 square feet of storage space in Bangalore and hopes to enter the dynamic commercial cities of Chennai and Mumbai in the near future.

The company also signed a Memorandum of Understanding with Brandix Lanka, who has developed the Brandix Apparel City, a vertically-integrated apparel manufacturing park in India. Under the agreement, Logiwiz plans to design, construct and manage a 20 acre Central Logistics Hub for the 1000 acre Apparel City at Atchyuthapuram in Andhra Pradesh, providing a comprehensive logistics solution for the park's manufacturing entities.

In the financial year 2006/07, the freight forwarding and distribution operations of the business, aggressively explored opportunities to expand into a global network especially in India.

Launching Radio Frequency Identification Devices (RFID) and partnering Bartronics of India, Logiventures is able to use Barcode, Smart Card and similar AIDC (Automatic Identification and Data

Transportation

Capturing) technologies to provide supply-chain and security improvement solutions to potential customers seeking customised applications in sectors such as retailing, manufacturing, assembly, logistics and healthcare, catering to the needs of identification, sorting and classification, tracking and inventory management.

The year also witnessed an increased activity in logistics for Logiventures with the introduction of an auto car carrier service. The car carrier is capable of carrying from six to eight cars at a given time. Test runs and the enthusiasm already seen for the service augur well for it.

Ship owning

The ship owning component of the business has stagnated. This is the result of decreasing charter rates and of both vessels docking for certification during the year under review.

Container Storage

Container storage has suffered from a lack of space. This is currently under review, given the increased demand for freight services.

Courier/Express Freight

Performing exceptionally well, FedEx garnered increased business both in value and volume. With marketing based on a strategic evaluation of customer requirements and an alignment of these with what FedEx can offer, this business has provided quality service to a focused client base.

	2007	2006
Return on capital employed	22%	34%
Avg. capital employed (Rs. mn.)	2,518	2,211
Investment in property, plant & equipment (Rs. mn.)	140	157

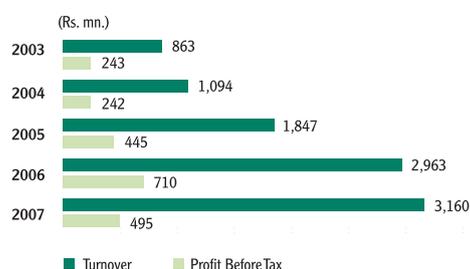
Airlines

The addition of Air India Express offers interesting possibilities and added bargaining power via the completion of the Group's airline sector offerings by adding air transport directly out of Colombo.

Future Outlook

The sector will continue to focus on developing a series of products owned and operated under the Hayleys Advantis brand. The strategic intent is to look beyond the traditional borders of business controlled by Principals and create new horizons through innovation.

In the future the business will be consolidated for greater efficiency. As a promising market, India and the subcontinent will be offered Integrated Logistics Services through the concept of an Integrated Logistics Service Provider (ILSP). In Freight Management, the focus will be to operate from burgeoning economies like India and China to the US and European regions hence from major producing economies to major consuming economies.





Consumer Products

Consumer Products

Product Portfolio

Hayleys Consumer Products extensive product portfolio covers Photo Imaging, Consumer Lighting, Healthcare, Homecare/ FMCG's and Consumer Durables. The Company has made an impact in improving lifestyles and the quality of life of the Sri Lankan consumer, whether in the hinterland or the most cosmopolitan localities.

- We represent a galaxy of some of the world's best-known brands - Philips, Fuji, P&G, Baygon, Kenwood, Shimadzu, Titan, Westar and Gillette.
- Extensive distribution network of over 70,000 outlets, 130 dedicated dealers and over 30 showrooms



Sectoral Outlook

The sector remained key in the Group's association with end consumers. A wide distribution network and a diverse portfolio of products have enabled it to serve the local market with world renowned brands. The year in review saw the inclusion of the global brand Gillette in the portfolio and a resulting escalation of our presence in the trade distribution channel. A core operational function arising from the entry of Gillette into the product portfolio has been the need to integrate the brand's stock management system with that of the sector's main global FMCG ally, Procter & Gamble. Strengthening forecasting mechanisms to ensure timely and efficient supply of goods from international production facilities, 2006/07 was a year in which the sector honed its fundamentals for future growth.

Improvements in distribution quality and reliability of coverage enhanced customer service levels whilst minimizing stock depletion at retail points. Overall, the sector gained from the collaboration of local knowledge and global best practices to create a win-win platform for customers, partners and itself.

External Impacts

A multitude of external forces impacted on the business calling for resilience in the face of adversity. The deteriorating security situation in the North and East of the country curtailed distribution activities. Transportation to the East was fraught with delays as a direct result of enhanced security measures, delaying the sector's response to customer needs. Stock holdings reduced by distributors for fear of a resumption of violence and a disruption to normalcy, required special deliveries to these distributors. From an economic perspective, the performance of the business was hampered by the constant depreciation of the rupee against major currencies. High interest rates, fuel hikes and an increase in the cess on GLS lamps pushed the cost of sales upwards.

Consumer Products

FMCG: Food & Homecare

With the strategic intent of being significant in consumer products in the local market during 2006/07, the sector redefined its FMCG business function through establishment of a Food and Homecare SBU. The business unit was the result of an amalgamation of the two existing, yet separate segments; Homecare and Food. The move was a response to the increase in per capita incomes and consequent prospects for growth in this segment of business. Envisioning greater penetration of the sector's products, the company seeks to achieve a strong and bold presence primarily in the processed food segment. The integration of the two ranges will allow the sector to reap further benefits from a well developed distribution network.

Photo Imaging

Initiatives were undertaken in the year to enhance the performance of Photo Imaging. Strengthening the market position of Fujifilm through strategic conversion of competitor photo finishing labs to those of Fujifilm, the business undertook an aggressive drive towards establishing a greater presence and increased accessibility of the brand to customers. The installation of nine Fuji digital labs supported growth in sales of paper, chemicals and films.

Customer relations activities for Photo Imaging included sponsorship of thirteen customers to attend the Photokina Exhibition in Germany.

Consumer Lighting

An increase in cess during the year impacted negatively on profitability. Overall, the market for GLS lamps continued to decline in the face of a consumer shift towards CFL usage, the result of rises in electricity tariffs. However, the growth of the CFL market was greatest in the low-priced segment and hence the unit did not benefit from the shift, owing to its presence in the high-quality,

high- end segment. The mandatory imposition of an import inspection scheme for CFL imports, implemented by the Sri Lanka Standards Institution in 2007/08, will hopefully result in a reduction of low quality CFL products in the marketplace.

Consumer Durables

The consumer durables business underwent a series of organizational changes at year- end, in response to its inability to generate sales to cover overhead in the peak selling period leading to the Sinhala/ Tamil New Year. A very significant loss was incurred, and current operations are being closely monitored.

Healthcare

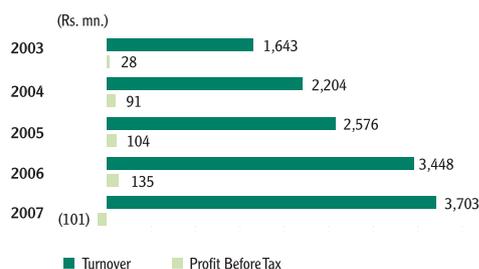
The medical equipment business operated at a lower level than in the previous year, due to fewer sales to government and private hospitals. The x-ray film and pharmaceutical business, however, grew from the previous year.

HCPL together with Fujifilm and Shimadzu were the principal sponsors of the Annual Scientific Sessions conducted by the College of Radiologists of Sri Lanka. The new models of Shimadzu x-ray and Fuji Computed Radiographic systems were demonstrated at the Hayleys stall.

Future Outlook

Looking forward, in 2007/08 the sector strives to position itself as the best distribution partner in Sri Lanka through initiatives to enhance its organization and infrastructure and the provision of best in class service to customers.

	2007	2006
Return on capital employed	3%	22%
Avg. capital employed (Rs. mn.)	1,425	1,204
Investment in property, plant & equipment (Rs. mn.)	17	4





Resorts

Resorts

Product Portfolio

Hayleys enjoys a strategic partnership with one of Sri Lanka's leading hospitality groups, Jetwing. Through its investment vehicle Carbotels, Hayleys has invested in six operating hotels which are managed by the Jetwing Group. With an inherently Sri Lankan feel and hospitality, its resorts are rated highly.

Recent refurbishments and ongoing investments in new properties, reflect a sharper focus on high - end niche markets, with an emphasis on eco - tourism.

- The Lighthouse Hotel & Spa The Beach, Negombo and Vil Uyana, Sigiriya have been included among the prestigious "Small Luxury Hotels of the World."
- The Lighthouse Hotel & Spa is also a member of the "Great Spa Hotels of the World."
- "Vil Uyana" in the cultural triangle in Sigiriya is based on a unique concept involving 12 paddy villas, 3 water villas and 10 forest villas set in three distinct habitats.
- Lighthouse Hotel & Spa is constructing Lighthouse Village on the river bank of Mahamodara, with two villas in which guests can experience luxury living within an unique Sri Lankan village style setting.



External Impacts

Post tsunami, the financial year 2006/07 posted an upward trend in tourism arrivals indicating a recovery for the industry. By September 2006, the unsettled political scenario and the plethora of adverse publicity in the international media resulted in a downturn in arrivals, and cancellations of bookings for the winter 2006 season.

Adverse travel advisories issued by the Embassies of the greater part of our main markets added to the woes of the industry and were compounded by cancellation of charter operations from the UK, Germany and Scandinavia. Travel insurance companies deferred travel cover to Sri Lanka, thereby negatively impacting the viability of travel trade led business.

In the second quarter of the year under review, rising fuel costs increased the cost of air travel, once again deterring long haul travel. Locally, electricity surcharges moved operational costs upward with the industry players paying out an approximate 20% additional charge when compared with other industries.

The Tourism Act No 38 of 2005 remained unimplemented during the year thus resulting in a lack of much needed destination marketing.

Key Initiatives

The resort sector launched its latest addition to the line-up of products and services. Vil Uyana in Sigiriya commenced commercial operations in October 2006. Listed as a ' Small Luxury Hotel of the World' the hotel joins the rest of the Jetwing product portfolio in being categorized as a resort that is inspired and celebrates the living traditions and eco-culture of Sri Lanka. Targeting an end consumer audience of Free Independent Travelers (FIT) and specialized tour operators from a trade perspective, the resort aims to offer travellers a unique eco-based yet luxurious experience.

Resorts

During the year in review, the sector intensified its focus on growth markets India and China. With the world's largest and fastest growing outbound tourism figures, both India and China indicate immense potential for Sri Lanka's tourism industry especially for the Meetings, Incentives, Conventions & Exhibitions (MICE) market. The Pakistan Leisure & MICE Market and the Middle East Expatriate Market for short holidays are also being tapped.

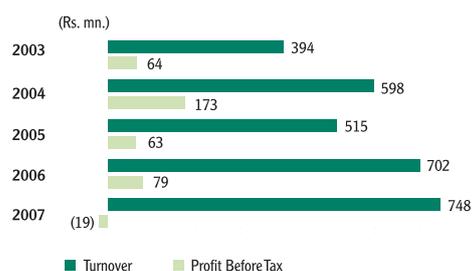
Future Outlook

In the financial year 2007/08, the sector hopes to strategically differentiate the market segments by targeting the Indian, Chinese and Middle Eastern markets for the Summer season whilst reverting to European bookings for the Winter season.

Future investments will continue with the sector evaluating regional expansion through hotel management contracts. Cards are also on the table for the construction of a 50 roomed transit hotel at the Bandaranayake International Airport.

The future focus and commitment of the sector remains undoubtedly in the area of responsible tourism.

	2007	2006
Return on capital employed	4%	9%
Avg. capital employed (Rs. mn.)	2,102	1,150
Investment in property, plant & equipment (Rs. mn.)	476	90



Financial Review

The year 2006/07 could be described as a year of mixed fortunes for Hayleys .

The Group fell below its target of achieving a billion rupee bottom-line for its shareholders. In fact it stood well poised to achieve a profit attributable to its shareholders well above Rs. 900mn, if not for two adverse setbacks in the Fibre Sector and Consumer Durables business eroding profit by nearly Rs. 380mn.

In the overall context, the Group's financial performance can be described as modest, with Group turnover increasing by 15% to Rs. 27.6bn, and pre- tax profit growing 8% to Rs.1.6bn. Post- tax profit also increased 11%, to Rs. 1.1bn. However, profit attributable to shareholders was only Rs.534mn, which is a reduction of 9% vis-a-vis last year.

Financial Highlights

Turnover growth of 15 % to Rs. 27.6bn

Pre-tax profit growth of 8 % to Rs. 1.6bn

Post-tax profit up 11 % to Rs. 1.1bn

Profit attributable to shareholders declines by 9% to Rs. 534mn

Total assets increases from Rs. 27.4bn to Rs. 32.2bn

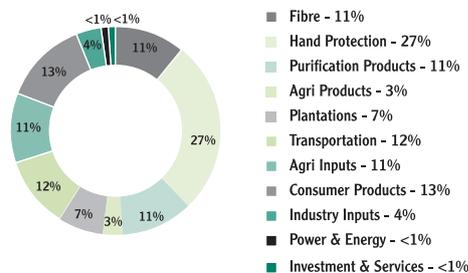
2006/07 has been a challenging year for the Group's businesses on many fronts. An increase in inflation to record levels of 20%, and rising energy costs, have eroded margins in most manufacturing businesses. Since the largest share of business within Hayleys is in Global Markets & Manufacturing, these increases have impacted in no small measure. The sharp upsurge in interest rates in the latter half of 2006/07 affected all businesses.

Amidst such pressures in the external environment , it is creditable that the Hand Protection sector has been able to increase its contribution to Group profit before tax by more than 80%.The other significant improvements have been from the Purification Products, Textiles & Agri Products sectors. Transport continues to be a significant contributor to Group profit, in spite of the sharp drop in charter rates, which affected the ship-owning business.

TURNOVER

The Group's consolidated turnover reached Rs. 27.6bn, an increase of 15% from the previous year. The Group has been able to post strong revenue growth over the past 5 years, with top line growing from Rs. 12.5bn to Rs. 27.6bn.

Segmental Contribution to Group Turnover



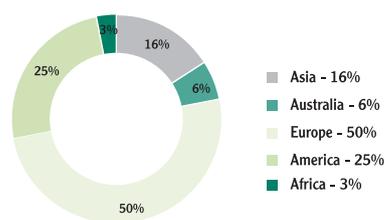
Excluding Associates

During the year, all business sectors contributed to increased turnover, other than Agri Inputs and Power & Energy. The highest contributor was the Hand Protection sector, recording Rs.7.5bn or 27% of the Group's top-line. Consumer Products was the second largest contributor to Group turnover, recording Rs.3.7bn. Transportation, Fibre, Purification Products and Agri Inputs fared equally well, contributing a turnover of Rs.3.1bn each or 11%.

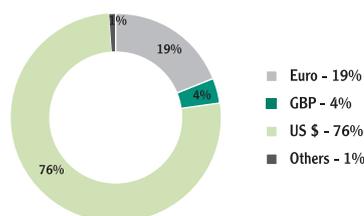
Export Turnover

Export turnover of the Group is from diverse foreign markets spanning all continents. Europe remains the most significant, contributing to 50% of Export Turnover. The US is the second largest market for the Group with a 25% share of Export Turnover. The US Dollar continues to be the dominant foreign currency used, accounting for 76% of Export Turnover.

Group Exports by Region



Group Exports by Currency



Financial Review

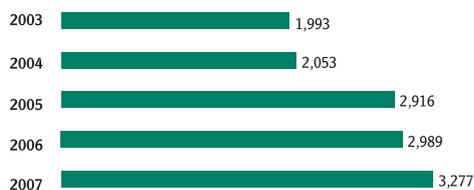
The Group's exports from Sri Lanka (including associates), on f.o.b. basis decreased to Rs.18.6bn from Rs.23.7bn in the previous year due to divestment of Colombo Dockyard. Since the Group's exports are concentrated on value-added products using indigenous raw materials, the contribution from Hayleys to the country's economic progress continues to be significant.

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION (EBITDA)

Group Earnings before interest, tax, depreciation and amortization for the year ended 31st March 2007 were Rs. 3.2bn, an increase of 9 % from the previous year.

Increased operating profits, plus the higher depreciation charge of Rs. 830mn and Interest Income & Exchange Gain of Rs.307mn contributed to a higher EBITDA.

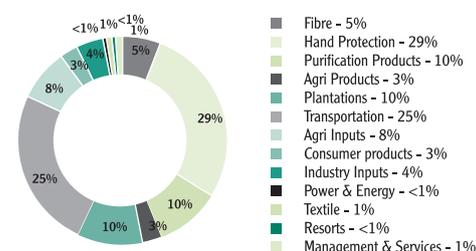
Earnings before Interest, Tax, Depreciation & Amortisation (EBITDA) (Rs. mn)



(In Rs.mn)	2006/07	2005/06
Group EBITDA	3,277	2,989
Add: Amortisation of		
- Surplus on acquisitions	37	2
- Government grants	6	7
Less: Depreciation	(830)	(797)
Restructuring expenses		-
Amortisation of intangible assets	(1)	(55)
Dividend from associates	(74)	(128)
Exchange gain and interest income	(307)	(86)
Profit from operations	2,108	1,932

Hand Protection recorded the highest segmental EBITDA at Rs.958mn, which was 29% of the Group EBITDA. Its higher operating profits of Rs. 551mn, and the add back of depreciation of Rs.269mn plus interest income and exchange gain of Rs. 172mn contributed to this strong performance on EBITDA. Transportation came in second with an EBITDA of Rs. 819mn, accounting for 25% of the Group EBITDA. Plantations and Purification Products were the other significant contributors to EBITDA, contributing 10% each.

Segmental contribution to EBITDA

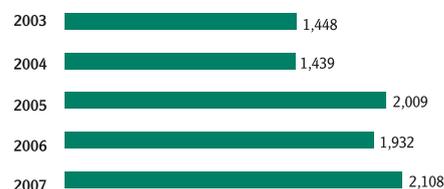


PROFIT FROM OPERATIONS

Group Profit from operations increased by 9% to Rs. 2.1bn. The Hand Protection sector contributed Rs. 568mn, 27% of Group operating profit.

Transportation also posted a strong result, with an operating profit of Rs. 520mn. However, this result was well below last year's operating profit of Rs. 758mn, where the performance was sharply affected due to a drop in ship charter rates in the FY 2006/07.

Operating Profit (Rs.mn.)



Excluding Associates

Plantations also fared well, earning Rs. 301mn of the Group's operating profit. This business would have posted even higher profitability if not for the unfortunate go-slow/ strike in November and December.

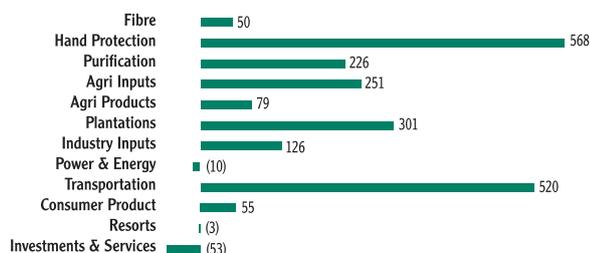
Agri Inputs also contributed Rs. 251mn to Group operating profit. However, this fell short of last year's operating profit of Rs.300mn, due to a poorer Yala season, and disruptions in the country's Eastern region's agricultural activity due to the deteriorating security situation.

In particular, the turnaround of the Purification Products performance needs to be commended. The business has been able to report an operating profit of Rs.226mn vis-a-vis a loss of Rs. 68mn last year. The turnaround strategy of looking into attracting high-value end-users, and establishing manufacturing plants overseas to counter the threat of raw material scarcity has borne fruit. The business will also divest its troubled rubber floor tile company Kinetics in the coming year.

A major factor impacting on Group performance is the ongoing re-organisation of the Group's Consumer Durables business. The Consumer Products segment was able to post only a very modest operating profit of Rs.55mn vis-a-vis Rs. 261mn last year.

Financial Review

Segmental Contribution to Operating Profits (Rs. mn.)



Excluding Associates

FINANCE COST

The net finance cost increased to Rs.858mn, an increase of Rs. 81mn. compared to the previous year. This could be attributed to a sharp increase in rupee borrowing rates, particularly in the latter part of the financial year.

The Group's average cost of funds increased from 9.3% to 11.3%. The interest cover reduced slightly from 2.9 times to 2.8 times during the year. The Group is sensitive to rising borrowing costs, and is considering the prospect of issuing equity to international agencies.

CONTRIBUTION FROM ASSOCIATE COMPANIES

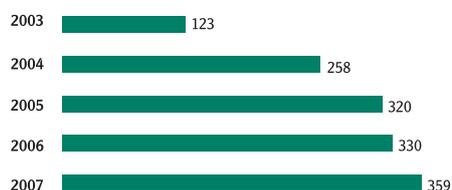
The Associate companies of the Group performed well. Their contribution to Group profits increased from Rs. 330mn to Rs. 359mn in the year under review.

The Textiles sector performed well, contributing Rs. 190mn to the Group's bottom-line. This accounts for 52% of Associates' profits, and this sector continues to be a major contributor to the Group. The Group's Investment in DIMO also brought a strong result, earning Rs.145mn.

Associates in the Plantation sector, Talawakelle Tea Estates & Mabroc Teas contributed Rs. 58mn to the Group's bottom-line.

The Group's business in resorts had a disappointing year. The worsening security situation in the country, with adverse travel advisories issued by foreign countries has brought a decline in tourist arrivals. The share of loss from the resorts business amounted to Rs. 23mn.

Contribution made by Associates (Rs. mn.)



TAXATION

Group income tax expense increased slightly from Rs. 504mn to Rs.519mn. The effective tax rate reduced from 34% to 32% during the year under review. The tax holiday status of significant contributors to Group profits also helped reduce the effective tax rate. The details of tax holidays enjoyed by Group Companies are disclosed in page 115 .

The group continues to suffer from the inability of revenue authorities to promptly pay VAT refunds due. These dues impose a major burden on the group.

DISPOSALS

Hayleys together with Hayleys Advantis disposed its entire holding (of 20%) in Colombo Dockyard during the year. This sale resulted in a cash inflow of Rs. 412mn.

Hayleys Industrial Solutions, a wholly owned subsidiary of Hayleys, disposed its 55 % stake in the solar panel company, Suryavanini (Pvt.) Ltd. during the year for Rs. 14mn.

INVESTMENTS

The Group continued to invest in its core businesses, and a total of Rs. 1.5bn was invested during the year, which was the same as in the previous year. During the year under review, Dipped Products acquired a majority stake in Hanwella Rubber Products. The acquisition of Hanwella Rubber Products Company will help DPL to overcome production capacity constraints.

MINORITY INTERESTS

The minority share of profit after tax increased to Rs 556mn, by Rs. 161mn, a 41 % increase. This increase is due to the higher minority interest percentages associated with the most profitable sectors of the Group, namely Hand Protection, Transportation and Plantations.

It is pertinent that for the first time in the Group's history, Minority Interests have earned higher profits of Rs. 556mn, than equity shareholders of the company, who were left with Rs.534mn.

DIVIDENDS

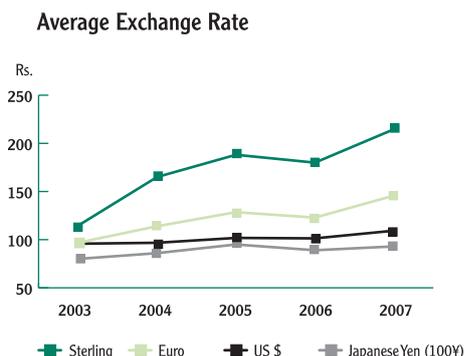
Hayleys continued to provide its shareholders with a 35% dividend, which this year amounted to Rs.262.5mn.

This is creditable as despite the decline in attributable profits, the Group has been able to maintain a steady stream of dividends to its shareholders. The dividend cover has also reduced to 2 times compared with 2.2 times last year.

Financial Review

EXCHANGE RATES

The fluctuation of exchange rates affects the Group in two ways, viz. through trade transactions and translation of overseas earnings and net assets.



The Sri Lankan rupee depreciation against the US Dollar was 6.4% during the financial year 2006/07, in comparison with the depreciation of 3.3% in 2005/06. The depreciation of the rupee, particularly in the latter half of the financial year benefited the Group's export businesses; which suffered during the past two years due to post tsunami rupee appreciation.

CAPITAL STRUCTURE

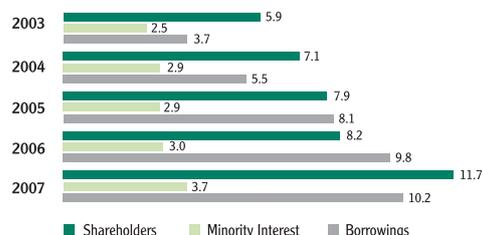
The Group's Balance Sheet looks stronger, with a reduced gearing level of 40% vis-à-vis 47% last year. However, Return on Capital Employed decreased from 11% to 10.5% during the year. The Group's benchmark ROCE of 20% remains elusive. One reason for the low ROCE is the impact of revaluation of land & buildings, which increased the capital reserves by Rs. 3bn, increasing the capital base correspondingly.

Total borrowings increased marginally to Rs. 10.2bn from Rs. 9.8bn in the previous year. This reflects an increase in short-term borrowings by Rs. 901mn and a decrease in long-term borrowings by Rs 447mn.

Cash and cash equivalents, along with short term deposits of the Group, amount to Rs 1.5bn.

The Group has at its disposal bank facilities including rupee overdrafts, foreign currency borrowing and export bill facilities exceeding Rs. 20bn. It is expected that these facilities, together with cash flows from operations, will provide sufficient liquidity to service debt and meet future working capital, capital expenditure and dividend requirements. The Group maintained a healthy current ratio of 1.3 in the year under review.

Capital Structure (Rs. bn.)



Borrowings (Rs. bn.)



Working capital (Rs. bn.)



FINANCIAL REPORTING

Hayleys is committed to adopting best practices in financial reporting in its relationship with investors and other stakeholders.

Our Annual Report 2006 was adjudged 2nd Runner - up (Overall) and sector runner-up for diversified Group companies, by the Institute of Chartered Accountants of Sri Lanka.

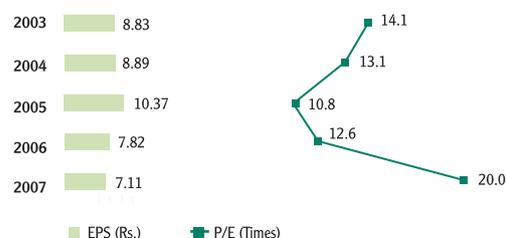
The Company was also adjudged the 2nd Runner - up for Corporate Governance Reporting by the Institute of Chartered Accountants of Sri Lanka in the year under review.

The company gives high priority to timely delivery of both quarterly and annual financial statements. Our comprehensive reporting has enabled shareholders and all other stakeholders to make a fair assessment of the company's performance.

Financial Review

(In Rs.mn)	2006/07				2005/06
	Cumulative	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Turnover	6,323	13,253	21,130	27,639	24,012
Operating profit	570	1,141	1,693	2,108	1,932
Profit before tax	464	927	1,301	1,608	1,484
Profit after tax	358	689	955	1,085	980
Profit attributable to shareholders	186	368	505	534	586
Shareholder's funds	8,241	8,453	8,611	11,700	8,257
Total assets	27,801	27,845	28,630	32,220	27,430

EPS & P/E Ratio



PERFORMANCE MEASUREMENT

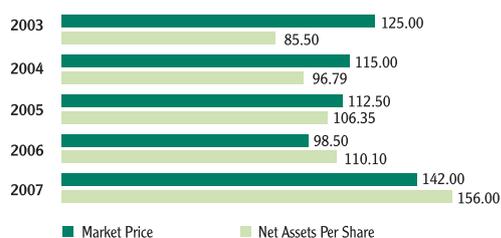
EARNINGS PER SHARE

The Group recorded a basic earnings per share (EPS) of Rs. 7.11, a drop from previous year's EPS of Rs. 7.82.

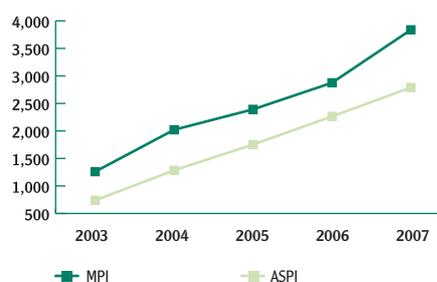
The price of a Hayleys share was Rs.142.00 at 31st March 2007, compared with the previous year-end's price of Rs. 98.50. In line with market sentiment, share prices reached a high of Rs.165.00 and dipped to a low of Rs. 85.00 during the year. The price earnings ratio increased from 13 times to 20 times during the year.

The year-end market capitalization of Hayleys Ltd. was Rs 10.7bn. This accounted for 1.25% of total market capitalization on the Colombo Stock Exchange, while listed Group companies together accounted for 3.22%. A total of 11mn Hayleys shares were traded during the year, generating a value of Rs. 1.4bn.

Market Price and Net Assets Per Share (Rs.)



Movement in Share Price



Financial Review

SHAREHOLDER VALUE

Hayleys strives to enhance shareholder value by investing in businesses generating strong cash flows and superior long-term returns. It has been able to provide a steady stream of dividends to its shareholders in spite of the recent decline in Group performance. The Group carried out a revaluation of its land & buildings during the year under review, which resulted in Group Capital Reserves increasing by Rs. 3bn.

According to stock market specialists, the Hayleys share is undervalued and the current share price does not reflect its true potential.

Movement in Shareholders' Funds (Summary)

	2006/07	2005/06
	Rs. Mn	Rs. Mn
Shareholders' funds at the beginning of the year	8,257	7,939
Revaluation of assets	2,994	-
Profits retained during the year	534	586
Adjustment due to changes in holding	38	(3)
Translation of foreign entities	128	(3)
Effect of changes in SLAS	1	-
Scrip issues by associates	11	-
Dividends paid	(262)	(262)
Net increase in shareholders' funds	3,444	318
Shareholders' funds at the end of the year	11,701	8,257



Sustainability

The Big Picture

Hayleys was born in the southern port city of Galle in 1878, where Charles Pickering Hayley landed that year. Now, 129 years later, the conglomerate is an important symbol of Sri Lankan industry. As a corporate, Hayleys exudes Sri Lankan values. It explores and grasps opportunities systematically. Hayleys has increasingly embraced the global marketplace, extending its reach far and wide across the world.

One hundred and thirty six companies categorized into four broad groups connect many thousands of customers and suppliers, stakeholders and employees of the conglomerate, necessitating a high degree of accountability. Transparency, ethical business practices and good governance are embedded in the ethos of Hayleys.



y Reporting

Social Responsibility - the Hayleys principles

A believer in social development, Hayleys has actively contributed to the welfare of the communities in which it operates. Empowering suppliers, employees and impacting society at large, the conglomerate has pursued a consistent CSR focus.

Companies that constitute the Hayleys Group are encouraged to contribute in areas they are engaged in and in ways in which they know best. A "Not for Profit Activity" team discusses projects prior to implementation. The Hayleys Foundation Guarantee Ltd. has been formed to meaningfully channel funds to selected, major projects.

Sustainability Reporting | Our Accolades





In 2006 Hayleys, for the third consecutive year was recognized by the Ceylon Chamber of Commerce as Sri Lanka's Best Corporate Citizen winning the Environment and Community Relations categories also. This record bears testimony to the impact of Hayleys in these areas.

Sustainability Reporting | Imparting the ten principles of the UN Global Compact



In an address to the World Economic Forum in January 1999, the former Secretary-General of the United Nations, Kofi Annan, challenged business leaders to join an international initiative, the Global Compact, that would bring companies together with UN agencies, labour and civil society to support universal environmental and social principles.

Through the power of collective action, the United Nations Global Compact (UNGC) seeks to promote responsible corporate citizenship so that business can be part of the solution to the challenges of globalization. In this way, the private sector - in partnership with other social actors - can help realize a vision of a more sustainable and inclusive global economy.

The Global Compact is a purely voluntary initiative carrying with it the objective of embedding the principles it espouses in business activities around the world whilst catalyzing action in support of the UN Millennium Development Goals.

'The Ethical Tea Brand of the World' of Kelani Valley Plantations and Mabroc Teas, comprising six single garden teas complemented by a valley range of blended teas, was launched in March 2007 at the UN Headquarters in New York, as the first product brand to promote its ten principles concerning human rights, labour, environment and anti-corruption. Mr. Georg Kell, Executive Director of UNGC, Mr. N G Wickremeratne, Chairman, Hayleys Group and Mr. B P W Jayasekera, Chairman, Mabroc Teas participated at a media conference held to mark the occasion.

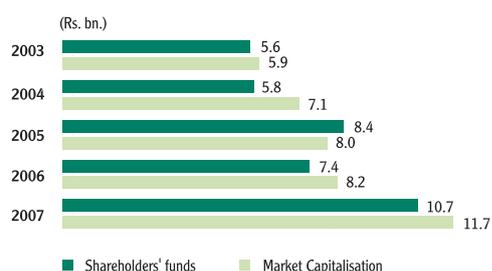
This product brand also supports the 'A Home for Every Plantation Worker' initiative of KVPL, which seeks to uplift the quality of life of its estate worker community and covers the areas of living environment, health & safety, community capacity building and the empowerment of youth.

Sustainability Reporting | Investor Information

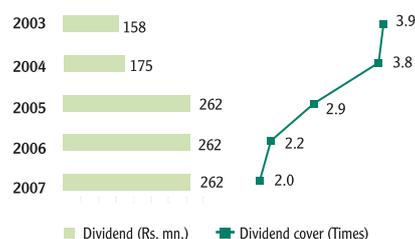
Hayleys seeks to enhance the value of shareholders' equity through sustained, steady growth in earnings and dividends over the long term.

Over the years the Group has set itself an agenda of visibility for shareholders and security for their investment, through internal control, compliance with corporate governance principles and a policy of transparent and regular financial communication, through its Annual Report, Quarterly Reports, media releases and letters to Shareholders.

Shareholders' Funds vs Market Capitalisation



Dividend vs Dividend Cover



Group Value Addition

	2006/2007 Rs.000		2005/2006 Rs.000	
Turnover	27,638,904		24,011,798	
Cost of Materials & Services bought in	(20,668,671)		(17,552,878)	
	6,970,233		6,458,920	
	Share %		Share %	
To Employees as remuneration	52	3,661,688	51	3,286,849
To Government Revenue	12	803,950	14	906,628
of Sri Lanka		726,535		830,627
Overseas		77,416		76,001
To Lenders of capital	20	1,413,860	18	1,171,514
Interest on borrowings		858,141		777,344
Minority interest		555,719		394,170
To Shareholders as dividends	4	262,500	4	262,500
Retained in the Business	12	828,235	13	831,429
Depreciation		829,647		796,805
Profit retained		(1,412)		34,624
	100	6,970,233	100	6,458,920

Excluding associates

Awards won during the year

Hayleys

- Best Corporate Citizen Award 2006- Overall Winner in the competition run by the Ceylon Chamber of Commerce
- Category Winner in the Community and Environment sectors of the same competition
- Sector Runner- up in the 2005 Competition for Best Annual Reports run by the South Asian Federation of Accountants
- Overall Second Runner up and Sector Runner up in the 2006 competition for Best Annual Reports run by the Institute of Chartered Accountants of Sri Lanka

Hayleys MGT Knitting Mills

- Business Excellence Award 2006 - Export Processing Sector - First Runner-up
- National Productivity Award - 2005/06 Large scale Manufacturing Sector - Merit Award

Hayleys Agro Products

Agri Business Awards 2006 - National Agri Business Council

- Gold Award -Large scale category- Machinery & Equipment-
- Gold Award -Large scale category - Fertilizer & Agro Chemicals
- Silver Award - Large scale category - Seeds Advisory & Supplies

Quality Seed Company

Agri Business Awards 2006 - National Agri Business Council

- Gold Award - Large scale category - Seeds Advisory & Supplies

Logistics International

- Textainer Award 2006 for Best Depot in the Region

HISTORY OF DIVIDENDS AND SCRIP ISSUES

Year ended 31st March	Issue	Basis	No. of Shares 000	Share Capital Rs. '000	Dividend (%)	Dividend Rs. '000
1952	Initial Capital		20	200		
1953	First dividend			200	80	160
1954	Rights (at Rs. 10)	1:02	10	300	55	165
1955				300	50	150
1956	Bonus	5:06	25	550	32.5	179
1957	Bonus	3:11	15	700	37.5	330
1958	Bonus	3:07	30	1,000	20	200
1959				1,000	10	100
1960				1,000	18	180
1961	Bonus	1:02	50	1,500	7.5	262
1962	Bonus	1:03	50	2,000	15	300
1963				2,000	15	300
1964	Bonus	1:04	50	2,500	15	375
1965				2,500	20	500
1966				2,500	18	450
1967				2,500	15	375
1968				2,500	12.5	313
1969				2,500	15	375
1970				2,500	15	375
1971				2,500	15	375
1972				2,500	11	275
1973				2,500	11	275
1974	Bonus	1:01	250	5,000	1	275
1975				5,000	18	450
1976				5,000	10	442
1977				5,000	1	460
1978				5,000	15	584
1979	Bonus	1:02	250	7,500	15	852
1980				7,500	16	958
1981	Bonus	1:03	250	10,000	20	1,863
1982	Bonus	1:04	250	12,500	21	2,385
1983	Bonus	1:05	250	15,000	25	3,451
1984				15,000	27	3,774
1985				15,000	27.5	3,525
1986	Bonus	1:03	500	20,000	33	6,600
1987	Bonus	1:02	1,000	30,000	33	9,900
1988	Bonus	1:03	1,000	40,000	33	13,200
1989	Bonus	1:04	1,000	50,000	33	16,500
1990	Bonus	1:05	1,000	60,000	33	19,800
1991	Bonus	1:04	1,500	75,000	33	24,750
1992	Bonus	1:05	1,500	90,000	33	29,700
1993	Bonus	1:06	1,500	105,000	30	31,500
1994	Bonus	4:21	2,000			
	Rights (at Rs. 160)	1:05	2,500	150,000	30	40,500
1995	Bonus	1:05	3,000	180,000	30	54,000
1996	Bonus	1:09	2,000	200,000	30	60,000
1997	Bonus	1:10	2,000	220,000	30	66,000
1998	Bonus	1:11	2,000	240,000		
	Share Trust					
	(at Rs. 210)		2,400	264,000	30	79,200
1999	Bonus	1:06	4,400	308,000	30	92,400
2000	Bonus	1:14	2,200	330,000	30	99,000
2001	Rights (at Rs. 10)	1:11	3,000	360,000	35	126,000
2002	Rights (at Rs. 15)	1:09	4,000	400,000	35	140,000
2003	Rights (at Rs. 20)	1:08	5,000	450,000	35	157,500
2004	Rights (at Rs. 20)	1:09	5,000	500,000	35	175,000
2005	Rights (at Rs. 20)	1:10	5,000	550,000		
	Bonus	4:11	20,000	750,000	35	262,500
2006				750,000	35	262,500
2007				750,000	Rs. 3.50 p.s.	262,500
	Total		75,000			2,054,083

Sustainability Reporting | Investor Information

Stock Exchange

The Audited Company and Consolidated Income Statements for the year ended 31st March 2007 and the Audited Balance Sheets of the Company and of the Group as at that date, have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

Market Value

The market value of Hayleys PLC ordinary shares was:

	2007 Rs.		2006 Rs.		2005 Rs.
Highest	165.00	(on 13 th Feb. '07)	136.50	(on 05 th Oct. '05)	168.50 (on 20 th Jan. '05)
Lowest	85.00	(on 20 th June. '06)	86.00	(on 28 th Dec.'05)	90.00 (on 6 th Apr. '04)
Year End	142.00		98.50		112.50

Dividend Payments

Interim dividend - Rs. 1.75 per share (free of tax) paid on 11th May 2007 (2005/06 - 17.5%). Proposed final dividend Rs. 1.75 per share to be declared on 26th June 2007 and payable on 3rd July 2007 (2005/06 - 17.5%).

Share Trading

	2007	2006	2005
No. of transactions	4,854	4,366	3,596
No. of shares traded	11,364,400	11,315,000	7,915,700
Value of shares traded (Rs.)	1,482,114,725	1,333,156,550	1,041,475,825

Composition of the 4,075 Shareholders as at 31st March 2007 (2006 - 4,153)

No. of shares held	Residents			Non-Residents			Total		
	No. of share-holders	No. of shares	%	No. of share-holders	No. of shares	%	No. of share-holders	No. of shares	%
1 - 1,000	2,805	643,468	0.9	26	8,637	0.0	2,831	652,105	0.9
1,001 - 5,000	709	1,634,015	2.2	15	35,998	0.0	724	1,670,013	2.2
5,001 - 10,000	158	1,152,018	1.5	13	98,929	0.1	171	1,250,947	1.6
10,001 - 50,000	200	4,541,033	6.1	20	449,678	0.6	220	4,990,711	6.7
50,001 - 100,000	42	3,008,159	4.0	5	325,539	0.4	47	3,333,698	4.4
100,001 - 500,000	48	10,067,938	13.4	7	1,643,259	2.2	55	11,711,197	15.6
500,001 - 1,000,000	9	6,081,662	8.1	1	568,197	0.8	10	6,649,859	8.9
Over 1,000,000	17	44,741,470	59.7				17	44,741,470	59.7
	3,988	71,869,763	95.9	87	3,130,237	4.1	4,075	75,000,000	100.0

Of the issued ordinary share capital 95.9% is held by residents of Sri Lanka.

Categories of shareholders

Categories of shareholders	31.03.2007			31.03.2006		
	No. of share-holders	No. of shares	%	No. of share-holders	No. of shares	%
Individuals	3,683	39,220,200	52.3	3,784	40,669,347	54.2
Institutions	392	35,779,800	47.7	369	34,330,653	45.8
	4,075	75,000,000	100.0	4,153	75,000,000	100.0

Sustainability Reporting | Customer & Supplier Relations



Sustainability Reporting | Customer & Supplier Relations

Effective Partnering

Collaboration between customers and suppliers creates strong and effective partnerships. This is a belief Hayleys has long held sacred.

'Reaping a better harvest'

The Agri Inputs sector, during the year under review, introduced to the marketplace a seed paddy that increased the quantity and quality of the harvested product, thus creating more opportunity for their customers to compete in the aggressive marketplace. With a larger and better quality harvest, the benefit to the farmer community is two fold.

Engaged in farmer training of out grower communities, the Agri Inputs sector infuses new agri business technologies, assisting farmers to move from traditional farming to newer, more efficient methods of production and harvesting. Deploying teams of specialists dedicated to agricultural extension services that are focused on helping farmers increase productivity through the acquisition of skills, knowledge and attitudes that will yield them greater benefits; the sector played the role of mentors to farmers, by transferring the latest know-how developed by Hayleys Agri Products which includes findings of its own trials and adaptive research.



A series of one-to-one meetings combined with farmer training classes and field days using a 'show and tell' method covered many aspects such as seed varieties, nursery management, fertilizer and agro chemical usage, spraying equipment, safety, harvesting and handling of crops, packaging, crating, transport, reducing post harvest losses and finding markets for produce.

Focused on creating a better balance for farmer communities, the sector commenced exploring ways and means through which self sufficiency could be reached in the seed potato requirement locally through the establishment of high-yielding seed potato varieties for the domestic market. The sector also introduced a new generation crop protection product to control the Diamond Back Moth that ravages the local cabbage harvest. This is a natural product and is of low toxicity to humans.

Aimed at giving farmers the best opportunity, the sector introduced a mini combine thresher into the market, increasing the affordability of this technology and increasing productivity and efficiencies within the paddy sector.

Hayleys Agri Product's multifaceted interaction with farmers has become a model for private sector-led extension services in commercial agriculture. Its unique constructive intervention received recognition from peer companies and organizations in the agriculture sector, during the year in review.

'Quest for purity'

KVPL became the first plantation company in Sri Lanka to obtain accreditation of all its thirteen black tea manufacturing centres as per the international Food Safety Management Systems, HACCP and ISO 22000:2005, along with SGS-TASL product certification. The latter certification confirms the quality of KVPL black teas as meeting the stringent specification on heavy metal and microbiological and pesticide residues demanded by global tea buyers.



Talawakelle Tea Estates continued to obtain certification for its factories under ISO 22000. More factories are expected to be accredited in 2007/2008.

'Realizing latent supplier opportunities'

China has become a giant in the consumption of raw fibre. The Hayleys Fibre sector identified this new demand from China especially for decorticated fibre. Simultaneously, it became apparent that Sri Lanka's Southern province was able to cater to this demand as it generated an excess supply of green husk. Despite the availability of technology, suppliers did not identify a market for this output.

The Hayleys Fibre sector tapped this potential, offering suppliers a substantial price for green husk fibre. Production quantities rose from 100 tonnes a month to 175 tonnes, from both the existing millers and twenty two new millers added to the supplier list. The sector has thus proactively helped support long term sustainable economic activity.

Sustainability Reporting | Customer & Supplier Relations

Similarly, Coir Fibre Pith (CFP) from the South was in a state of stagnation. The region had excess supply and an accumulated stock pile. Hayleys took the initiative to establish a collecting centre in Hambantota and locate a briquetting machine in Galle, providing a means of business sustenance to the miller community.

Traditional coir yarn producers needed help in the form of new technology and know-how. The Hayleys Fibre sector, along with several Non Governmental Organizations, undertook the task of upgrading the skills of millers and producers during the year, to enhance quality and proficiency via a series of pocket meetings and training sessions for both existing industry participants and new entrants.

'Excellence is the norm' in our Resorts

The successful implementation of a taxi service by using community resources at the Lighthouse Hotel & Spa inspired a series of lectures and training sessions for trishaw and van operators in the vicinity of Tropical Villas in Beruwala and The Beach in Negombo. The Resorts sector in a bid to assist these small transport suppliers, focused on increasing use of their services.



Seeking ways by which to enhance the customer experience, the Resorts sector embarked on a series of innovative hospitality adventures.

The sector sought to create a magnificent experience from world-famous Ceylon Tea. Employing a tea specialist, the Resorts sector conducted training sessions.

A tea tasting ceremony was introduced, allowing guests to taste tea produced in each of the country's six regions. Organized regularly at each featured hotel, guests are coached in the fine art of professional tea tasting and preparation to enhance the experience of the traditional afternoon tea menu.

A "whole body" experience that combines the well-being of heart, body and soul became a reality when the resorts sector introduced the ultimate in spa experience for its customers by partnering Elemis, the maker of an internationally reputed Spa product.



A "Little things make a big difference" programme was initiated during the year to ensure feedback was used constructively to enhance customer service. In their quest for excellence the Resorts sector revamped their loyalty programme, used feedback to obtain a view of service levels and interactive tools to maintain consistent communication with guests and a 'Repeaters Club' which is now called the 'Jetwing Club', to keep engagement frequent.

Major Overseas Investment Partners in Sri Lankan Projects

Partner	Partnership	Duration
Syngenta Seeds B.V., Holland	49% equity in Quality Seed Company Ltd.	27 years
Toyo Cushion Co. Ltd., Japan	25% equity in Toyo Cushion Lanka (Pvt) Ltd	17 years
Sanyo Food Products Co., Japan	25% equity in HJS Condiments Ltd.	14 years
Bonterra Weiland GmbH, Germany	50% equity in Bonterra Ltd.	13 years
Orlatrade, Monaco (Promar Overseas)	6% equity in Dipped Products PLC.	13 years
Delta Plus Group, France	6% equity in Dipped Products PLC.	13 years
American International Group, U.S.A	80% equity in AIG Hayleys Investment Holdings (Pvt) Ltd.	07 years
AES Corporation, U.S.A	90% equity in AES Kelanitissa (Pvt) Ltd.	06 years
Enkev BV, Holland	8% equity in Toyo Cushion Lanka (Pvt) Ltd	04 years
Transworld Holdings Ltd, India	34% equity in Hayleylines Ltd.	04 years
Agricultural Resources & Investment Inc, BVI	49% equity in Hayleys Ago Fertilisers (Pvt) Ltd.	03 years

Sustainability Reporting | Customer & Supplier Relations

Hayleys' Outgrower & Subcontractor Network in 2006

Gherkin Farmers : 3,000
Value of purchases : Rs. 92 mn.

Gliricidia Growers : 49
Value of purchases : Rs. 49 mn.

Rubber Small Holders : 89
Value of purchases : Rs. 135 mn.

Fibre Suppliers : 239
Value of purchases : Rs 129 mn.

Tea Small Holders : 1,994
Value of purchases : Rs. 281 mn.

Pineapple Growers : 23
Value of purchases : Rs. 10.8 mn.

Principals represented and duration of relationship

Name of Principal	Duration of Relationship
Daimler Chrysler (Mercedes Benz)	68 years
Robert Bosch GmbH	53 years
TATA International	45 years
Dystar	44 years
Symrise (Haarman & Reimer)	44 years
Bayer CropScience	44 years
Komatsu	38 years
Detia Degesch	34 years
Elementis (and previously Sasol Servo)	32 years
Lanxess Deutschland (formerly Bayer Rubber Chemicals)	32 years
Rheinchemie	32 years
Cabot	29 years
Philips Lighting	24 years
Philips Sound & Vision	24 years
Lister Petter (engines)	22 years
Allam Marine (generators)	19 years
Monsanto	19 years
Stamford (alternators)	19 years
Mahindra & Mahindra	17 years
Dow AgroSciences	14 years
Den Hartigh	14 years
Fuji Hunt Photographic Chemicals	14 years
Michelin	14 years
Polymer Latex	14 years
Kerr McGee	14 years
Nufarm	14 years
Durst Phototechnik	13 years
Blue Cross Laboratories	11 years
Volvo (industrial engines)	11 years
Fuji Film	10 years
Dongbu Hannong Seeds	09 years
Xerox Engineering Systems	08 years
Shangdong Weicha (China)	08 years
Laboratories Hipra	08 years
BF Goodrich	07 years
MRF	06 years
Kiran	05 years
Namdhari Seeds	05 years
CID Lines (Belgium)	05 years
SC Johnson	04 years
ABB (rotating drives)	04 years
Stork Digital Imaging	04 years
Curtis Fine Papers	03 years
Gugler Hydro Energy	03 years
Chrysler International	03 years
Procter & Gamble	02 years
Titan	02 years
Shimadzu	02 years
Gillette	01 year
FedEx	01 year

Our Presence in the Rural Economy

Sector	Employment Creation			Main raw materials
	Direct	Indirect	District	
Fibre	789	6,012	Gampaha, Puttalam, Kurunegala, Galle, Matara, Hambantota	Coir fibre, twine, yarn & pith, latex, jute, rubber wood, timber, wire
Hand Protection	1,355	7,000	Gampaha, Colombo	Natural & synthetic rubber
Purification Products	633	1,160	Puttalam, Gampaha	Coconut shell charcoal, gliricidia
Textiles	643	180	Kalutara	Yarn, dye stuff
Agri Products -Domestic -Export	285 749	208 8,250	Amparai, Polonnaruwa, Matale, Badulla, Anuradhapura, Hambantota, Kurunegala	Gherkins, bell peppers, mother plants, coir fibre pith
Plantations	27,966	n.a.	Nuwara Eliya, Galle	Green leaf, latex

Sustainability Reporting | [Employee Relations](#)



Sustainability Reporting | Employee Relations

The Promise of Hayleys

Relationships are at the forefront of human resource management. Good employee relations are not only desirable, they are a commercial necessity. Employee Relations focus on the importance of understanding and harmonising corporate, management and employee needs to increase efficiency, productivity and profitability. Drawing on the latest ideas, research and best practice, the Hayleys Group, in the year under review, strove to take its employee relations to a higher plane.

HR Development

A plan for HR development across the Group was initiated in 2005/06. In the year under review, this plan took more shape with increased emphasis on a Group-wide HR perspective. Stemming from a wider view of the Group and working through a HR Cluster, the focus moved to sharing best practices and seeking improvements in processes across the Group.

The collaboration with the Indian School of Business (ISB), Hyderabad continued to be a key initiative. Initiated in 2005/06, the ISB collaboration has worked well for the Group in instilling different approaches to problem-identification and problem-solution in everyday corporate situations. The year saw the Group undertake two of the predetermined phases in July and November 2006. The phases were conducted in Hyderabad, India and in Negombo, respectively. The third phase runs in May/June 2007.



The ISB initiative targets three sub-components. The first instilled a greater focus on strategy formulation where each sector scrutinized and reformulated strategy for the sectors and examined Group strategy in specific areas. The second component - more drill - down in approach-looked at the Group from a functional perspective, whilst the third component will focus on leadership. The success of the ISB project lies in the pragmatism of its approach; a hands-on, case study led exercise, the project endeavours to take the class room to the workplace with realistic implementation of solutions and recommendations. Following an approach that extends not only the outcomes but also the learning experience down and across the

business, the ISB project is enabling the Group to develop a force of talented people across the entirety of the organization.

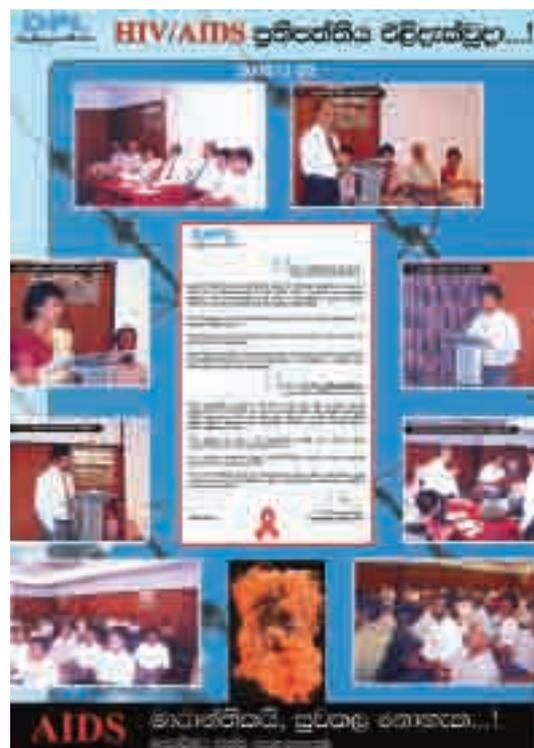
In the year 2006/07, a climate survey was undertaken through a HR consultancy to determine gaps, strengths and weaknesses in how employees perceived the organisation. The exercise allows the Group to identify development needs, areas of strength that can be built on and areas for improvement.

The Hayleys Business School continued to conduct a diverse range of training and development programmes during the year. Catering to the training needs of the Group through a comprehensive syllabus and through the formulation of tailor-made training sessions for its subsidiaries, the Business School continued to add value to the Hayleys Group during the year

Group companies have many Collective Agreements with Trade Unions. These are in essence collaborative frameworks within which both the Group and the employees perform towards a common objective. Mutual understanding and objectives have helped pave the direction for Hayleys.

Health & Safety (H&S)

Responding to an initiative of the International Labour Organisation (ILO), Dipped Products (DPL) became the first Sri Lankan company from the manufacturing sector to adopt an HIV/AIDS policy in the workplace. This is an awareness and equality campaign to prevent job-related discrimination and to protect the infected from social stigma.



Sustainability Reporting | Employee Relations



The Group's Plantation sector - encompassing Kelani Valley (KVPL) Plantations and Talawakelle Tea Estates - continued a concerted H&S policy. The sector maintains medical centres on all estates whilst the key estates house hospitals and maternity homes. Medical camps were conducted periodically for workers, with regular health and nutrition checks to assure the neo-natal health of babies and mothers, as well as the health of the young child and senior citizen. These checks included immunization and monitoring child growth and development.



KVPL was involved in an ILO directed pilot project focused on the elimination of child labour and the establishment of a child's right to education. Conforming to international labour requirements, the sector actively practices non-employment of child labour and the provision of equal opportunities in employment.



Often implementing H&S policies that go beyond industry and national standards, Hayleys works towards creating a workplace that is not only safe but secure and satisfying.

HR Highlights for 2006/07

The year saw the Fibre sector implementing an HR Information System (HRIS). The HRIS is web based and provides a comprehensive, bird's eye view of the HR functions of the sector, from tracking training and development needs to implementing performance appraisal systems.

During the year, the Hand Protection sector initiated a programme to create awareness and empathy amongst all employees on the challenges of global marketing. The programme consisted of eight modules that dealt with issues such as product quality, effects of production run delays and the need for a greater level of commitment amongst all employees. This initiative has resulted in visible indications of increased efficiency.

The Plantation sector implemented a performance evaluation process twinned with personal development, giving individuals an opportunity to map out a development plan for future growth within the Group. Empowerment was the key focus in HR activity for the sector.

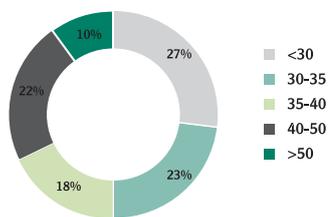
In the Transportation sector, a training and development initiative saw the sector's staff engaged in a customer service training activity. Conducted for all employees irrespective of position and job function, the training was run on the basis that all employees have a role in customer service. The sector has, as a result, seen heightened awareness of employees towards customer care.

Sustainability Reporting | Employee Relations

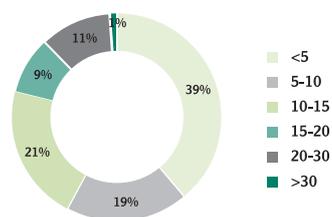
Professional/Academic Qualifications of Executives	(No.)
Agriculture	194
Engineering	115
Accountancy	97
Marketing	60
Business Management	69
Information Technology	69
Law	6
Production	18
Shipping	13
Degrees - Science	74
Degrees - Humanities	7
Masters in Business Administration	55
Others	94
	871

Business Segment	No. of employees
Fibre	789
Hand Protection	1,355
Purification	633
Textile	643
Agri Input	218
Agri Products	309
Plantations	27,966
Industry Inputs	121
Power & Energy	33
Transportation	949
Consumer Products	359
Resorts	934
Management Service	1,050
	35,359

Age Analysis of Executives



Service Analysis of Executives



Sustainability Reporting | [Community Relations](#)



Sustainability Reporting | Community Relations

Beyond Business

Businesses cannot function in isolation. Communities determine the success of businesses. For the Hayleys Group the bottom line is not the only gauge of success-communities are important and are an integral element in its success. As a corporate, Hayleys extends a hand to all communities, helping them rise to greater heights.

'Breathing easier'

Noxious fumes from traffic and industrial activities make ambient air hazardous and threaten health. Excessive exposure to vehicle emissions, notably Sulphur Dioxide, raises health risks. Traffic policemen form a group which is especially vulnerable. In recognition of this, Puritas, which is part of the Purification Products sector of the Group, distributed its activated carbon-impregnated face masks to the Traffic Police in Colombo, its suburbs and in Kandy.



Likewise, farmers to suffer from effects of long-term exposure to agro chemicals. To reduce the adverse effects within farmer communities, the Purification Products sector, through Puritas, donated similar face masks to them.

The Purification Products sector, in an ongoing programme, donated activated carbon to state hospitals for use as an antidote to poisoning. 11,415 bottles were donated during the year in review.

Hospital and school renovations continued as a focus of community relations activity throughout the Group. Blood donation campaigns were held in several locations also, as in the previous years.

'Our plantations and society'

The Plantation sector continued its existing community projects. In the Southern plantations, which are not as well integrated as the upcountry plantations, the focus for the year remained on building bridges between the plantations and the surrounding communities. Thus during the year, the plantations engaged with vital sections of these communities, through interaction with hospitals, schools and temples.

Talawakelle Tea Estates donated X-ray equipment valued at Rs. 1.8 million to the Deniyaya Hospital during the year. It also increased vocational training opportunities for rural youth and was involved in reconstruction and renovation work at key temples.



As elements of wider community relations activity in the upcountry region a range of social/domestic issues, such as dealing with alcoholism, home finance management, HIV/AIDS prevention and micro-enterprise development were given attention, through women's group meetings and community meetings.

Plantation sector programmes of immunization against communicable diseases such as Rubella, Polio, Infective Hepatitis and Measles are considered to have been exceptionally successful. The village communities in the vicinity of the plantations benefit from many such health-care measures.

Estate Worker Housing Co-operative Societies (EWHCS) have been the catalyst for many initiatives designed to improve worker welfare, housing and sanitation.

The participation of several estates in a Plantation Communities Project (PCP) sponsored by the Canadian International Development Agency (CIDA) and implemented locally by the World University Service of Canada (WUSC), successfully addressed aspects such as gender equality, basic rights, vocational training, micro enterprise development and industrial relations.

Nuwara Eliya estate of KVPL won several awards for its community based initiatives, including an All Island Award for outstanding achievements in social development activities and an All Island Runner-up Award for outstanding EWHCS, during the year. Dewalakande and Ederapola estates also secured national awards for excellence in EWHCS management.

KVPL, as part of their CSR programme, has been addressing health and nutrition coupled with child welfare benefiting an age spectrum from infancy to post-retirement. Whilst maternity and children's health continued to be priority areas, other aspects such as communicable diseases and eye and dental care were paid appropriate attention. International Well-women's day celebrations,

Sustainability Reporting | Community Relations

a Tuberculosis testing programme, screening for sexually transmitted diseases and street dramas to create AIDS awareness were some of the other health initiatives.



KVPL also undertook educational and skills development, establishment of training centres, holistic programmes for child welfare, construction of seventy seven two-storeyed housing units to foster an improved living environment for the plantation community.

Supporting our heroes

After completion of the renovation and refurbishment of the hydro therapy centre of the Ranaviru Centre in Ragama in 2004, Hayleys Advantis continued to have close links with the Centre and identify ways in which they could support the heroes who had sacrificed their todays for our tomorrows. One of the needs that was identified during the year, was for a Visitor Centre. Visitors of inmates and patients travelled long distances and the lack of toilet facilities and a waiting area was found to be a great inconvenience. Hayleys Not For Profit Activity Cluster decided to support the Advantis initiative, with Advantis and the Hayleys Foundation each bearing 50% of the total cost of the project which was estimated at Rs.740,000. The project which began in July is nearing completion, with construction work handled by the inmates with minimal help of outside labour.

'Bringing smiles to rural communities'

Like most rural villages in Sri Lanka the hamlet of Rangirigama and the surrounding areas of Rotawewa and Kimbissa are burdened with youth unemployment. In an agriculture-based society, agriculture is no longer considered an attractive employment option for secondary school educated youth. Due to a lack of other opportunities many youth are left unemployed or underemployed.

The Resorts sector embarked on an initiative to develop rural youth for suitable employment within Jetwing Hotels or indeed other hotels, in Sri Lanka or overseas. The first phase of the program was initiated at Vil Uyana in Sigiriya in October 2006.

Undertaking a programme of training to fill the "skills gap" youth were initially taught the English language. The youth were invited to the program with the help of the incumbent monks of the two



village Buddhist temples and classes were held in the temple premises. In the second month of the program, the youth were grouped as per their personality profiles. Thereafter, entry level industry training was conducted at the hotel in housekeeping, front office, restaurant & bar service and cookery. Nature and wild Life, customer care, Japanese 5S, personality development and life skills were added to the programme to give more complete development.

On successful completion of the programme 60 youth passed out at a ceremony at Vil Uyana in the presence of the distinguished patronage of the Secretary to the Ministry of Tourism, the AGA-Dambulla and representatives of the media. Several trainees are now employed at Vil Uyana, furthering their skills in hospitality management.

The Sahodaragama housing project in Maharamba is a tsunami housing reconstruction project. Undertaken by the Resorts sector and financed by The Jetwing Relief Fund through contributions from various international benefactors, the project consists of ten housing units. Handed over to ten beneficiaries who lost their homes during the 2004 tsunami, the project was initiated by the Lighthouse Hotel & Spa.

Sustainability Reporting | Community Relations

Another project stemming out of the tsunami is the construction of a community swimming pool. The project, inspired by the consensus that fatalities were higher due to low swimming skills, seeks to increase the public popularity of swimming. The pool will be built on land owned by the Lighthouse Hotel & Spa. Upon completion of the project, schools in the region will benefit by way of complimentary access to the site.

'Livelihood recovery'

The Agri Products sector reached out in 2006/07 to six tsunami - affected families through an entrepreneurship development initiative. Providing a means of livelihood recovery through the introduction of floriculture- growing Anthuriums for export, the Agri Inputs sector aimed to build and strengthen the capacity of participating households to meet their requirements for sustenance and to position floriculture as a viable entrepreneurial activity.



Widening Horizons

The Welikada Primary College is funded on a very small scale. Advantis employees took it upon themselves to bring entertainment and knowledge, through an educational trip to the Planetarium, Museum, Viharamadevi Childrens' Park, Gangarama Temple, Colombo Port and Galle Face.

The trip was successful in that it exposed these children not only to the knowledge and workings of science and glimpses of technology, but importantly the significance and expansiveness of local industrial operations. This was an eye-opening experience for the children, who had never seen the range of industrial activity that is part of a normal day in the Colombo Port, and now had experienced something most have never seen.



Sustainability Reporting | Environment Issues



Sustainability Reporting | Environment Issues

The Group's concern for the environment has been a long standing commitment. Watchful of the impact of business on mother nature, Hayleys has continued to be a guardian of the environment throughout its many decades of operations.

Hayleys Environmental Policy

"To give as much to the world as we take out of it!"

Environmental Objectives:

- Go beyond compliance, and deal with environmental issues at source or as close to it as possible
- Design and develop products with minimum environmental impact in manufacture, use and disposal
- Optimise usage of energy and recycle wherever possible
- Cascade environmental best practices to employees through training, education and development
- Promote environmental care and raise standards through lobbying and interaction with industry bodies, regulators and associates
- Remain responsive to emerging issues, new knowledge and public concerns

'Waste to Viable'

A by-product of the garment trade, producers resort to imprudent disposal of textile waste, most often creating shredded textile mountains in and around manufacturing sites. Identifying this eyesore as an opportunity, the Fibre sector has been the first in Sri Lanka to innovate new products that include textile waste as a primary raw material.

Having begun five years ago, the sector presently purchases over 100 tonnes of textile waste monthly.

'Sustainable Agriculture'

In 2006/07 KVPL renewed its Forest Stewardship Certification (FSC) for a further five years. This certification confirms that the twelve rubber estates of KVPL continue to meet the ten principles of FSC and are environmentally sensitive, socially responsible and economically viable.

KVPL is currently engaged in installing effluent treatment plants conforming to the requirements of the Central Environment Authority in all rubber factories. A systematic and sustainable programme is also being undertaken to incorporate compost and organic matter to maintain prescribed carbon levels, organic activity and healthy microbial levels.

The tea plantations conform strictly to Tea Research Institute parameters in the use of chemicals, pesticides and weedicides in all plantations.

The Sector's energy requirement from the National Electricity Grid has decreased due to the hydro power projects now in operation on the plantations. Decreased dependency on the National Grid denotes



Sustainability Reporting | Environment Issues

a growing ability of the sector to generate its own energy requirements, facilitating greater efficiencies within the sector as well as contributing to the economy.

'Green Tourism'

Sustainable tourism is an area that commands attention globally. With tourism organizations and stakeholder bodies such as PATA and the World Tourism Organisation looking towards a global standard for sustainable tourism, it is all the more necessary for industry participants to embrace the concept and promote its acceptance amongst industry stakeholders.



With this in mind and operating within the "eco" positioning of the Resorts sector, Lighthouse Hotel & Spa embarked on a project to develop land in the vicinity of the hotel to create what is to be known as The Lighthouse Village. Here a two suite accommodation facility will recreate traditional Sri Lankan village lifestyles. Accessible only by boat, the Village would sit on the Mahamodara river. With organic farming and paddy cultivation to be developed on site, the Village will be self sufficient.



The Beach, Vil Uyana and Lighthouse Hotel & Spa continue to be involved in various activities aimed at improving environmental awareness. Initiatives include energy and water conservation, non-use of polyethylene, and the use of bio-degradable chemicals in laundries and kitchens. Jetwing is amongst the few hotel chains internationally to document its Green Initiative Programmes and has named theirs the 'Green Directories'. It is perhaps the first Hotel company in Sri Lanka to do this.

'Recycled Fashion'

The Textiles sector undertook pilot production of recycled polyester for use during the year under review. This initiative is a pioneering effort in Sri Lanka.

Currently awaiting certification for the Sustainable Textile, Organic Exchange and Global Organic Textile Standard, the sector is a serious proponent of environmentally friendly products and production methods. Actively following recycling efforts, the sector recycles polyethylene, cardboard and all forms of plastics. Energy conservation, energy recovery systems and the recent investment on augmentation of its effluent treatment plant make this abundantly clear.

Risk Management

The process

Business operations necessarily involve opportunities and risks. Therefore, we aim to deliver long term sustainable value to shareholders by identifying the risks, both existing and potential, and by taking appropriate action to manage them. The diversity of our product range, markets served and economic as well as natural climates we operate in, exposes the business activities of Hayleys Group to a wide variety of risks.

In managing the Group's businesses, attempts are made to maximize value to the Group by the efficient and effective deployment of its resources. The management therefore sets Group strategies and objectives that should be achieved within a framework of acceptable risk. Each business sector sets its own business strategies in line with the group strategies.

The group's **risk management process** involves a review, by the Board, of presentations made by the different business sectors on the major risks faced, action taken or contemplated. The goal is to identify the potential risks associated with our activities as early as possible, assess the possible quantitative and qualitative consequences of their occurrence, and take suitable steps to mitigate them.

The business units will continue to set their goals and objectives annually after evaluating and identifying the risks associated with the business. Depending upon the significance of the risk to the sector within which the entity operates, decisions are taken to appropriately manage the risk by accepting, reducing, sharing or avoiding it. Such decisions are influenced by the Group's risk appetite.

Reporting plays a key role in monitoring risks. The business performance of individual companies is routinely compared with budgets and key economic and performance indicators to alert management to possible risks. Internal reports are produced monthly/quarterly, comparing performance of business sectors as well as the Group with identified Key Performance Indicators to ensure that the Group Management Committee is alerted to possible risks in a timely fashion. Group accounting and control functions seek to increase the responsiveness and efficiency of the reporting system. Reports are tabled by sectors, at the meetings of the Board, certifying their compliance on payment of statutory dues in compliance with the laws and regulations.

Reports forwarded by internal and external auditors on the Group's operational and financial systems are reviewed internally and action is taken to manage risks that are identified.

The Group's system of **internal control** covers policies and procedures, enabling significant strategic and operational risks to be managed. This includes systems of financial controls in operation

through the Group and processes and systems for monitoring and reporting on the continuing effectiveness of the system of internal controls. These include the Group's Management Audit & Systems Review function.

Several Key Risks to which we are exposed due to our business activities, the assessment of such risks and the related responses are set out below:

External risks

• Market Risks

Concern:

Our export products continue to meet intense competition, mostly from other countries in the region like India, China, Vietnam, Thailand and Indonesia, that provide competitive products. The competitors continue to benefit from low wage costs, flexible labour laws, supportive tariff structures, comparatively low energy costs amongst others.

Effect:

Loss of market to competition

Mitigatory Action:

We continuously focus on increasing productivity to reduce overall costs.

The Group has consistently adopted strategies to diversify its product portfolio and position its products in niche markets based on competitive advantage. The Group's strategy extends to establishing manufacturing operations in countries from which strong competition is experienced or expected, to leverage the competitive advantage these countries enjoy, and broaden the Group's manufacturing base. The manufacturing companies have striven to find alternative cost effective energy solutions and have been successful in reducing the use of fossil fuel.

Concern:

The price competitiveness of many of the Group's exports is significantly influenced by the freight rates applied in carrying these exports to their destinations.

Effect:

Affects the competitiveness of the sale price

Mitigatory Action:

The Group addresses this risk by negotiating medium- term price contracts with shipping lines, based on its aggregate export volumes.

Risk Management

• Procurement Risks

Concerns:

The manufacturing companies in the Group in sectors such as fibre, hand protection, purification products and textiles, operate subject to the risk that raw materials and other inputs may be unavailable or the desired quality or volumes may be insufficient. Similarly, trading companies in the Group must ensure quality products are available in sufficient volumes and that they procure these goods at competitive prices.

Effect:

The Group depends on the continuous supply of indigenous raw materials, notably coconut fibre, coconut shell and latex, and of imported raw materials. Any supply shortfall will adversely impact on the Group's bottom-line. Adverse price variations may also cause a decline in margins.

Mitigatory Action:

The Group strives to address these risks through long-term relationships with its suppliers, contractual agreements and reduced dependency on only a few suppliers, where that is feasible. The action has extended to establishing supply relationships with overseas suppliers of traditionally "indigenous" raw materials and more significantly, to establishing manufacturing in overseas locations in which these raw materials are available. Major export companies in the Group have active supply chain management teams constantly reviewing means of improvement. The group would even have recourse to legal action if such reduction in supply is due to unfair practices being adopted by competitors.

• Risks due to Climatic Changes

Concerns:

The change in weather patterns impact on the performance of agro based industries of the Group.

Effect:

Manufacturing companies of the Group that use indigenous raw materials such as coconut fibre, coconut shell, latex and gherkins are affected by their shortages due to weather conditions.

Mitigatory Action:

Maintaining adequate inventory levels when raw materials are available, sourcing from other countries and geographical diversification by setting up manufacturing units overseas are some of the measures taken to address this risk.

Plantation companies and trading companies that market agro products and equipment are also affected. The Group, due to its diversified business portfolio, treats these seasonal disruptions as acceptable risks.

General Risks

Socio-Economic Policies

Concerns:

Some of our businesses are affected by major shifts in Government policy. Delays in proper implementation of adopted policies also affect the Group.

Effect:

Delays in receipt of VAT refunds have a considerable impact on Group cash flows.

Mitigatory Action:

Relevant issues are brought to the notice of regulatory and other authorities and persistently canvassed with them.

Within the organisation

• Product Risks

Concerns:

Introduction of product alternatives by competitors or variances in product quality can lead to buyers ceasing to buy the Group's products. Trading companies face the risk of changing market preferences due to emergence of new products with improved technology.

Effect:

Loss of markets for existing product range

Mitigatory Action

To counter these risks, quality assurance ensures required levels of quality in the products and services marketed. Accreditations are sought from international standards bodies where relevant, and plant and infrastructure are consistently upgraded.

Product innovation is given high priority, so the Group can remain competitive in an evolving market place.

Maintaining good communication with foreign suppliers to be aware of new product developments and maintaining low inventory levels of products that are susceptible to technological obsolescence are methods adopted to mitigate the exposure of trading companies.

Risk Management

• Investment Risks

Concerns:

The Group carries out acquisitions, capital expenditure and research and development, which are vital to its healthy continuation. There are inherent risks associated with such investments.

Effect:

The future profitability of the Group is affected by the degree of realization of expected earnings on such investments.

Mitigatory Action :

Control and mitigation of risks on investments is exercised through due diligence beforehand and by close monitoring of progress. This helps determine if budgets and forecasts can be met and whether additional financial or technological risks can impact. The Board has also laid down procedures that stipulate, inter alia, the level of investment above which its sanction is needed.

Diversification into new activity enables the Group to spread its risks so that it is not dependent on only a few areas of the economy

• Credit Risks

Concerns:

The Group, naturally, carries out most of its transactions on credit terms, which has its associated risks.

Effect:

The possibility of incurring bad or doubtful debts including the prospect of protracted legal proceedings without assurance of satisfaction.

Mitigatory Action :

Being aware of the risks, the Group's credit exposure is closely monitored. Credit given is reviewed through defined approval procedures and is granted within established levels. The principles followed in this process temper caution on the one hand, with pragmatism on the other. The Group's export companies take insurance cover where appropriate to minimize inherent risk.

• Risks of dependence on Business Partners

Concerns:

As a Group catering to diverse international and local markets, its businesses are exposed to the uncertainties of different market conditions and sentiments.

Effect:

A major buyer discontinuing business will adversely affect sales and profits. Global mergers and acquisitions of principals represented, which are commonplace, can lead to the loss of agencies held. The latter is particularly relevant for the Consumer, Agri Inputs, Industrial Inputs, Transportation and Agro Products segments of the Group's business.

Mitigatory Action :

The presence of Group companies overseas and a valued network of foreign and local helps identify risks and action in mitigation. In principal- agent relationships, the Group's efforts to maximize the value we provide as an agent, reduce the risk of losing agencies. In addition, the company is always alive to new market opportunities, to developing new alliances, and to acquiring distribution channels, which reduce the impact of any losses that do arise.

• Exchange Rate Risks

Concerns:

The Group operates in different countries and is subject to the effects of exchange rate fluctuations, both in trading and in the translation of its financial statements.

Effect:

Affects Group results/pricing policy

Mitigatory Action

While the Group uses short term hedging, selectively, for trading activities (e.g. forward contracts), it avoids complex risk management mechanisms.

• Interest Rate Risks

Concerns:

The need to minimize adverse effects due to interest rate fluctuations.

Effect :

Impacts the Group's earnings, cash flow and economic value.

Mitigatory Action :

The Group seeks to relate the structure of its borrowings to the trading cash flows that service them. Hayleys' continuing financial strength gives the Group access to funds, at attractive rates.

To manage its interest rate risk, the Group maintains both floating and fixed rate debt. This reduces the impact of an upward change in interest rates, while allowing benefit should interest rates fall.

Risk Management

- **Liquidity Risks**

Concerns:

The Group should ensure that adequate funds are available for its routine operational requirements as well as expected investments.

Effect :

Inadequate funds would lead to postponement of investments and resorting to costly funding alternatives.

Mitigatory Action :

The Group seeks to achieve a balance between the certainty of funding and a flexible, cost effective borrowing structure. Projected net borrowing needs are covered by committed facilities. The maturity profile of debt is such that debt assumed is not beyond the Group's means to repay or refinance it.

- **IT Risks**

Concerns:

The Group depends on accurate, timely information from key computer systems to enable decision- making.

Effect:

Any disruption caused by failure of such applications, equipment, or communication networks can cause the Group financial losses.

Mitigatory Action :

This has been addressed through a system of regular backups, and by insurance agreements intended to cover adverse occurrences.

Indemnity arrangements

The Group, where possible, has insurance agreements to protect against adverse financial consequences arising from a multitude of business uncertainties and risks. These arrangements are frequently re-examined and adjusted as necessary.

Corporate Governance

Hayleys PLC conducts many businesses through its subsidiary and associate companies. These companies, what they do, and the names of their Directors appear on pages 148 and 149 of this Report.

We describe our Corporate Governance practices here, against the background of the Code of Best Practice on Corporate Governance published by the Institute of Chartered Accountants of Sri Lanka, the guidelines on Corporate Governance recently included in Listing Rules of the Colombo Stock Exchange, and developing best practice.

A. Directors

1. BOARD

Composition and attendance at meetings

The Board consisted of eleven directors in the year under review: the Chairman & Chief Executive (executive), the Deputy Chairman (executive), five other Executive Directors and four Non- executive Directors. These Directors are named below and are profiled on pages 12 & 13 of this Report.

The Board meets quarterly as a matter of routine. Additional meetings are held when necessary. In the year under review, the Board met 6 times. Attendance at these meetings was:

Mr R Yatawara	Chairman & Chief Executive up to 10/1/07	5/5
Mr N G Wickremeratne	Deputy Chairman up to 10/1/07 and Chairman & Chief Executive from 11/1/07	6/6
Mr A M Pandithage	Executive Director up to 10/1/07 and Deputy Chairman from 11/1/07	6/6
Mr R A Ebell	Executive Director	6/6
Mr L K B Godamunne	Independent Non- executive Director	6/6
Mr P S P S Perera	Executive Director	6/6
Mr J D Bandaranayake	Independent Non- executive Director	5/6
Mr A D B Talwatte	Independent Non- executive Director (retired 31st December 2006)	4/4
Mr A Hettiarachchy	Executive Director	6/6
Mr M R Zaheed	Executive Director	5/6
Mr A M Senaratna	Non- executive Director	6/6*
Mr J A G Anandarajah	Executive Director (from 1/1/07)	2/2
Mr T L F Jayasekara	Independent Non- executive Director (from 1/1/07)	2/2

* Mr Senaratna participated in 5 of these meetings via conference call.

Shareholders were advised of the retirement of Messrs Yatawara and Talwatte and, with brief biographical information provided, of the appointments of Mr Anandarajah and Mr Jayasekara.

Responsibilities

The Board is responsible for:

- Ensuring business policy and strategy are formulated and communicated and for monitoring implementation
- Ensuring the Executive Directors (including the Chairman & CEO and Deputy Chairman) are equipped and able to implement the strategy
- Ensuring succession arrangements are focused on
- Ensuring organizational values and standards are set and communicated
- Ensuring due attention is given to appropriate accounting policies and practices
- Ensuring effective information, control, risk management and audit systems
- Ensuring compliance with legal and ethical standards
- Approving annual budgets and monitoring performance against the budgets set
- Approving major investments and disinvestments
- Adopting annual and interim results before they are published

The Board is ultimately responsible for the Group's performance. It is in control of the company's affairs and is mindful of its obligations to all stakeholders.

All Directors have access to Hayleys Group Services who acts as Company Secretary, for advice on relevant matters.

Each Director brings independent judgement to bear on matters the Board is responsible for, and dedicates the time and effort necessary to carry out his responsibilities.

Directors are able to access programmes arranged by the Group's Human Resource Development Division when appropriate, to provide updates on matters relevant to business management and economic affairs.

2. CHAIRMAN & CHIEF EXECUTIVE

The functions of Chairman & Chief Executive are vested in one person. This does not compromise the quality of our Corporate Governance, given the way in which the Group is structured. Hayleys is a holding company; businesses are conducted through a number of subsidiary and associate companies. The Deputy Chairman, the other Executive Directors and members of the Group Management Committee are responsible for these, effectively functioning as CEO's of the businesses that make up the Group. This structure is shown in the chart that follows this statement.

Mr L K B Godamunne, Non- executive Director functioned as Senior Independent Director through the year. The Senior Independent Director is the Director to whom concerns can be conveyed if a need arises.

Corporate Governance

3. CHAIRMAN'S ROLE

The Chairman conducts Board Meetings so that:

- The participation and contribution of Executive and Non executive Directors is encouraged, and their views on matters under consideration is determined.
- A balance of power is maintained.

The Chairman maintains contact with all Directors, and has informal discussions with the Non- executive Directors as necessary.

4. FINANCIAL ACUMEN

The Board includes two senior Chartered Accountants, who possess the necessary knowledge to offer the Board guidance on matters of finance. One of these serves as Finance Director.

5. BOARD BALANCE

The balance of Executive and Independent Non- executive Directors on the Board ensures no individual Director or small group of Directors dominates Board discussion and decision- making.

All Non- executive Directors are considered independent, having no material relationship, direct or indirect, with the Company. The Board believes this independence is not compromised by the shareholding held by Mr L K B Godamunne and his spouse (which they consider to be not significant) or by the period (9 years) for which he has served on the Board (which they believe has not affected his objectivity in the role).

Non- executive Directors comprise over one- third in number of the Directors. Their profiles reflect their calibre and the weight their views carry in Board deliberations. Each is independent of management and free from any relationship that can interfere with independent judgement.

6. SUPPLY OF INFORMATION

Directors are provided with monthly reports of performance and minutes of monthly review meetings, and are given the specific documentation necessary, in advance of each meeting. The Chairman ensures all Directors are adequately briefed on issues arising at meetings.

7. APPOINTMENTS TO THE BOARD

The Board's Nomination Committee decides on the appointment of new Directors. The Committee comprises the Chairman & Chief Executive as Chairman, the Deputy Chairman, and the four Non- executive Directors.

8. RE- ELECTION OF DIRECTORS

The Company's Articles of Association require a Director appointed by the Board to hold office until the next Annual General Meeting, and seek re-appointment by the shareholders at that meeting.

The Articles call for one- third of the Directors in office to retire at each Annual General Meeting. The Directors who retire are those longest in office since their appointment/ re-appointment. Retiring Directors are generally eligible for re-election by the shareholders.

The Chief Executive does not retire by rotation.

B. Directors' Remuneration

The four Non- executive Directors and the Chairman & Chief Executive form a Remuneration Committee, which decides on the remuneration of Executive Directors and sets guidelines for the remuneration of management staff within the Group. This Committee is chaired by Mr L K B Godamunne, Senior Independent Director. The Chairman & Chief Executive's remuneration is determined by the Non-executive Directors.

The Remuneration Committee's Report appears on page 88.

The total of Directors' Remuneration is reported in Note 9 to the Financial Statements.

C. Relations with Shareholders

1. CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING

The Board considers the Annual General Meeting an opportunity to communicate with shareholders, and encourages their participation. The Board is ready to answer questions raised by shareholders at General Meetings, and maintains an appropriate dialogue with them.

2. OTHER

The company maintains a website (www.hayleys.com), which offers any interested person information on the Group. Apart from this, its principal communication with shareholders and others is its Annual Report and Quarterly Financial Statements, which are themselves placed on the website soon after publication.

Shareholders are free to communicate with the company when it is necessary. Such communication is either with the Chairman & Chief Executive or Deputy Chairman, or with the Company's Secretaries, depending on the matter to be addressed.

The Chairman & Chief Executive, Deputy Chairman and Executive Directors meet institutional investors and analysts to discuss the Company's performance. During these meetings, the Directors ensure protection of share price sensitive information that has not been made available to the company's shareholders.

Corporate Governance

D. Accountability and Audit

1. FINANCIAL REPORTING

The Board places emphasis on complete disclosure of financial and non-financial information within the bounds of commercial reality, and on the adoption of sound reporting practices.

The Statement of Directors' Responsibilities for the financial statements is given on page 95 of this Report.

2. INTERNAL CONTROL

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The system is intended to safeguard assets against unauthorized use or disposal and ensure proper records are maintained and reliable information is produced. It includes all controls, including financial, operational and compliance controls and risk management. It is important to state, however, that any system can ensure only reasonable, and not absolute, assurance that errors and irregularities are prevented or detected within a reasonable time.

The Group has a Management Audit & Systems Review Department, which conducts in- depth reviews of the companies in the Group, on a cyclical basis. Their reports are made available to the Chairman & Chief Executive and the Chairman of the Audit Committee. This process is supplemented by regular internal audits carried out by independent auditors, covering specified areas.

The Board has reviewed the effectiveness of the system of financial control for the period up to the date of signing the accounts.

3. AUDIT COMMITTEE AND AUDITORS

The Audit Committee was formally constituted in 1992, and during the year consisted of all Non- executive Directors other than Mr A M Senaratna, who was excluded due to his being based outside Sri Lanka. The Committee was chaired by Mr A D B Talwatte up to 31st December 2006, and by Mr T L F Jayasekara from 1st January 2007. The Group Manager, Management Audit & Systems Review, serves as its Secretary. The Chairman & Chief Executive and Finance Director are invited to attend meetings, and the Deputy Chairman and other Executive Directors attend as required. The External Auditors also attend meetings when their presence is necessary.

The Committee has written terms of reference and is empowered to examine any matter relating to the financial reporting systems of the Group, and its internal and external audits. Its duties include detailed reviews of financial statements, internal control procedures, accounting policies and compliance with accounting standards. It also reviews the adequacy of systems for compliance with the relevant legal, regulatory and ethical requirements, and company policies. It recommends the appointment and fees of the external auditors, having given due consideration to their independence.

The Audit Committee's Report appears on page 96 of the Report.

E. Other

1. ORGANISATION

The Board has in place an organisational structure with defined lines of reporting and appropriate limits of authority for different processes. There are also established procedures for planning and investment, and for information and reporting systems to monitor the Group's businesses.

2. GROUP MANAGEMENT COMMITTEES

Hayleys PLC has a two-tier governance structure, with a Group Management Committee standing just below the Board. This Committee consists of the Chairman & Chief Executive, the Deputy Chairman, the five other Executive Directors and four Senior Directors of subsidiaries. Their names and profiles appear on pages 12 & 13 of this Report.

The Group Management Committee formulates strategy, seeks Board approval for this strategy, and implements it within the policy framework established by the Board and the ethical framework and business practices inherent to the Group, which demand best practice in dealing with employees, customers, suppliers, and the community.

The Group is effectively divided into sub-groups, each under the purview of an Executive Director or member of the Group Management Committee. The managements of the operational units report to the Executive Director or member of the Group Management Committee in charge.

The Group Management Committee meets every month. Performances of the sub- groups are reviewed in this forum.

The performances of the individual companies have been reviewed monthly at meetings of the Import Co-ordinating & Consultative Committee, and the Export Co-ordinating & Consultative Committee. These Committees facilitated consultation among similar operational units and co-ordinated their activities. Executive Directors of Hayleys PLC. chaired these meetings. This review structure is now being revised, and reviews will in future be undertaken in three groupings as follows:

Global Markets & Manufacturing-encompassing Hand Protection, Purification Products, Fibre and Textiles

Agriculture & Agri Business-incorporating Plantations, Agri-inputs and Agri- products, and

Transportation, Infrastructure & Consumer-including Transportation, Power & Energy, Industry Inputs and Consumer Products.

Copies of minutes of meetings of the Group Management Committee and of review meetings are sent to all Directors, including the Non-executive Directors.

Corporate Governance

3. OTHER

The Board confirms there is an on-going process for identifying, evaluating and managing significant risks. This process has been in place through the year under review. The key risks the Group is exposed to are summarised in the Risk Management Report on pages 80 to 82.

The company's workplace practices and specific environmental, social and ethical risks and opportunities are dealt with in the Sustainability Report in pages 56 to 79.

The Board constantly strives to enhance shareholder value and provide a total return in excess of the market. The Sustainability Report-investor information section on pages 62 to 64 gives further details.

Management Structure



Remuneration Committee Report

The Remuneration Committee consists of the 4 Non-executive Directors and the Chairman & Chief Executive of the Group, and is chaired by a Non-executive Director. The Chairman & Chief Executive assists the Committee by providing relevant information and participating in its analysis and deliberations, except when his own compensation package is reviewed.

The Committee is responsible for determining the compensation of the Chairman & Chief Executive, Deputy Chairman, Executive Directors and members of the Group Management Committee. In addition they lay down guidelines and parameters for the compensation structures of all management staff within the Group.

A primary objective of compensation packages is to attract and retain a highly qualified and experienced work force, and reward performance. These compensation packages should provide compensation appropriate for each business within the Group and commensurate with each employee's level of expertise and contribution, bearing in mind the business' performance and long term shareholder returns.

In carrying out its tasks the Committee reviewed data concerning executive pay among comparator companies. This review also encompassed subsidiary and associate companies within the Group. Having completed the review the Committee proceeded to determine compensation packages for the Chairman & Chief Executive, Deputy Chairman, Executive Directors and members of the Group Management Committee.

The Committee will meet from time to time and review the Group's compensation structures to assure alignment with strategic priorities and with compensation offered by comparator companies.

The Committee has recommended that a comprehensive survey be undertaken to supplement information available, and has suggested that succession plans to which remuneration can be aligned, are defined.

L K B Godamunne

Chairman

Remuneration Committee

16th May 2007

Annual Report of the Board of Directors on the affairs of the Company

The details set out herein provide the pertinent information required by the Companies Act No. 7 of 2007, the Colombo Stock Exchange Listing Rules and are guided by recommended best accounting practices. This section also provides the information that was required in the Directors' Report which was a requirement under the earlier Companies Act, that was applicable up to 2nd May 2007.

This report consists of two parts. Part A is a report by the Board describing the contents of this Annual Report in compliance with Section 168 of the Companies Act No. 7 of 2007. Part B provides the other information referred to.

Part A

STATEMENT OF COMPLIANCE ON THE CONTENT OF THE ANNUAL REPORT

PRINCIPAL ACTIVITIES, BUSINESS REVIEW/FUTURE DEVELOPMENTS

Hayleys PLC is a holding company that owns, directly or indirectly, investments in the numerous companies constituting the Hayleys Group. The Group consists of a portfolio of diverse business operations. The main subsidiaries and associates are listed on pages 148 to 149.

The principal activities of the Group are categorized into 4 main business groups i.e. Global Markets & Manufacturing, Agriculture & Agri Business, Transportation & Infrastructure and Consumer & Leisure. Each group consists of a number of sectors. The main activities of the sectors are described in the Management Discussion and Analysis section (pages 13 to 49) of this Report.

A review of the Group's businesses and its performance during the year, with comments on financial results and future strategic developments, is contained in the Chairman's Statement (pages 7 to 11) and Management Discussion & Analysis (pages 13 to 49) sections of this Annual Report. These reports together with the financial statements reflect the state of affairs of the Company and the Group.

In July 2006 Hayleys and its subsidiary divested their investments in Colombo Dockyard PLC. The results of Colombo Dockyard PLC, up to the date of divestment, were accounted under the equity method. Onril (Pvt) Ltd, was accounted as an investment from January 2007. This company's results were accounted under the equity method up to 31st December 2006. The change was due to a change in circumstances which is explained in Note 16 to the financial statements.

The Directors, to the best of their knowledge and belief, confirm that the Group has not engaged in any activities that contravene laws and regulations.

FINANCIAL STATEMENTS

The financial statements of the Company and the Group are given on pages 98 to 142.

AUDITOR'S REPORT

The auditor's report on the financial statements is given on page 97.

ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are given on pages 103 to 110. There were no changes in the accounting policies adopted.

INTERESTS REGISTER

There was no requirement to maintain an Interests Register in the accounting period ended 31st March 2007.

DIRECTORS' REMUNERATION

Directors' remuneration, in respect of the Company and the Group for the financial year 2006/07 are given in Note 9 to the financial statements, on page 113.

CORPORATE DONATIONS

Donations by the Company amounted to Rs.392,220 (Rs.246,714) which includes a sum of Rs.238,000 (Rs. 77,000) donated to Government approved charities. This exceeds the amount of Rs.300,000 approved by the shareholders at the last Annual General Meeting.

In addition to the above, the total sum spent, upto 31st March 2007, on the Tsunami Relief effort amounts to Rs.46.8mn. This exceeds the Rs.45mn approved by the shareholders, at an extraordinary general meeting on 25th February 2005, by Rs.1.8mn.

Shareholders' ratification of the additional amounts spent, as described above, will be sought at the Annual General Meeting.

Donations by the Group amounted to Rs 15.0mn (Rs.9.7mn).

No donations were made for political purposes.

DIRECTORATE

The names of the Directors who held office during the financial year are given below and their brief profiles appear on pages 12 & 13.

Executive Directors

Mr N G Wickreeratne (Chairman and Chief Executive)

Mr R Yatawara (Chairman and Chief Executive - retired on 10th January 2007)

Mr A M Pandithage (Deputy Chairman)

Mr R A Ebell

Mr P S P S Perera

Mr A Hettiarachchy

Mr M R Zaheed

Mr J A G Anandarajah (Appointed on 1st January 2007)

Annual Report of the Board of Directors on the affairs of the Company

Non-executive Directors

Mr L K B Godamunne

Mr J D Bandaranayake

Mr A M Senaratna

Mr T L F Jayasekara (Appointed on 1st January 2007)

Mr A D B Talwatte (Resigned on 31st December 2006)

Mr N G Wickremeratne was appointed the Chairman & Chief Executive with effect from 11th January 2007 consequent to the retirement of Mr R Yatawara.

Mr A M Pandithage was appointed the Deputy Chairman with effect from 11th January 2007.

The Board of Directors of the Company has appointed Messrs. J A G Anandarajah and T L F Jayasekara as Directors, since the last Annual General Meeting under Article 110, and in terms of the Articles of Association shareholders will be requested to elect them at the Annual General Meeting.

Messrs R A Ebell and J D Bandaranayake retire by rotation and being eligible offer themselves for re-election. Notice has been given pursuant to section 211 of the Companies Act No.7 of 2007 of the intention to propose an ordinary resolution for re-election of Mr L K B Godamunne, notwithstanding the age limit of 70 years stipulated by section 210 of the Companies Act.

DIRECTORS' INTERESTS

Directors' interests in contracts of the Company are disclosed in Note 38 to the Financial Statements on page 138. The Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

The Directors, at their meetings, have declared all material interests in contracts involving the company and have refrained from voting on matters in which they were materially interested.

AUDITORS

In accordance with the Companies Act No.7 of 2007, a resolution proposing the re-appointment of Messrs. KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants, as Auditors to the Company will be submitted at the Annual General Meeting.

The Auditors, Messrs. KPMG Ford, Rhodes, Thornton & Co., were paid Rs.0.5 mn (Rs.0.4mn), and Rs.12.6.mn (Rs.10.3mn) as audit fees by the Company and the Group respectively. In addition, they were paid Rs.0.2mn(Rs.0.2mn) and Rs.3.7mn (Rs.3.7 mn), by the Company and the Group, for non- audit related work, which consisted mainly of tax consultancy services.

As far as the Directors are aware, the Auditors do not have any relationships (other than that of an auditor) with the company or any of its subsidiaries other than those disclosed above. The Auditors also do not have any interests in the company or any of its Group companies.

Part B

GROUP TURNOVER / INTERNATIONAL TRADE

The turnover of the Group, excluding Associates, was Rs.27.6bn (Rs.24.0bn), in the year under review while the turnover including associates was Rs.50.8bn (Rs.48.7bn). A detailed analysis of the Group's turnover, profits and asset allocation relating to different segments of the Group's businesses is given in Note 5 to the Financial Statements.

The Group's exports from Sri Lanka, inclusive of Associates' exports, amounted to Rs.18.6bn (Rs.23.7bn) at f.o.b.value in the year under review.

The Group's turnover from International Trade, which includes the turnover of overseas Subsidiaries and Associates in addition to exports from Sri Lanka, amounted to Rs.23.7bn (Rs.28.4bn) in the year under review.

Trade between Group companies is conducted at fair market prices.

RESULTS AND DIVIDENDS

The Group's profit, excluding its share of profits of Associates, amounted to Rs.1,249mn (Rs.1,155mn) in the year under review. With its share of Associates' profits, Group profit before taxation amounted to Rs.1,608mn (Rs.1,484mn). After deducting Rs.519mn (Rs. 504mn) for taxation and Rs.555mn (Rs. 394mn) for minority interests, Group profit attributable to equity holders of the company for the year was Rs.533mn (Rs.586mn). A sum of Rs.262.5mn (Rs.262.5mn) has been set aside for dividends.

The Consolidated Income Statement along with the Company's Income Statement for the year are given on page 98. Details of transfers to/from reserves in respect of the Group and the Company are shown in the Statement of Changes in Equity on page 100.

The Directors recommend, having satisfied the solvency test requirement under section 56 of the Companies Act No.7 of 2007, a final dividend of Rs.1.75 (Rs.1.75) per share payable on 3rd July 2007 to the holders of the issued ordinary shares of the Company as at the close of business on 27th June 2007. This dividend together with the interim dividend of Rs.1.75 (Rs.1.75) per share results in a total dividend of Rs.3.50 (Rs.3.50) per share. The dividends represent a redistribution of dividends received by the Company and therefore will not be subject to the 10% tax deduction otherwise applicable.

GROUP INVESTMENT

Group capital expenditure during the year on property, plant & equipment and investments, other than investments in subsidiaries, amounted to Rs.1,530mn (Rs.1,506mn).

Annual Report of the Board of Directors on the affairs of the Company

PROPERTY, PLANT & EQUIPMENT

Capital expenditure, during the year, on property, plant & equipment by the Group and by the Company amounted to Rs.1,292mn and Rs.33mn respectively.

Information relating to details and movements in property, plant & equipment is given in Note 13 to the financial statements.

MARKET VALUE OF PROPERTIES

The freehold land of the Group, in general, has been subjected to routine revaluation by independent qualified valuers. The most recent revaluations were carried out as at 31st March 2007. Small extents of freehold land are reflected at book values as their appreciation is insignificant.

Details of revaluations, carrying values and market values are provided in Note 13 to the Financial Statements. The Value of Real Estate on page 143 gives details of freehold land held by the Group.

The Group, as at 31st March 2007, does not carry any property that requires classification as Investment Property in accordance with SLAS 40.

SHARE CAPITAL & RESERVES

The issued and paid up share capital of the Company is Rs.750mn. There was no change in share capital during the year.

Total Group Reserves as at 31st March 2007 amount to Rs.10.9bn (Rs.7.5bn) comprising Capital Reserves of Rs.6.2bn (Rs.3.3bn) and Revenue Reserves of Rs.4.7 bn (Rs.4.2bn). The composition of reserves is shown in the Statement of Changes in Equity in the Financial Statements.

TAXATION

In computing the Group's tax liability, the maximum relief available to investors under the provisions of the Inland Revenue Act has been claimed. Detailed information relating to Group Taxation is given in Note 10 to the Financial Statements on page 114.

SHARE INFORMATION

Information relating to earnings, dividends, net assets, market value per share and share trading is given on pages 6 and 64.

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No circumstances have arisen since the Balance Sheet date that would require adjustment, other than those disclosed in Note 34 to the Financial Statements on page 136.

EMPLOYMENT POLICIES

Group employment policies respect the individual and offer equal career opportunities regardless of sex, race or religion. There are

several schemes by which employees are encouraged to become involved in their respective companies in mutually beneficial relationships, the most important being schemes in which they are invited to acquire shares. Occupational health and safety standards receive substantial attention. More information is given in the Sustainability Report - Employee Relations section on pages 69 to 72.

The number of persons employed by the Company and its Subsidiaries at the year-end was 20,708 (20,349). The number of people employed by Associate companies at year-end was 14,651 (16,177).

EMPLOYEE SHARE OWNERSHIP SCHEME

The Group has introduced a number of broad-based share purchase schemes for its employees. Consequently many of the Group's employees have some equity interest in various Group entities. It is intended to extend such schemes as and when opportunities arise.

The Group does not operate any share option schemes.

SHAREHOLDERS

It is the Group's policy to endeavour to ensure equitable treatment of its shareholders.

STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due in relation to employees and the government have been made promptly and are up to date.

ENVIRONMENTAL PROTECTION

The Group's business activities can have direct and indirect effects on the environment. It is the Group's policy to minimize any adverse effects its activities have on the environment and to promote co-operation and compliance with the relevant authorities and regulations.

RESEARCH AND DEVELOPMENT

Improvement in materials and process technologies are regarded as an integral part of the Group's development and customer assurance programme. The number of patents held by the Group bears testimony to our commitment to innovation.

CORPORATE GOVERNANCE / INTERNAL CONTROL

Adoption of good governance practices has become an essential requirement in today's corporate culture. The practices carried out by the Group are explained in the Corporate Governance statement on pages 85 to 87.

The Directors acknowledge their responsibility for the Group's system of internal control. The system is designed to give assurance, *inter alia*, regarding the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information

Annual Report of the Board of Directors on the affairs of the Company

generated. However, any system can only ensure reasonable and not absolute assurance that errors and irregularities are either prevented or detected within a reasonable time period.

The Board, having reviewed the system of internal controls, is satisfied with its effectiveness for the period up to the date of signing the Financial Statements.

GOING CONCERN

The Directors, after making necessary inquiries and reviews including reviews of the Group's budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and borrowing facilities, have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Therefore the going concern basis has been adopted in the preparation of the financial statements.

DIRECTORS' SHAREHOLDINGS

Directors' holdings, as defined under Colombo Stock Exchange rules, of ordinary shares in listed Group companies as at 31st March, 2007:

	As at 31/3/07	As at 31/3/06
HAYLEYS		
N G Wickremeratne	27,370	17,370
A M Pandithage	2,338	338
R A Ebell	15,349	13,349
L K B Godamunne	1,191,237	1,233,137
P S P S Perera	10,390	10,390
J D Bandaranayake	27,261	17,261
A Hettiarachchy	10,464	10,464
M R Zaheed	1,881	1,881
A M Senaratna	100	Nil
J A G Anandarajah	908	908

	As at 31/3/07	As at 31/3/06
HAYLEYS EXPORTS		
L K B Godamunne	1,200	1,200
A M Pandithage	320	320
A Hettiarachchy	320	320

DIPPED PRODUCTS

N G Wickremeratne	659,120	659,120
R A Ebell	42,208	37,808
J A G Anandarajah	219,474	219,474

HAYCARB

N G Wickremeratne	1,350	1,350
A M Pandithage	2,379	2,379
R A Ebell	9,937	9,937
L K B Godamunne	11,331	11,331
J D Bandaranayake	1,049	1,049
A Hettiarachchy	64,835	62,024

HUNAS FALLS

A Hettiarachchy	675	675
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LIGHTHOUSE HOTEL

R A Ebell	1,000	1,000
J D Bandaranayake`	10,000	10,000

HAYLEYS MGT KNITTING MILLS

R A Ebell	4,000	Nil
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DIESEL & MOTOR ENGINEERING CO.

A M Pandithage	219,778	199,735
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Annual Report of the Board of Directors on the affairs of the Company

MAJOR SHAREHOLDINGS

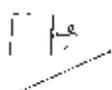
Name of the Shareholder	No. of Shares as at 31/03/2007	%	No. of Shares as at 31/03/2006	%
Trustees of the D.S.Jayasundera Trust	8,698,017	11.60	8,698,017	11.60
Trustees of the Hayleys PLC - Employees Share Trust	6,729,335	8.97	6,729,335	8.97
Sri Lanka Insurance Corporation Ltd - Life Fund	4,631,700	6.18	4,631,700	6.18
Dipped Products PLC	3,536,159	4.71	2,605,759	3.47
Dean Foster (Pvt) Limited	2,922,413	3.90	2,834,813	3.78
Renuka Consultants & Services Limited	2,168,786	2.89	155,986	0.21
The Ceylon Guardian Investment Trust Limited	2,164,358	2.89	2,164,358	2.89
Mr M S Jayasundera	1,950,098	2.60	1,950,098	2.60
The Ceylon Investment Company Limited	1,822,632	2.43	2,122,632	2.83
Volanka Limited	1,638,719	2.18	2,569,119	3.43
Employees Provident Fund	1,597,773	2.13	1,798,273	2.40
National Savings Bank	1,402,856	1.87	3,102,556	4.14
Hayleys Group Services Limited Number 2 Account	1,328,790	1.77	1,281,090	1.71
Renuka City Hotels Limited	1,156,131	1.54	114,731	0.15
Mrs P M Godamunne	1,107,447	1.48	1,149,347	1.53
Mrs V Jayasundera	1,091,302	1.46	1,161,502	1.55
Renuka Hotels Limited	1,005,655	1.34	131,955	0.18
Sri Lanka Insurance Corporation Ltd - General Fund	919,200	1.23	926,300	1.24
Mrs M L Johnpulle (Deceased)	907,165	1.21	907,165	1.21
Ceylon Desiccated Coconut & Oil Company Limited	719,813	0.96	719,813	0.96
TOTAL	47,498,349	63.33	45,754,549	61.01

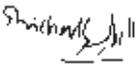
As at 31st March 2007, there were 4,075 (4,153) registered shareholders. The percentage of shares held by the public, as per the Colombo Stock Exchange rules as at 31st March 2007 was 74.62% (74.71%)

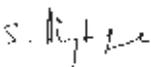
ANNUAL GENERAL MEETING

The Annual General Meeting will be held at The Auditorium, The Institute of Chartered Accountants of Sri Lanka, No.30A, Malalasekera Mawatha, Colombo 7, at 3.00 p.m. on Tuesday 26th June 2007. The Notice of the Annual General Meeting appears on page 152.

For and on behalf of the Board


N.G. Wickremeratne
Chairman & Chief Executive


R.A. Ebell
Finance Director


Hayleys Group Services Ltd.
Secretaries

16th May, 2007

Comparative figures are shown in brackets.

Financial Calendar 2006 / 07

1 st Quarter Report	08 th August, 2006
2 nd Quarter Report	07 th November, 2006
3 rd Quarter Report	08 th February, 2007
Interim Dividend 2006/07	11 th May, 2007
Annual Report 2006/07	30 th May 2007
56 th Annual General Meeting	26 th June, 2007
Final Dividend Proposed	26 th June, 2007
Final Dividend Payable	03 rd July, 2007

Financial

Statement of Directors' Responsibilities

The Directors are responsible, under the Companies Act, to ensure compliance with the requirements set out therein to prepare financial statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the Profit & Loss of the Company and the Group for the financial year. The Directors are also responsible for ensuring that proper accounting records are kept to disclose, with reasonable accuracy, the financial position and to enable the preparation of the financial statements.

The Directors confirm that they have complied with these requirements.

The Board accepts responsibility for the integrity and objectivity of the financial statements presented. The Directors also confirm that in preparing the financial statements, appropriate accounting policies have been selected and applied consistently and reasonable and prudent judgements have been made so that the form and substance of transactions are properly reflected.

They also confirm that the financial statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards. The financial statements provide the information required by the Companies Act and the Rules of the Colombo Stock Exchange.

The Directors have taken reasonable measures to safeguard the assets of the Group and, in that context, have instituted appropriate systems of internal control with a view to prevent and detect fraud and other irregularities.

The external Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co., appointed in accordance with the resolution passed at the last Annual General Meeting were provided with every opportunity to undertake whatever inspections they consider appropriate to enable them to form their opinion on the financial statements. The report of the Auditors, shown on page 97 sets out their responsibilities in relation to the financial statements.

By Order of the Board
HAYLEYS GROUP SERVICES LIMITED
Secretaries

16th May 2007

Reports

Audit Committee Report

Composition and Role

The Audit Committee, appointed by and responsible to the Board of Directors, comprises three Non-executive Directors, with the Group Manager- Management Audit & Systems Review acting as Secretary. The Chairman & Chief Executive and the Finance Director attend meetings of the Committee by invitation. Other members of the Board and the Group Management Committee, as well as the External Auditors, are requested to be present at discussions where appropriate. The Chairman of the Audit Committee is a senior Chartered Accountant.

The role of the Committee, which has specific terms of reference, is described in the Corporate Governance Report on pages 84 to 87.

The names of the members and brief profiles of each member are given on pages 12 & 13 of this report. Their individual and collective financial knowledge and business acumen and the independence of the Committee, are brought to bear on their deliberations and judgements on matters that come within the Committee's purview.

Mr.A.D.B.Talwatte was the Chairman of the Audit Committee up to the time of his resignation from the Board on 31st December 2006. Mr. T.L.F.Jayasekara was appointed the Chairman of the Audit Committee from 1st January 2007.

Two other quoted companies in the Group, that have independent Non- Executive directors have appointed Audit Committees to review their activities with effect from the current financial year. Their terms of reference will be similar to the terms of the Hayleys Group Audit Committee and reports from these committees will be forwarded to the Hayleys Group Audit Committee.

Meetings

The Audit Committee met 7 times during the year. The attendance of the members at these meetings is as follows:

Mr T L F Jayasekara (Chairman from 1st January 2007)	2/2
Mr A D B Talwatte (Chairman upto 31st December 2006)	5/5
Mr L K B Godamunne	5/7
Mr J D Bandaranayake	5/7

Activities

The Committee carried out the following activities during the year:

- The Committee reviewed the **financial reporting system** adopted by the Group in the preparation of its quarterly and annual financial statements to ensure reliability of the process and consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka Accounting Standards. The methodology included obtaining statements of compliance from Heads of Finance and Directors -in-charge of operating units.The Committee recommended the Financial Statements to the Board for its deliberations and issuance. The Committee, in its

evaluation of the financial reporting system, also recognized the adequacy of the content and quality of routine management information reports forwarded to its members.

- The Committee reviewed the process to assess the effectiveness of the **internal financial controls** that have been designed to provide reasonable assurance to the Directors that assets are safeguarded and that the financial reporting system can be relied upon in preparation and presentation of the financial statements. Procedures relating to continuous monitoring and reporting of key control elements in Group companies were discussed with Group Management Audit and action plans for the ensuing year were formulated. The Committee also appraised the independence of the Group Management Audit & Systems Review Department and other internal auditors, in the conduct of their assignments. It was also noted that the Group has established a Strategic Business Development Unit to further improve the systems in place to review major investments prior to their commencement.
- The Committee obtained and reviewed statements from the heads of business sectors identifying their respective major **Business Risks**, mitigatory action taken or contemplated and the person responsible for management of risk. The Committee intends to implement a group wide risk management system based on the COSO Enterprise Risk Management model .
- The Committee obtained representations from Group Companies commenting upon the adequacy of provisions made for possible liabilities.
- The Committee reviewed reports tabled by Group companies certifying their compliance with relevant revenue regulations.
- The Committee held meetings with the **External Auditors** to review the scope of the audit and the Audit Management Letters of Group companies. Actions taken by the management in response to the issues raised, as well as the effectiveness of the internal controls in place, were discussed with the heads of business units. Remedial action was recommended wherever necessary.
- The Committee reviewed the nature and value of non-audit work the External Auditors had undertaken, to ensure that it did not compromise their independence.

The Audit Committee has recommended to the Board of Directors that Messrs KPMG Ford Rhodes Thornton & Co., be re-appointed as Auditors for the financial year ending March 31,2008, subject to the approval of shareholders at the Annual General Meeting.

T L F Jayasekara
Chairman
Audit Committee

16th May 2007

Report of the Auditors

TO THE MEMBERS OF HAYLEYS LIMITED (now known as Hayleys PLC)

We have audited the Balance Sheet of Hayleys Limited as at 31st March, 2007, the Consolidated Balance Sheet of the Company and its Subsidiaries as at that date, and the related Statements of Income, Changes in Equity and Cash Flow for the year then ended, together with the accounting policies and explanatory notes set out on pages 103 to 142 of the Annual Report.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper books of account for the year ended 31st March 2007, and to the best of our information and according to explanations given to us, the said Balance Sheet and related Statements of Income, Changes in Equity and Cash Flow and the accounting policies and explanatory notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31st March, 2007 and of its profit and cash flows for the year then ended.

In our opinion, the Consolidated Balance Sheet and related Statements of Income, Changes in Equity and Cash Flow and the accounting policies and explanatory notes thereto have been properly prepared and presented in accordance with the Companies Act No. 17 of 1982 and the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at 31st March, 2007, and of its profit and cash flows for the year then ended of the Company and its Subsidiaries dealt with thereby, so far as concerns the members of the Company.

Directors' Interests in Contracts with the Company

According to the information made available to us, the Directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31st March, 2007, except as stated in note 38 to these financial statements.



KPMG FORD, RHODES, THORNTON & CO.
Chartered Accountants
Colombo

16th May 2007

Income Statements

For the year ended 31 st March	Notes	Consolidated		Company	
		2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
Gross turnover	5	27,638,904	24,011,798	557,689	498,864
Turnover tax		(47,666)	(44,627)	-	-
Net turnover		27,591,238	23,967,171	557,689	498,864
Cost of sales		(20,698,255)	(17,686,800)	(90,498)	(86,601)
Gross profit		6,892,983	6,280,371	467,191	412,263
Other income	6	114,738	68,453	21,140	36,036
Distribution expenses		(1,093,096)	(1,226,294)	-	-
Administrative expenses		(3,753,776)	(3,135,235)	(171,128)	(50,596)
Other expenses	7	(53,271)	(55,275)	(9,000)	(9,000)
Net finance costs	8	(858,141)	(777,344)	(63,760)	(2,137)
Share of profit of associates		359,024	329,783	-	-
Profit before tax	9	1,608,461	1,484,459	244,443	386,566
Tax expense	10	(519,177)	(504,028)	(11,354)	3,100
Profit for the period		1,089,284	980,431	233,089	389,666
Attributable to:					
Equity holders of the Company		533,565	586,261	233,089	389,666
Minority interest		555,719	394,170	-	-
Profit for the period		1,089,284	980,431	233,089	389,666
Earnings per share					
Basic earnings per share (Rs.)	11	7.11	7.82	3.11	5.20
Diluted earnings per share (Rs.)	11	7.11	7.82	3.11	5.20
Dividend per share (Rs.)	12	3.50	3.50	3.50	3.50

Notes from pages 103 to 142 form an integral part of these Financial Statements. Figures in brackets indicate deductions.

Balance Sheets

As at 31 st March	Notes	Consolidated		Company	
		2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
Assets					
Non-current assets					
Property, plant & equipment	13	13,088,510	8,990,462	3,112,996	773,150
Intangible assets	14	294,384	283,110	-	-
Investment property	15	-	31,398	-	-
Investments in subsidiaries	16	-	-	1,888,066	1,721,532
Investments in associates	16	2,303,127	2,370,848	363,838	510,762
Other long term investments	16	768,837	756,901	249,406	249,406
Employees' share trust loan	17	498,195	499,491	498,195	499,491
Deferred tax assets	26	52,532	25,080	24,450	23,500
Total non-current assets		17,005,585	12,957,290	6,136,951	3,777,841
Current assets					
Inventories	18	5,000,012	4,524,318	903	954
Amounts due from subsidiaries		-	-	375,918	613,794
Amounts due from associates		25,356	44,935	22,257	3,190
Trade and other receivables	19	8,518,106	7,833,546	44,359	27,768
Short term investments	20	7,469	7,689	6,995	7,021
Assets classified as held for sale	21	73,652	-	-	-
Income tax recoverable	29	72,652	75,648	2,324	12,463
Short term deposits		310,483	643,928	-	170,350
Cash and cash equivalents		1,206,558	1,366,045	13,769	13,474
Total current assets		15,214,288	14,496,109	466,525	849,014
Total assets		32,219,873	27,453,399	6,603,476	4,626,855
Equity and Liabilities					
Equity					
Share capital	22	750,000	750,000	750,000	750,000
Capital reserves		6,282,476	3,291,637	3,792,249	1,469,249
Revenue reserves		4,667,992	4,215,591	850,450	879,861
Total equity attributable to equity holders of the company		11,700,468	8,257,228	5,392,699	3,099,110
Minority interest		3,704,926	2,967,915	-	-
Total equity		15,405,394	11,225,143	5,392,699	3,099,110
Non-current liabilities					
Interest-bearing borrowings	24	3,076,330	3,522,948	645,000	745,000
Deferred income	25	205,169	191,985	-	-
Deferred tax liability	26	147,278	183,731	24,450	23,500
Retirement benefit obligations	27	1,394,439	1,176,272	215,479	213,003
Total non-current liabilities		4,823,216	5,074,936	884,929	981,503
Current liabilities					
Trade and other payables	28	4,620,826	4,723,744	81,685	103,765
Current portion of interest-bearing borrowings	24	992,656	1,261,537	-	200,000
Amounts due to subsidiaries		-	-	141,143	140,695
Amounts due to associates		54,305	39,000	-	-
Income tax payable	29	156,870	132,490	-	-
Short-term interest-bearing borrowings	30	6,166,606	4,996,549	103,020	101,782
Total current liabilities		11,991,263	11,153,320	325,848	546,242
Total liabilities		16,814,479	16,228,256	1,210,777	1,527,745
Total equity and liabilities		32,219,873	27,453,399	6,603,476	4,626,855

I certify that the financial statements of the Company give a true and fair view of the state of affairs as at 31st March 2007 and of its profit for the year then ended.


D D W Siriwardene
 General Manager- Finance

The Directors are responsible for the preparation and presentation of these Financial Statements.
 Signed for and on behalf of the Board.


N G Wickremeratne
 Chairman & Chief Executive
 16th May, 2007


R A Ebell
 Finance Director

Notes from pages 103 to 142 form an integral part of these Financial Statements. Figures in brackets indicate deductions.

Statements of Changes in Equity

For the period ended 31st March, 2007

Consolidated

	Attributable to equity holders of the Company										
	Share capital	Share premium	Reserve on scrip issue	Revaluation reserve	Other capital reserve	Exchange fluctuation reserve	General reserve	Retained earnings	Total	Minority interest	Total Equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1 st April, 2005	750,000	876,622	683,276	1,400,812	117,927	357,302	1,427,065	2,326,221	7,939,225	2,868,478	10,807,703
Adjustment due to changes in holding		9,755	(1,229)	(520)	5	(2,726)	(9,537)	1,127	(3,125)	15,513	12,388
Translation of foreign entities						(2,633)			(2,633)	(51,728)	(54,361)
Net gains /(losses) not recognised in the income statement		9,755	(1,229)	(520)	5	(5,359)	(9,537)	1,127	(5,758)	(36,215)	(41,973)
Issue of shares										12,146	12,146
Scrip issues by subsidiaries and associates		(10,518)	214,542				(204,024)				
Transfers				(14,402)				14,402			
Profit for the period								586,261	586,261	394,170	980,431
Dividends								(262,500)	(262,500)	(270,664)	(533,164)
Reserved during the year			13,157		2,210		210,584	(225,951)			
Balance as at 31st March, 2006	750,000	875,859	909,746	1,385,890	120,142	351,943	1,424,088	2,439,560	8,257,228	2,967,915	11,225,143
Revaluation of assets				2,994,168					2,994,168	235,864	3,230,032
Adjustment due to changes in holding		436	(2,497)	99	(29)		2,735	36,984	37,728	4,140	41,868
Acquisition of subsidiary											
Translation of foreign entities						127,860			127,860	116,909	244,769
Effect of changes in SLAS								936	936	206	1,142
Net gains /(losses) not recognised in the income statement		436	(2,497)	2,994,267	(29)	127,860	2,735	37,920	3,160,692	357,119	3,517,811
Issue of shares		11,483							11,483	81,519	93,002
Scrip issues by associates		(2,808)	2,808								
Transfers				(13,626)	805			12,821			
Profit for the period								533,565	533,565	555,719	1,089,284
Dividends								(262,500)	(262,500)	(257,346)	(519,846)
Reserved during the year							273,715	(273,715)			
Balance as at 31st March, 2007	750,000	884,970	910,057	4,366,531	120,918	479,803	1,700,538	2,487,651	11,700,468	3,704,926	15,405,394

Company

	Share capital	Share premium	Revaluation reserve	Other capital reserve	General reserve	Retained earnings	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1 st April, 2005	750,000	825,000	631,023	13,226	282,087	470,608	2,971,944
Profit for the year						389,666	389,666
Dividends						(262,500)	(262,500)
Reserved during the year					100,000	(100,000)	
Balance as at 31st March, 2006	750,000	825,000	631,023	13,226	382,087	497,774	3,099,110
Revaluation during the year			2,323,000				2,323,000
Profit for the period						233,089	233,089
Dividends						(262,500)	(262,500)
Balance as at 31st March, 2007	750,000	825,000	2,954,023	13,226	382,087	468,363	5,392,699

(1) Scrip issues were made during the year by Diesel & Motor Engineering Co. Ltd.

(2) Descriptions of specific reserves are given below.

Share Premium represents excess paid over shares' nominal value by shareholders.

Reserve on Scrip Issue represents bonus issues made by subsidiaries and associates.

Revaluation Reserve relates to the revaluation of property, plant & equipment.

Details of the **Capital Reserves** are given in note 23 to the financial statements.

Exchange Fluctuation Reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Notes from pages 103 to 142 form an integral part of these Financial Statements. Figures in brackets indicate deductions.

Cash Flow Statements

For the year ended 31 st March	Consolidated		Company	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
Cash flows from operating activities				
Cash generated from operations (Note A)	2,157,445	1,671,949	552,620	232,327
Retiring gratuity paid	(115,290)	(75,092)	(57,527)	(2,440)
Interest paid (including interest capitalized)	(1,165,947)	(866,268)	(112,961)	(82,257)
Income taxes paid	(467,387)	(518,940)	(1,215)	(1,083)
Net cash inflow / (outflow) from operating activities	408,821	211,649	380,917	146,547
Cash flows from investing activities				
Purchase and construction of property, plant & equipment	(1,275,517)	(1,287,649)	(33,644)	(6,975)
Government grants received - capital	19,978	29,356	-	-
Proceeds from disposal of property, plant & equipment	72,286	107,936	464	170
On acquisition of right to generate hydro power	(11,900)	-	-	-
Proceeds from sale of investment property	49,033	-	-	-
Proceeds from the sale of investments	-	-	194,779	40,492
Proceeds from the sale of associate	412,367	25,098	-	-
Disposal of subsidiary	114,076	-	-	-
Short term investments (net)	220	-	26	-
Long term investments in group companies and others	(142,421)	(215,538)	(202,102)	(540,695)
Acquisition of subsidiaries	(127,979)	(243,464)	-	-
Interest received	146,403	67,440	49,162	63,201
Dividends received from associate companies	74,235	128,449	-	-
Dividends received from non-group companies	328	1,176	309	176
Recovery of employee share trust loan	1,296	848	1,296	848
Net payments to minority shareholders	(175,827)	(258,518)	-	-
Net cash used in investing activities	(843,422)	(1,644,866)	10,290	(442,783)
Net cash inflow / (outflow) before financing	(434,601)	(1,433,217)	391,207	(296,236)
Cash flows from financing activities				
Capital payment on finance lease	(15,192)	(11,416)	-	-
Redemption of debentures	(57,890)	(10,000)	-	-
Redemption of preference shares	-	-	-	-
Proceeds from long term loans	560,241	2,198,496	200,000	745,000
Repayment of long term loans	(1,378,541)	(1,146,427)	(500,000)	(250,000)
Dividends paid	(262,500)	(262,500)	(262,500)	(262,500)
Net cash inflow / (outflow) from financing activities	(1,153,882)	768,153	(562,500)	232,500
Net increase / (decrease) in cash and cash equivalents	(1,588,483)	(665,064)	(171,293)	(63,736)
Cash and cash equivalents at beginning of the year	(3,061,082)	(2,321,512)	82,042	145,778
Cash and cash equivalents at end of the year (Note B)	(4,649,565)	(2,986,576)	(89,251)	82,042

Notes from pages 103 to 142 form an integral part of these Financial Statements. Figures in brackets indicate deductions.

Cash Flow Statements

For the year ended 31 st March	Consolidated		Company	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
A. Cash generated from operations				
Profit before tax	1,608,461	1,484,459	244,443	386,566
Adjustments for:				
Net finance expense	858,141	777,344	63,760	2,137
Share of profits from associates	(359,024)	(329,783)	-	-
Depreciation on property, plant & equipment	829,647	796,805	15,879	12,815
(Gain)/loss on the disposal of property, plant & equipment	(32,819)	(57,062)	468	(127)
(Gain)/loss on the sale of investment property	(17,635)	-	-	-
(Gain)/loss on the disposal of investments	-	-	(21,299)	(34,117)
Amortisation of surplus on acquisitions	(37,450)	(1,612)	-	-
Amortisation of intangible assets	626	55,275	-	-
Dividend income	(328)	(1,176)	(309)	(176)
Net gains on translation of foreign currency	161,018	18,827	39	16,919
Differences of exchange on translation of foreign entities	78,838	(108,727)	-	-
Provision for bad and doubtful debts	27,617	69,541	86,438	-
Provision for unrealized profit and write-down of inventories	61,169	43,868	-	-
(Gain)/loss on the disposal of subsidiary and associates	(20,653)	-	-	-
Provision for retiring gratuity	319,482	256,203	60,003	49,135
Government grants amortised	(5,652)	(6,788)	-	-
Reversal of provision for fall in value of investments	(11)	(1,815)	-	(1,616)
Impairment of assets	7,000	-	-	-
Provision for fall in value of investment	45,645	-	9,000	9,000
	3,524,072	2,995,359	458,422	440,536
(Increase)/decrease in trade and other receivables	(692,825)	(933,623)	115,777	(256,414)
(Increase)/decrease in inventories	(545,981)	(963,287)	52	(310)
Increase/(decrease) in trade and other payables	(127,821)	573,500	(21,631)	48,515
	2,157,445	1,671,949	552,620	232,327
B. Analysis of cash and cash equivalents				
Cash and cash equivalents	1,206,558	1,366,045	13,769	13,474
Short term deposits	310,483	643,928	-	170,350
	1,517,041	2,009,973	13,769	183,824
Short term interest-bearing borrowings	(6,166,606)	(4,996,549)	(103,020)	(101,782)
Cash and cash equivalents previously reported	(4,649,565)	(2,986,576)	(89,251)	82,042
Effect of exchange rate changes	-	(74,506)	-	-
Cash and cash equivalents as restated	(4,649,565)	(3,061,082)	(89,251)	82,042

- C. During the year, the Group acquired property, plant & equipment with an aggregate cost of Rs. 1,292,417,000 of which Rs. 16,515,000 was acquired by means of finance leases. Additions shown in Note 13 to property, plant & equipment include Rs. 385,420 of borrowing costs capitalized during the year.

Notes to the Financial Statements

1. REPORTING ENTITY

Hayleys Ltd., is a Company incorporated and domiciled in Sri Lanka. The address of the Company's registered office is given on inside back cover.

The consolidated financial statements of Hayleys Ltd., as at and for the year ended 31st March 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

Descriptions of the nature of the operations and principal activities of the Company, its subsidiary and associates are given in pages 13 to 49.

Hayleys Ltd., does not have an identifiable parent of its own.

The financial statements of all the companies in the Group other than those mentioned in note 35 to the financial statements are prepared for a common financial year, which ends on 31st March.

2. BASIS OF PREPARATION

2.1. Statement of compliance

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLAS), adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act No. 17 of 1982 and Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.

The financial statements were authorised for issue by the Directors on 16th May, 2007.

2.2. Basis of measurement

The financial statements have been prepared on the historical cost basis except that certain land and short-term investments are measured/ stated at fair value as explained in notes 13 and 20 to the financial statements.

2.3. Functional and presentation currency

The financial statements are presented in Sri Lankan Rupees, which is the Group's functional and presentation currency, except in certain subsidiaries and associates where the functional currency is different as they operate in different economic environments (see note 32). All financial information presented in Sri Lankan Rupees has been given to the nearest thousand, unless stated otherwise.

2.4. Use of estimates and judgements

The preparation of financial statements in conformity with SLAS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates and judgemental decisions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are consistent with those used in the previous year, subject to the implications flowing from the revised Sri Lanka Accounting Standards effective 1st April 2006.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

The Directors have made an assessment of the Group's ability to continue as a going concern in the foreseeable future, and they do not intend either to liquidate or cease trading.

3.1. Basis of Consolidation

3.1.1. Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are also taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The interest of the outside shareholders of the Group is disclosed separately under the heading of "Minority Interest".

3.1.2. Associates

Associates are those entities in which the Group has significant influence, but no control, over financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, from the date that significant

Notes to the Financial Statements

influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has incurred obligations or has made payments on behalf of the investee.

3.1.3. Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2. Foreign currency

3.2.1. Foreign currency transactions

Transactions in foreign currencies are translated to Sri Lankan Rupees at exchange rates applicable at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Sri Lankan Rupees at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit and loss.

3.2.2. Financial statements of foreign entities

The results and financial position of all Group entities that have a functional currency other than the Sri Lanka Rupees are translated into Sri Lanka Rupees as follows:

- assets and liabilities for each balance sheet presented, including goodwill and fair value adjustments arising on the acquisition of a foreign entity, are translated at the closing rate at the date of the balance sheet;
- income and expenses are translated at the average exchange rates for the period.

All resulting exchange differences are recognised as a separate component of other reserves within equity.

3.3. Assets and bases of their valuation

Assets classified as current assets on the Balance Sheet are cash and bank balances and those which are expected to be realised in cash during the normal operating cycle or within one year from the Balance Sheet date, whichever is shorter.

3.3.1. Property, plant & equipment

3.3.1.1. Owned assets

Items of property, plant & equipment are measured at cost (or at fair value in the case of land) less accumulated depreciation and accumulated impairment losses.

The cost of property, plant & equipment includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of that equipment. Where parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant & equipment.

A revaluation of land is done when there is a substantial difference between the fair value and the carrying amount of the land and is undertaken by professionally qualified valuers.

Increases in the carrying amount on revaluation are credited to the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same individual asset are charged against revaluation reserve directly in equity; all other decreases are expensed in profit and loss.

3.3.1.2. Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of a finance lease are measured at an amount equal to the lower of their fair value and the present value of minimum lease payments at the inception less accumulated depreciation and accumulated impairment losses.

3.3.2. Investment property

Investment property, comprising freehold land and buildings, is property held either to earn rental income or for capital appreciation or both and is not occupied substantially for the supply of goods or services or in administration, and is not intended for sale in the ordinary course of business. Investment property is initially measured at its cost including related transaction costs and is therefore carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Notes to the Financial Statements

3.3.3. Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition policy given below.

The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

3.3.4. Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal; or when no future economic benefits are expected from its use or disposal. Gains or losses on derecognition are recognised in profit or loss and gains are not classified as revenue.

3.3.5. Depreciation

Depreciation is recognised in profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant & equipment. Freehold land is not depreciated. Assets held under finance lease are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets.

The estimated useful lives are as follows:

Leasehold properties	- Over the lease period
Buildings	- 20 - 50 years
Software	- 03 - 05 years
Machinery	- 05 - 20 years
Vessels	- 04 - 06 years
Stores equipment	- 05 - 10 years
Motor vehicle	- 04 - 05 years
Furniture, fittings & office equipment	- 03 - 13 years

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

3.3.6. Intangible Assets

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be

measured reliably in accordance with SLAS 37 on Intangible Assets. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortisation and accumulated impairment losses.

3.3.6.1. Goodwill

Goodwill arising on an acquisition represents the excess of the cost of acquisition over the fair value of the net assets acquired. Goodwill is measured at cost less accumulated impairment losses. In respect of equity - accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Negative goodwill arising on an acquisition represents the excess of the fair value of the net assets acquired over the cost of acquisition. Negative goodwill is recognised immediately in profit or loss.

3.3.6.2. Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

3.3.6.3. Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally generated goodwill and brands, is recognised in profit and loss when incurred.

3.3.6.4. Subsequent expenditure

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed in profit and loss when incurred.

Notes to the Financial Statements

3.3.6.5. Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives are as follows:

- Right to generate hydropower - 15 years

3.3.7. Investments

3.3.7.1. Short term investments

Short term investments are measured at the lower of cost and market value on an aggregate portfolio basis, with any resultant gain or loss recognised in profit or loss.

3.3.7.2. Long term investments

Quoted and unquoted investments in shares held on long term basis are measured at cost less impairment losses.

In the parent Company's financial statements, investments in subsidiaries and associates are carried at cost less impairment losses under the parent Company accounting policy for long term investments.

Provision for impairment is made when in the opinion of the Directors there has been a decline other than temporary in the value of the investment.

3.3.8. Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses. The general basis on which cost is determined is:

- All inventory items, except manufactured inventories and work-in-progress are measured at weighted average directly attributable cost.
- Manufactured inventories and work-in-progress are measured at weighted average factory cost, which includes all direct expenditure and appropriate shares of production overhead based on normal operating capacity.

3.3.9. Trade and other receivables

Trade and other receivables are stated at their estimated realisable amounts.

3.3.10. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management

are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

3.3.11. Impairment

The carrying amounts of the Group's assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date or more frequently, if events or changes in circumstances indicate that it might be impaired.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.3.12. Non-current assets held for sale

Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing

Notes to the Financial Statements

use. This condition is regarded as met only when the sale is highly probable and expected to be completed within one year from classification and the asset is available for immediate sale in its present condition.

Disposal groups are classified as discontinuing operations where they represent a major line of business or geographical area of operations. The income statement for the comparative period has been re-presented to show the discontinuing operations separate from continuing operations.

3.4. Liabilities and Provisions

Liabilities classified as current liabilities on the Balance Sheet are those which fall due for payment on demand or within one year from the Balance Sheet date. Non-current liabilities are those balances that fall due for payment later than one year from the Balance Sheet date.

All known liabilities have been accounted for in preparing the financial statements.

3.4.1. Employee benefits

3.4.1.1. Defined benefit plans

Provision has been made for retirement gratuities from the first year of service for all employees, in conformity with SLAS 16 on Retirement Benefit Costs. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded nor is it actuarially valued.

This liability is computed on the following basis:

Length of service (Years)	No. of months salary for each completed year of service
up to 20	1/2
20 up to 25	3/4
25 up to 30	1
30 up to 35	1 1/4
over 35	1 1/2

3.4.1.2. Defined contribution plans

Obligations for contributions to Provident and Trust Funds covering all employees are recognised as an expense in profit and loss when incurred.

3.4.2. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.4.3. Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of all possible outcomes against their associated probabilities.

3.4.4. Re-structuring

A provision for re-structuring is recognised when the Group has approved a detailed and formal re-structuring plan and the re-structuring has either commenced or has been publicly announced. Future operating costs are not provided for.

3.4.5. Trade and other payables

Trade and other payables are stated at their cost.

3.4.6. Capital commitments and contingencies

Capital commitments and contingent liabilities of the Group are disclosed in the respective notes to the financial statements.

3.5. Income Statements

For the purpose of presentation of the Income Statement, the function of expenses method is adopted, as it represents fairly the elements of Company performance.

3.5.1. Turnover

Hayleys Ltd.'s gross turnover comprises dividends received from Group companies, commission, rent income and technical fee. The net Group turnover excludes turnover taxes and trade discounts. The gross turnover represents the invoiced value of goods and services to customers outside the Group.

3.5.2. Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be

Notes to the Financial Statements

estimated reliably, and there is no continuing management involvement with the goods.

Revenue from services rendered is recognised in profit and loss in proportion to the degree of completion of the transaction at the Balance Sheet date. The degree of completion is assessed by reference to surveys of work performed.

Rental income is recognised in profit and loss as it accrues.

Dividend income is recognised in profit and loss on the date the entity's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the commission made by the Group.

Interest income is recognised in profit and loss as it accrues.

Grants that compensate the Group for expenses incurred are recognised in profit and loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit and loss on a systematic basis over the useful life of the asset.

Gains and losses on the disposal of investments held by the Group are recognised in profit and loss.

Gains and losses on the disposal of property, plant & equipment are determined by comparing the net sales proceeds with carrying amount. These are included in profit and loss.

3.5.3. Expenses

All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

Preliminary and pre-operational expenditure is recognised in profit and loss.

Repairs and renewals are charged to profit and loss in the year in which the expenditure is incurred.

3.5.3.1. Operating leases

Leases where the lessor effectively retains substantially all the risks and rewards of ownership over the lease term are classified as operating leases. Payments made under operating leases are recognised in profit and loss on a straight-line basis over the term of the lease.

3.5.3.2. Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

3.5.3.3. Net finance costs

Finance income comprises interest income on funds invested, and gains on translation of foreign currency.

Financing costs comprises interest payable on borrowings and losses on translation of foreign currency. The interest expense component of finance lease payments is recognised in profit and loss using the effective interest rate method.

3.5.3.4. Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax withheld on dividend income from subsidiaries and associates is recognised as an expense in the Consolidated Income Statement at the same time as the liability to pay the related dividend is recognised.

Notes to the Financial Statements

3.6. General

3.6.1. Discontinuing operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

3.6.2. Events occurring after the Balance Sheet date

All material post Balance Sheet events have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the financial statements.

3.6.3. Earnings per share

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.7. Plantations

The plantation companies in the group adopt certain accounting policies, which differ from that of the Group, since their nature of operations is significantly different from that of the rest of the Group. The accounting policies adopted are in accordance with SLAS 32 on Plantations.

Those accounting policies that significantly vary from the rest of the Group are given below. Where material, the impact of the different accounting policies has been quantified.

3.7.1. Property, plant & equipment

3.7.1.1. Permanent land development costs

Permanent land development costs are those costs incurred in major infrastructure development and building new access roads on leased lands. The costs have been

capitalized and amortized over the shorter of useful lives or remaining lease periods.

3.7.1.2. Immature/Mature plantations

The cost of land preparation, rehabilitation, new planting, replanting, crop diversification, interplanting and fertilisation etc., incurred between the times of planting and harvesting, are classified as immature plantations. These immature plantations are shown at direct cost plus attributable overheads, including interest attributable to borrowings utilised to finance immature plantations.

The expenditure incurred on perennial crop (Tea/Rubber) fields which come in to bearing during the year, has been transferred to mature plantations.

3.7.1.3. Infilling Cost

The land development cost incurred in the form of infilling has been capitalized with the relevant mature field only when it increases the expected economic future benefits from that field. Infilling costs that are not capitalized are recognised in the Income Statement as an expense as incurred.

3.7.1.4. Depreciation

Depreciation is charged to the Income Statements over the estimated useful lives of property, plant & equipment as follows :

	Years
Mature plantation - tea	33
- rubber	20
Sanitation, water & electricity supply	20

3.7.1.5. Leased assets

Leasehold rights are amortised in equal annual amounts over the following periods:

	Years
Bare land	53
Mature plantations	30
Buildings	25
Machinery	15

3.7.2. Borrowing costs

Borrowing costs on funds specifically obtained for utilisation on immature plantations have been capitalised and included in the carrying amount of property, plant & equipment.

Notes to the Financial Statements

3.7.3. Inventories

3.7.3.1. Nurseries

Growing crop nurseries are valued at the directly attributable costs less provisions for overgrown plants.

3.7.3.2. Produce inventories

Produce inventories are valued at since-realised prices with the balance stocks being valued at estimated selling price. The prices are net of all attributable expenses at the point of sale.

3.7.4. Government grants

A Government grant is recognised in the Balance Sheet initially as deferred income when there is a reasonable assurance that it will be received and the conditions attached to it are complied with.

Grants that compensate the Group for expenses incurred are recognised as revenue in the Income Statement on a systematic basis in the periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the Income Statement as revenue on a systematic basis over the useful life of the related asset.

3.7.5. Retirement benefits to employees

Provision for retiring gratuity is based on an actuarial valuation using the Projected Unit Credit (PUC) method. An actuarial valuation is carried out once every two years.

3.8. Cash Flow Statement

The Cash Flow Statement has been prepared using the "indirect method".

Interest paid is classified as an operating cash flow. Government grants received, which are related to purchase and construction of property, plant & equipment are classified as investing cash flows. Dividend and interest income are classified as cash flows from investing activities.

Dividends paid are classified as financing cash flow. Dividends received by Hayleys Ltd., which is an investment company, are classified as operating cash flows and are not disclosed separately in the Company Cash Flow Statement.

4. SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services

(business /industry segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segmental information is presented in respect of the Group's business /industry and geographical segments. The primary format, business /industry segments, is based on the Group's management and internal reporting structure.

The secondary format, geographical segments, is based on the Group's geographical spread of operations.

The activities of the segments are described on pages 13 to 49 in the Management Discussion and Analysis section. Segmentation has been determined based on the activities of the companies or the sector into which the products or services are sold (e.g. activated carbon is segmentalised as Purification Products).

The Group transfers products from one geographic region for re-sale to another. The geographical analysis of turnover is by location of customer and profits by location of the office in which the business is recorded.

Inter-segment transfers are based on fair market prices. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest-bearing borrowings and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Notes to the Financial Statements

5. GROSS TURNOVER

A. Industry Segment Turnover

	2006/07 Rs.'000	Consolidated 2005/2006 Rs.'000
Fibre	3,142,669	2,878,883
Hand Protection	7,566,470	5,496,767
Purification Products	3,128,489	2,550,563
Agri Inputs	3,085,571	3,152,485
Agri Products	749,938	587,433
Plantations	1,846,141	1,612,633
Industry Inputs	1,016,685	954,709
Power & Energy	150,955	355,613
Transportation	3,160,349	2,891,633
Consumer Products	3,703,151	3,447,903
Investments & Services	88,486	83,176
	27,638,904	24,011,798

B. Geographical Segment Turnover

	2006/07 Rs.'000	Consolidated 2005/06 Rs.'000
Asia (excluding Sri Lanka)	2,115,442	2,166,949
Australia	783,594	615,139
Europe	6,480,080	5,729,980
United States of America	3,268,077	2,940,691
Africa	327,632	156,634
Sri Lanka (i)	14,664,079	12,402,405
	27,638,904	24,011,798

(i) Includes turnover of ship owning and chartering business

C. Gross Turnover

	2006/07 Rs.'000	Company 2005/06 Rs.'000
Dividend income	439,998	392,399
Rent income	110,439	103,922
Commission income	2,318	2,543
Technical fee	4,934	-
	557,689	498,864

Notes to the Financial Statements

6. OTHER INCOME

	Consolidated		Company	
	2006/07	2005/06	2006/07	2005/06
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Government grants amortised	5,652	6,788	-	-
Income from investments				
- quoted - short term	328	202	309	176
- unquoted - long term	-	974	-	-
Change in fair value of short term investments	11	1,815	-	1,616
Reversal of provision for fall in value of long term investments	113	-	-	-
Gain/(loss) on disposal of property, plant & equipment	32,819	57,062	(468)	127
Gain/(loss) on disposal of investment property	17,635	-	-	-
Gain/(loss) on disposal of investments				
- long term	-	-	21,299	34,117
- short term	77	-	-	-
Gain on disposal of				
- subsidiary	5,218	-	-	-
- associate	15,435	-	-	-
Surplus on acquisition(s)	37,450	1,612	-	-
	114,738	68,453	21,140	36,036

7. OTHER EXPENSES

	Consolidated		Company	
	2006/07	2005/06	2006/07	2005/06
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Impairment in value of long term investments	45,645	-	9,000	9,000
Impairment of property, plant & equipment	7,000	-	-	-
Amortisation of intangible assets	626	55,275	-	-
	53,271	55,275	9,000	9,000

8. NET FINANCE COSTS

	Consolidated		Company	
	2006/07	2005/06	2006/07	2005/06
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
A. Finance Income				
Interest Income	(146,403)	(67,440)	(49,162)	(63,201)
B. Finance costs				
Interest on long term loans	683,494	248,239	97,753	68,789
Interest on short term loans	455,612	591,173	20,208	13,468
Interest on finance leases	26,456	24,199	-	-
Net losses / (gains) on translation of foreign currency	(161,018)	(18,827)	(39)	(16,919)
Total finance costs	1,004,544	844,784	112,922	65,338
Net finance costs	858,141	777,344	63,760	2,137

Notes to the Financial Statements

9. PROFIT BEFORE TAX

Profit before tax is stated after charging all expenses including the following.

	Consolidated		Company	
	2006/07 Rs.'000	2005/06 Rs.'000	2006/07 Rs.'000	2005/06 Rs.'000
Directors' fees	-	16	-	7
Directors' emoluments	211,600	202,231	77,999	72,418
Auditors' fees (includes overseas subsidiaries)				
Audit services	19,259	15,628	465	400
Non audit services	4,001	3,701	224	201
Depreciation on property, plant & equipment	829,647	796,805	15,878	12,815
Donations (i)	14,959	9,683	6,491	6,096
Provision for bad and doubtful debts & bad debts written off	187,362	107,225	1,556	-
Impairment of balance due from subsidiaries			85,000	-
Staff cost (ii)				
Defined contribution plan cost	302,973	273,470	14,003	15,432
Defined benefit plan cost	319,482	256,203	60,003	49,135
Other Staff cost (excluding defined contributions & defined benefits)	3,597,514	2,554,945	153,870	141,626
Legal fees	25,085	27,832	-	-
Operating leases	25,165	20,163	-	-

(i) Donations reported above include Rs. 6.099 mn, relating to expenses incurred on tsunami relief. These with the Rs. 40.742 mn incurred in the previous years, exceed the limit of Rs. 45 mn sanctioned for the purpose by shareholders at an EGM for the purpose held on 25th February 2005. Shareholders ratification of the additional amount of Rs. 1.8 mn spent will be sought at the AGM.

(ii) The number of employees employed are given on page 72.

Notes to the Financial Statements

10. TAXATION

A. Tax Expense

	2006/07 Rs. '000	Consolidated 2005/06 Rs. '000
Income tax on current year profits		
Hayleys Ltd.	11,354	-
Subsidiaries	421,533	443,740
Associates	80,414	48,411
	513,301	492,151
(Over)/under provision in respect of previous years (i)	366	(9,235)
Irrecoverable Economic Service Charges (ii)	22,379	20,802
	536,046	503,718
Deferred tax charge / (credit)		
Hayleys Ltd.	-	(3,100)
Subsidiaries	(63,858)	(26,344)
Associates	(1,400)	(12,853)
	(65,258)	(42,297)
Tax on dividend income		
Subsidiaries	46,023	41,809
Associates	2,366	798
	48,389	42,607
	519,177	504,028

(i) Includes associates' income tax (under)/over provision in respect of previous years, amounting to Rs 1,081,000. (2005/06 - Rs. 455,000)

(ii) Includes associates' irrecoverable economic service charges amounting to Rs. 6,247,000 (2005/06 Rs. 3,925,000).

B. Reconciliation of Accounting Profit to Income Tax Expense

	Consolidated		Company	
	2006/07 Rs. '000	2005/06 Rs. '000	2006/07 Rs. '000	2005/06 Rs. '000
Profit before tax	1,608,461	1,484,459	244,443	386,566
Intra-group adjustments	1,652,961	1,005,411		
	3,261,422	2,489,870	244,443	386,566
Disallowable expenses	1,513,092	1,800,921	183,220	100,558
Tax deductible expenses	(851,731)	(1,137,832)	(71,148)	(33,434)
Tax exempt income	(2,465,374)	(1,804,297)	(464,053)	(414,693)
Tax loss b/f	(962,468)	(1,192,320)	175,101	(215,409)
Adjustment for tax loss b/f	93,296	(77,575)	(348,477)	1,311
Tax loss c/f	1,048,773	1,544,551	313,032	175,101
Taxable income	1,637,010	1,623,318	32,118	-
Income tax @ 35% (32.5%)	362,396	393,713	11,241	
Income tax @ 15%	58,713	7,198		
Income tax @ 20%	3,163	2,363		
Income tax at other tax rates	85,203	88,258		
Social Responsibility Levy	3,826	619	112	
Income tax on current year profit	513,301	492,151	11,354	-
(Over)/under provision in respect of previous years	366	(9,235)		
Irrecoverable Economic Service Charge	22,379	20,802		
	536,046	503,718	11,354	-
Deferred tax credit	(65,258)	(42,297)		(3,100)
Tax on dividend income	48,389	42,607		-
Tax expense	519,177	504,028	11,354	(3,100)
Effective tax rate (%)	32	34	5	-

Notes to the Financial Statements

- C. Corporate Income Taxes of the companies resident in Sri Lanka have been computed in accordance with the Inland Revenue Act No. 10 of 2006 whilst the corporate taxes of the non-resident companies in the Group have been computed as per the domestic statutes in their respective countries.

Hayleys Ltd. and other resident companies within the Group, excluding those which are enjoying a tax holiday or concessionary rate of taxation and quoted public companies as referred to below, are liable to income tax at 35%. However, in the event the taxable income is less than Rs. 5 mn, the income tax rate of 15% is applied.

Quoted public companies in the Group including Hayleys Ltd., are also liable to income tax at 35%.

In terms of Section 46, 51 and 56 of the Inland Revenue Act, profits from construction work, agricultural undertakings, qualifying exports and qualifying indirect exports respectively, enjoy a concessionary rate of tax of 15%.

Irrecoverable economic service charge has been charged to the income statements.

The non-resident companies, namely, Haychem (Bangladesh) Ltd., PT Mapalus Makawanua Charcoal Industry, Eurocarb Products Ltd., Haycarb Holdings Australia (Pty) Ltd, Magic Soil (Pty) Ltd, Haymark Inc., Carbokarn Ltd., Tianjin Sheng Long Rubberised Mattress Co., Ltd., and ICO Guanti SpA are liable to corporate tax at 40%, 35%, 30%, 30%, 30%, 34%, 30%, 17% and 33% respectively, in their respective countries. Further, taxable income of ICO Guanti SpA is liable to a regional tax of 4.25%. Haycarb Holdings Bitung Ltd., is not liable to tax. Companies in the Haylex BV Group are liable to corporate tax at 25.5% to 36% in their respective countries.

After completion of their tax exemption period, the business income of Bhagya Hydro (Pvt.) Ltd., Logiwiz Ltd., Hayleylines Ltd., Dipped Products Ltd., Venigros Ltd., Grossart Ltd., Neoprex Ltd., and Texnil Ltd., would be liable to income tax at 10%, 10%, 10%, 15%, 15%, 15%, 15%, and 15%, for a further 2, 2, 2, 10, 10, 10, 10, and 10 years respectively, in accordance with the agreements entered into with the Board of Investment of Sri Lanka. According to the same agreements, taxable incomes of Bhagya Hydro (Pvt.) Ltd, Logiwiz Ltd. and Hayleylines Ltd. would be liable to income tax at 20%, 20% and 15% respectively, after the completion of the concessionary tax period.

After the expiration of their tax exemption period, Hayleys MGT Knitting Mills Ltd and Hayleys ADC Textiles Ltd have the option of paying income tax at 2% of turnover, for 15 years.

Logistics International Ltd. is liable to income tax at the rate of 15% for a period of 20 years from the year of commencement of commercial operations, i.e. up to the year of assessment 2016/2017, in accordance with the agreement entered into with the Board of Investment of Sri Lanka.

D. Companies enjoying Tax Holidays

Neoprex Ltd.	- 10 year tax holiday ending 31 st March 2008
HJS Condiments Ltd.	- 10 year tax holiday ending 31 st March 2009
Dipped Products Ltd.	- 10 year tax holiday ending 31 st March 2009
Venigros Ltd.	- 10 year tax holiday ending 31 st March 2009
Kinetics (Pvt.) Ltd.	- 10 year tax holiday ending 31 st March 2009
Hayleylines Ltd.	- 05 year tax holiday ending 31 st March 2010
Grossart Ltd.	- 10 year tax holiday ending 31 st March 2010
Hayleys-MGT Knitting Mills Ltd.	- 15 year tax holiday ending 31 st March 2011
Hayleys-ADC Textiles Ltd.	- 15 year tax holiday ending 31 st March 2012
Dipped Products (Thailand) Ltd.	- 08 year tax holiday ending 31 st December 2012
CK Regen Systems Co. Ltd	- 08 year tax holiday ending 02 nd March 2012
Texnil Ltd	- 10 year tax holiday ending 31 st March 2013
Kelani Valley Green Tea (Pvt.) Ltd	- 05 year tax holiday commencing from the 1 st year of making profit, or not later than two years from the start of commercial operations, whichever is earlier
Kalupahana Power Company (Pvt.) Ltd	- Do -
Feltex Ltd.	- Do -
Bhagya Hydro (Pvt.) Ltd.	- Do -

Notes to the Financial Statements

Kelani Valley Plantations Ltd., Thalawakelle Tea Estates Ltd. and Sunfrost Ltd are eligible for five year tax holidays ending 31st March 2010 in terms of Section 17A of the Inland Revenue Act No. 38 of 2000 as amended, on the profits and income from agriculture by cultivation of land and sale of the produce thereof.

The profits from the processing of the primary produce (ie. Gherkins) of Sunfrost Ltd also qualify for a tax holiday for the period up to 31st March, 2011 under Section 16 of the Inland Revenue Act No 10 of 2006.

Rileys Ltd., Ravi Industries Ltd., Volanka Exports Ltd., and Toyo Cushion Lanka (Pvt) Ltd. were eligible for a two year tax holiday ending 31st March 2007 in terms of Section 21F of the Inland Revenue Act No. 38 of 2000 as amended.

11. EARNINGS PER SHARE

Basic earning per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.

Diluted earning per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares.

There were no potentially dilutive ordinary shares outstanding at any time during the year /previous year.

Basic/diluted earning per share calculated as follows.

	Consolidated		Company	
	2006/07 Rs.'000	2005/06 Rs.'000	2006/07 Rs.'000	2005/06 Rs.'000
Profit attributable to ordinary shareholders (Rs.'000)	533,565	586,261	233,089	389,666
Weighted average number of ordinary shares (i)	75,000,000	75,000,000	75,000,000	75,000,000
Basic/Diluted earnings per share (Rs.)	7.11	7.82	3.11	5.20
Qualifying ordinary shares at beginning of the year	75,000,000	75,000,000	75,000,000	75,000,000
Weighted average number of ordinary shares at the end of the year	75,000,000	75,000,000	75,000,000	75,000,000

12. DIVIDENDS

	2006/07 Rs.'000	Company 2005/06 Rs.'000
Interim payable Rs. 1.75 per share (2005/06 - Rs. 1.75 per share)	131,250	131,250
Final proposed Rs. 1.75 per share (2005/06 - Rs. 1.75 per share)	131,250	131,250
Total dividend	262,500	262,500
Divided per ordinary share (Rs.)	3.50	3.50

(i) The interim dividend was paid in May 2007.

(ii) The dividends represent re-distribution of dividends received by the Company and are therefore not subject to the 10% tax deduction.

Notes to the Financial Statements

13. PROPERTY, PLANT & EQUIPMENT

A. Consolidated

	Land	Mature/ immature plantations	Buildings	Machinery & stores equipment	Vessels	Motor vehicles	Furniture, fittings & office equipment	2006/07 Total	2005/06 Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost or valuation:									
Gross book value									
At the beginning of the year	2,433,553	1,394,099	1,788,882	4,415,161	1,389,024	308,389	932,913	12,662,021	10,704,286
Revaluation	3,230,032	-	-	-	-	-	-	3,230,032	-
Acquisition of subsidiary	-	-	101,160	277,114	-	3,322	4,541	386,137	222,724
On disposal of subsidiary	-	-	-	-	-	(5,262)	(2,717)	(7,979)	-
Additions	8,782	105,032	239,488	466,629	-	86,424	103,657	1,010,012	1,904,520
Transfers to investment property	-	-	-	-	-	-	-	-	(31,398)
Transfers to assets held for disposal	(4,485)	-	(46,694)	(143,862)	-	-	(6,395)	(201,436)	-
Disposals	-	-	-	(94,769)	-	(12,899)	(21,261)	(128,929)	(124,151)
Effect of movements in foreign exchange rates	13,004	-	37,708	210,233	143,394	7,788	13,566	425,693	(13,960)
At the end of the year	5,680,886	1,499,131	2,120,544	5,130,506	1,532,418	387,762	1,024,304	17,375,551	12,662,021
Depreciation:									
At the beginning of the year	90,821	260,943	413,008	1,976,146	459,459	184,409	667,306	4,052,092	3,226,902
Acquisition of subsidiary	-	-	22,277	123,886	-	2,866	2,687	151,716	106,589
On disposal of subsidiary	-	-	-	-	-	(2,410)	(1,189)	(3,599)	-
Charge for the year	7,468	39,676	58,609	408,894	170,353	48,393	96,254	829,647	796,805
Transfer to assets held for disposal	(521)	-	(8,140)	(107,155)	-	-	(5,104)	(120,920)	-
On disposals	-	-	-	(59,561)	-	(11,835)	(17,907)	(89,303)	(73,279)
Effect of movements in foreign exchange rates	-	-	5,684	58,971	51,936	3,729	10,026	130,346	(4,925)
At the end of the year	97,768	300,619	491,438	2,401,181	681,748	225,152	752,073	4,949,979	4,052,092
Impairment of assets									
At the beginning of the year	-	-	-	-	-	-	-	-	-
Change for the year	-	-	-	7,000	-	-	-	7,000	-
Transfer to assets held for disposal	-	-	-	(7,000)	-	-	-	(7,000)	-
At the end of the year	-	-	-	-	-	-	-	-	-
Net book value at 31 st March	5,583,118	1,198,512	1,629,106	2,729,325	850,670	162,610	272,231	12,425,572	8,609,929
Capital work in progress	-	-	-	-	-	-	-	662,938	380,533
Carrying amount								13,088,510	8,990,462

B. Company

	Freehold Land	Buildings	Machinery & stores equipment	Motor Vehicles	Furniture, fittings & office equipment	Software	2006/07 Total	2005/06 Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost or valuation:								
Gross book value								
At the beginning of the year	638,000	128,053	40,936	8,431	124,665	-	940,085	930,466
Revaluation	2,323,000	-	-	-	-	-	2,323,000	-
Additions	-	-	143	11,696	6,760	2,598	21,197	12,039
Disposals	-	-	(91)	(3,817)	(967)	-	(4,875)	(2,420)
At the end of the year	2,961,000	128,053	40,988	16,310	130,458	2,598	3,279,407	940,085
Depreciation								
At the beginning of the year	-	35,369	28,694	7,027	96,742	-	167,832	157,394
Charge for the year	-	1,854	1,985	2,177	9,573	289	15,878	12,815
On disposals	-	-	(91)	(3,137)	(727)	-	(3,955)	(2,377)
At the end of the year	-	37,223	30,588	6,067	105,588	289	179,755	167,832
Net book value at 31 st March	2,961,000	90,830	10,400	10,243	24,870	2,309	3,099,652	772,253
Capital work in progress	-	-	-	-	-	-	13,344	897
Carrying amount							3,112,996	773,150

Notes to the Financial Statements

C. Carrying value

As at 31 st March	Consolidated		Company	
	2006/07	2005/06	2006/07	2005/06
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
At cost	6,270,105	6,653,009	789,996	135,150
At valuation	5,252,497	1,694,784	2,323,000	638,000
On finance leases	1,565,908	642,669	-	-
	13,088,510	8,990,462	3,112,996	773,150

- (i) Borrowing costs of Rs. 385,420 (2005/06 - Rs.2,658,533) incurred in respect of specific borrowings obtained to finance planting expenditure, have been capitalized during the year under immature plantations. The rate of interest applicable for capitalization was 11.67% (2005/06 - 12.26%). Total interest cost capitalized to date amounts to Rs. 129,917,551 (2005/06 - Rs. 129,532,131).
- (ii) Group property, plant & equipment includes capitalized finance leases and leasehold rights on land. The carrying amount of these assets is:

As at 31 st March	Cost	Accumulated depreciation	Consolidated	
			Carrying value	Carrying value
			2007	2006
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Land	383,389	97,768	285,621	294,342
Mature / immature plantations	1,499,131	300,619	1,198,512	1,394,099
Buildings	107,186	58,885	48,301	52,410
Machinery & stores equipment	49,994	33,565	16,429	19,955
Motor vehicles	34,700	17,655	17,045	19,180
Total	2,074,400	508,492	1,565,908	1,779,986

- (iii) Unexpired lease periods of land:
- | | |
|-------------------------------|----------|
| Kelani Valley Plantations Ltd | 39 Years |
| HJS Condiments Ltd. | 86 Years |
| Kinetics (Pvt) Ltd. | 91 Years |

Notes to the Financial Statements

- (iv) Amounts by which values have been written up in respect of land revalued by independent qualified valuers are indicated below, together with the last date of revaluation:

As at 31 st March	Company	Location	Written up by	
			2007	2006
			Rs.'000	Rs.'000
	Hayleys Ltd.	Deans Road and Foster Lane, Colombo10 (31.03.2007)	2,954,023	631,023
	Volanka Ltd.	Ekala & Grandpass(31.03.2007) Transfer to other capital reserves	593,820 (14,881)	461,169 (14,881)
			578,939	446,288
	Chas P.Hayley & Co.Ltd.	Galle (31.03.2007)	164,275	146,187
	Dipped Products Ltd.	Kottawa (31.03.2007)	52,682	35,224
		Weliveriya (31.03.2007)	46,721	19,161
	Venigros Ltd.	Weliveriya (31.03.2007)	28,224	15,057
	Palma Ltd.	Gonawala (31.03.2007)	18,081	13,185
			145,708	82,627
	Haycarb Ltd.	Badalgama & Madampe (31.03.2007)	51,099	4,450
		Wewelduwa (31.03.2004)	22,895	22,895
		Madampe (31.03.2004)	3,039	3,039
		Madampe (31.03.2004)	6,910	6,910
		Nuwara Eliya (31.03.2004)(i)	-	23,885
	Recogen Ltd.	Badalgama (31.03.2004)	3,696	3,696
			87,639	64,875
	Lignocell Ltd.	Madampe (31.03.2004)	1,430	1,430
		Kuliyapitiya (31.03.2007)	10,187	2,337
	Carbotels Ltd.	Elkaduwa (31.03.2007)	93,422	6,222
	Haychem Ltd.	Kottawa (31.03.2004)	18,914	18,914
	Haycolour Ltd.	Kalutara (31.03.2007)	8,171	5,396
	Hayleys Electronics Ltd.	Malabe (31.03.2007)	39,586	5,853
	Hayleys Exports Ltd.	Ekala (31.03.2007)	98,803	44,918
	Hayleys Advantis Group	Welisara (31.03.2007)	378,216	20,021
	Ravi Industries Ltd.	Ekala (31.03.2007)	74,663	41,550
	Volanka Exports Ltd.	Welipanna (31.03.2007)	4,755	1,296
	Rileys Ltd.	Galle (31.03.2007)	51,069	30,423
	Toyo Cushion Lanka (Pvt) Ltd.	Katana (31.03.2007)	44,005	5,976
	Sunfrost	Allawwa (31.03.2007)	7,678	
			4,761,483	1,555,336
	Revaluation reserve attributable to minority shareholders		(482,526)	(256,401)
	Share of revaluation reserves of associate companies		87,475	87,475
			4,366,432	1,386,410
	Adjustment due to change in holding		99	(520)
			4,366,531	1,385,890

(i) Disposed during the year

Notes to the Financial Statements

- (v) Land owned by the Group other than that mentioned above has been stated at cost as the appreciation in value is insignificant. Further information is provided on page 143. There are no tax implications or tax liabilities pertaining to revaluation of land.
- (vi) Except as stated in note 21, there has been no permanent impairment of property, plant & equipment which requires a provision.
- (vii) Property, plant & equipment with a carrying value of Rs. 1,568 mn has been pledged as security for term loans obtained. The details are shown in Note 24 (e)
- (viii) The carrying value of revalued land given above, had the said land been included at cost, would amount to Rs. 163,333,000

D. Capital Expenditure Commitments

The approximate amounts of capital expenditure approved by the Directors as at 31st March, 2007 were: Capital expenditure contracted for which no provision is made in the financial statements - Rs. 157 mn (Rs. 45 mn -31st March 2006). Capital expenditure approved by the Directors but not contracted for - Rs. 2,370 mn (Rs. 2,287 mn - 31st March 2006).

14. INTANGIBLE ASSETS

	Right to Generate Hydro Power Rs.'000	Development Costs Rs.'000	Goodwill Rs.'000	Consolidated Total Rs.'000
Cost				
At beginning of the year		23,733	419,047	442,780
Addition (i)	11,900	-	-	11,900
At end of the year	11,900	23,733	419,047	454,680
Amortisation				
At beginning of the year		23,574	136,096	159,670
Amortisation charge for the year	467	159	-	626
At end of the year	467	23,733	136,096	160,296
Carrying Amount				
31 st March 2007 (ii)	11,433	-	282,951	294,384
31 st March 2006		159	282,951	283,110

- (i) Right to generate hydro power represents amounts paid to purchase exclusive rights to generate hydro electric power.
- (ii) There has been no permanent impairment of intangible assets that requires a provision.

15. INVESTMENT PROPERTY

Consolidated

A. Carrying Amount

	Land Rs'000	2006/07 Total Rs'000	Consolidated 2005/06 Total Rs'000
At the beginning of the year	31,398	31,398	-
Transfers from property, plant & equipment	-	-	31,398
Disposals	(31,398)	(31,398)	-
At the end of the year	-	-	31,398

Notes to the Financial Statements

16. INVESTMENTS

A. The Group consolidates as subsidiaries, its investments in Dipped Products Group, Volanka Group, Toyo Cushion Lanka (Pvt) Ltd., HJS Condiments Ltd., Carbokam Ltd., and Dean Foster (Pvt) Ltd. in terms of paragraph 13 (b) of SLAS 26, on Consolidated Financial Statements and Accounting for Investments in subsidiaries, as in the opinion of the Directors the Group is able to govern the financial and operating policies of the said companies.

B. Company Investment in Subsidiaries

As at 31 st March	% Holding		No. of Shares			Value Rs.'000		
	2007	2006	2007	Movement	2006	2007	Movement	2006
Investee								
Quoted investments								
Haycarb Ltd. (Rs. 704 mn)	68	68	20,125,103	-	20,125,103	47,203	-	47,203
Hayleys Exports Ltd (Rs. 156 mn)	65	65	5,200,000	-	5,200,000	3,575	-	3,575
Dipped Products Ltd (Rs. 2,619 mn)	40	39	24,026,080	597,776	23,428,304	287,694	67,771	219,923
						338,472	67,771	270,701
Unquoted Investments								
Hayleys Photoprint Ltd.	100	100	4,000,000	-	4,000,000	39,869	-	39,869
Haytech Marketing Ltd.	100	100	2,500,000	-	2,500,000	24,701	-	24,701
Haylex BV (£ 453.78 each)	100	100	1,000	-	1,000	25,733	-	25,733
Hayleys Textile Services Ltd.	100	100	300,000	-	300,000	3,000	-	3,000
Chas P. Hayley & Co. Ltd.	100	100	999,790	-	999,790	673	-	673
Ravi Industries Ltd.	84	84	10,580,448	4,428	10,576,020	9,736	120	9,616
Hayleys Agrocare Ltd.	100	100	300,000	-	300,000	3,000	-	3,000
Hayleys Group Services Ltd.	100	100	10,000	-	10,000	100	-	100
Hayleys Electronics Ltd. (Rs. 100 each)	98	98	951,850	-	951,850	95,687	-	95,687
Dean Foster (Pvt) Ltd.	49	49	5,882,353	-	5,882,353	9,904	-	9,904
Hayleys Advantis Ltd.	90	90	32,555,333	48,330	32,507,003	282,077	1,318	280,758
Volanka Exports Ltd.	2	2	70,273	7,695	62,578	937	252	685
Sunfrost Ltd.	7	7	423,300	-	423,300	4,233	-	4,233
Rileys Ltd.	11	11	2,500,000	-	2,500,000	10,334	-	10,334
Usha Industries Ltd.	99	99	2,662,601	-	2,662,601	53,818	-	53,818
Volanka Ltd. (Rs. 1,000each)	46	46	6,440	-	6,440	23,107	-	23,107
Toyo Cushion Lanka (Pvt) Ltd.	16	15	1,065,355	26,224	1,039,131	8,810	496	8,314
Hayleys Engineering Ltd.	100	100	1,400,000	-	1,400,000	14,000	-	14,000
Hayleys Produce Marketing Ltd.	100	100	250,000	-	250,000	2,532	-	2,532
Carbotels Ltd.	70	70	29,111,207	-	29,111,207	311,112	-	311,112
HJS Condiments Ltd.	6	6	852,625	262,153	590,472	8,701	2,704	5,997
Infocraft Ltd.	86	86	950,000	-	950,000	9,500	-	9,500
Hayleys Agro Products Ltd.	96	96	18,647,848	629,017	18,018,831	238,957	13,235	225,722
Hayleys Consumer Products Ltd.	97	96	18,389,688	4,570,752	13,818,936	237,073	75,637	161,436
Hayleys Industrial Solutions Ltd.	100	100	13,200,000	500,000	12,700,000	132,000	5,000	127,000
						1,549,594	98,762	1,450,831
Company investment in subsidiaries (at cost)						1,888,066	166,533	1,721,532

(i) Countries of incorporation of overseas subsidiaries are given on page 125.

Notes to the Financial Statements

C. Company/Group Investment In Associates

As at 31st March		% Holding		No. of Shares		Value Rs.'000			
		2007	2006	2007	Movement	2006	2007	Movement	2006
Investor	Investee								
Quoted Investments									
Hayleys Ltd.	Diesel & Motor Engineering Co. Ltd. (Rs. 408 mn.)	28	28	3,397,611	589,667	2,807,944	66,995	15,444	51,551
	Hayleys MGT Knitting Mills Ltd. (Rs. 860 mn.)	34	34	17,292,820	-	17,292,820	164,934	-	164,934
	Colombo Dockyard Ltd.	-	10	-	(6,247,500)	6,247,500	-	(173,493)	173,493
							231,929	(158,049)	389,978
Unquoted Investments									
Hayleys Ltd.	AIG Hayleys Investment Holdings (Pvt) Ltd.	20	20	5,387,876	2,012,500	3,375,376	53,949	20,125	33,824
	Quality Seed Co. Ltd.	24	24	588,000	-	588,000	1,960	-	1,960
	Hayleys Plantation Services Ltd.	33	33	6,700,000	-	6,700,000	67,000	-	67,000
	World Call Telecommunications Lanka (Pvt) Ltd.	26	26	2,700,000	-	2,700,000	27,000	-	27,000
							149,909	20,125	129,784
Company Investment in associates (at cost)							381,838	(137,924)	519,762
Provision for fall in value of investments									
Worldcall Telecommunications Lanka (Pvt) Ltd.							(18,000)	(9,000)	(9,000)
Carrying value of company investment in associates							363,838	(146,924)	510,762
Quoted Investments									
Carbotels Ltd.	Hunas Falls Hotels Ltd. (Rs. 94 mn)	47	47	2,637,624	-	2,637,624	42,345	-	42,345
	Lighthouse Hotels Ltd. (Rs. 686 mn)	27	27	12,581,699	-	12,581,699	136,607	-	136,607
Haychem Ltd.	Hayleys MGT Knitting Mills Ltd. (Rs. 42 mn)	2	2	848,774	-	848,774	5,900	-	5,900
Hayleys Advantis Group	Hayleys MGT Knitting Mills Ltd. (Rs. 101mn)	4	4	2,033,336	-	2,033,336	12,300	-	12,300
	Colombo Dockyard Ltd.	-	11	-	(6,979,100.)	6,979,100	-	(189,077)	189,077
							197,152	(189,077)	386,229
Unquoted Investments									
Haycarb Ltd.	Quality Seed Co. Ltd.	6	6	-	-	147,000	490	-	490
Carbotels Ltd.	Seashells Hotels Ltd.	49	49	-	-	24,500	20,365	-	20,365
	Jetwing Hotels Ltd.	40	40	-	-	20,000	21,217	-	21,217
	Tropical Villas (Pvt) Ltd.	40	40	-	-	4,137,720	41,805	-	41,805
	Royal Heritage Hotel (Pvt) Ltd.	50	50	-	-	5,000,002	50,000	-	50,000
	Eastern Hotels Ltd. (Rs. 100 each)	47	47	-	-	186,744	26,117	-	26,117
	Negombo Hotels Ltd. (Rs. 100 each)	30	30	-	-	60,000	127,794	-	127,794
Haychem Ltd.	Quality Seed Co. Ltd.	20	20	-	-	500,000	5,000	-	5,000
Hayleys Photoprint Ltd.	World Call Telecommunications Lanka (Pvt) Ltd.	3	3	-	-	300,000	3,000	-	3,000
Hayleys Advantis Group	Haytrans Ltd.	33	33	-	-	50,000	4,820	-	4,820
	NYK Logistics & Kusuhara Lanka (Pvt) Ltd.	30	30	-	-	195,000	1,950	-	1,950
Kelani Valley Plantations Ltd.	Mabroc Teas (Pvt) Ltd.	40	40	-	-	3,600,000	48,000	-	48,000
Rileys Ltd	Onril (Pvt) Ltd (i)	49	49	-	-	10,927	151,012	41,742	109,270
Toyo Cushion Lanka Ltd.	Tianjing Shanglong Mattress Co. Ltd - China	24	24	-	-	110,000	16,601	5,445	11,156
Volanka Exports Ltd.	Tianjing Shanglong Mattress Co. Ltd - China	10	10	-	-	47,375	7,159	2,420	4,739
	PT Tulus Lanka Coir Industries	45	-	164,250	164,250	-	17,776	17,776	-
Hayleys Exports Ltd.	Tianjing Shanglong Mattress Co. Ltd - China	10	10	78,000	30,625	47,375	7,037	2,306	4,731
Hayleys Industrial Solutions Ltd.	TTEL Hydro Power Company (Pvt) Ltd	49	-	588,000	588,000	-	5,880	5,880	-
	TTEL Somerset Hydro power (Pvt) Ltd	66	-	1,970,000	1,970,000	-	19,700	19,700	-
							575,723	95,269	480,454
							772,875	(93,808)	866,683
Group investments in associates (at cost)							1,154,713	(231,732)	1,386,445

(i) countries of incorporation of overseas associates are given on page 125.

(Continued on page 123)

Notes to the Financial Statements

(Continued from page 122)

As at 31 st March	Investment at Cost		Share of Post Acquisition Profit/(Loss) & MI Adj.		Consolidated Net Assets	
	2007	2006	2007	2006	2007	2006
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Hayleys Plantation Services Ltd.	67,000	67,000	183,970	169,788	250,970	236,788
Hayleys MGT Knitting Mills Ltd.	183,134	183,134	608,750	453,145	791,884	636,279
Diesel & Motor Engineering Co.Ltd.	66,995	51,551	387,484	305,125	454,479	356,676
Quality Seed Co.Ltd.	7,450	7,450	57,780	49,996	65,230	57,446
Carbotels' Associates	466,250	466,250	80,352	41,430	546,602	507,680
AIG Hayleys Investment Holdings (Pvt) Ltd.	53,949	33,824	(26,699)	(22,812)	24,926	11,012
World Call Telecommunications Lanka (Pvt) Ltd.	30,000	30,000	(30,000)	(19,512)	-	10,488
NYK Logistics & Kusuhara Lanka (Pvt) Ltd.	1,950	1,950	10,534	9,728	12,484	11,678
Mabroc Teas (Pvt) Ltd.	48,000	48,000	33,889	25,316	81,889	73,316
Colombo Dockyard Ltd.	-	362,570	-	17,136	-	379,706
Haytrans Ltd.	4,820	4,820	-	-	4,820	4,820
North South Lines Ltd.	-	-	-	-	-	-
Onril (Pvt) Ltd (i)	151,012	109,270	(105,367)	(44,937)	45,645	64,333
Tianjing Shanglong Mattress Co. Ltd. - China	30,797	20,626	(12,752)	-	18,045	20,626
TTEL Hydro power Company (Pvt) Ltd	5,880	-	3,553	-	9,433	-
TTEL Somerset Hydro power (Pvt) Ltd	19,700	-	4,889	-	24,589	-
PT Tulus Lanka Coir Industries	17,776	-	-	-	17,776	-
	1,154,713	1,386,445	-	984,403	2,348,772	2,370,848
Transfer to other long term investments					(45,645)	-
Group Investments in associates (equity basis)					2,303,127	2,370,848

D. Other Long term Investments

As at 31 st March	Investment	2007	2006
Investor		Rs.'000	Rs.'000
Hayleys Ltd.	Unquoted Investments		
	Prudentia Investment Corporation Ltd.		
	4,215,000 shares (31.03.06- 4,215,000)	42,150	42,150
	Provision for fall in value of Investments in Prudentia investment Corporation Ltd.	(42,150)	(42,150)
	AES Kelanitissa (Pvt) Ltd. - 24,940,613 shares (31.03.06 - 24,940,613)	249,406	249,406
	Company investments in other long term investments	249,406	249,406
	Quoted Investments		
Dipped Products Ltd.	3,536,159 shares - Hayleys Ltd. (31.03.06 - 2,605,759) (Rs. 502 mn)	156,101	93,913
Hanwella Rubber Products Ltd.	1,100 shares - Royal Ceramics (Rs 0.04 mn) on acquisition of subsidiary	3	
Volanka Ltd.	1,638,719 shares - Hayleys Ltd.(31.3.06-2,569,119) (Rs. 233 mn)	109,534	171,722
Dean Foster (Pvt) Ltd.	2,922,413 shares - Hayleys Ltd. (31.3.06-2,834,813) (Rs.415 mn)	214,000	205,917
Toyo Cushion Lanka (Pvt) Ltd.	232,737 shares - Hayleys Ltd. (31.3.06-232,737) (Rs. 33 mn)	11,370	11,370
Volanka Exports Ltd.	183,275 shares - Hayleys Ltd. (31.3.06-183,275) (Rs. 26 mn)	17,431	17,431
		508,439	500,353
	Unquoted Investments		
DPL Plantations Ltd.	60,000 shares - Wellassa Rubber Company Ltd.	950	600
Hayleys Advantis Group	Unit Trust (Rs. 7 mn)	6,000	6,000
	26,071 shares in SLAFFA Cargo Services Ltd. (31.03.06-26,071)	357	357
Haycarb Group	1,000 shares in Placer Pacific (Pty) Ltd. - Aus \$ 5 each (31.03.06 - 1,000)	126	126
	2,000 shares in Ariadne Australia Ltd. - Aus \$0. 5 each	6	6
	Bonds	32	32
Infocraft Ltd.	2,130 Shares in SLIIT Computing (Pvt) Ltd. (31.03.2006 - 2,130 share).	21	21
Hayleys Industrial Solution	350,000 shares - Hydro Trust Lanka (Pvt) Ltd.	3,500	
Rileys Ltd	15,101,498 shares - Onril (Pvt) Ltd. (i)	45,645	
Impairment in value of long term investment		(45,645)	
		10,992	7,142
Other long term investments		519,431	507,495
	Group investments in other long term investments	768,837	756,901

(i) Onril (Pvt) Ltd, in which Rileys Ltd holds a 49% stake, was incorporated in the Consolidate Financial Statements as an Associate up to 31st December 2006. Taking into consideration the serious differences that have emerged with the 51% shareholder in this company, against whom and in relation to which legal action has been filed in Court, and considering their use of the majority voting power they hold in decisions taken to the exclusion of Rileys Limited, the Group no longer considers that it has any significant influence in respect of this company. The investment is therefore, from the date stated, not treated as an investment in an Associate but included under the category of Other Investments in the Consolidated Financial Statements. These statements incorporate full provision for this investment and other exposures carried in respect of the company.

(ii) In the opinion of the Directors the net realisable value of unquoted investments other than those investments for which provisions have been made are higher than their cost.

(iii) The note refers to ordinary shares of Rs. 10 each, unless otherwise stated.

(iv) Amounts stated within brackets correspond to market values as at 31st March 2007, of quoted investments and investments in unit trusts. In the opinion of the Directors any reduction in market value below cost is considered to be of temporary nature.

Notes to the Financial Statements

E. Inter-Company Shareholdings

As at 31 st March	% Holding		No. of Shares		
	2007	2006	2007	2006	
	Investor		Investee		
Agro Technica Ltd.	Sunfrost Ltd.	1	1	75,000	75,000
Chas P. Hayley & Co.Ltd.	Toyo Cushion Lanka (Pvt) Ltd.	2	2	169,267	169,267
	Hayleys Electronics Ltd.	2	2	14,975	14,975
	CPH Agro Products Ltd.	3	3	30,000	30,000
	Lignocell Ltd.	100	100	12,000,000	12,000,000
Dean Foster (Pvt) Ltd.	Volanka Ltd.	28	28	3,920	3,920
	Hayleys Advantis Group	1	1	488,369	488,369
	Chas P.Hayley & Co.Ltd.	-	-	80	80
Dipped Products Ltd.	Palma Ltd.	100	100	4,000,000	4,000,000
	Grossart Ltd.	100	100	4,200,000	4,200,000
	Venigros Ltd.	100	100	8,000,000	8,000,000
	Feltex Ltd.	100	100	1,500,000	1,500,000
	DPL Plantations Ltd.	100	100	10,100,000	10,100,000
	Neoprex Ltd.	100	100	4,000,000	4,000,000
	Dipped Products (Thailand) Ltd. (100Baht).	98	98	1,351,250	1,351,250
	Texnil Ltd.	100	100	4,000,000	4,000,000
	ICO Guanti SpA (Italy) (€1- each)	55	55	671,000	671,000
	Hanwella Rubber Products Ltd	70	-	6,090,000	-
DPL Plantations Ltd.	Kelani Valley Plantations Ltd.	71	71	24,200,000	24,200,000
Haycarb Ltd.	Dipped Products Ltd.	8	8	4,818,746	4,818,746
	Eurocarb Products Ltd. (UK) (€1-each)	100	100	100,000	100,000
	Haycarb Holdings Australia (Pty.) Ltd. (Aus \$ 1 - each)	100	100	150,000	150,000
	Carbotels Co.Ltd.	25	25	10,440,000	10,440,000
	Carbokam Co.Ltd.(100 Baht, 72% paid-up)	20	50	250,000	250,000
	Puritas Ltd.	100	100	450,000	450,000
	Recogen Ltd.	100	100	10,000,000	10,000,000
	Kinetics Ltd.	100	100	4,088,367	4,088,367
	Haymark Inc.	100	100	stock	stock
	Super Felt Ltd.	16	16	780,000	780,000
	Haycarb Holdings Bitung Ltd. (\$1-each)	100	100	1,400,000	1,400,000
	PT Mapalus Makawanua Charcoal Industry (IDR 1,000,000)	2	2	707	707
Haycarb Holdings Bitung Ltd.	PT Mapalus Makawanua Charcoal Industry (IDR 1,000,000)	98	98	34,163	34,163
Haychem Ltd.	Haychem Bangladesh Ltd. (100 Taka)	100	100	10,000	10,000
Haylex B.V.	HJS Condiments Ltd.	2	2	229,166	229,166
Hayleys MGT Knitting Mills Ltd.	Hayleys ADC Textiles Ltd.	100	100	16,727,273	16,727,273
Hayleys Agro Products Ltd.	Agro Technica Ltd.	93	93	2,329,900	2,329,900
	Haychem Ltd.	100	100	4,400,000	4,400,000
	Hayleys Agro Fertilizers (Pvt) Ltd.	51	51	2,549,999	2,549,999
	Hayleys Agro Farms (Pvt) Ltd.	100	100	1,500,000	99,999
	Hayleys Agro Bio-tech (Pvt) Ltd.	100	-	3,500,000	-
Hayleys Electronics Ltd.	Hayleys Electronics (Manufacturing) Ltd.	100	100	500,000	500,000
	Hayleys Electronics (Retailing) Ltd.	100	100	2,100,000	2,100,000
	Hayleys Electronics (Lighting) Ltd.	100	100	600,000	600,000
	Usha Industries Ltd.	-	-	5,898	5,898
Hayleys Exports Ltd.	Sunfrost Ltd.	8	8	500,001	500,001
	Eco Fibres Ltd.	100	100	1,500,000	1,500,000
	Toyo Cushion Lanka (Pvt) Ltd.	15	15	1,015,602	1,015,602
	Bonterra Lanka Ltd.	50	50	803,400	803,400
	Rileys Ltd.	34	34	7,750,000	7,750,000
	HJS Condiments Ltd.	13	13	1,561,607	1,156,746
	Super Felt Ltd.	16	16	780,000	780,000
Hayleys Industrial Solutions Ltd.	Haycolour Ltd.	100	100	60,000	60,000
	Suryavahini (Pvt) Ltd.	-	55	-	550,000
	Bhagya Hydro (Pvt) Ltd.	100	100	3,500,000	3,500,000
	Neluwa Cascade Hydro (Pvt) Ltd.	-	100	-	4,000,001
	Hayleys Hydro Energy (Pvt) Ltd.	51	-	4,590,000	-
Hayleys Hydro Energy (Pvt) Ltd	Neluwa Cascade Hydro (Pvt) Ltd.	100	-	8,900,001	-

(Continued on page 125)

Notes to the Financial Statements

E. Inter - Company Shareholdings (continued from page 124)

As at 31 st March		% Holding		No. of Shares	
		2007	2006	2007	2006
Investor	Investee				
Hayleys Photoprint Ltd.	Hayleys Docsolutions Ltd.	100	100	1,000,000	1,000,000
Hayleys Plantation Services Ltd.	Talawakelle Tea Estates Ltd.	75	75	17,750,000	17,750,000
Hayleys Advantis Group	Sunfrost Ltd.	1	1	50,000	50,000
Quality Seed Co.Ltd.	Hayleys MGT Knitting Mills Ltd.	-	-	86,316	86,316
Ravi Industries Ltd.	Rileys Ltd.	54	54	12,250,000	12,250,000
	Dipped Products Ltd.	1	1	567,000	567,000
	Ravi Marketing Services Ltd.	100	100	10,000	10,000
	HdV Plastics Ltd.	68	68	1,335,000	1,335,000
	Super Felt Ltd.	16	16	780,000	780,000
Rileys Ltd.	Haymat Ltd.	54	54	216,000	216,000
	Carbotels Ltd.	5	5	1,880,357	1,880,357
	Dipped Products Ltd.	1	1	-	597,776
	HdV Plastics Ltd.	32	32	635,000	635,000
	Super Felt Ltd.	16	16	780,000	780,000
	Creative Polymats Ltd.	100	100	5,000,000	5,000,000
Toyo Cushion Lanka (Pvt) Ltd.	Dean Foster (Pvt) Ltd.	2	2	235,294	235,294
	Super Felt Ltd.	16	16	780,000	780,000
Volanka Ltd.	Dipped Products Ltd.	8	8	4,873,640	4,873,640
	Sunfrost Ltd.	82	82	4,920,000	4,920,000
	Sunfrost Ltd.(Preference shares)	100	100	1,500,000	1,500,000
	Toyo Cushion Lanka (Pvt) Ltd.	21	21	1,455,832	1,455,832
	HIS Condiments Ltd.	42	39	5,528,363	3,801,978
	CPH Agri Products Ltd.	97	97	990,000	990,000
	Dean Foster (Pvt) Ltd.	49	49	5,882,353	5,882,353
	Volanka Exports Ltd.	95	95	2,990,000	2,900,000
	Volanka Insurance Services (Pvt) Ltd.	100	100	50,000	50,000
Volanka Exports Ltd.	Oleo Essences & Perfumes Ltd.	100	100	10,000	10,000
	Super Felt Ltd.	16	16	780,000	780,000
Kelani Valley Plantations Ltd.	Kalupahana Power Co.(Pvt) Ltd.	60	60	1,800,000	1,800,000
	Kelani Valley Green Tea (Pvt) Ltd.	51	51	510,000	510,000
Hayleys Consumer Products Ltd.	Hayleys Consumer Marketing (Pvt) Ltd.	100	100	3,500,000	99,999

F. Countries of Incorporation of Overseas Subsidiaries and Associates

Countries of incorporation of companies incorporated outside Sri Lanka are stated in brackets against the Company names.

Haychem (Bangladesh) Ltd. (Bangladesh), PT Mapalus Makawanua Charcoal Industry (Indonesia), Haycarb Holdings Bitung Ltd. (BVI), Eurocarb Products Ltd. (UK), Haycarb Holdings Australia (Pty) Ltd. (Australia), Magic Soil (Pty) Ltd. (Australia), Haymark Inc. (USA), Carbokarn Ltd. (Thailand), Haylex BV Group (Netherlands, Japan & UK), Dipped Products (Thailand) Ltd (Thailand), CK Regen Systems Co. Ltd (Thailand), ICO Guanti SpA (Italy), and Tianjing Shanglong Mattress Co. Ltd. (China)

17. EMPLOYEES' SHARE TRUST LOAN

The Hayleys Ltd. Employees' Share Trust (administered by the Senior Partner of Messrs. Julius & Creasy, Attorneys-at-Law, the Senior Partner of Messrs. Ernst & Young, Chartered Accountants and a Non-Executive Director of Hayleys Ltd.) was set up by a special resolution adopted by the shareholders at an Extraordinary General Meeting of the Company. The Trust was allotted 2,400,000 ordinary shares of Rs. 10 each on February 9,1998 at the market price of Rs. 210 per share, payment for the shares being made by the Trustees from the proceeds of an interest-free loan of Rs. 504 mn, granted by the Company. This loan is repayable by the Trustees utilising part of the net income of the Trust.

	2006/07	Company
	Rs. '000	2005/06
		Rs. '000
At beginning of the year	499,491	500,339
Recovery during the year	(1,296)	(848)
At end of the year	498,195	499,491

Market value of the shares held by the Trust as at 31st March 2007 was Rs. 956 mn (31st March 2006 - Rs. 663 mn).

Notes to the Financial Statements

18. INVENTORIES

As at 31 st March	Consolidated		Company	
	2006/07 Rs.'000	2005/06 Rs.'000	2006/07 Rs.'000	2005/06 Rs.'000
Raw materials & consumables	1,658,715	1,329,054	903	954
Produce stocks	173,864	613,109		
Nurseries	8,613	8,053		
Work-in-progress	746,663	734,853		
Finished goods	2,498,054	1,855,148		
Goods-in-transit	119,767	128,586		
	5,205,666	4,668,803	903	954
Provision for unrealised profit and write-down of inventories	(205,664)	(144,485)	-	-
	5,000,012	4,524,318	903	954

- (i) Cost of inventories recognised as expenses during the year amounted to Rs. 20,760 mn (2005/6 - Rs. 17,852 mn).
(ii) Carrying amount of inventories pledged as security for bank facilities obtained amounted to Rs. 320 mn (31/03/2006 - Rs. 359 mn).
(iii) There was no inventory carried at net realisable value as at 31st March 2007.

19. TRADE AND OTHER RECEIVABLES

As at 31 st March	Consolidated		Company	
	2006/07 Rs.'000	2005/06 Rs.'000	2006/07 Rs.'000	2005/06 Rs.'000
Trade receivables	5,171,468	5,163,467		
Provision for bad and doubtful debts	(259,056)	(231,439)		
	4,912,412	4,932,028		
Bills receivable	2,115,285	1,604,833		
Advances made under employee share ownership schemes	27,553	42,709		
Other debtors, payments in advance, deposits and employee loans (i)	1,462,856	1,253,976	44,359	27,768
	8,518,106	7,833,546	44,359	27,768

- (i) Loans to employees over Rs. 20,000 (included above)

As at 31 st March	Consolidated		Company	
	2006/07 Rs.'000	2005/06 Rs.'000	2006/07 Rs.'000	2005/06 Rs.'000
At beginning of the year	32,167	35,532	740	807
Loans granted during the year	19,461	23,376	984	380
	51,628	58,908	1,724	1,187
Repaid during the year	(19,821)	(26,741)	(401)	(447)
At end of the year	31,807	32,167	1,323	740

- Loans over Rs. 20,000 were granted to 546 employees within the Group.
(ii) No loans have been given to the Directors of the Company.

Notes to the Financial Statements

20. SHORT TERM INVESTMENTS

As at 31st March

Investor	Investee	No. of Shares	2007	2007	2006
			Rs.'000	Rs.'000	Rs. '000
			Market Value	Cost	Cost
Hayleys Ltd.	Asia Capital Ltd.	66,000	924	1,800	1,800
	Aitken Spence Hotel Holdings Ltd.	16	1	1	1
	ACL Cables Ltd.	63,360	9,163	2,088	2,088
	Asiri Hospitals Ltd.	127	8	1	1
	Blue Diamond Jewellery Worldwide Ltd.	60	-	2	2
	Central Industries Ltd.	3,000	300	321	321
	Ceylinco Insurance Co. Ltd.	76	13	2	2
	Ceylon Cold Stores Ltd.	84	13	2	2
	Eagle Insurance Co. Ltd.	49	7	2	2
	DFCC Bank Ltd.	141	27	18	18
	Kelani Tyres Ltd.	8,600	198	214	214
	Lanka Orix Leasing Co. Ltd.	152	17	8	8
	Lanka Tiles Ltd.	14	1	-	-
	National Development Bank Ltd.	10,365	2,177	1,691	1,691
	People's Merchant Bank Ltd.	1,300	-	-	26
	Seylan Bank Ltd.	90	3	3	3
	Three Acre Farms Ltd.	18,100	154	841	841
	Union Assurance Ltd.	37	3	1	1
	Company short-term investments			13,009	6,995
Dean Foster (Pvt) Ltd.					
	ACL Cables Ltd.	2,060	297	24	24
	Aitken Spence Hotel Holding Ltd.	-	-	-	3
	Asiri Hospital Ltd.	27	2	-	1
	Bairaha Farms Ltd.	900	8	18	18
	Blue Diamond Jewellery Worldwide Ltd	13	-	-	-
	Central Industries Ltd.	300	30	24	24
	Ceylinco Insurance Co. Ltd	-	-	-	1
	Ceylinco Securities & Financial Services Ltd.	1,300	23	12	12
	Ceylon Cold Stores Ltd.	-	-	-	1
	Eagle Insurance Co. Ltd.	30	4	1	2
	DFCC Bank Ltd.	-	-	-	10
	Kelani Tyres Ltd.	1,000	23	11	11
	Lanka Orix Leasing Co. Ltd.	328	36	10	10
	Lanka Tiles Ltd.	-	-	-	1
	National Development Bank Ltd	-	-	-	8
	People's Merchant Bank Ltd.	-	-	-	176
	Three Acre Farms Ltd.	2,000	17	91	91
	Union Assurance Ltd.	-	-	-	2
	Vanik Incorporation Ltd. - Voting	7,500	12	124	124
	- debentures	4,000	16	400	400
	- non-voting	5,000	6	50	50
			474	765	969
Provision for fall in value of investments				(291)	(301)
			474	474	668
Group short-term investments			13,483	7,469	7,689

Notes to the Financial Statements

21. ASSETS CLASSIFIED AS HELD FOR SALE

Part of a manufacturing facility within the Purification segment is presented as a disposal group held for sale following the commitment of the Group's management to sell the facility. As at 31st March 2007, the non current assets held for sale amounted to Rs. 73.6mn .

An impairment loss of Rs. 7 mn on the remeasurement of the disposal group to the lower of its carrying amount and its fair value have been recognized as other expenses.

22. SHARE CAPITAL

As at 31 st March	2007 Rs. '000	Company 2006 Rs. '000
Authorised		
100,000,000 (31.03.06 - 100,000,000) ordinary shares of Rs. 10 each	1,000,000	1,000,000
Issued & fully paid - ordinary shares of Rs. 10 each		
At beginning of the year - 75,000,000 (01.04.2005 - 75,000,000)	750,000	750,000
At end of the year - 75,000,000 (31.03.2006 - 75,000,000)	750,000	750,000

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

23. OTHER CAPITAL RESERVES & RETAINED EARNINGS

A. Other Capital Reserves

Consolidated

	Capital profit on redemption of debentures	Fixed asset replacement reserve	Capital reserve on sale of property, plant & equipment	Capital redemption reserve fund	Debenture redemption reserve fund	Reserve on amalgamation	Legal reserve	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 31 st March 2005	109	11,578	57,273	38,853	1,049	5,249	3,816	117,927
Changes in equity holding	-	-	5	-	-	-	-	5
Transfers	-	-	-	-	-	-	2,210	2,210
Balance as at 31 st March 2006	109	11,578	57,278	38,853	1,049	5,249	6,026	120,142
Changes in equity holding	-	-	(29)	-	-	-	-	(29)
Transfers	-	-	-	-	-	-	805	805
Balance as at 1st April 2007	109	11,578	57,249	38,853	1,049	5,249	6,831	120,918
Company								
Balance as at 1 st April 2005	109	11,750	320	-	1,047	-	-	13,226
Balance as at 31 st March 2006	109	11,750	320	-	1,047	-	-	13,226
Balance as at 31st March 2007	109	11,750	320		1,047			13,226

B. Retained Earnings

As at 31 st March	Consolidated		Company	
	2006/07 Rs.'000	2005/06 Rs.'000	2006/07 Rs.'000	2005/06 Rs.'000
Holding Company	468,363	497,774	468,363	497,774
Subsidiaries	1,461,819	1,458,388	-	-
Associates	557,469	483,398	-	-
	2,487,651	2,439,560	468,363	497,774

Notes to the Financial Statements

24. INTEREST BEARING BORROWINGS

As at 31 st March	Consolidated	
	2007	2006
	Rs. '000	Rs. '000
A. Finance Lease obligations		
At beginning of the year	808,521	839,811
New leases obtained	22,346	1,507
	830,867	841,318
On acquisition of subsidiary	4,724	2,957
Repayments	(41,648)	(35,754)
At end of the year	793,943	808,521
Finance charges unamortised	(388,099)	(406,784)
New lease obligations (i)	405,844	401,737

As at 31 st March	Consolidated	
	2007	2006
	Rs. '000	Rs. '000
Analysis of Finance Lease obligations by year of repayment		
Finance lease obligations repayable within 1 year from year-end		
Gross liability	37,178	35,575
Finance charges unamortised	(23,960)	(23,540)
Net lease obligations repayable within 1 year from year-end (i)	13,218	12,035
Finance lease obligations repayable between 1 and 5 years from year-end		
Gross liability	100,169	96,813
Finance charges unamortised	(65,342)	(69,991)
Net lease obligations (i)	34,827	26,822
Finance lease obligations repayable after 5 years from year-end		
Gross liability	656,533	676,131
Finance charges unamortised	(298,735)	(313,252)
Net lease obligations (i)	357,798	362,879
Net lease liability repayable later than 1 year from year-end	392,625	389,701

- (i) Includes the basic contingent rental payable to Government under the revised basis of Rs. 19,598,000 per annum by Kelani Valley Plantations Ltd. in respect of their plantations. This amount is to be inflated annually by the gross domestic product (GDP) deflator in the form of contingent rent.

This lease agreement was further amended on 1st August 2002, freezing annual lease rental at Rs. 25,839,041 for a period of six years commencing from 18th June 2002. Hence, the GDP deflator adjustment will be frozen at Rs. 6,241,041 per annum until 17th June 2008.

According to the ruling given by the Urgent Issues Task Force (UITF) of the Institute of Chartered Accountants of Sri Lanka, the amounts stated in the financial statements have been adjusted to reflect the following:

- Further liability on the annual lease payment of Rs. 19,598,000 will continue until the year 2045. The net present value of this liability at a 4% discounting rate (as recommended by the UITF) would result in a liability of Rs. 381,538,680.
- The net present value of Rs. 381,538,680 is represented by a gross liability of Rs. 763,884,561 (Rs. 25,839,041 x 1 1/2 years + Rs. 19,598,000 x 37 years) and interest in suspense of Rs. 382,345,881.
- The charge to the Income Statement during the current period is Rs. 21.6 mn (2005/06 - Rs. 21.7 mn)

Notes to the Financial Statements

24. INTEREST BEARING BORROWINGS (Continued from page 129)

As at 31 st March	Consolidated	
	2007 Rs. '000	2006 Rs. '000
B. Debentures		
At beginning of the year	57,890	78,124
Exchange difference	-	(10,234)
Repayments during the year	(57,890)	(10,000)
At end of the year	-	57,890
Transferred to current liabilities (repayable within one year)	-	(57,890)
	-	-

As at 31 st March	Consolidated	
	2007 Rs. '000	2006 Rs. '000
C. Long term Borrowings repayable after one year		
At beginning of the year	4,324,859	3,268,987
On acquisition of subsidiary	67,402	34,718
On disposal of subsidiary	(9,695)	
Exchange difference	98,877	(30,915)
New loans obtained (iii)	560,241	2,198,496
	5,041,684	5,471,286
Repayments	(1,378,541)	(1,146,427)
At end of the year	3,663,143	4,324,859
Transferred to current liabilities (repayable within one year)	(979,438)	(1,191,612)
	2,683,705	3,133,247
Total non-current interest bearing borrowings	3,076,330	3,522,948

(iii) DPL Group, Hayleys Ltd., Bhagya Hydro Power (Pvt) Ltd, Neluwa Cascade Hydro Power (Pvt) Ltd., Toyo Cushion Ltd., Ravi Industries Ltd and Hayleys Industrial Solutions Ltd. have obtained loans during the year amounting to Rs. 141 mn, 200 mn, 80 mn, 119 mn, 10 mn, 3 mn and 7 mn respectively.

As at 31 st March	Consolidated		Company	
	2006/07 Rs. '000	2005/06 Rs. '000	2006/07 Rs. '000	2005/06 Rs. '000
D. Current portion of interest bearing borrowings				
Finance lease obligations	13,218	12,035	-	-
Debentures		57,890	-	-
Long-term loans	979,438	1,191,612	-	200,000
Total current interest-bearing borrowings	992,656	1,261,537	-	200,000

(Continued on page 131)

Notes to the Financial Statements

24. INTEREST BEARING BORROWINGS (Continued from page 130)

E. Long Term Borrowings repayable after one year

Company	Lender/rate of interest (p.a.)	31.03.2007 Rs. '000	31.03.2006 Rs. '000	Repayment	Security
Hayleys Ltd.	DFCC 17%	445,000	445,000	Payable within 13 months After a grace period of 13 months from 29th March 2006	None
	DFCC 12.25%	-	100,000		None
	Deutsche 11.55%	200,000	200,000	Repayable in April 2008	None
Company Total		645,000	745,000		
HJS Condiments Ltd	HNB 8.5%	250	3,250	Equal monthly instalments over 4 years, from May 2004	Mortgage over stocks
	HSBC 11.5%	1,458	10,937	Monthly instalments over 5 years from July 2004	Mortgage over machinery
	DFCC 11%	10,200	16,641	Equal monthly instalments over 4 years, from October 2005	Mortgage over land and building
	NDB 11%	2,489	9,955	Equal monthly instalments over 4 years, from August 2005	Mortgage over land and building
Dipped Products Ltd.	NDB 10.5%	12,498	62,490	Monthly instalments over 4 years ending June 2008	Mortgage over land
	NDB 10.65%	-	50,400	Monthly instalments over 3 years ending December 2007	10,099,994 shares of DPL Plantations Ltd. Same as above
	Seylan Bank 10.5%	15,188	40,163	Monthly instalments ending November 2008.	Mortgage over 4,199,994 shares of Grossart Ltd.
Venigros Ltd.	People's Bank 10.5%	93,750	128,125	Monthly instalments ending October 2009.	Mortgage over plant and machinery at Weliveriya
Grossart Ltd.	Seylan Bank 10.5%	-	33,333	Monthly instalments ending November 2007.	Mortgage over property, plant & equipment at Kottawa
Kalupahana Power Co. (Pvt) Ltd.	NDB 9.5%	78,956	83,721	Quarterly instalments ending February 2013. (Pvt) Ltd. in Kalupahana estate and plant machinery and equipment	Primary mortgage over sub leased hold rights of Kalupahana Power Co.
ICO Guanti SpA	Unit Cedit bania D'Impresa SpA - 0.98% (Euro 400,000)	23,587	32,280	Quarterly instalments ending	None December 2008.
	Credito Bergamasco SpA -4.65% (Euro 219732)	-	11,620	Quarterly instalments ending December 2007.	None
	San Paola 3.93% (Euro 300,000)	14,820	25,721	Monthly instalments ending November 2008.	None
	BNL 4.5% (Euro 300,000)	7,019	-	Monthly instalments ending July 2011.	None
Dipped Products (Thailand) Ltd.	Thai Military Bank Public Company Limited MLR - 1% - 2 Yrs (Baht 147,623,607)	433,695	326,059	Half yearly ending June 2011.	Mortgage over land, building and machinery
	HSBC - Thailand Thb FIX+1% (Baht 54,600,000)	163,800	136,500	Monthly instalments ending	Corporate guarantee for Bhat 60,000,000 March 2010. from Dipped Products Ltd.
Kelani Valley Plantations Ltd	NDB 11.51%	25,550	30,059	Monthly instalments ending August 2013.	Primary mortgage over leasehold rights of plantations
	NDB 11.51%	28,535	32,983	Monthly instalments ending May 2014.	Same as above
	NDB 8.5%	-	740	Monthly instalments over 4 years, ending April 2007	Same as above
	Seylan Bank 12%	37,470	42,728	Monthly instalments over 10 years, ending November 2015	Same as above
	DFCC Bank 9.42%	84,000	-	Monthly instalments ending August 2015	Primary mortgage over leasehold rights of Halgolla & Ederapola estates
	DFCC Bank 6.5%	31,421	-	Monthly instalments ending October 2015	Same as above
Hanwella Rubber Productions Ltd.	Bank of Ceylon AWPLR + 1.5%	17,750	-	Monthly instalments ending, August 2009	Mortgage over property at village of Hanwella & Thunnana
	NDB 11%	1,978	-	Monthly instalments ending, August 2008	Mortgage of plant & equipment at
Toyo Cushion Lanka (Pvt) Ltd	NDB 12.15%	2,000	5,000	Monthly instalments over 5 years, from September 2003.	Mortgage over land & machinery
	NDB 11% 1,000	3,000	-	Monthly instalments over 4 years, from December 2005.	Same as above
	NDB 13.5% 4,552	-	-	Monthly instalments over 4 years, commencing August 2006	Same as above
	NDB 16.5%	1,458	-	Monthly instalments over 4 years, commencing March 2007	Same as above
Haycarb Holding Australia (Pty.) Ltd. Haycarb Holdings Bitung Ltd Haycarb Ltd.	ANZ Grindlays 8.42% (AUD 179,280)	5,860	6,350	Equal monthly instalments payable over 15 years	Floating charge over inventories
	Commercial Bank LIBOR + 1.25%	64,601	70,272	Monthly instalments over 5 years, after one year's grace from September 2006	Corporate guarantee given by Harcarb Ltd.
	Commercial Bank LIBOR + 1.25%	109,836	116,678	Monthly instalments over 5 years, after one year's grace from September 2006	Negative pledge over land, plant and machinery
		1,918,721	2,024,005		

(Continued on page 132)

Notes to the Financial Statements

24. INTEREST BEARING BORROWINGS (Continued from page 131)

E. Long Term Borrowings repayable after one year

Company	Lender/rate of interest (p.a.)	31.03.2007 Rs. '000	31.03.2006 Rs. '000	Repayment	Security
Balance brought forward		1,918,721	2,024,005		
Rileys Ltd.	NDB 11%	2,188	10,937	Equal monthly instalments over 5 years, from November 2002	Mortgage over land and building
	NDB 10.5%	-	10,261	Monthly instalments over 5 years from July 2004	Mortgage over land and building
	NDB 12.5%	35,000	50,000	Monthly instalments over 5 years from August 2005	Mortgage over land and building
	People's Bank 12.5%	4,861	13,194	Monthly instalments over 5 years from October 2005	Mortgage over land and building
Super Felt Ltd.	NDB 8.5%	2,443	5,111	Equal monthly instalments over 5 years, from March 2003 Lanka (Pvt) Ltd.	Mortgage over machinery and a corporate guarantee given by Toyo Cushion
Hayleys Agro Products Ltd.	DFCC 9.74%	12,126	17,947	Monthly instalments over 4 years from July 2004	Mortgage over plant and machinery
Kinetics (Pvt) Ltd.	DFCC 17%	81	9,224	Monthly instalments on the reducing balance over 5 years, from April 2003	Mortgage over land, plant and machinery
Sunfrost Ltd.	NDB 12%	1,000	3,000	Monthly instalments over 4 years from October 2004	Mortgage over property and a corporate guarantee from Volanka Ltd.
	NDB 11%	687	3,437	Monthly instalments over 4 years from July 2004	Mortgage over land
	NDB 8.5%	-	425	Equal monthly instalments over 5 years, from December 2002	Same as above
	NDB 12.3%	5,400	7,800	Monthly instalments over 5 years from July 2005	Same as above
Volanka Exports Ltd.	NDB 11%	-	13,333	Monthly instalments over 3 years from April 2005	Same as above
HDV Plastics Ltd.	NDB 8.5%	2,800	1,000	Equal monthly instalments over 5 years, from September 2002	Mortgage over machinery
Creative Polymats Ltd.	NDB 8.5%	900	4,500	Equal monthly instalments over 5 years, from July 2003	Mortgage over plant and machinery
	NDB 11%	-	5,555	Monthly instalments over 5 years from August 2004	Mortgage over Building and machinery
Recogen Ltd.	NDB 8.5%	18,750	27,084	Equal monthly instalments over 6 years, from September 2004	Negative pledge over machinery
Haycarb Ltd.	DFCC AWPLR	93,334	127,634	Monthly instalments over 5 years, after one year grace period from August 2006	Negative pledge over land, plant and machinery
	DFCC AWPLR + 1%	-	110,181	Monthly instalments over 2 years, after 6 months grace period from August 2006	Negative pledge over land
Hayleys Advantis Group	BOC (AWPR - 0.5%)	45,000	75,000	Equal monthly instalments over 6 years, from October 2004	Mortgage over land
	BOC (US\$) (LIBOR + 1.5%)	-	-	Equal monthly instalments over 4 years, from April 2004	Mortgage over vessel
	BOC (US\$) (LIBOR + 2%)	207,905	391,429	Monthly instalments over 4 years from November 2004	Mortgage over vessel
	Seylan Bank 13.5%	754	5,961	Monthly instalments over 2 years from January 2006	Corporate guarantee given by Hayleys Advantis Ltd.
		31,328	53,000	Monthly instalments over 3 years from March 2006	Corporate guarantee given by Hayleys Advantis Ltd. and HMBL Group
Suryavahini (Pvt) Ltd.	TRED Fund, Nederland 4%	-	6,463	Six quarterly instalments, commencing from October 2006	None
Volanka Ltd.	NDB 12.5%	10,000	14,000	Monthly instalments over 4 years from July 2005	None
	DFCC 18%	86,667	126,667	Monthly instalments over 5 years from July 2004	1,702,000 shares of DPL.
	NDB 11%	3,125	15,625	Monthly instalments over 5 years from October 2005	None
Chas P. Hayley & Co Ltd.	NDB 8.5%	-	475	Monthly instalments over 3 years, from June 2005	Mortgage over land and building
Neluwa Cascade Hydro Power (Pvt) Ltd.	NTB 17.4%	118,941	-	24 quarterly instalments commencing Dec 2008 Mortgage for Rs. 180 Mn over project land & assets (commence upon completion of project)	Corporate guarantee for Rs. 180 Mn from HSL
Hayleys Industrial Solutions Ltd.	Sampath Bank 17.18%	7,083	-	35 monthly instalments commencing from Feb '07	
Bhagya Hydro power (Pvt) Ltd.	Sampath Bank 12%	37,095	-	95 instalments commencing Spet. 2007	primary concurrent mortgage for Rs.38.5 mn over freehold properties of project together with buildings primary concurrent mortgage for Rs.1 mn over leasehold rights of property at the site primary concurrent mortgage for Rs.0.5 mn over company shares of Bhagya Hydro (Pvt) Ltd.
	Seylan Bank 12%	37,516	-	95 instalments commencing Spet. 2007	primary concurrent mortgage for Rs.39.5 mn over freehold properties of project together with buildings primary concurrent mortgage for Rs.1 mn over leasehold rights of property at the site primary concurrent mortgage for Rs.0.7 mn over company shares of Bhagya Hydro (Pvt) Ltd.
		2,683,705	3,113,248		

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Notes to the Financial Statements

24. INTEREST BEARING BORROWINGS (Continued from page 132)

As at 31 st March	Consolidated	
	2007	2006
	Rs. '000	Rs. '000
F. Analysis of Long Term Borrowings by year of repayment		
Long term loans repayable between 1 and 2 years from year-end	1,239,593	1,373,522
Long term loans repayable between 2 and 5 years from year-end	1,299,020	1,593,217
Long term loans repayable later than 5 years from year-end	145,092	166,509
	2,683,705	3,133,248

25. DEFERRED INCOME

As at 31 st March	Consolidated	
	2007	2006
	Rs. '000	Rs. '000
A. Surplus on Acquisitions		
At beginning of the year	219,189	219,189
At end of the year	219,189	219,189
Amortisation at beginning of the year	(218,047)	(216,435)
Transfer to equity statement / Amortised during the year	(1,142)	(1,612)
At end of the year	-	(218,047)
Carrying value	-	1,142
B. Government Grants (i)		
At beginning of the year	190,843	168,275
Grants received during the year	19,978	29,356
Amortised during the year	(5,652)	(6,788)
At end of the year	205,169	190,843
	205,169	191,985

(i) Grants received by Kelani Valley Plantations Ltd., from the Plantations Housing and Social Welfare Trust, Plantation Reform Project and Estate Infrastructure development programme for workers' welfare facilities, reforestation of watersheds and other infrastructure facilities.

26. DEFERRED TAXATION

A. Deferred Tax asset

As at 31 st March	Consolidated		Company	
	2007	2006	2007	2006
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
At the end of the year (see note 26.B)	52,532	25,080	24,450	23,500

B. Deferred Tax liability

As at 31 st March	Consolidated		Company	
	2007	2006	2007	2006
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
At beginning of the year (Net)	158,651	188,095		3,100
Acquisition/ (disposals) of subsidiaries	(47)			
Transfer from Income Statement (Net)	(63,858)	(29,444)		(3,100)
At end of the year	94,746	158,651		-
Deferred tax asset	52,532	25,080	24,450	23,500
	147,278	183,731	24,450	23,500

Notes to the Financial Statements

27. RETIREMENT BENEFIT OBLIGATIONS

As at 31 st March	Consolidated		Company	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
Provision for Retiring Gratuity				
At beginning of the year	1,174,461	997,151	213,003	166,308
On acquisition of subsidiary	5,978	4,680		-
On disposal of subsidiary	(600)			
Exchange difference	10,408	(6,670)		-
Provision for the year	319,482	256,203	60,003	49,135
	1,509,729	1,251,364	273,006	215,443
Payments during the year	(115,290)	(75,092)	(57,527)	(2,440)
At end of the year (i)	1,394,439	1,176,272	215,479	213,003

(i) The gratuity liability of Kelani Valley Plantations Ltd. as at 31st December, 2006 is based on the actuarial valuation carried out by Actuarial and Management Consultants (Pvt) Ltd., a firm of professional actuaries. As per this valuation the actuarial liability as at 31st December 2006 is Rs. 424 mn (31st December 2005 - Rs. 312 mn).

28. TRADE AND OTHER PAYABLES

As at 31 st March	Consolidated		Company	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
Trade payables	1,882,843	1,544,033		
Bills payable	633,519	1,058,997		
Other payables including accrued expenses (i)	2,073,233	2,078,279	60,029	82,830
Unclaimed dividends	31,231	42,435	21,656	20,935
	4,620,826	4,723,744	81,685	103,765

(i) Includes provision for warranties amounting to Rs. 12 mn (31.03.05 - Rs. 14 mn)

29. INCOME TAX

A. Income tax recoverable

As at 31 st March	Consolidated		Company	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
At the end of the year (See Note B)	72,652	75,648	2,324	12,463

B. Income tax payable

As at 31 st March	Consolidated		Company	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
At beginning of the year	56,842	79,918	(12,463)	(11,380)
Subsidiaries'/ parent taxation on current year's profit	432,887	443,740	11,354	-
Irrecoverable economic service charge	16,132	16,877		
(Over)/under provision in respect of previous years	1,447	(9,690)		-
Tax on dividend	46,023	41,809		-
Acquisition of subsidiary	(1,290)	3,128		-
Disposal of subsidiary	(436)			
Payments made during the year	(467,387)	(518,940)	(1,215)	(1,083)
Net income tax payable/(recoverable)	84,218	56,842	(2,324)	(12,463)
Income tax recoverable	72,652	75,648	2,324	12,463
At the end of the year	156,870	132,490	-	-

Notes to the Financial Statements

30. SHORT-TERM INTEREST BEARING BORROWINGS

As at 31 st March	Consolidated		Company	
	2007 Rs.'000	2006 Rs.'000	2007 Rs.'000	2006 Rs.'000
Rupees	5,796,713	3,990,239	103,020	101,782
Australian Dollars	15,023	19,421		
Sterling Pounds	-	-		
United States Dollars	243,960	614,856		
Euro	110,910	296,921		
Thai Baht	-	75,112		
	6,166,606	4,996,549	103,020	101,782

31. CONTINGENT LIABILITIES AND COMMITMENTS

A. Contingent Liabilities

Contingent liabilities as at 31st March, 2007 on account of bills discounted amounted to Rs.1 mn (31st March, 2006 - Rs. 3.4 mn) in respect of Sunfrost Ltd.

The contingent liability as at 31st March, 2007 on guarantees given by Hayleys Ltd., to third parties amounted to Rs.234 mn. (319 mn - 2005/06) of this sum Rs. 226 mn (311 mn - 2005/06) and Rs.8 mn (8 mn - 2005/06) relate to facilities obtained by subsidiaries and associates, respectively.

B. Commitments

(i) In terms of the "Equity Support Agreement" entered into in respect of the AES Power Project, Hayleys Limited has provided.

- A Standby Letter of Credit of US\$ 700,000 for the contingent equity in the AES Power Project.
- A Standby Letter of Credit of US\$ 100,000 for the guarantee fees payable by AES Kelanitissa (Pvt.) Ltd., under an agreement with the Asian Development Bank.

(ii) In terms of the operating lease agreements entered into, minimum future lease payments payable over the next financial year amount to Rs. 52 mn.

32. FOREIGN CURRENCY TRANSLATION

The principal exchange rates used for translation purposes were:

	Average		As at 31 st March	
	2006/07	2005/06	2007	2006
U. S. Dollar	105.81	101.34	109.32	102.71
Australian Dollar	81.59	75.97	88.26	73.59
Pound Sterling	201.68	179.98	214.62	179.34
Thai Baht	2.93	2.51	3.43	2.65
Bangladesh Taka	1.56	1.55	1.64	1.52
Euro	136.65	122.90	145.74	124.96

Notes to the Financial Statements

32. FUNCTIONAL CURRENCY

The Group's functional currency is Sri Lankan Rupees, except in following subsidiaries and associates where the functional currency is different as they operate in different economic environments.

Company	Functional Currency
Hayleys MGT Knitting Mills Ltd.	USD
Haychem (Bangladesh) Ltd.	Taka
PT Mapalus Makawanua Charcoal Industry	Indonesian
Haycarb Holdings Bitung Ltd.	USD
Eurocarb Products Ltd.	Sterling Pounds
Haycarb Holdings Australia (Pty) Ltd.	Australian Dollars
Magic Soil (Pty) Ltd.	Australian Dollars
Haymark Inc.	USD
Carbokam Ltd.	Thai Baht
Haylex BV Group	Euro & Yen
Dipped Products (Thailand) Ltd	Thai Baht
CK Regen Systems Co. Ltd	Thai Baht
ICO Guanti SpA	Euro
Tianjing Shanglong Mattress Co. Ltd.	Yuan

34. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

- With the introduction of the new Companies Act No7 of 2007 on 3rd May 2007, the abbreviation of the suffix in the company's name has been deemed to change from "Ltd" to "PLC". Accordingly, Hayleys Ltd is Hayleys PLC from that date.
- Other than those disclose above 34 (a), no circumstances have arisen since the Balance Sheet date which would require adjustments to or disclosure in the financial statements.

35. COMPANIES WITH DIFFERENT ACCOUNTING YEARS

The Financial Statements of AIG Hayleys Investment Holdings (Pvt) Ltd., Tianjing Shanglon Mattress Co. Ltd. Hayleys Plantation Services Ltd., Haylex BV, Volanka Insurance Services (Pvt) Ltd., Talawakelle Tea Estates Ltd., Haychem Bangladesh Ltd., Kelani Valley Plantations Group, Carbokam Co. Ltd. Haycarb Holdings Australia Group, Haymark Inc, PT Mapalus Makawanua Charcoal Industry, Haycarb Holdings Bitung Ltd., ICO Guanti SpA and Dipped Products (Thailand) Ltd. which have been drawn up to 31st December as per their reporting requirements, have been consolidated.

The financial year of Worldcall Telecommunications Lanka (Pvt) Ltd., ends in June as per their requirements.

These Companies have been consolidated based on the Financial Statements drawn up to 31st December in compliance with SLAS 26 on Consolidated Financial Statements and Accounting for Investment in Subsidiaries.

Notes to the Financial Statements

36. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The acquisition had the following effect on the Group's assets and liabilities.

	2006/07 Disposals Rs.'000	2005/06 Disposals Rs.'000	2006/07 Acquisitions Rs.'000	2005/06 Acquisitions Rs.'000
Property, plant & equipment	4,380		234,421	116,135
Investment	-		353	
Inventories	61,698		52,051	16,558
Trade and other receivables	106,501		28,680	74,981
Net cash and cash equivalents	(99,865)		(118,987)	17,487
Long-term borrowings	(9,695)		(77,619)	(37,333)
Trade and other payables	(46,668)		(40,194)	(80,480)
Net identifiable assets and liabilities	16,351		78,705	107,348
Minority shareholders' interests	(7,358)		(35,921)	(2,407)
Goodwill/(negative goodwill) acquired	5,218		(33,792)	156,010
	14,211		8,992	260,951
Satisfied by :				
Cash consideration	14,211		8,992	260,951
Analysis of cash and cash equivalents on acquisition of subsidiary				
Cash consideration	14,211		(8,992)	(260,951)
Cash at bank and in hand acquired	99,865		(118,987)	17,487
Net cash (outflow)/inflow	114,076		(127,979)	(243,464)

(i) Acquisition of subsidiaries reflects the cash outflows in respect of Hanwella Rubber Products Ltd., which were accounted using the purchase method of consolidation.

(ii) Disposal of subsidiary reflects the cash inflow in respect of Suryavahini (Pvt) Ltd.

37. ACQUISITION AND DISPOSAL OF ASSOCIATES

The disposal had the following effect on the Group's assets and liabilities. The associate disposed of was Colombo Dockyard Ltd. (last year DIC Lanka (Pvt) Ltd.)

	2006/07 Disposal Rs. '000	2005/06 Disposal Rs. '000
Share of net assets disposed	396,932	(25,098)
Profit/(Loss) on disposal	15,435	-
Satisfied by :		
Cash consideration	412,367	25,098

Notes to the Financial Statements

38. DIRECTORS' INTERESTS IN CONTRACTS

- A. The names of Directors of Hayleys Ltd., who are also directors of subsidiary and associate companies are stated on page 148 and 149.
- B. The undermentioned Directors of Hayleys Ltd., have leased the following residential premises to the undermoted companies in the Group:

Lessor	Premises	Lessee	Monthly Rental Rs.
N. G. Wickremeratne	26 E-3, Pasa Mawatha, Battaramulla.	Hayleys Ltd.	2,500
A. M. Pandithage	11/3, Sri Sunandarama Road Kalubowila, Dehiwela.	Hayleys Advantis Ltd.	5,000
R. A. Ebell	15/8, Nuwarawatte Place, Nawala.	Hayleys Ltd.	1,025
P. S. P. S. Perera	351, Hokandara Road, Akuregoda.	Volanka Ltd.	1,376
M. R. Zaheed	No. 20/66 Fairfield Gardens, Colombo 8.	Hayleys Consumer Ltd.	2,400

- C. Mr. J. D. Bandaranayake who was a Director as at 31st March 2007, was also a Director of Sampath Bank Limited. The Companies within the Group have carried out transactions in the ordinary course of business with Sampath Bank Limited and People's Bank during the year, details are as follows:

Group (Rs mn)

Bank	Facilities Obtained	Outstanding as at year end	Interest & other charges paid
Sampath Bank	435	330	43

Company

Hayleys Ltd. does not have any banking facility with Sampath Bank.

39. RELATED PARTY DISCLOSURES

(a) PARENT AND ULTIMATE CONTROLLING PARTY

Company does not have an identifiable parent of its own

(b) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

(i) LOANS TO DIRECTORS

No loans have been given to the directors of the company

(ii) KEY MANAGEMENT PERSONNEL COMPENSATION

Details of compensation are given in note 9 and note 38 to the financial statements

(iii) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Details of directors and their spouses' share holdings are given in Annual Report of the Directors on the Affairs of the Company on page 92. There were no other transactions with key management personnel other than those disclosed in note 38 to these statements.

(c) TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES

Relationships with subsidiaries and associates are explained in note 16 and also under Group Companies in pages 148 and 149. Business segment classification is also given under group companies.

- (i) Companies within the Group engage in trading transactions under normal commercial terms and condition.

Notes to the Financial Statements

- (ii) Hayleys Ltd. provides office space to its subsidiary and associate companies and charges rent. In addition the company incurs common expenses such as on export shipping, secretarial, data processing, personnel and administration functions. Such costs are allocated to subsidiary and associate companies. During the year payments were made to group companies for the supply of goods and services. Details are given below.

Business Segments	Subsidiaries			Associates			2006/07 Rs'000
	Rent	Common expenses	Purchase of goods and services	Rent	Common expenses	Purchase of goods and services	
Fibre	654	62,784	2,205	56	1,503		
Hand protection	10,840	52,811	436				
Purification products	12,606	29,973	95				
Textile				3,438	22,015		
Agri inputs	9,019	20,814		704	5,605		
Agri products		8,051					
Plantations	3,622	2,999		3,549	8,144		
Industry inputs	6,486	16,017	13,130				
Power & energy	13	633			36		
Transportation	28,122	38,884	8,234				
Consumer products	12,865	21,463	1,451				
Resorts		2,334		10	1,189		
Investments & services	6,215	8,627	11,790	7	71	41	
Total	90,440	265,390	37,341	7,763	38,562	41	

Business Segments	Subsidiaries			Associates			2005/06 Rs'000
	Rent	Common expenses	Purchase of goods and services	Rent	Common expenses	Purchase of goods and services	
Fibre	653	60,487	1,017	40	520		
Hand protection	10,418	48,068					
Purification products	12,377	22,089	259				
Textile				3,463	17,794		
Agri inputs	7,900	16,398		1,235	3,761		
Agri products		8,111					
Plantations	3,622	1,528		3,482	6,066		
Industry inputs	6,302	13,903	26,250				
Power & energy	5	232			22		
Transportation	27,384	29,225	6,389				
Consumer products	10,694	18,103	830				
Resorts		383		11	901		
Investments & services	5,980	5,671	7,149	351	4,558	162	
Total	85,337	224,198	41,894	8,581	33,622	162	

3. Details of guarantees given and provisions made in respect of related party outstanding are given in note 31 and note 9 to the financial statements respectively.
4. There are no related parties or related party transactions other than those disclosed in note 38 to the financial statements.

Notes to the Financial Statements

40. Industry Segment Information

	Fibre		Hand Protection		Purification products		Textile		Agri Inputs		Agri Products		Plantation	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
For the year ended 31 st March In Rs'000														
Turnover														
Total	3,142,669	2,878,883	7,566,470	5,496,767	3,128,489	2,578,810	-	-	3,085,571	3,152,485	749,938	587,433	2,330,297	1,918,465
Intra Group						(28,247)							(484,156)	(305,832)
External	3,142,669	2,878,883	7,566,470	5,496,767	3,128,489	2,550,563	-	-	3,085,571	3,152,485	749,938	587,433	1,846,141	1,612,633
Segment results	50,125	35,100	551,100	400,940	226,329	(68,473)			250,527	300,670	79,353	25,076	317,886	175,716
Non segment expenses														
Profit before net finance cost	50,125	35,100	551,100	400,940	226,329	(68,473)	-	-	250,527	300,670	79,353	25,076	317,886	175,716
Net finance cost	(135,984)	(145,771)	(98,025)	(153,355)	(122,826)	(80,493)			(159,691)	(119,406)	(24,492)	(24,135)	(28,238)	(35,414)
Share of associate company profits	(53,944)	(22,213)		-		-	189,955	162,354			9,811	5,936	58,085	50,391
Profit before tax	(139,803)	(132,884)	453,075	247,585	103,503	(148,966)	189,955	162,354	90,836	181,264	64,672	6,877	347,733	190,693
Depreciation	78,821	87,096	269,537	167,644	92,187	90,595			13,902	17,648	25,923	23,125	38,002	27,956
Amortisation of intangible assets	159			11,630		16,461								
Total assets (excl. associates)	4,458,616	3,738,859	5,347,159	4,735,164	2,743,651	2,399,617			1,941,062	2,549,343	458,720	505,180	2,952,739	2,439,721
Investment in associates	35,821	84,959	-				791,884	636,279			65,230	57,446	332,859	310,104
Capital expenditure	98,503	72,404	148,220	482,187	135,650	88,240			55,192	11,878	86,689	41,139	231,180	164,483
Non Interest bearing liabilities														
Deferred taxation	29,659	35,452	11,094	21,908	2,500	13,000			(8,336)	39	490		91,806	65,679
Retirement benefit obligations	210,018	177,667	200,645	155,084	37,453	43,545			49,176	40,051	14,109	11,080	434,767	352,720
Trade and other payables	346,693	233,052	957,098	904,515	383,146	401,791			672,166	1,085,185	85,359	61,181	207,275	184,933
Cash Flow														
Segment cash flows from Operating Activities	42,954	(177,133)	(66,564)	88,750	70,753	(364,083)			(267,412)	24,262	54,826	16,696	355,437	354,886
Segment cash flows from Investment Activities	60,900	(22,483)	(414,766)	(451,785)	(65,528)	(153,626)			(88,832)	(2,399)	(75,822)	(39,920)	(134,864)	(149,998)
Segment cash flows from Financing Activities	(161,037)	61,901	(364,697)	276,465	(120,916)	432,368			(21,255)	56,482	(28,429)	7,531	(66,170)	(53,794)

Notes to the Financial Statements

Industry Inputs		Power & Energy		Transportation		Consumer Products		Resorts		Investments & Services		Non- segment adjustments		Group Total	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
1,016,685	954,709	155,948	355,613	3,160,349	2,891,633	3,703,151	3,447,903	-	650,106	181,042				28,689,673	24,443,743
		(4,993)							(561,620)	(97,866)				(1,050,769)	(431,945)
1,016,685	954,709	150,955	355,613	3,160,349	2,891,633	3,703,151	3,447,903	-	-	88,486	83,176	-	-	27,638,904	24,011,798
125,686	108,940	(9,781)	(5,632)	519,922	757,588	54,758	261,090	(2,853)	(607)	402,928	372,228			2,565,980	2,362,636
										(455,712)	(403,432)	(2,690)	(27,184)	(458,402)	(430,616)
125,686	108,940	(9,781)	(5,632)	519,922	757,588	54,758	261,090	(2,853)	(607)	(52,784)	(31,204)	(2,690)	(27,184)	2,107,578	1,932,020
(16,707)	(5,018)	(22,682)	(14,948)	(29,096)	(71,216)	(155,750)	(125,756)	489	42	(65,139)	(1,872)			(858,141)	(777,342)
	-	2,493	-	4,665	5,506		-	(23,245)	4,753	171,204	123,056			359,024	329,783
108,979	103,922	(29,970)	(20,580)	495,491	691,878	(100,992)	135,334	(25,609)	4,188	53,281	89,980	(2,690)	(27,184)	1,608,461	1,484,461
12,238	11,705	20,091	14,575	248,203	330,875	12,492	10,821		-	18,251	14,765			829,647	796,805
		467									27,184			626	55,275
900,709	719,429	465,345	552,234	3,574,745	3,582,239	1,547,943	1,786,173	95,090	7,642	5,430,967	1,966,222			29,916,746	24,981,823
	-	34,022	-	17,304	16,498		-	546,602	507,680	479,405	757,882			2,303,127	2,370,848
5	7,198	344,546	252,385	140,108	157,437	16,738	4,374		-	35,586	9,924			1,292,417	1,291,649
-	1,599	-	47	7,365	19,674	443	373		-	328	880			135,349	158,651
36,140	30,986	13,958	531	148,191	121,724	29,082	25,434		-	220,900	217,450			1,394,439	1,176,272
445,065	291,955	14,782	73,776	1,005,160	1,040,839	414,827	333,774	83	75	89,172	112,668			4,620,826	4,723,744
(74,561)	(87,922)	(95,720)	147,566	411,269	601,192	(181,541)	(118,874)	82,217	64,678	401,947	145,787	(324,784)	(484,156)	408,821	211,649
(16,117)	(57,182)	(130,365)	(251,884)	(29,937)	(305,974)	(11,596)	(4,374)	(74,511)	(49,958)	1,476	(446,878)	136,550	291,595	(843,412)	(1,644,866)
(37,993)	(105,331)	226,317	65,689	(406,867)	(230,966)	60,947	59,323	(7,458)	(14,501)	(565,500)	232,500	339,176	(19,514)	(1,153,882)	768,153

Notes to the Financial Statements

B. Secondary segments (Geographical segments)

(i) Geographical segment turnover (see note 5 on page 111)

(ii) Geographical segment results

	Consolidated	
	2006/07 Rs.'000	2005/06 Rs.'000
Sri Lanka	1,977,417	1,812,077
Australia	11,411	6,665
Thailand	(62,942)	(14,790)
Bangladesh	3,751	2,578
Japan	14,503	11,501
Indonesia	6,924	(8,577)
Continental Europe	127,632	134,390
United Kingdom	8,786	13,057
United States of America	(557)	2,303
	<u>2,086,925</u>	<u>1,959,204</u>
	<u>20,653</u>	<u>(27,184)</u>
Non-segment expense	<u>2,107,578</u>	<u>1,932,020</u>

(iii) Geographical segment assets and capital expenditure

	Consolidated			
	Total Assets		Capital Expenditures	
	2006/07 Rs.'000	2005/06 Rs.'000	2006/07 Rs.'000	2005/06 Rs.'000
Sri Lanka	25,477,605	20,946,157	1,154,663	1,032,668
Australia	215,587	194,815	428	251
Thailand	1,461,855	1,488,791	77,806	225,524
Bangladesh	12,080	8,140	224	23
Japan	174,241	164,875	2,119	595
Indonesia	230,562	147,700	52,123	28,976
Continental Europe	1,801,456	1,567,301	4,026	1,771
United Kingdom	207,542	181,417	1,027	1,695
United States of America	335,818	282,627	-	146
	<u>29,916,746</u>	<u>24,981,823</u>	<u>1,292,417</u>	<u>1,291,649</u>
Investment in associates	<u>2,303,127</u>	<u>2,370,848</u>		
	<u>32,219,873</u>	<u>27,352,671</u>	<u>1,292,417</u>	<u>1,291,649</u>

Value of Real Estate

As at 31st March 2007

Ownership	Location	Extent (in acres)	Market Value Rs.'000
Hayleys PLC	Colombo	6.11	2,961,000
Subsidiaries			
Carbotels Ltd.	Kandy	42.44	94,600
Volanka Ltd.	Ekala	15.80	166,800
	Colombo	4.97	417,600
Ravi Industries Ltd.	Ekala	6.08	73,013
Rileys Ltd.	Ekala	3.80	67,000
	Galle	1.20	39,000
Chas P.Hayley & Co. Ltd.	Galle	4.77	168,087
Toyo Cushion Lanka (Pvt) Ltd.	Katana	3.50	60,529
Volanka Exports Ltd.	Nattandiya	7.20	6,913
	Chilaw	5.00	2,200
Hayleys Exports Group	Ekala	6.56	100,790
	Kuliyapitiya	3.00	4,800
Lignocell Ltd.	Madampe	7.03	8,500
	Kuliyapitiya	3.52	8,445
Sunfrost Ltd.	Alawwa	3.00	19,200
Haychem Ltd.	Kottawa	5.00	19,000
Hayleys Electronics Ltd.	Malabe	2.27	57,400
Hayleys Advantis Ltd	Welisara	11.00	329,672
	Kelaniya	7.75	309,000
Haycolour Ltd.	Kalutara	4.43	8,465
Haycarb PLC	Madampe	25.95	36,263
	Wewelduwa	2.45	39,204
	Badalgama	12.88	20,600
Recogen Ltd.	Badalgama	10.84	19,085
Dipped Products PLC	Kottawa	8.40	52,682
	Weliveriya	8.19	46,721
Palma Ltd.	Gonawela	1.82	17,781
Venigros Ltd.	Weliveriya	7.09	28,224
Bhagya Hydro (Pvt) Ltd.	Gomala Oya	2.11	1,336
Neluwa Cascade Hydropower (Pvt) Ltd.	Neluwa	2.45	4,706
Total		236.61	5,188,616
Associates			
Diesel & Motor Engineering Co. PLC	Colombo	2.18	279,859
	Colombo	0.22	43,000
	Siyambalape	8.00	23,573
Hayleys MGT Knitting Mills PLC	Horana	37.00	217,113
Hunas Falls Hotels PLC	Kandy	91.29	2,938
Eastern Hotels Ltd.	Trincomalee	23.47	506
Royal Heritage Hotels (Pvt) Ltd.	Kandy	9.52	11,304
	Sigiriya	25.14	9,382
Negombo Hotels Ltd.	Negombo	2.00	2,647
Seashells Hotel Ltd.	Negombo	1.86	11,880
The Lighthouse Hotels PLC	Galle	11.39	80,813
Tropical Villas Pvt Ltd.	Beruwela	2.50	24,088
		214.57	707,103
Total		451.18	5,895,719

Ten Year Summary

Year ended 31st March

	10-year compound growth (%)	2007 Rs. '000	2006 Rs. '000	2005 Rs. '000
Results				
Group turnover	15	27,638,904	24,011,798	19,445,441
Profit before taxation	6	1,608,461	1,484,459	1,879,337
Taxation		(519,177)	(504,028)	(469,966)
Profit after tax	3	1,089,284	980,431	1,409,371
Minority interest		(555,719)	(394,170)	(634,984)
Profit attributable to Hayleys PLC	3	533,565	586,261	774,387
Funds Employed				
Share capital	12	750,000	750,000	+ 750,000
Capital reserves	13	6,282,476	3,291,637	3,078,637
Revenue reserves	16	4,667,992	4,215,591	4,110,588
Shareholders' funds	14	11,700,468	8,257,228	7,939,225
Preliminary, pre-operational and deferred expenditure			-	-
Minority interest		3,704,926	2,967,915	2,868,478
Borrowings (both short and long term)	16	10,235,592	9,781,034	8,113,582
		25,640,986	21,006,177	18,921,285
Assets Employed				
Non-current assets	14	17,005,585	12,932,210	11,932,436
Current assets	16	15,214,288	14,420,461	12,538,508
Current liabilities net of borrowings	16	(4,832,001)	(4,819,601)	(4,193,374)
Provisions	12	(1,541,717)	(1,334,923)	(1,185,246)
Deferred income		(205,169)	(191,985)	(171,029)
Capital Employed	14	25,640,986	21,006,162	18,921,295
Cash Flow				
Net cash inflow/(outflow) from operating activities		408,821	216,967	1,095,244
Net cash inflow/(outflow) from investing activities		(843,412)	(1,650,184)	(3,016,839)
Net cash inflow/(outflow) from financing activities		(1,153,882)	768,153	1,638,736
Increase/ (decrease) in cash and cash equivalents		(1,588,483)	(665,064)	(282,859)
Key Indicators				
Earnings per share (basic) (Rs.)		7.11	7.82	10.37
Net assets per share (Rs.)		156.01	110.10	106.35
Market price per share (Rs.)		142.00	98.50	112.50
% change in market price (after adjusting for scrip issues)		44.2	(13)	44
% change in All Share Price index		23	29	36
Return on average shareholders' funds (%)		5	7	10
Return on average capital employed (%)		10.5	11	14
Price earnings ratio (times)		20	12.6	10.8
Interest cover (times covered)		2.9	2.9	5.2
Dividend cover (times covered)		2.0	2.2	3.0
Dividend rate (%)		35	35	35
Current ratio (times)		1.3	1.3	1.3
Turnover to capital employed (times)		1.08	1.14	1.03
Property, plant & equipment to shareholders' funds (%)		112	109	107
Borrowings to equity ratio (%)		87	118	102
Equity to total assets ratio (%)		36	30	32

* Increase through scrip issues.

+ Increase due to a rights issue followed by scrip issue.

++ Increase due to a scrip issue followed by an issue of shares to the Employees' Shares Trust.

+++ Increase due to a rights issue.

2004 Rs. '000	2003 Rs. '000	2002 Rs. '000	2001 Rs. '000	2000 Rs. '000	1999 Rs. '000	1998 Rs. '000
15,503,450	12,509,780	10,895,507	10,834,243	9,000,302	8,471,060	7,975,079
1,369,962	1,262,371	1,029,466	1,283,213	853,887	884,338	967,705
(308,821)	(293,644)	(254,727)	(273,048)	(209,644)	(195,588)	(163,586)
1,061,141	968,727	774,739	1,010,165	644,243	688,750	804,119
(401,789)	(360,024)	(337,660)	(404,290)	(247,102)	(334,162)	(385,267)
659,352	608,703	437,079	605,875	397,141	354,588	418,852
+++ 500,000	+++ 450,000	+++ 400,000	+++ 360,000	* 330,000	* 308,000	++ 264,000
3,029,681	2,445,054	2,174,674	2,148,218	2,088,079	2,070,980	2,060,181
3,578,426	2,995,943	2,402,942	2,144,840	1,723,838	1,485,082	1,272,967
7,108,107	5,890,997	4,977,616	4,653,058	4,141,917	3,864,062	3,597,148
-	-	-	-	(2,748)	(10,623)	(15,750)
2,899,028	2,549,315	2,366,528	2,147,942	1,827,318	1,710,742	1,551,972
5,493,388	3,737,764	3,492,061	3,181,389	2,535,794	2,762,765	2,626,195
15,500,523	12,178,076	10,836,205	9,982,389	8,502,281	8,326,946	7,759,565
9,655,743	7,523,269	6,803,060	6,317,170	6,078,911	5,850,186	5,428,872
9,504,855	7,824,077	6,614,491	6,403,770	4,870,896	4,865,260	4,155,700
(2,422,279)	(2,099,047)	(1,586,677)	(1,768,581)	(1,529,236)	(1,530,950)	(1,223,601)
(1,092,694)	(947,932)	(848,812)	(816,170)	(746,091)	(664,706)	(550,503)
(145,102)	(122,291)	(145,857)	(153,800)	(172,199)	(192,804)	(50,903)
15,500,523	12,178,076	10,836,205	9,982,389	8,502,281	8,326,946	7,759,565
419,206	89,434	814,385	518,950	814,546	663,758	814,800
(1,721,816)	(846,674)	(714,875)	(472,536)	(445,528)	(545,705)	(731,308)
680,486	(92,049)	(105,970)	(95,429)	22,431	(55,568)	40,091
(622,124)	(849,289)	(6,460)	(49,015)	391,449	82,485	123,583
8.89	8.83	6.34	8.79	5.76	5.15	6.27
95.79	85.50	72.24	67.53	60.11	56.08	53.86
115.00	125.00	121.00	78.00	93.75	117.00	215.00
(4.0)	16.2	72.4	(9.2)	(14.1)	(38.5)	23.8
74	20	46	(14)	(7)	(25)	12
10	11	9	14	10	10	13
12	14	14	17	14	15	18
12.9	14.1	19.1	8.9	16.3	22.7	34.3
5.2	5.1	3.8	5.6	4.0	4.0	4.5
3.8	3.9	3.1	4.8	4.0	3.8	5.3
35	35	35	35	30	30	30
1.5	1.6	1.6	1.7	1.7	1.5	1.4
1.01	1.03	1.01	1.10	1.10	1.0	1.03
93	88	95	95	102	106	107
77	63	70	68	61	71	73
37	38	37	37	38	36	38

Country Report

Economic Overview

The Sri Lankan economy demonstrated continued resilience recording a growth of 7.4 per cent for 2006, compared with a growth of 5.3 per cent in 2005.

Sri Lanka depends on the continued strength of the global economy for investment and expansion of its export base. On the government's agenda is an ambitious infrastructure development programme that is expected to boost growth over the next few years.

Key facts pertaining to Sri Lanka:

Land Area: 65,610 sq. km.

Commercial Capital: Colombo

Climate: Tropical (10^o C -32^o C)

Population: 19.8 mn

Literacy Rate: 92.5per cent

Per Capita Income: (US\$) 1,355

Currency: Sri Lankan Rupee

Corporate Tax Rate: 35 per cent

Ethnic Groups: Sinhalese 74% Tamils 18% Moors: 7% Others:

1%Religions: Buddhists 69 %, Hindu 15% Muslim 8% Christian 8%

Ports: Colombo, Galle and Trincomalee

Languages: Sinhala, Tamil and English

Social Infrastructure

Sri Lanka leads the South Asian region in human development indices with its high literacy rate and national health indicators. The country boasts of a life expectancy of 72 years, an infant mortality rate of 11.2 per 1,000 live births (2003) and a maternal mortality rate of 0.1 per 1,000 live births (2002). The Population Census conducted in 2001 reveals the literacy rate of the populace to be 92.5 per cent. Within the past forty years literacy levels have reported a remarkable rise of nearly 20 per cent. Female literacy has recorded a spectacular increase of 33 per cent, from 67 per cent in 1963 to 89 per cent in 2001. Today Sri Lanka has the most literate population in South Asia, and one that is more literate than seen in most of the developing nations.

Key socio-economic indicators in Sri Lanka display a consistent increase in the ageing population, with people above 55 years increasing from 7.2per cent in 1963 to 13.8per cent in 2004. Thus, it is eminently clear that a greater healthcare investment is required to continue providing healthcare in the future.

Being a firm proponent of international labour laws and UN's rights of labour, children and women, Sri Lanka has an edge over its regional competitors because of its stringent adherence to child labour laws and endorsement of gender equality, both of which have served well to position it as a leading apparel exporter to Europe and the USA.

Tourism

Bestowed with natural resources of several agro climatic zones within a small land mass, which include 500,000 acres of tea country, 250 acres of botanical gardens, 15 Wildlife and Nature reserves and miles of pristine beach; and a rich cultural heritage which includes seven UNESCO designated World Heritage sites, the country offers a tourism product that is unparalleled. The high density of vastly diverse attractions within a mere 65,000 square kilometers continues to be a key strength, and one which its regional competitors cannot match.

According to official statistics, Sri Lanka posted an arrivals figure of 559,603 tourists during the year 2006, an increase of 1.9 per cent against the previous year.

Financial Services

Benefiting from robust economic growth and a favourable external environment, the financial sector recorded satisfactory growth. The sector comprising of financial services, real estate and business services grew by 9.6 per cent during the first half of the year as against 4.4 per cent during the comparable period of 2005. More significantly, the Banking sub-sector grew by an encouraging 10.4 per cent and posted an expanded income during the first six months of the year.

Telecommunications & Information Technology

The Telecommunication Sector continued to record high growth. The number of fixed and mobile telephone penetration increased by 52.4 per cent and 61 per cent respectively while the Density of fixed phones increased to 9.5 in 2006 from 6.3 in 2005. The density of mobile phones increased by 27.2 percent compared with 17.1 percent in 2005.

The information technology sector which includes Business Processing Outsourcing (BPO) has accelerated its pace of growth to 15 per cent during the year. Forecasts indicate that the sector has capacity to attract a greater market share if the appropriate infrastructure facilities for the industry are in place.

Power Generation

Power generation stabilized with positive growth as a result of favourable weather conditions. Hydro-power generation contributed more than 49 per cent to the total power generated thereby curtailing the cost of production of thermal power generation. Total hydro power generation increased by 34.3 per cent whilst thermal power generation decreased by 10.6 per cent for the reference period and total power generated in 2006 increased by 7.1 per cent.

Two rounds of seismic surveys conducted by Norway's TGS-NOPEC have shown that Sri Lanka may have oil and natural gas reserves in the Cauvery Basin off the island's west coast. The initial surveys

Country Report

highlighted the possibility of small hydrocarbon reserves in the northwestern Gulf of Mannar and Cauvery. TGS-NOPEC's surveys show that Sri Lanka has potential reserves of 10 to 50 million barrels and the country plans to invite investors, through a competitive bidding process, to explore eight to nine blocks. Neighbouring India has already sought and received one block through nomination. The Government has sought a US \$ 500 million loan from Saudi Arabia to build the refinery. At present Sri Lanka imports crude oil and the state-owned Ceylon Petroleum Corporation (CPC) is engaged only in downstream activities like refining and distribution, though it has an exploration division. In addition the government is also trying to boost refinery capacity by expanding the CPC plant in Sapugaskande.

Some web sites for more information :

Economic information: www.cbsl.lk

Export Development Board: www.srilankabusiness.com

Investment Opportunities: www.boi.lk

Tourism: www.srilankatourism.org

Infrastructure Investment: www.bii.gov.lk

Stock market: www.cse.lk & www.sec.gov.lk

Restructure & Divestiture of Public Enterprises: www.perc.gov.lk

Indo Lanka FTA: www.indolankafta.org

Information Technology: <http://esrilanka.lk>

Leisure guide to Colombo: www.leisuretimes.lk

Group Companies

FIBRE

- **Chas P. Hayley & Company Limited**
Coir and treated rubber timber products
Directors: N.G.Wickremeratne (Chairman), P.S.P.S.Perera, H.C.S.Mendis, J.C.A.Dahanayake, I.Piyasena
- **Volanka Exports Limited**
Coir based products and essential oils
Directors: N.G.Wickremeratne (Chairman), P.S.P.S.Perera, M.N.Fernando, I.Piyasena (Managing), A.T.A.Kuruppu, T.D.S.H.Gunasena
- **Haylex BV Group**
(Netherlands, Japan & UK)
Marketing
Directors: N.G.Wickremeratne, A.M. Pandithage, P.S.P.S.Perera, H.E.Wickremasooriya
- **Ravi Industries Limited**
Industrial and household brushware
Directors: N.G.Wickremeratne (Chairman), A.M.Pandithage, P.S.P.S.Perera, R.A.Ebell, H.C.S.Mendis, J.W.T.Vermunt, Dr. P.C.Vermunt, R.R.I.Fonseka (Managing), A.W.W.Dharmawardhana
- **Hayleys Exports PLC**
Value added coir based products
Directors: N.G. Wickremeratne (Chairman), A.M.Pandithage, L.K.B.Godamunne, M.N.Fernando, P.S.P.S.Perera, I.Piyasena (Managing), F.R.Alles, H.C.S.Mendis, Dr.S.A.B.Ekanayake, R.A.Ebell (Alt to Mr. A.M.Pandithage)
- **Lignocell Limited**
Coir fibre pith
Directors: N.G. Wickremeratne (Chairman), P.S.P.S.Perera, I.Piyasena,
- **Oleo Essences & Perfumes Limited**
Essential oils
Directors: N.G.Wickremeratne (Chairman), P.S.P.S.Perera, M.N.Fernando, I.Piyasena
- **Rileys Limited**
Cleaning devices
Directors: N.G.Wickremeratne (Chairman), A.M.Pandithage, H.C.S.Mendis (Managing), P.S.P.S.Perera, A.W.W.Dharmawardhana, H.P.L.Fernando, R.R.I.Fonseka
- **Haymat Limited**
Coir fibre mats
Directors: N.G.Wickremeratne (Chairman), P.S.P.S.Perera, A.Venugopal
- **Toyo Cushion Lanka (Private) Limited**
Needled and rubberised coir products
Directors: N.G.Wickremeratne (Chairman), A.M.Pandithage, J.P.Ratnayake (Managing), P.S.P.S.Perera, M.N.Fernando, Ms. M.Hirai, Ms.M.Shiraishi, J.Schoemaker, B.R.M. Mendis
- **Super Felt Limited**
Needled and thermo bonded felt pads
Directors: N.G.Wickremeratne (Chairman), P.S.P.S.Perera, M.N.Fernando, J.P.Ratnayake, I.Piyasena
- **Creative Polymats Limited**
Moulded rubber products
Directors: A.M.Pandithage, P.S.P.S.Perera, H.C.S.Mendis

HAND PROTECTION

- **Dipped Products PLC**
General purpose and specialty rubber gloves
Directors: N.G.Wickremeratne (Chairman), A.M.Pandithage, R.K.Witanachchi, R.A.Ebell (Alt to Mr. A.M.Pandithage), R.Seevaratnam, J.A.G.Anandarajah (Managing), N.B.Weerasekera, N.Y.Fernando, H.A.Pieris, R.W.Soyso, Dr.W.S.E.Fernando, G.K.Seneviratne

PURIFICATION PRODUCTS

- **Haycarb PLC**
Activated carbon
Directors: N.G.Wickremeratne (Chairman), A.M.Pandithage, A.Hettiarachchy (Managing), L.P.Jayasinghe, R.P.Peris, R.Seevaratnam, R.A.Ebell (Alt to Mr. A.M.Pandithage), L.K.B.Godamunne, Dr.D.G.K.E. Weerapperuma, A.M.Senaratna

TEXTILES

- **Hayleys-MGT Knitting Mills PLC**
Knitted fabric
Directors: N.G. Wickremeratna (Chairman), R.A.Ebell (It.Managing), S.Spezza (It.Managing), M.Frayman, T.Lipson (Alt. to M.Frayman), M.C.D.Amalean, H.R.Peries, D.B.Weerasinghe, S.D.Amalean (Alt. to M.C.D.Amalean)

AGRI INPUTS

- **Hayleys Agro Products Limited**
Crop production and protection materials, agri equipment and animal health products
Directors: N.G.Wickremeratne (Chairman), A.M.Pandithage, R.A.Ebell, M.R.Zaheed (Managing), M.M.M.De Silva, U.E.R.Gangoda, Ms.J.Dharmasena
- **Hayleys Agro Fertilizers (Private) Limited**
Fertilisers
Directors: N.G.Wickremeratne (Chairman), A.M. Pandithage, M.R.Zaheed (Managing), K.S.Soh, D.J.Chapman, C.M.Thomas
- **Hayleys Agro Farms (Private) Limited**
Planting material
Directors: N.G.Wickremeratne (Chairman), M.R.Zaheed, U.E.R.Gangoda
- **Haychem Limited**
Crop protection, household and public health chemicals
Directors: R.A.Ebell, M.R.Zaheed, U.E.R.Gangoda
- **Hayleys Agro Biotech (Private) Limited**
Directors: N.G.Wickremeratne (Chairman), M.R.Zaheed, U.E.R.Gangoda

AGRI PRODUCTS

- **Quality Seed Company Limited**
Hybrid flower seeds
Directors: N.G.Wickremeratne (Chairman), D.Vlot, M.R.Zaheed, R.J Taylor, M.K.Nandasena (Alt. to Mr. N.G.Wickremeratne)
- **Sunfrost Limited**
Fresh/processed vegetables
Directors: N.G.Wickremeratna (Chairman), P.S.P.S.Perera, M.N.Fernando, A.C.Wikramanayake, T.D.S.H.Gunasena, M.R.Zaheed
- **H J S Condiments Limited**
Retail-packed, processed vegetables
Directors: N.G.Wickremeratne (Chairman), P.S.P.S.Perera, M.R.Zaheed, M.N.Fernando, A.C.Wikramanayake (Managing), G.Olbrechts, M.Symons, M.Inage, S.Kodama, A.C.Pathirage

PLANTATIONS

- **DPL Plantations Limited**
Plantation management
Directors: N.G.Wickremeratne (Chairman), J.A.G.Anandarajah, R.W.Soyso, G.K.Seneviratne, Dr.W.S.E.Fernando, A.Gunasekera, S.Siriwardana
- **Kelani Valley Plantations PLC**
Producing and processing tea and rubber
Directors: N.G.Wickremeratne (Chairman), A.M.Pandithage, R.A.Ebell (Alt to Mr. A.M.Pandithage), J.A.G.Anandarajah, R.W.Soyso, G.K.Seneviratne (Managing), Dr.W.S.E.Fernando, B.P.W.Jayasekera
- **Hayleys Plantation Services Limited**
Plantation management
Directors: N.G.Wickremeratne (Chairman), Merrill J. Fernando, Malik J.Fernando, R.M.Fernando, S.T.Gunatilleke, J.M.S.Brito, M.M.M.De Silva, D.S.Seneviratne, R.A. Ebell (Alt. to N. G. Wickremeratne), D.C.Fernando (Alt. to Merrill J.Fernando), Ms. M.Perera (Alt. to Malik J.Fernando),
- **Talawakelle Tea Estates PLC**
Production and sale of black tea
Directors: N.G.Wickremeratne (Chairman), Merrill J.Fernando, Malik J. Fernando, J.M.S.Brito, R.M.Fernando, M.M.M.De Silva, Ms.M.Perera (Alt. to Merrill.J. Fernando), D.C.Fernando (Alt. to Malik J.Fernando), S.T.Gunatilleke

INDUSTRY INPUTS

- **Hayleys Industrial Solutions Limited**
Engineering and projects, power generation, pigments and industrial raw material
Directors: N.G.Wickremeratne (Chairman), A.M.Pandithage, R.A.Ebell, M.R.Zaheed, M.M.M.De Silva (Managing), H.Cader, M.H.Zainudeen
- **Haycolour Limited**
Textile dyestuff and binders
Directors: R.A.Ebell, E.F.Edrisinghe, M.M.M.De Silva, M.H.Zainudeen

POWER & ENERGY

- **Recogen Limited**
Charcoal and power generation
Directors: N.G.Wickremeratne (Chairman), A.Hettiarachchy (Managing), L.P.Jayasinghe, R.P.Peris, Dr. D.G.K.E.Weerapperuma

Group Companies

- **Bhagya Hydro (Private) Limited**
Hydro power
Directors: N.G.Wickremeratne (Chairman), A.M. Pandithage, M.M.M. De Silva, D.D.W.Siriwardene
- **Neluwa Cascade Hydropower (Private) Limited**
Hydro power
Directors: N.G.Wickremeratne (Chairman), M.M.M.De Silva, R.P.S.Wickramasinghe, D.D.W.Siriwardene
- **TTEL Hydro power Company (Private) Limited**
Hydro power
Directors: N.G.Wickremeratne (Chairman), A.M. Pandithage, R.A.Ebell, M.M.M.De Silva, S.T.Gunatilleke
- **Hayleys Hydro Energy (Private) Limited**
Hydro power
Directors: N.G.Wickremeratne (Chairman), A.M. Pandithage, R.A.Ebell, M.M.M.De Silva, D.S. Arangala
- **TTEL Somerset Hydro Power (Private) Limited**
Hydro power
Directors: N.G.Wickremeratne (Chairman), A.M. Pandithage, M.M.M.De Silva, S.T.Gunatilleke
- **Biofuels D Z (Private) Ltd**
Directors: N.G. Wickremeratne (Chairman), R.A. Ebell, M.M.M. De Silva

TRANSPORTATION

- **Hayleys Advantis Limited**
Travel, ticketing, shipping, airline agencies/freight forwarding and warehousing/ocean container repairing and container yard operations
Directors: N.G.Wickremeratne (Chairman), A.M.Pandithage (Deputy Chairman), R.A.Ebell, M.O.Raban (Managing), S.R.Sadanandan, C.H.Pieres, L.R.V.Waidyaratne

CONSUMER PRODUCTS

- **Hayleys Consumer Products Limited**
Lighting, photo imaging, electronic, healthcare and homecare products
Directors: N.G. Wickremeratne (Chairman), A.M Pandithage, R.A.Ebell, M.R.Zaheed (Managing), M.M.M.De Silva, H.Cader, A.F.Saibukandu, H.J.O.Silva, T.G.Reckerman
- **Hayleys Consumer Marketing (Private) Limited**
FMCG
Directors: N.G. Wickremeratne (Chairman), R.A.Ebell, M.R.Zaheed, J.L.R.Wijeratne
- **Hayleys Electronics Limited**
Consumer electronics
Directors: T.G.Reckerman, R.A.Ebell, M.R.Zaheed
- **Usha Industries Limited**
Fans and sewing machines
Directors: R.A.Ebell, M.R.Zaheed, M.M.M.De Silva,
- **Hayleys Electronics (Manufacturing) Limited**
Consumer electronics
Directors: R.A.Ebell, N.K.A.D.De Silva, M.R.Zaheed, T.G.Reckerman
- **Hayleys Electronics (Retailing) Limited**
Consumer durables
Directors: R.A.Ebell, M.R.Zaheed, A.F.Saibukandu, T.G.Reckerman

RESORTS

- **The Lighthouse Hotel PLC**
Hoteliering
Directors: N.J.H. M Cooray (Chairman), N.G.Wickremeratne, R.A.E.Samarasinghe (Managing), R.A.Ebell, N.G.H.Cooray, Ms.N.T.M.S.Cooray, B.R.L.Fernando, V.K.Wickremasinghe
- **Hunas Falls Hotels PLC**
Hoteliering
Directors: N.G.Wickremeratne (Chairman), R.A.Ebell, N.J.H.M.Cooray (Managing), V.K.Wickremasinghe, N.G.H.Cooray
- **Carbotels Limited**
Hotel investment
Directors: N.G. Wickremeratne (Chairman), A.Hettiarachy, R.A.Ebell

- **Tropical Villas (Private) Limited**
Hoteliering
Directors: N.G.H.Cooray (Chairman), N.G.Wickremeratne, N.J.H.M.Cooray (Managing), R.A.Ebell, Ms.N.T.M.S.Cooray, R.A.E.Samarasinghe, V.K.Wickremasinghe, Ms. A.K.M.J. Cooray
- **The Royal Heritage Hotel (Private) Limited**
Hoteliering
Directors: N.G.H.Cooray (Chairman), N.G.Wickremeratne, R.A.Ebell, N.J.H.M.Cooray
- **Seashells Hotels Limited**
Hoteliering
Directors: N.G.H.Cooray (Chairman), N.J.H.M.Cooray (Managing Director), N.G.Wickremeratne, R.A.Ebell, V.K.Wickremasinghe
- **Eastern Hotels Limited**
Hoteliering
Directors: N.G.H.Cooray (Chairman), N.J.H.M. Cooray, N.G. Wickremeratne, R.A.Ebell, V.K.Wickremasinghe
- **Negombo Hotels Limited**
Hoteliering
Directors: N.G.H.Cooray (Chairman), N.J.H.M.Cooray (Managing Director), N.G. Wickremeratne, R.A.Ebell, Ms. A.M.J.Cooray, Ms.N.T.M.S.Cooray
- **Jetwing Hotels Limited**
Hoteliering
Directors: N.G.H.Cooray (Chairman), N.J.H.M.Cooray (Managing Director), N.G. Wickremeratne, R.A.Ebell, Ms. N.T.M.S. Cooray, R.A.E. Samarasinghe, V.K.Wickremasinghe

INVESTMENTS, INFORMATION TECHNOLOGY & SERVICES

- **Hayleys Group Services Limited**
Secretarial services
Directors: R.A.Ebell, D.D.W. Siriwardene, Ms L.Y.Pararasasegaram, S.C. Ganegoda
- **Dean Foster (Private) Limited**
Investment
Directors: N.G.Wickremeratne (Chairman), M.M.M.De Silva, R.A.Ebell, S.C.Ganegoda
- **Volanka Limited**
Directors: R.A.Ebell, P.S.P.S.Perera, M.N.Fernando, A.C.Wikramanayake, I.Piyasena, H.C.S.Mendis
- **Volanka Insurance Services (Private) Limited**
Insurance broking
Directors: M.M.M.De Silva, R.A.Ebell, D.D.W.Siriwardene
- **Infocraft Limited**
Software products and services
Directors: N.G.Wickremeratne (Chairman), Dr. B.G.L.D. Kumara(Managing), R.A. Ebell
- **Diesel & Motor Engineering PLC**
Automobiles, automotive components, construction machinery, power systems
Directors: A.R.Pandithage (Chairman & CEO), A.G.Pandithage, A.M.Pandithage, R.A.Ebell, A.N.Algama, S.C.Algama, T.G.H.Peries, R.C.Weerawardana, B.C.S.A.P.Gooneratne, R.C.Weerawardana, Dr. H. Cabral, Dr. U. Liyanage, R. Seevaratnam
- **AIG Hayleys Investment Holdings (Private) Limited**
Investment
Directors: N.G.Wickremeratne (Chairman), P.Grassi, S.Badiga, C.Bouloux, G.Gur, E.Tuck, R. Yatawara
- **Hayleys AIG Insurance Co. Limited**
Insurance
Directors: N.G.Wickremeratne (Chairman), J.P. Assaf (Managing & CEO), P.Grassi, K.Daruwella, C.Bouloux, S.Badiga, A.M. Pandithage
- **Listed Companies**
Note: Only the parent Company directorate has been disclosed for the listed companies marked T and for Hayleys Advantis Group.

Milestones

1878

Charles Pickering Hayley forms Chas P Hayley & Co. in Galle.

1909

Hayley & Kenny, a partnership formed between W W Kenny and Chas P Hayley, opens in Colombo.

1911

Charles Pickering Hayley retires following the death of his wife and the next generation takes over.

1913

Hayley and Kenny purchases Thurburn Stores-400, Deans Road premises.

1936

Hayley and Kenny becomes a private limited liability Company.

1944

Chas P Hayley & Co. becomes a private limited liability company and fully owned subsidiary of Hayley & Kenny Ltd.

1952

George G Hayley with senior executives also subscribing to equity forms Hayleys Ltd. with a paid up capital of Rs. 200,000/-, to acquire from the heirs of the late Chas P Hayley and W W Kenny, the entire undertaking of Hayley & Kenny Ltd.

1954

Hayleys Ltd., becomes a public company.

1958

Shipping agency department is formed, later to be reconstituted as Maritime Agencies Ltd.

1964

Industries department is formed to manufacture agricultural machinery and spraying equipment.

1968

Haychem Ltd., a collaboration with Bayer of Germany, is formed to formulate agrochemicals.

1973

Haycarb Ltd., is formed to pioneer the manufacture and export of activated carbon from coconut shell charcoal.

1975

Ravi Industries Ltd., a company engaged in the manufacture of brushes is acquired.

1976

Dipped Products Ltd., is incorporated to pioneer manufacture of Rubber Gloves.

1983

The first overseas venture, Sorbtech Inc. (now Haymark Inc.) is formed in USA.

1985

Overseas marketing companies are formed in Holland, UK, Japan and Australia.

1991

Hayleys ventures into Hoteliering through its subsidiary Carbotels Ltd. Employee share ownership schemes are introduced within the Group. Hayleys steps into the business of plantations.

1994

Group's first overseas manufacturing facility Carbokarn Co. Ltd., opens in Thailand.

2000

Hayleys moves into the insurance sector in collaboration with the American International Group.

2001

Hayleys steps into power generation in collaboration with AES Corporation of USA.

2002

Inland marketing companies realigned under 3 focused companies - Hayleys Agri Products Ltd., Hayleys Consumer Products Ltd. and Hayleys Industrial Solutions Ltd.

2003

- Group entered into ship owning business, where Maritime Holdings Ltd. makes its maiden investment in the Container Vessel 'Orient Stride'.
 - Dipped Products Ltd's initial overseas plant is set up in Thailand heralding its entry into the medical glove market.
-

2006

- Hayleys adopts a new visual identify replacing its former logo of 50 years with one more contemporary and representative of the diversity of the Group's products and services.
- Hayleys achieves hat trick by winning Sri Lanka's Best Corporate Citizen title for the third successive year.
- Mabroc -Kelani Valley launches the world's first 'Ethical Tea' to be recognised by the UN's Global Compact.

Glossary of Financial Terms

Accounting policies

The specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting financial statements

Amortization

The systematic allocation of the depreciable amount of an intangible asset over its useful life

Basic earnings per share

Profits attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the period

Borrowings

All interest-bearing liabilities

Capital employed

Total equity, minority interest and interest bearing borrowings

Capital reserves

Reserves identified for specific purposes and considered not available for distribution

Cash equivalents

Liquid investments with original maturity periods of three months or less

Contingent liability

A possible obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise

Credit rating

An evaluation of a corporate's ability to repay its obligation or the likelihood of not defaulting, carried out by an independent rating agency

Current ratio

Current assets divided by current liabilities. A measure of liquidity

Deferred taxation

The tax effect of timing differences deferred to/from other periods, which would only qualify for inclusion on a tax return at a future date

Effective tax rate

Income tax expenses divided by profit from ordinary activities before tax

Dividend cover

Profit attributable to ordinary shareholders divided by dividend. Measures the number of times dividend is covered by distributable profit

Dividend yield

Dividend per share as a percentage of the market price. A measure of return on investment

Dividends

Distribution of profits to holders of equity investments

Equity

Shareholders' funds

Gearing

Proportion of total interest-bearing borrowings to capital employed

Interest cover

Profit before tax plus net finance cost divided by net finance cost. Measure of an entity's debt service ability

Market capitalisation

Number of shares in issue multiplied by the market value of a share at the reported date

Net assets per share

Shareholders' funds divided by the weighted average number of ordinary shares in issue. A basis of share valuation

Price earnings ratio

Market price of a share divided by earnings per share as reported at that date

Related parties

Parties who could control or significantly influence the financial and operating policies of the business

Return on average capital employed

Profit before tax plus net interest cost divided by average capital employed

Return on average shareholders' funds

Attributable profits to the shareholders divided by average shareholders' funds

Revenue reserves

Reserves considered as being available for distributions and investments

Segments

Constituent business units grouped in terms of similarity of operations and location

Value addition

The quantum of wealth generated by the activities of the Group measured as the difference between turnover and the cost of materials and services bought in

Working capital

Capital required to finance day-to-day operations computed as the excess of current assets over current liabilities

Notice of Meeting

Notice is hereby given that the Fifty-Sixth Annual General Meeting of Hayleys PLC, will be held at the Auditorium, The Institute of Chartered Accountants of Sri Lanka, No.30 A, Malalasekara Mawatha, Colombo 07, on Tuesday, 26th June, 2007 at 3.00 p.m. and the business to be brought before the Meeting will be:

1. To consider and adopt the Report of the Directors and the Statements of Accounts for the year ended 31st March 2007, with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors.
3. To elect Mr T L F Jayasekara who has been appointed to the board since the last Annual General Meeting, a Director.
4. To elect Mr J A G Anandarajah who has been appointed to the board since the last Annual General Meeting, a Director.
5. To re-elect Mr R A Ebell, who retires by rotation at the Annual General Meeting, a Director.
6. To re-elect Mr L K B Godamunne, who retires by rotation at the Annual General Meeting, a Director. Mr Godamunne has attained the age of seventy four years and the Company has received special notice of intention to pass the undenoted ordinary resolution in compliance with Section 211 of the Companies Act No.7 of 2007 in relation to his re-election.

Ordinary Resolution

"That Lalit Kirti Bandara Godamunne (a Director retiring by rotation) who has attained the age of seventy four years be and is hereby re-elected a Director of the Company and it is hereby declared that the age limit of seventy years referred to in Section 210 of the Companies Act No.7 of 2007 shall not apply to the appointment of the said Director."

7. To re-elect Mr J D Bandaranayake, who retires by rotation at the Annual General Meeting, a Director.
8. To authorise the Directors to determine contributions to charities.
9. To re-appoint Messrs KPMG Ford, Rhodes, Thornton & Company, as Auditors and authorise the Directors to determine their remuneration.
10. To consider any other business of which due notice has been given.

NOTE :

- (i). A member is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a member of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office, No.400, Deans Road, Colombo 10 by 3.00 p.m. on 24th June , 2007.
- (ii). It is proposed to post ordinary dividend warrants on 3rd July 2007 and in accordance with the rules of the Colombo Stock Exchange the shares of the Company will be quoted ex-dividend with effect from 27th June 2007.

By Order of the Board

HAYLEYS PLC

HAYLEYS GROUP SERVICES LIMITED

Secretaries

Colombo

1st June 2007

Form of Proxy

I/We*
of.....
being a member/members* of HAYLEYS PLC hereby appoint,

1
of.....
or failing him/them,*

2. NIRMALA GIHAN WICKREMERATNE (Chairman of the Company) of Colombo, or failing him, one of the Directors of the Company as my/our* proxy to ** vote as indicated hereunder for me/us* and on my/our* behalf at the Fifty-Sixth Annual General Meeting of the Company to be held on Tuesday, 26th June, 2007 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof:

	For	Against
1. To adopt the Report of the Directors and the Statements of Accounts for the year ended 31 st March 2007, with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a dividend as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To elect Mr T L F Jayasekara who has been appointed to the Board since the last Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. To elect Mr J A G Anandarajah who has been appointed to the Board since the last Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr R A Ebell, who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect Mr L K B Godamunne, who retires by rotation at the Annual General Meeting, a Director, by passing the ordinary resolution set out in the notice.	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect Mr J D Bandaranayake, who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorise the Directors to determine contributions to charities.	<input type="checkbox"/>	<input type="checkbox"/>
9. To re-appoint Messrs KPMG Ford, Rhodes, Thornton & Company, as Auditors and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

(***) The proxy may vote as he thinks fit on any other resolution brought before the Meeting.

As witness my/our* hands this..... day of.....2007.

.....
Signature of Shareholder

Witnesses

.....
.....
.....

Note : * Please delete the inappropriate words.

1. A proxy need not be a member of the Company.
2. Instructions as to completion appear on the reverse.
3. If you wish your proxy to speak at the Meeting, you should interpolate the words 'Speak and in the place indicated with ** and initial such interpolation.

Form of Proxy

Instructions as to Completion

1. To be valid , this Form of Proxy must be deposited at the Registered Office of the Company, No.400, Deans Road, Colombo 10, by 3.00 p.m. on Sunday, 24th June, 2007.
2. In perfecting the Form of Proxy, please ensure that all details are legible.
3. If you wish to appoint a person other than the Chairman of the Company (or failing him, one of the Directors) as your proxy, please insert the relevant details at 1 overleaf and initial against this entry.
4. Please indicate with an X in the space provided how your proxy is to vote on each resolution. If no indication is given, the proxy in his discretion will vote as he thinks fit. Please also delete (***) if you do not wish your proxy to vote as he thinks fit on any other resolution brought before the Meeting.
5. In the case of a Company / Corporation, the proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
6. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.

Corporate Information

Name of Company

Hayleys PLC

Legal Form

A Quoted Public Company with limited liability.
Incorporated in Sri Lanka in 1952.

Company Registration

Number PVS/PBS/1148
Founded 1878

Accounting year end

31st March

Principal Activities

Holding Company; carrying out investments in and providing management and allied services to Hayleys Group Companies.

Stock Exchange Listing

The ordinary shares of the Company are listed with the Colombo Stock Exchange of Sri Lanka.

Head and Registered Office

Hayley Building
P.O.Box 70, No.400, Deans Road,
Colombo 10.
Telephone: (94-11) 2696331, 2699087
Facsimile: (94 -11) 2699299, 2691679

Auditors

KPMG Ford, Rhodes, Thornton & Co.
Chartered Accountants
P.O.Box 186, Colombo, Sri Lanka

Bankers

Hatton National Bank
HSBC
Bank of Ceylon
NDB Bank
Standard Chartered Bank plc
Sampath Bank
Commercial Bank of Ceylon
Deutsche Bank

Secretaries

Hayleys Group Services Limited
No.400, Deans Road, Colombo 10,
Sri Lanka
Telephone: (94-11) 2696335

Please direct any queries about the administration of shareholdings to the Company secretaries.

Investor relations

Please contact the Corporate Affairs Unit
Telephone: (94-11) 2696333
E-mail: info@cau.hayleys.com

Internet

www.hayleys.com

With the introduction of the new Companies Act No 7 of 2007 on 3rd May 2007, the abbreviation of the suffix in the company's name has been deemed to change from "Ltd" to "PLC". Accordingly, Hayleys Ltd is Hayleys PLC from that date.

