



# BLUEPRINT OF VALUE

HAYLEYS FABRIC PLC | ANNUAL REPORT 2018/19





[www.hayleysfabric.com](http://www.hayleysfabric.com)

SCAN to access full Integrated Annual Report





# BLUEPRINT OF VALUE

At Hayleys Fabric, we have always believed that planning means 'bringing the future into the present so that you can do something about it, now'. We have been planning ahead for several years now, constantly improving what we do today in order to deliver better value tomorrow.

We have worked hard to overcome the challenges of a few difficult years and become who we are today; a vibrant and profitable company fully empowered to choose our goals and future direction. The excellent results recorded in this report clearly reflect the value of our commitment to long-term strategies and sustainable growth.

Your company is now a strong and dynamic centre of excellence. Innovation, agility, productivity and passion will remain key factors in our success story as we continue to apply forward thinking to everything we do, continuously evolving our business model into an enduring blueprint of value.



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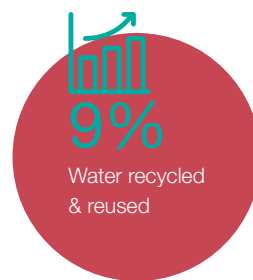
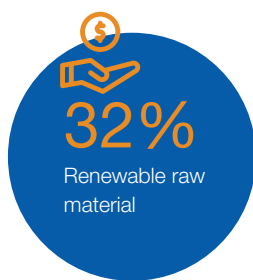
## TARGETS FOR 2020

Increase profitability (PBT) by 20%

Innovate over 10 new products

Increase employee productivity by 25%

Reduce water intensity by 5%



## OUR PARTNERS

chico's FAS®



DECATHLON

Lbrands

next

CALZEDONIA

ASDA M&S

George.



mothercare

Sedex Member

Higg Index

BCI Better Cotton Initiative

zalando

VICTORIA'S SECRET

asics

TOMMY HILFINGER

TEZENIS

F&F  
Calling it 1990

adidas

PRIMARK

NUM&G

Columbia Sportswear Company

NIKE  
JUST DO IT.

L+DL

PINK

Amazon Fashion

La SENZA  
Lingerie

Boden  
NEW BRITISH

intimissimi  
Italian lingerie

COTTON:ON

ck  
Calvin Klein



# Introduction







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# ABOUT THE REPORT

We are pleased to present our fifth Integrated Annual Report which sets out the performance for the financial year ending 31 March 2019. It presents a balanced review of our performance for covering financial, environmental and social performance, our governance framework and how we manage risk. Building on our fourth consecutive integrated Annual Report for the previous financial year ending on 31 March 2018, this year's report has been further refined to enhance readability. It includes an overview of how we nurtured our capitals to deliver value to our stakeholders.

The following standards, frameworks and guidelines were used to prepare the report moving beyond regulatory compliance to incorporate international best practice in to our reporting processes.

Regulatory Requirements	Voluntary Frameworks
<ul style="list-style-type: none"> <li>Companies Act No.7 of 2007</li> <li>Continued Listing Requirement of the Colombo Stock Exchange</li> <li>Sri Lanka Accounting &amp; Auditing Standards Act No.15 of 1995</li> <li>Sri Lanka Financial Reporting Standards</li> </ul>	<ul style="list-style-type: none"> <li>Code of Best Practice on Corporate Governance</li> <li>Integrated Reporting Framework</li> <li>GRI Standards "In Accordance - Core" Option</li> </ul>

Information set out in this report have been sourced from the following sources:

Information	Source
Financial statements including accounting policies and notes to the accounts	Hayleys Fabric PLC
Operational and sustainability information	Hayleys Fabric PLC
Information on the Global economy and market trends	World Economic Outlook April 2019 published by International Monetary Fund Euro monitor reports
Information on the Sri Lankan economy, apparel and textile sub-sector	Central Bank of Sri Lanka website and Joint Apparel Association Forum websites

This year's report includes the following features to enhance readability:

- **Strategic focus** of the report is facilitated by linking KPIs and materiality to strategy
- **Connectivity of information** with signposts to key areas through the value creation model and strategy
- **Clarity and conciseness** has been further improved with the incorporation of relevant and material information
- **Comparable** information is provided throughout the report using external sources where available
- **Reliability** of information has been enhanced by assurance on both the financial statements and the sustainability information by the external auditors Ernst & Young

For inquiries about this report, please contact:

Mr. Ruwan Rohitha Bandara : Director - Finance

-  RohithaB@hayleysfabric.com
-  Finance Department,  
Hayleys Fabric PLC, Narthupana Estate, Neboda, Sri Lanka.
-  0094 -34- 2297100
-  www.hayleysfabric.com



# AWARDS DURING THE YEAR



Won the Silver award for the 1st time, after winning bronze awards during the past 3 consecutive years, in the Manufacturing sector above Rs.5 Bn Revenue category at the Annual Report Awarding Ceremony – 2018, organized by CA Sri Lanka and Colombo Stock Exchange



Won the Bronze award under the Category of Textile and Textile Processing Industry at Presidential Environment Awards Ceremony - 2018, organized by the Central Environment Authority of Sri Lanka

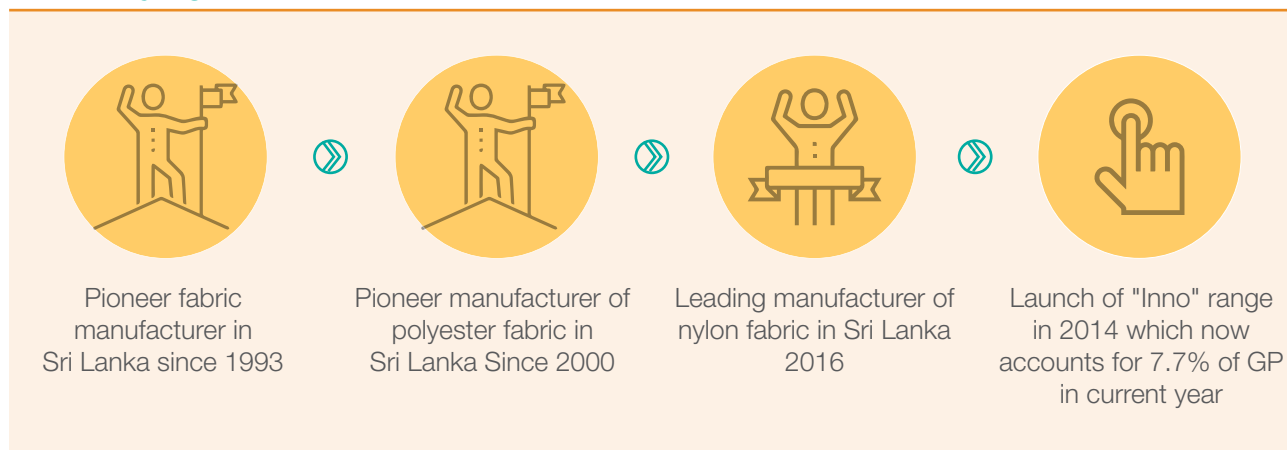


Won the certificate of Merit for the third consecutive year in 2018 at the excellence in Integrated Reporting Award Ceremony held in Pune - India, organized by SAFA (South Asian Federation of Accountants)

# ABOUT US

Hayleys Fabric PLC manufactures innovative high value fabric to quality conscious global fashion brands. A pioneer in the field, we were also the first to develop our own branded range of fabric "Inno", as we forecast fashion trends to develop fashion forward fabric that capture our clients' interest. A passion for innovation drives our growth and performance which turned around as we achieved a paradigm shift in our business model to sell fabric that are conceptualized and manufactured by us. A subsidiary of Hayleys Group, we build on a legacy of sound corporate governance and visionary leadership to create value for our stakeholders.

## A PARADIGM SHIFT



## KEY NUMBERS

Revenue <b>USD 69.94 Mn</b>	Profit Before Tax <b>USD 1.85 Mn</b>	Total Assets <b>USD 47.61 Mn</b>	Employees <b>1,249</b>	Carbon Footprint <b>30,347 tCO<sub>2</sub>e</b>
--------------------------------	-----------------------------------------	-------------------------------------	---------------------------	----------------------------------------------------

## FINELY HONED CAPABILITIES



## RELEVANCE TO ECONOMY

Value Created <b>USD 13.9 Mn</b>	Fabric Produced <b>9,004 MT</b>	Purchases from Local Suppliers <b>24%</b>	Taxes Paid <b>USD 0.38 Mn</b>	Value to Employees <b>USD 8 Mn</b>
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# VISION

To be the most sought after manufacturer of fabric in South Asia

# MISSION

To attract Premier Clothing Brands in the World, through Innovation, Speed, Reliability, Quality and Service whilst aligning our Business Strategies to satisfy Stakeholder needs

# VALUES

- **Integrity** : 'do the right thing' - managing with honesty, efficiency, and reliability always
- **Service** : 'customer decides' - putting our customer at the center of all our activities
- **Quality** : delivering excellent standards consistently
- **Innovation** : invent in services and technologies to improve on what we do
- **People** : to build our team to create value to stakeholders
- **Accountability** : holding ourselves responsible to deliver what we promise
- **Good Citizenship** : caring for the communities in which we work, and being environmentally responsible in all we do

# PERFORMANCE HIGHLIGHTS

"OUR BLUEPRINT OF VALUE IS CRAFTED TO DELIVER A STRONG, STABLE AND CONSISTENT PERFORMANCE YEAR ON YEAR."

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## USD 69.94 Mn

The Company was able to record a year on year revenue growth of 21%



USD 1.85 Mn

Profit before tax

CO<sub>2</sub>  
3.4

Carbon emission intensity (tCO<sub>2</sub>e/MT of production)



91%

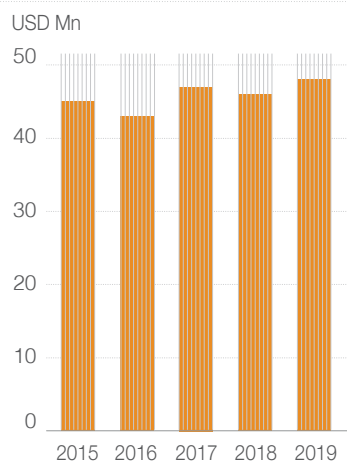
Capacity utilization



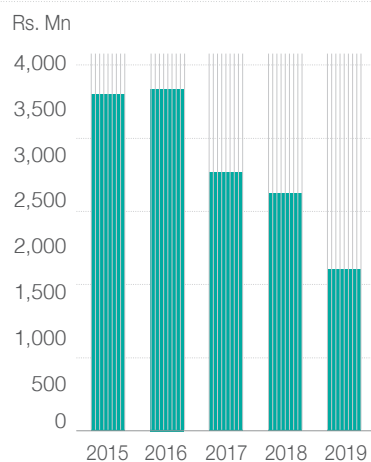
Financial Capital		2019	2018
Revenue	USD '000'	69,941	57,687
Results from operating activities	USD '000'	2,778	864
Profit/(Loss) before tax	USD '000'	1,849	(49)
Profit/(Loss) after tax	USD '000'	1,058	(680)
Basic / Diluted earnings/(loss) per share	USD	0.005	(0.003)
Cash profit	USD '000'	4,459	2,522
Interest cover	No. of times	3	1
Return on equity (ROE)	%	6%	(4%)
Pre-tax return on capital employed (ROCE)	%	8%	3%
<b>Balance Sheet Highlights &amp; Ratios</b>			
Total assets	USD '000'	47,610	46,089
Total debt	USD '000'	15,185	16,707
Inventory holding days	No. of days	62	66*
Debtors' days	No. of days	43	48*
Total shareholders' funds	USD '000'	17,859	17,037
No. of shares in issue		207,740,888	207,740,888
Net assets per share	USD	0.09	0.08
Debt /(Equity+Debt)	%	46%	50%
Total debt / Total assets	%	32%	36%
<b>Market / Shareholder Information</b>			
Market price of share as at 31st March	Rs.	8.50	12.50
Market capitalization	Rs. Million	1,766	2,597

\* Based on the change in basis of calculation, these figures were restated in 2019

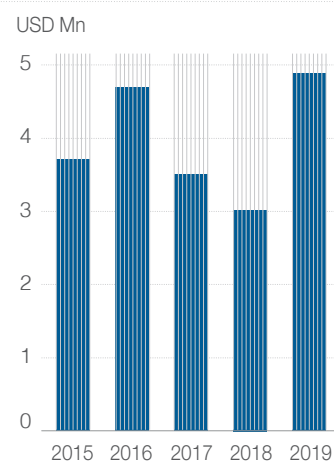
#### Total assets



#### Market capitalization



#### EBITDA



# PERFORMANCE HIGHLIGHTS

Natural Capital	2019	2018
Total extent of land	54 Acres	54 Acres
Extent of land reserved as a green belt	20 Acres	20 Acres
Total raw material consumption (MT)	15,127	13,160
Renewable raw material consumption (MT)	4,866	4,856
Renewable raw material as a % of total material consumption	32%	37%
Recycled raw materials as a % of total material consumption	2.6%	1.0%
Direct energy consumption (GJ)	663,174	613,771*
Energy intensity (GJ/ MT of production)	74	81
Indirect energy consumption (GJ)	23,800	19,724
Indirect energy intensity (GJ/MT of production)	2.64	2.60
Water withdrawal (M <sup>3</sup> )	1,822,231	1,850,871
Water intensity (withdrawal in M <sup>3</sup> /MT of production)	202	244
Water recycled and reused (M <sup>3</sup> )	161,118	180,861

Our Impact on the Environment	2019	2018
Direct greenhouse gas emissions - Scope 1 (tCO <sub>2</sub> e)	14,911	13,871
Indirect greenhouse gas emissions - Scope 2 (tCO <sub>2</sub> e)	10,317	9,949
Other indirect emissions - Scope 3 (tCO <sub>2</sub> e)	5,119	2,387
Total carbon footprint (tCO <sub>2</sub> e)	30,347	26,207
Carbon emissions intensity (tCO <sub>2</sub> e/MT of production)	3.37	3.46
Water discharged to the river (M <sup>3</sup> )	1,573,566	1,602,648
Waste generated and disposed according to CEA requirements(MT)	1,905	1,951
Waste recycled / reused through third party contractors	46%	44%
Significant environmental fines - USD	Nil	Nil

Relevance to Country's Economy	2019	2018
Fabric produced (MT)	9,004	7,572*
Proportion of purchases from suppliers within Sri Lanka (Local)	24%	30%

Manufactured Capital	2019	2018
Net book value - USD '000'		
- Buildings	4,925	3,585
- Plant & Machinery	14,155	15,122
Investments during the year - USD '000'		
- Buildings	1,510	38
- Plant & Machinery	590	2,192
Capacity utilization (based on in-house production)	91%	78%



Human Capital	2019	2018
Total workforce	1,249	1,206**
Percentage of employees from the area (within 15 km radius)	68%	68%
Employee retention	94%	95%
Employee productivity (USD per man hour)	21	18
Training & development cost - USD	43,245	53,261
Average hours of training per employee (excluding Casual)	3	9
Training coverage of employees (%)	58%	N/A
Injury rate (number of injuries per 100 employees)	3.48	4.08
Percentage of employees receiving performance reviews	100%	100%
Incidences of child labour (below 16 years) or young workers (between 16 – 18 years) (operations & our suppliers)	Nil	Nil
Incidences of forced labour during the year (operations & our suppliers)	Nil	Nil

Intellectual Capital	2019	2018
Percentage of sales from Inno & product proposals	40%	32%
No. of Accreditations / Certifications & Membership from fashion brands	47	41

Social & Relationship Capital	2019	2018
Community engagement (No. of persons impacted)	Over 2,000	Over 2,000
Proportion of businesses analysed for risk of corruption (%)	Nil	Nil
Significant fines for violation of laws / regulations - USD	Nil	Nil
Proportion of labels carrying ingredients used (%)	100%	100%
Proportion of labels carrying information on disposal (%)	Nil	Nil
Proportion of labels carrying sourcing of components (%)	Nil	Nil
Significant fines for product/service issues - USD	Nil	Nil

\* Based on the change in basis of calculation, these figures were restated in 2019

\*\* Due to the inclusion of Casual employees into the workforce, these figures were restated in 2019

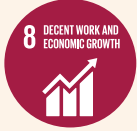
# OUR COMMITMENT TO SUSTAINABILITY



We are committed to sustainability as demonstrated in the numerous sustainable practices adopted across the organization and embedded into our overall business strategy. Sustainability performance is tracked, measured, and reported to Hayleys Fabric PLC's Management and the Hayleys Group Corporate Sustainability Team through a set of standardized pre-defined performance indicators. The Group's Corporate Sustainability Team provides leadership in driving efficiencies across the Group.

A direct signatory to the UN Global Compact since November 2018 and through our parent Hayleys PLC prior to that, our practices are aligned to the United Nations' Sustainable Development Goals, wherever relevant, as highlighted below.

	<p><b>1. No Poverty</b></p> <p>43% of employees have been recruited from the local area, contributing to socio-economic progress</p> <p>Supplied 1,038 MT of waste for cottage industries in the village, supporting livelihoods</p>
	<p><b>3. Good Health &amp; Well-being</b></p> <p>Conducted over 10 medical camps, eye clinics, blood donation campaigns and sports events for employees</p> <p>Donated fabric waste scrap to hospitals in the surrounding area</p>
	<p><b>4. Quality Education</b></p> <p>Invested USD 43,245 in training for employees</p> <p>Facilitated obtaining relevant lifelong qualifications. i.e. SLITA</p>
	<p><b>6. Clean water &amp; Sanitation</b></p> <p>Compliant with Zero Discharge of Hazardous Chemicals Programme</p> <p>Invested in superior water treatment facility</p> <p>Recycled and reused 9% of water intake</p> <p>Through CSR, provided access to clean drinking water to over 2,500 people in CKD affected areas</p>
	<p><b>7. Affordable &amp; Clean Energy</b></p> <p>62% of energy requirements fulfilled through renewable energy sources</p>



### 8. Decent Work & Economic Growth

Guided by a robust governance and policy structure, we are committed to promoting inclusive and productive employment  
Our retention rate of 94% exceeds industry standards



### 9. Industry, Innovation & Infrastructure

State of the art facility manufacturing innovative high value fabric  
Passionate about R & D  
Launched 81 innovations and developments



### 10. Reduced Inequalities

We support rural employment generation and empowerment by sourcing locally wherever possible i.e., canteen, janitorial, manpower, saw dust supply services



### 12. Responsible Consumption & Production

Committed to high levels of responsible production embodied across our value chain and affirmed through 47 International Certifications / Accreditations & Memberships



### 13. Climate Action

Our carbon intensity declined 3% during the year  
Over 60 % of our energy requirements are fulfilled through renewable sources



### 15. Life on Land

Planted over 200 trees



### 16. Peace, Justice & Strong Institutions

Strong corporate governance practices including a stringent system of policies and procedures promoting high standards of integrity, accountability and transparency



### 17. Partnership for the Goals

As a signatory to the UN Global Compact, we are an active partner in achieving these goals



**"OUR STRATEGY IS DESIGNED  
TO BE CUSTOMER-CENTRIC,  
AS WE ALIGN INNOVATION,  
SUPPLY CHAINS,  
WORKFLOWS"**

# EXECUTIVE REPORTS

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# CHAIRMAN'S MESSAGE



**"WE HAVE FINE-TUNED  
OUR STRATEGY TO  
DELIVER RESULTS, AND  
POSITION OURSELVES AS  
THE DEFINITIVE LEADER IN  
OUR INDUSTRY"**



## Dear Shareholder,

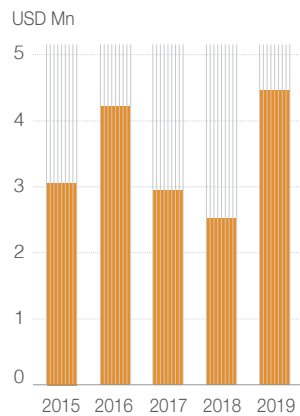
I am pleased to report that Hayleys Fabric PLC has turned around to record a profit after tax of USD 1.06 Mn as we steadfastly pursued a differentiated strategy focusing on our own fabric brand Inno for leading global fashion brands. The strong order pipeline reported last year transformed our performance with top line growth of 21% to USD 69.9 Mn affirming the positive interest from buyers. Years of high levels of engagement with our customers and careful study of fashion trends combined with our innovation capability served to produce a portfolio of fabric that was relevant to our customer requirements, driving top line growth. A strong pipeline of orders for the year that has commenced supports the validity of the business strategy pursued, as we resisted the temptation to look beyond short term gains during the past two years to reposition ourselves as an innovative fabric manufacturer.

## A Positive Landscape

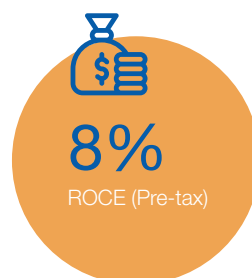
The McKinsey Global Fashion index 2019 forecasts healthy growth of 4% to 5% marginally above the forecast of 3.5% – 4.5% for 2018 and significantly above the growth rate in 2017 of 2.5% – 3.5%. This was driven mainly by demand for luxury and value brands, strong growth in the US supported by tax cuts and growth in emerging markets.

Sri Lanka's apparel sector recorded healthy growth of 5% in 2018 exporting USD 5,050 Mn textiles driven mainly by strong demand from US which accounted for 45% of apparel exports, growing at a rate of 5.7%. EU accounted for 42% of apparel exports

Cash profit



**Our game changing strategy also allowed us to align our other processes to deliver our designs with razor sharp focus on the need for high quality, speed of delivery and socially and environmentally responsible processes; which in turn enables us to drive higher standards of service excellence and efficiencies.**



recording a lower growth rate of 3.9% despite the reinstatement of GSP+ in 2017. Sri Lanka's appeal as a sourcing destination continues to be based on quality, capability and sustainability. The industry responded to the Speed to Market requirements of brand owners by focusing on their supply chains to put in place rapid supply programmes with strategic vendors to ensure that products are in stock and made available to end consumers consistently. Multiple brands and retailers co-innovate alongside manufacturers to introduce new products improvise processes, IT systems and IOT devices to position Sri Lanka as the best in the region.

## A Customer Centric Strategy

The cornerstone of our strategy is customer centricity as we align innovation, supply chains, workflows and production with customer strategy, catering to their needs. Our in-house Innovation Centre focusses on understanding the customer needs and anticipate the future of the fast-paced fashion industry to develop a portfolio of fashion forward fabric for a sophisticated and astute clientele in developed markets. Our dedicated team of fabric designers have designed and developed over 70 new products during the past years. This has enabled us to differentiate ourselves from our competitors and attract premium global fashion brands to our high end fabric portfolio.

This game changing strategy also allowed us to align our other processes to deliver our designs with razor sharp focus on the need for high quality, speed of delivery

# CHAIRMAN'S MESSAGE

and socially and environmentally responsible processes. We weathered initial growing pains witnessed in the past two years in the belief that our vision needed a long term view due to the time required for marketing and meticulous approvals of different aspects of our product range at varying stages. The benefit of this strategy is the approval received for our fabric which enables us to drive higher standards of service excellence and efficiencies.

## Performance

Increase in Revenue by 21% supported an increase of 37% in Gross Profit to USD 8.3 Mn as capacity utilization increased to over 90%, enabling enhanced recovery of overheads which is key to success as a significant proportion of costs are fixed. Net finance costs shows a decrease of 8% which is a results of the exchange gains earned through the Rupee de-valuation during the year. The taxation charge of USD 0.79 Mn stems mainly from deferred taxes and Economic Service Charge resulting in a profit after tax of USD 1.058 Mn for the financial year 2018/19 compared to the loss of USD 0.68 Mn in the previous year, reflecting smart strategy and a long term view of sustainable growth.

Total Assets increased by 3% as we focused all efforts on optimizing performance through enhanced utilization of assets reflected the improved Return on Assets of 2% compared with (1%) for the previous year. Equity increased by 5% to USD 17.86 Mn due to improved profitability. Retained losses decreased to USD 1.1 Mn from USD 1.7 Mn in the previous year.

## Looking Ahead

China is also forecast to overtake the US as the largest market and India will become a focal point for the industry as its middle class grows and the manufacturing sector strengthens. Trade tensions are likely to result in a shakeup of some of the world's most complex supply chains which may present significant opportunities for those who are agile.

Consumer focus on sustainability has also reached critical mass and is expected to drive brand owners to move beyond traditional Corporate Social Responsibility to take a strong stance on Sustainability – on social and environmental issues. They are likely to demand more transparency in terms of value for money, creative integrity and data protection from brand owners. These consumer shifts will cascade down to brand owners' strategic partners and we are already working with our customers on key initiatives.

The country's plan to accelerate Sri Lanka's Apparel sector to a USD

8 Billion by 2022 by transforming the industry to an 'End-to-End Fully Integrated Apparel Solutions Provider' and positioning Sri Lanka as a Preferred Ethical Sourcing Destination is expected to intensify market penetration with players moving into the premium market segments.

Hayleys Fabric PLC has commenced its journey of moving into premium market segments and is working closely with brand owners to understand their specific needs to continuously refine our customer centric business model. A strong order pipeline for the Company supports a positive outlook for the year that has commenced and we will continue to work with customers to remain at the cutting edge of our country's apparel sector transformation.

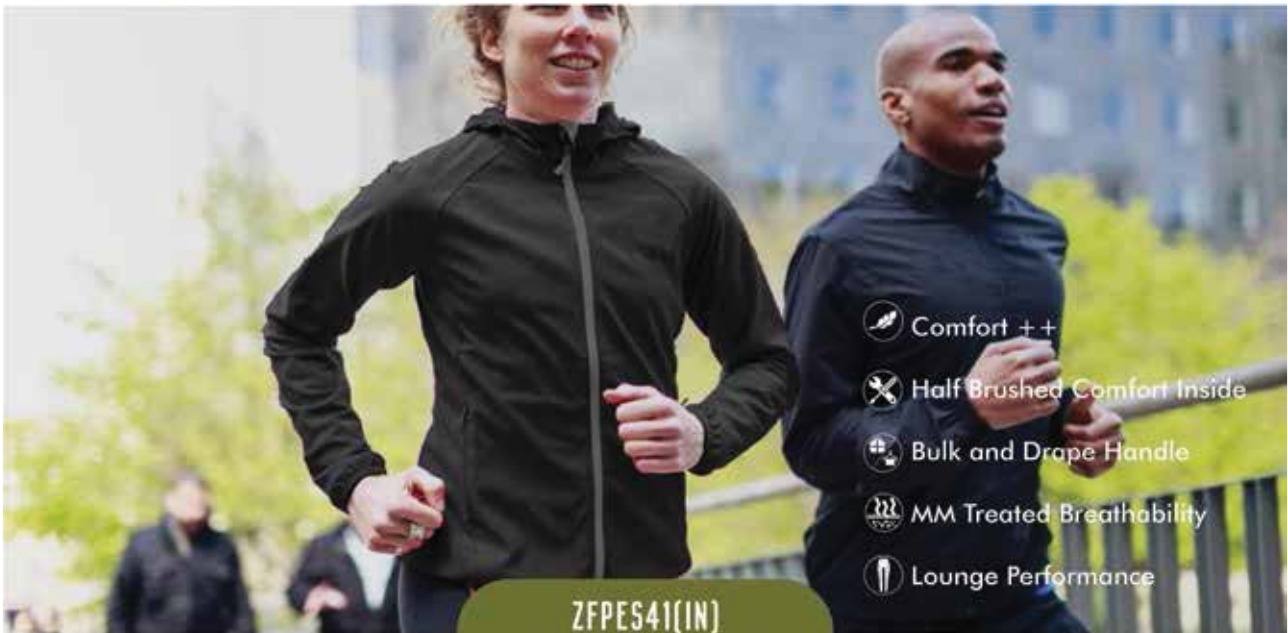
## Acknowledgements






We welcome Mr. R.R. Bandara as an Executive Director to the Board w.e.f. 15 May 2018.




# Z TRICOT

ATHLEISURE FLEECE COMFORT



-  Comfort ++
-  Half Brushed Comfort Inside
-  Bulk and Drape Handle
-  MM Treated Breathability
-  Lounge Performance

**ZFPES41(IN)**  
220 GSM | 63% POLYESTER - 7% SPANDEX



I congratulate the team at Hayleys Fabric PLC on their performance and commend the leadership provided by Mr. Rohan Goonetilleke in steering the team to success. On behalf of the Board, I thank all our Stakeholders who have maintained their confidence in our ability to transition to a future ready innovative fabric manufacturer in the South Asian region, and look to their continued trust in steering this Company forward.



A.M. Pandithage  
Chairman

13 May 2019



# MANAGING DIRECTOR'S REVIEW



**"THE FIRM COMMITMENT  
TO A BLUE PRINT WITH  
PERSISTENCE TO DERIVE  
SUSTAINABLE RESULTS  
WILL CONTINUE..."**

## Dear Shareholder,

It is a great pleasure to once again report the performance of your company for the financial year 2018/19.

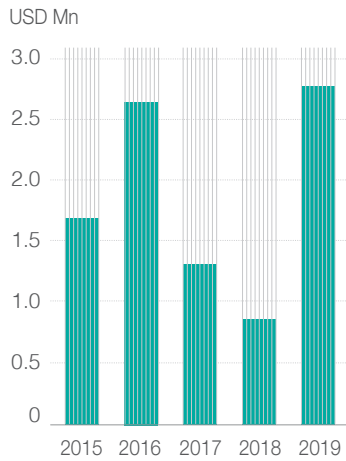
Continuing the strategies adopted to broad base the geographical market and to lead in innovation with a selective customer segment have resulted in the ability to fill capacity with higher value added fabric. This is the Blue print which was firmly followed over the last few years which began yielding results from the first quarter of this financial year. The Company is now firmly ahead in technology, innovations, complexity, diversity, speed, quality, price and service levels, which are the key ingredients sought after by top brands in the world.

Summarizing the financial performance of the year under review, your company ended the year with the highest ever turnover of USD 69.94 Mn and a Profit Before Tax of USD 1.85 Mn with a cash profit of USD 4.48 Mn. The ROE grew from a negative 4% in the previous year to 6% in the year under review. A closer look at each quarter reveals that the Company showed profits right through the year and a significant improvement in Q1 over the past year was also seen. The Company's tax expense amounted to USD 790,533/- on account of Economic Service Charge (ESC) and Deferred Tax. Therefore, the Profit After Tax stands at USD 1.06 Mn. Further details with regard to these taxes are in note 23.3 in the financial statement in this report.

## Selecting & Engaging the Customers

Over the last few years, the focus was on strategic customers in selected geographic locations and they were classified as the Tier-1 group. Thereafter, to foster a high degree of engagement with them, the Company adopted different strategies which were in-line with their future goals with regard to types of fabric, technical

## Operating profit



**The strategies we adopted resulted in the ability to fill capacity with higher value added fabric. The Company is now firmly ahead in technology, innovations, complexity, diversity, speed, quality, price and service levels, which are the key ingredients sought after by top brands in the world.**



aspects and aesthetics. The common thread that attracted all these customers was the capability that was built to innovate fabric types to suite Brand requirements. This was taken a step further by creating cost effective innovative fabric to replace some of the existing fabric with all technical parameters on par with or superior to the existing fabric. This resulted in one of the leading American Brands classifying the Company as the leading innovative fabric Company in Sri Lanka.

Another dimension according to our blue print, was to develop specific marketing teams with cultural changes to suit the Tier-1 group. This made significant improvements in service levels which resulted in a high degree of engagement with the Tier-1 group of customers in areas of forecasting exercises, selection of innovations, pricing and order management.

## Industry Outlook

As per the World Trade Organization 2018, Global demand for the clothing & textile industry has increased by 4.7% in 2017/18, compared to a negative growth of 1.7% in 2016. This is a positive indication for the clothing and textile industry as well as for the investors who have dealings with the export market. The two main regional level distributors being Europe, UK and USA which covers 51% of the total global clothing & textile industry. This is a 7% and 2% (respectively) growth over last year.

In Sri Lanka, we have witnessed a sustainable growth of 4.7% in Apparel exports (2018) compared to the previous year, with the total export turnover increasing to USD 4.96 Bn Based on Export Development Board (EDB) data, 46% of exports are to the USA, 15% and 26% to the UK and Europe respectively. Compared to regional competitors Bangladesh & Vietnam, Sri Lanka still needs to improve on its scale. In 2018 Bangladesh and Vietnam recorded an annual turnover of USD 29 Bn and USD 28 Bn respectively.

# MANAGING DIRECTOR'S REVIEW

In 2018, Global fiber production exceeded 100 Mn Metric Tons resulting in the largest fiber production for a year. This is a 3% year on year growth over the past 7 years. Being the rapidly growing segment, Polyesters has a market share of 51% of total global fiber production. Some of the leading Global clothing brands like Nike, Victoria's Secret and Decathlon are strategically moving towards Sri Lanka for synthetic apparel production, as Sri Lanka has come up with a wide range of Synthetic raw material options over the last couple of years. In addition, Sri Lanka is seen as a hub for Innovations, Social Compliances and Sustainability.

## Continued Focus to Improve Technology and Productivity

The rapidly changing fashion industry requires rapid changes in technology, gearing production to suit technical requirements, finishes, colours, textures, order quantities and short lead times. The development of agile production methods and process routes has enabled the Company to meet these requirements in a cost effective way.

Foreseeing the behaviour of the end customer and market trends is important to make suitable decisions in this industry. The Company has at many times demonstrated this ability which includes even air-freighting machinery when the need arises. Re-arranging the process flow to suit new technical requirements, installing a second new colour laboratory dispensing machine, additional sample dye machines and a much needed advanced laser engraver for printing was completed during the year. Further, up-grading of dye machine controllers, Finishing machines, colour kitchen systems were also completed. The commissioning of the new three storey knitting building with extra machines was also completed.

Cost saving and productivity improvements are being continuously carried out. At present, almost 9% of

the process water is recycled daily. The entire requirement of steam for dyeing is generated through the use of bio mass (saw dust). Many specialized technical experts have been consulted to improve process times and raw material consumption in order to enhance competitiveness and profitability. Projects relating to the further reduction in energy costs is continuing.

## The Team

The continuous improvement in work ethics of the entire team in the Company is an achievement for a sustainable future. These are the results of cultural changes through discipline, training and development, and constant dialogue at all levels to educate the need for a common goal. This is clearly seen at the shop floor level where the culture of Trade Unions have changed and the trust and understanding between the Management and the Trade Unions have significantly improved.

Similarly, the relationships with the people in the village surrounding the manufacturing facility, religious and educational institutions and other authorities have further improved. A concentrated effort is put to ensure that these relationships are well maintained by the dedicated Human Resources team.

The Production, Marketing, Product development and Innovations teams work closely with a high degree of

understanding of the Market and Brand requirements. These teams constantly interact with the Brand to carry out trials and make changes through feedback. Maximum transparency is given to our selected Brands to work with innovations and production teams to create a better understanding of the product and its behaviour and costs.

## Systems, Processes & Controls

The Company is conscious of the necessity of having all its systems, processes and controls up to date with utmost accuracy. Verification activity is regularly carried out by the internal and external audits and special audits. During the year, systems and controls in many areas including production systems were up-graded to be in line with the latest versions.

Stock levels are closely monitored on a weekly basis by the senior management, to ensure optimum stocks are maintained so that inventory costs are reduced. The Company is currently undergoing preliminary studies on Inventory management through Artificial Intelligence tools. The objective is to fine tune the present forecasting methods for raw material procurement.

Stock accuracy is also a key area where the Company manages all its inventory through a cycle counting system. This system will ensure





accuracy of the total inventory levels relating to Dyes, Chemicals, Yarn, Greige, Finished goods and Engineering stocks.

### Environment, Health, Safety & Compliance

With the increasing awareness and the constant changes in standards and requirements, the Company has a separate Department with dedicated personnel to ensure all areas of compliance is met with the highest standards. This team represents the Company at international forums and share best practices. This is an area our Brand owners make vigorous routine audits to ensure that their own standards are maintained. The Company has been extremely responsible in maintaining the highest level of Compliance.

Nike carries out a discharge water quality test annually and a “Green” certification is received every year. This is the highest standard for water, from Nike.

Zero Discharge of Hazardous Chemicals (ZDHC), is a global initiative where all the reputed Brands in the world have laid down guide lines and prohibitions relating to the use of certain chemicals which are categorized as hazardous, in the global textile and footwear value chain. The Company is ahead of the targets set by the ZDHC and has been compliant for the second consecutive year, well ahead of the target date, which is in 2020.

### Socially Responsible

Located in the middle of a village, there are mutual expectations from the people around the Plant and the Company. Balancing these expectations require a special set of skills in addition to the standard sustainability programs that are normally carried out. The HR team has developed a high level of contact with the village and has been very successful in balancing these requirements. The traditional Corporate Social Responsibility (CSR)



programs with religious institutions, schools, health camps, hospitals, elderly homes and blood donations etc., are continuously carried out every year. Our flagship CSR initiative which is the prevention of deaths due to Chronic Kidney Disease (CKD), by supplying potable water to a village in Rathmalgahawewa in Kahatagasdigiliya, Anuradhapura is continuing for the 3rd consecutive year. After the implementation of this project, we are pleased to inform that there have been no deaths due to CKD. This is a significant achievement. This village also has a large population of school children and the Company supplies all requirements such as books, school bags etc. for approximately 500 school children every year.

### Outlook

With the materialization of the long term strategies, the Company is forecasting good results for the ensuing year.

It is also important for the Company to see the growth in the local apparel manufacturing segment. The advancing of the Sri Lanka apparel industry to the middle to high end segment with the capability of conceptualizing, designing & manufacture of lingerie, “athleisure” and sportswear, complimented by the high level of all round compliance standards, will ensure a sustainable growth of this industry in the country.

The geographical shift of a small percentage of business from China to this region will also be a benefactor towards volume growth.

### Acknowledgements

I take this opportunity to thank the Senior Management team and the staff who believed in the strategies and made a commitment to achieve the results this year through improvements across the board and the trust and confidence they have in my leadership.

A special thank you to my Chairman who has always been available on a daily basis for support, encouragement and the trust he has in me. Thank you, to the Board of Directors who have always supported and been patient with the strategies presented to them.

I also wish to thank all stake holders of the Company for their support during the year under review.

E.R.P. Goonetilleke  
Managing Director/ CEO

13 May 2019

# BOARD OF DIRECTORS



## **A.M. Pandithage**

**Chairman & Chief Executive**

**Executive Director : Appointed – July 2007**

Joined the Hayleys Group in 1969. Appointed to the Board in 2007. Chairman and Chief Executive of Hayleys PLC since July 2009. Fellow of the Chartered Institute of Logistics & Transport (UK). Honorary Consul of the United Mexican States (Mexico), to Sri Lanka. Council Member of the Employers' Federation of Ceylon. Member of the Advisory Council of the Ceylon Association of Ship's Agents. Recipient of the Best Shipping Personality award by the Institute of Chartered Shipbrokers; Excellence Leadership Recognition – Institute of Chartered Accountants of Sri Lanka; Honoured with lifetime achievement award at Sea trade – Sri Lanka Ports, Trade and Logistics; Life time award for most outstanding Logistics and Transport personality of the year – Chartered Institute of Logistics & Transport.



## **E. R. P. Goonetilleke**

**Managing Director / CEO**

**Executive Director : Appointed - March 2013**

Mr. Eranga Rohan Peiris Goonetilleke joined Hayleys Fabric PLC, as Managing Director /CEO on the 1st of March 2013, and was appointed to the Group Management Committee in the same month. Prior to joining Hayleys Fabric, he was appointed as a Director of Brandix X'pressions (Pvt) Ltd and was appointed to the Board of CLT Apparel (India) (Pvt) Ltd in January 2011, a fully owned subsidiary of Brandix Lanka Ltd. During the period 2003 to 2010, he was the Managing Director/CEO of Textured Jersey Lanka (Pvt) Ltd, prior to which he was the Managing Director/ CEO of Linea Clothing (Pvt) Ltd, a subsidiary of MAS Holdings (Pvt) Ltd, and prior to that he was at Carson Cumberbatch & Company Ltd as the CEO of Elpitiya Plantations Ltd. He received his higher education in the United Kingdom qualifying as a Graduate Engineer (B.Sc. Eng.).



### **K. D. D. Perera**

**Non-Executive Director**

**Appointed -September 2009**

Mr. Dhammika Perera is the quintessential strategist and business specialist with interests in a variety of key industries including manufacturing, banking & finance, leisure, aluminum extrusion, packaging, plantations, lifestyle, healthcare, consumer and hydro power generation. He has over thirty years of experience in building formidable business through unmatched strategic foresight.

Mr. Perera is the Chairman of Vallibel One PLC, Royal Ceramics Lanka PLC, Lanka Tiles PLC, Lanka Walltiles PLC, The Fortress Resorts PLC, Vallibel Power Erathna PLC, Greener Water Ltd, Unidil Packaging Ltd, Delmege Ltd and LB Microfinance Myanmar Company Ltd. He is the Co- Chairman of Hayleys PLC, The Kingsbury PLC and Singer (Sri Lanka) PLC. Executive Deputy Chairman of LB Finance PLC, Deputy Chairman of Horana Plantations PLC. He is also an Executive Director of Vallibel Finance PLC and serves on the Boards of Amaya Leisure PLC, Haycarb PLC, Hayleys Fabric PLC & Dipped Products PLC.



### **S. C. Ganegoda**

**Non-Executive Director**

**Appointed – November 2009**

Rejoined Hayleys in March 2007. Appointed to the Group Management Committee in 2007. Appointed to the Board of Hayleys Fabric in November 2009. Fellow Member of Institute of Chartered Accountants of Sri Lanka and Member of Institute of Certified Management Accountants of Australia. Holds an MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura. Worked for Hayleys Group between 1987 and 2002, ultimately as an Executive Director. Subsequently, held several senior management positions in large private sector entities in Sri Lanka and overseas. Has responsibility for the Strategic Business Development Unit and the Fentons Group.



## BOARD OF DIRECTORS



**Haresh Somashantha**  
Independent Non-Executive Director  
Appointed – February 2012

Mr. Haresh Somashantha counts over 19 years of experience in audit, financial management and reporting, including strategic and corporate planning across several industries including manufacturing, leisure, banking, plantation & etc.

He is a member of the Institute of Chartered Accountants of Sri Lanka and an Associate member of CPA Australia, further to holding B.Sc. in Mathematics.

He is the Head of Finance & Treasury of Royal Ceramics Lanka PLC (Rocell Group). He serves on the Board of Hayleys Fabric PLC further to being its Audit Committee Chairman. Mr. Somashantha also serves as a Director/Audit Committee Member on the Boards of Vallibel Power Erathna PLC and Unidil Packaging Limited. His further Directorships include Royal Porcelain (Pvt) Ltd and several subsidiary companies in the Delmege Group. He represents as an Alternate Director at The Fortress Resorts PLC.



**R. N. Somaratne**  
Independent Non-Executive Director  
Appointed – February 2012

Mr. Nandajith Somaratne was appointed to the Board of Hayleys Fabric PLC in February 2012. He is also a Director of Lanka Walltiles PLC and Royal Porcelain (Pvt) Ltd which is a fully owned subsidiary of Royal Ceramics Lanka PLC.

Mr. Somaratne is currently working in the capacity of General Manager (Manufacturing) for Royal Ceramics Group which includes Lanka Tiles PLC and Lanka Walltiles PLC. He has served in Ansell Lanka (Pvt) Ltd and in Central Engineering Consultancy Bureau (CECB) before joining Royal Ceramics Lanka PLC in 1993. Mr. Somaratne counts more than 25 years' experience in the manufacturing field.

Mr. Somaratne holds an MBA from the University of Colombo, Post Graduate Diploma in Industrial Engineering from NIBM and B.Sc. in Physical Science from the University of Peradeniya. He has undergone several corporate leadership training programs including Corporate Leadership Management Program conducted by HIDA, Japan.



**Dr. S. J. Nawaratne**  
Independent Non-Executive Director  
Appointed – April 2014

Dr. Sunil Jayantha Nawaratne is presently working as freelance management consultant and he was the Director General of Sri Lanka Samurdhi Development Department and previously served as Senior Advisor to the Minister – Ministry of Social Empowerment & Welfare and before that as the Secretary to the Ministry of Higher Education until January 15th of 2015. He has vast experience in both the public sector as well as in the private sector organisations during the last 20 years.

Currently, he is serving in several boards like Board of Management (BOM) of School of Accounting and Business of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and Sri Lanka Institute of Information Technology (SLIIT). He holds a B.Sc. (Business Administration) degree from the University of Sri Jayawardenepura (Top- of-the Batch in 1977), Post Graduate Diploma in Business Management (PIM), MA Economics from Kagawa University, Japan and a PhD in Management from prestigious Keio University, Tokyo, Japan. He is a visiting faculty member on Strategic Management / Marketing / Japanese Management for under-graduate and MBA programs in University of Sri Jayawardenepura and University of Colombo.



**Ananda Jayatilleka**  
Independent Non-Executive Director  
Appointed – March 2015

Mr. Ananda Jayatilleka is a specialist in Rubber Technology and Industrial Engineering, a Licentiate of the Institute of Plastics and Rubber Industry (L.P.R.I-(London)) and a Fellow of the Institute of the Work Study and Organization and Methods (F.M.S. (UK)).

Mr. Jayatilleka was a main Board Director of Richard Pieris & Co. Ltd. with a long service of 27 years in the group. He was instrumental in setting up of Richard Pieris Exports PLC and served as its Managing Director for over 15 years. Mr. Jayatilleka also served on the Boards of Kegalle & Maskelliya Plantations PLC, Aviva Global Services (Pvt) Ltd. His vast experience also includes work in Zambia Consolidated Copper Mines & General Tire – South Africa. He founded Latex Green (Pvt) Ltd and served as Chairman for 12 years. Presently, he serves as a Non-Executive Director of Tea Small Holder Factories PLC under the John Keells Group.

Mr. Jayatilleka has been a recipient of the merit certificate awarded by the Plastics and Rubber Institute (PRI) of Sri Lanka for the outstanding contribution made to the Rubber Industry of Sri Lanka.

## BOARD OF DIRECTORS



### **R. Rohitha Bandara**

Executive Director

Appointed – May 2018

Mr. Rohitha Bandara joined in 2012 as Chief Financial Officer and was appointed to the Board on 15 May 2018.

Mr. Rohitha Bandara is a Fellow of the Institute of Chartered Accountants of Sri Lanka (FCA) and Associate member of ACCA (UK). He holds a B.Sc. Management Special Degree from the University of Sri Jayawardenepura and in addition, an MBA in Finance from University of Colombo.

He is also qualified in AAT, ACMA (SL), ACPM, AIPFM (UK) and has over four years' experience with Ernst & Young in different industry segments in Sri Lanka and Singapore and over 13 years of manufacturing experience in Textiles Industry as sector Head of Finance.



### **Ms. Yogadinusha Bhaskaran (Alternate Director to Mr. K.D.D. Perera)**

Non-Executive Director

Appointed – June 2015

Ms. Yogadinusha Bhaskaran is an Accounting professional currently serving as the Chief Executive Officer of Vallibel One PLC. She also presently serves on the Board of Delmege Ltd as a Director, LB Finance PLC as a Non-Executive Director and Chairperson of Audit Committee, Haycarb PLC and Dipped Products PLC as Alternate Directors to Mr. K.D.D. Perera.

Ms. Yogadinusha Bhaskaran has previously worked as a Financial Controller with several Australian companies in Melbourne for a number of years. She has in the past served as the Assistant General Manager (Finance & Planning) at Pan Asia Banking Corporation PLC.

She is a Fellow of the Chartered Institute of Management Accountants UK (FCMA), Fellow of CPA Australia (FCPA) and an Associate Member of the Institute of Bankers, Sri Lanka.



# MANAGEMENT TEAM



## **E. R. P. Goonetilleke** Managing Director / CEO

Eranga Rohan Peiris Goonetilleke joined Hayleys Fabric PLC, as Managing Director /CEO on the 1st of March 2013, and was appointed to the Group Management Committee in the same month. Prior to joining Hayleys Fabric, he was appointed as a Director of Brandix X'pressions (Pvt) Ltd, and was appointed to the Board of CLT Apparel (India) (Pvt) Ltd in January 2011, a fully owned subsidiary of Brandix Lanka Ltd. During the period, 2003 to 2010 he was the Managing Director/CEO of Textured Jersey Lanka (Pvt) Ltd, prior to which he was the Managing Director/ CEO of Linea Clothing (Pvt) Ltd, a subsidiary of MAS Holdings (Pvt) Ltd, and prior to that he was at Carson Cumberbatch & Company Ltd as the CEO of Elpitiya Plantations Ltd. He received his higher education in the United Kingdom qualifying as a Graduate Engineer (B.Sc. Eng.).



## **R. Rohitha Bandara** Director - Finance

Ruwan Rohitha Bandara is a Fellow of the Institute of Chartered Accountants of Sri Lanka (FCA) and Associate member of ACCA (UK). He holds a B.Sc. Management Special Degree from the University of Sri Jayawardenepura and in addition, an MBA in Finance from University of Colombo.

He is also qualified in AAT, ACMA (SL), ACPM, AIPFM (UK) and has over four years' experience with Ernst & Young in different industry segments in Sri Lanka and Singapore and over 13 years of manufacturing experience in Textiles Industry as sector Head of Finance.



## **S. S. Pulasinghe** General Manager - TPM, Engineering & Special Projects

Saliya Pulasinghe holds a National Diploma in Engineering Sciences from Institute of Engineering Technology, an MBA from University of Wales, UK and is a Member of the Certified Management Accountants of Australia.

He had undergone extensive training in Lean Management (PIPF Osaka), Operations Management (PPOM-Yokohama) and Cooperate Management (LKCM13-Chubu) from The Association of Overseas Technical Scholarship, Japan. He has over 25 years of experience in Manufacturing & Construction sectors.



## **A. B. Senarathne** General Manager – Quality Assurance, Product Development & Innovation

Ajith Senarathne holds a B.Sc. Engineering Degree from the University of Moratuwa with First Class Honours' in Textile and Clothing Engineering. He has participated in PQM2 Certificate course in Japan for Total Quality Management (TQM). He has over 25 years' of experience in the Textile Industry.

## MANAGEMENT TEAM



**M. H. Jayasinghe**  
General Manager - Sales & Marketing

Malith Jayasinghe holds a B.Sc. Degree from the University of Colombo. He has over 11 years of experience at Hayleys Fabric PLC in Marketing and Customer co-ordination, out of which 8 years has been managerial experience.

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**M. L. Dayananda**  
General Manager – Supply Chain

Lal Dayananda holds an MBA in Finance from the University of Manipal, India and holds Memberships in AFA (Associate member of – Institute of Financial Accountants, UK) and APCM (Associate member of – Institute of Professional Managers in SL – CMA). He has over 20 years' experience in Finance and Procurement in the Manufacturing Industry.

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**K. P. C. P. K. Pathirana**  
General Manager- Human Resources & Administration

Prasanna Pathirana is a Graduate in Business Management (Human Resource) Special from the University of Kelaniya. In addition, he holds a Diploma in Psychology from Sri Lanka Psychological Institute. He has over 14 years' experience in the field of Human Resource Management at leading local and multinational companies.

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**T. N. Peiris**  
Deputy General Manager - Brushing, Printing & Finishing

Nalin Peiris holds a National Diploma in Textile Technology from the University of Moratuwa. He has over 23 years working experience at Hayleys Fabric PLC.

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**P. M. P. Perera**  
**Deputy General Manager – Engineering**

Mahesh Perera holds a National Diploma in Mechanical Engineering from the University of Moratuwa. He has over 24 years' experience in the field of Engineering and 15 years' experience in Textile manufacturing Industry.

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**C. P. Wanasinghe**  
**Deputy General Manager – Production Planning**

Chinthaka Wanasinghe holds a B.Sc. in Industrial Management from the University of Kelaniya, MSc. in Operational Research from the University of Moratuwa and in addition he also holds a National Diploma in Engineering Science from the Institute of Engineering Technology (IET). He has over 10 years' experience in overall Planning, SAP – ERP and Information systems.

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**K. D. C. R. Gunaratne**  
**Deputy General Manager – Knitting**

K. D. Gunaratne has over 20 years' experience in Knitting Technology and Production at Hayleys Fabric PLC.

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# CORPORATE GOVERNANCE

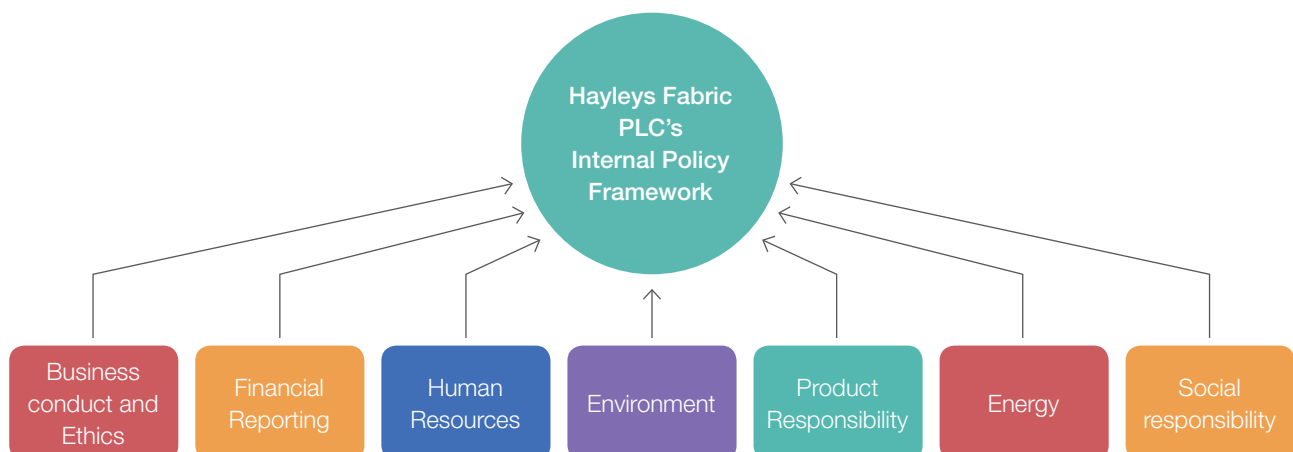
“WE ARE FOCUSED ON DELIVERING THE HIGHEST LEVELS OF TRANSPARENCY AND ACCOUNTABILITY...”



Hayleys Fabric is committed to sound corporate governance balancing interests of stakeholders and strengthening Board and management accountability. As a subsidiary of the Hayleys Group, we inherit a legacy of leading corporate governance practices which provides a solid foundation for driving performance of the Company while ensuring compliance with regulatory requirements and corporate values.

## Framework and Structure

The Board bears responsibility to ensure Hayleys Fabric PLC pursues its strategic goals in accordance with sound corporate governance principles, safeguarding its reputation, values and assets while balancing stakeholder interests. A Board approved governance structure and framework is regularly reviewed to adapt to internal developments and reflect best practice.

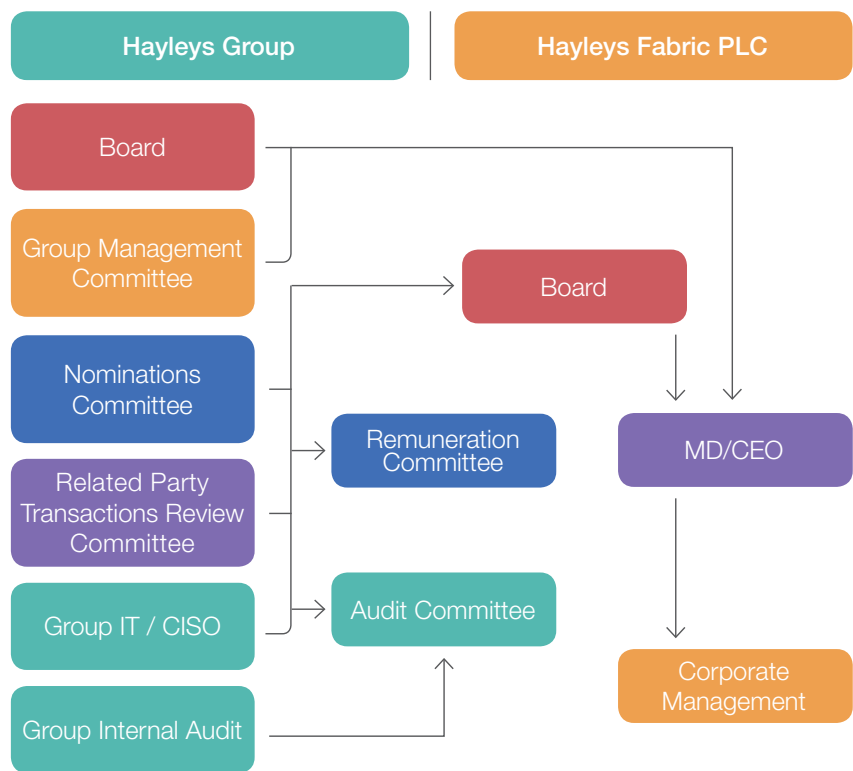


The Governance framework is bound by external regulations and internally formulated policies that defines how we do business. Policy documents are typically modelled against best practice and provide guidance to management in conducting day to day operations of the Company.

Our Corporate Governance framework complies fully with the following, amongst other statutory regulations;

- Companies Act No. 7 of 2007
- Continued Listing rules of the Colombo Stock Exchange (CSE)
- Company has adopted principles included in the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka in 2017

The Board delegates functions warranting greater attention, to the Audit Committee and Remuneration Committee with oversight responsibility for same, enabling the Board to allocate sufficient time to matters within its scope. As a subsidiary of the Hayleys Group, the Hayleys Fabric PLC Board is assisted by the Nominations Committee and the Related Party Transactions Review Committee of Hayleys PLC as well as Group Internal Audit, Group IT /CISO, Secretarial services, Group Legal, Strategic Business Development Unit (SBDU) in the discharge of responsibilities. The MD /CEO is a member of the Hayleys Group Management Committee, and is responsible to the Hayleys Board for delivering agreed strategic goals for his business sector. He leads the corporate management team in the implementation of the Company's strategic plan.



### The Board

The Board provides strategic guidance and maintains control of the affairs of Hayleys Fabric PLC through efficient resource allocation, risk management and performance management.

### Board Composition

The Hayleys Fabric PLC's Board comprises 9 members, whose profiles are given on page 26. Apart from the Chairman, MD/CEO and Finance Director, all members are non-executive. Sufficient balance of power minimizes the tendency for one or few members of the Board to dominate the Board processes or decision making.

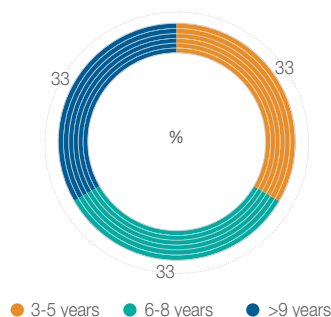
The Board is diverse in its experience, expertise and age, contributing varied perspectives to Boardroom deliberations and exercising independent judgment to bear on matters set before

the Board. The Chairman and 2 Non-Executive Directors serve on the Board of the parent company Hayleys PLC, creating a vital link with the extensive expertise, networks and tacit knowledge of a highly-reputed conglomerate. All Directors possess financial acumen and knowledge through the experience gained from leading large private and public enterprises. Additionally, 03 Directors including the Chairman of the Audit Committee, are finance professionals ensuring a sufficiency of financial acumen.

Board Composition	
Chairman (Executive)	
Independent Directors	
Non - Independent Non-Executive Directors	
Executive	

# CORPORATE GOVERNANCE

## Non Executive Directors' tenor as at 31.03.2019

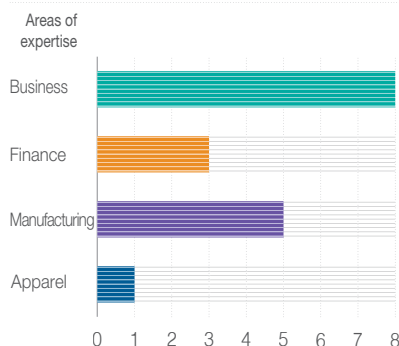


## Appointment, Re-election and Resignation

Directors are appointed by the shareholders at the Annual General Meeting, following a formal and transparent process and based on recommendations made by the Board of Directors. The Group Nominations Committee makes recommendations to the Board in this regard having considered the combined knowledge, experience and diversity of the Board in relation to the Company's strategic plans and any gaps thereof.

In compliance with the Articles of Associations of the Company, 1/3 of the Non- Executive Directors will retire from office at each Annual General Meeting. These Directors are eligible to stand for re-election by the shareholders at the Annual General Meeting. The Group Nomination Committee recommends the Directors for re-election, in compliance with the Article and approval by the Board. A director appointed by the Board to fill a casual vacancy arisen since the previous AGM, will offer himself for re-election at the next Annual General Meeting.

## Board expertise



## Appointments, Re-Election and Resignations

- Mr R. Rohitha Bandara was appointed as an Executive Director, w.e.f. 15.05.2018
- Mr. A. M. Pandithage and Mr. S. C. Ganegoda will retire by rotation at the AGM to be held on 26 June 2019 and have offered themselves for re-election.

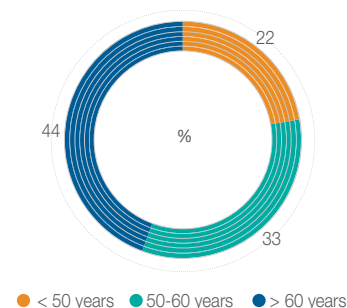
Appointments are communicated to the Colombo Stock Exchange (CSE) and shareholders through press releases. These communications include a brief resume of the Director disclosing relevant expertise, key appointments, shareholding and whether he is independent.

Resignations or removal, if any, of Directors and the reasons are informed promptly to CSE together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.

## Board Responsibilities

The Board determines overall strategy to enhance long term value of the Company and oversees implementation of the same. Their key responsibilities are summarized alongside.

## Age diversity of Directors



Hayleys Fabric PLC has obtained adequate insurance cover for the Board and Directors through Hayleys PLC in accordance with the recommendations of the Nominations Committee. The Directors and Officers Liability Policy is renewed annually and details are given in page 119.

## KEY BOARD RESPONSIBILITIES

- Provide strategic direction
- Monitor implementation of strategy
- Set corporate values and promote ethical behaviours
- Establish systems of risk management, internal control and compliance
- Be responsive to the needs of society
- Meet shareholders, employees and other stakeholder's obligations, balancing their interests in a fair manner
- Present a balanced and understandable assessment of the Company's position and prospects
- Safeguard assets and ensure legitimate use
- Ensure succession planning and the continued ability of the Company to operate without any disruption



### Board Access to Information and Resources

Directors have unrestricted access to management and organisation information, as well as the resources required to carry out their duties and responsibilities effectively. Regular presentations by the MD and Corporate Management on matters including progress in implementation of the strategic goals, financial, social and environmental performance, changes and challenges presented by the operating environment ensure that the Board is apprised of developments impacting the Company.

Access to independent professional advice, coordinated through the Company Secretaries, is available to Directors at the Company's expense.

### Roles of Chairman and Managing Director (MD)/CEO

The role of Chairman is separate from that of the MD/ CEO, in line with best practices in Corporate Governance ensuring that no one Director has unfettered power and authority. The Chairman of the Hayleys Group serves in a similar capacity on the Board of Hayleys Fabric PLC while the Managing Director /CEO is an Executive Director appointed by the Board. The Chairman leads the Board, preserving good corporate governance and ensuring that it works effectively, acting in the best interest of the Company. The MD/CEO is accountable to the Board for exercise of delegated authority and for the performance of the Company.

Chairman's Responsibilities	MD/CEO's Responsibilities
<ul style="list-style-type: none"><li>• Setting the ethical tone for the Board and the Company</li><li>• Setting the Board's annual work plan and the agendas, in consultation with the Company Secretary and the MD/CEO</li><li>• Building and maintaining stakeholder trust and confidence</li><li>• Ensuring effective participation of all Board members during Board meetings</li><li>• Facilitating and encouraging discussions amongst all Directors of matters set before the Board and ensuring a balance of power is maintained between Executive and Non- Executive Director (NED)</li><li>• Monitoring the effectiveness of the Board</li></ul>	<ul style="list-style-type: none"><li>• Appointing and ensuring proper succession planning of the corporate management team, and assessing their performance</li><li>• Developing the Company's strategy for consideration and approval by the Board</li><li>• Developing and recommending to the Board budgets supporting the Company's long-term strategy</li><li>• Monitoring and reporting to the Board on the performance of the Company and its compliance with applicable laws and Corporate Governance principles</li><li>• Establishing an organizational structure for the Company which is appropriate for the execution of strategy</li><li>• Ensuring a culture that is based on the Company's values</li><li>• Ensuring that the Company operates within the approved risk appetite</li></ul>

# CORPORATE GOVERNANCE

## Company Secretary

Secretarial services to the Board are provided by Hayleys Group Services (Pvt) Ltd. All Directors have access to the advice and services of this Group function as necessary. The Secretaries and Management keep the Board informed of new laws and revisions, regulations and requirements coming into effect which are relevant to them as individual Directors and collectively to the Board.

## Meetings & Minutes

Agenda and Board papers are sent 7 days before the meeting, allowing members sufficient time to review the documents. Chairman sets the Board agenda, assisted by the Company

Secretary and MD/CEO. Care is taken to ensure the Board spends sufficient time considering matters critical to the Company's success, as well as compliance and administrative matters.

Board meetings are held on a quarterly basis with the flexibility to arrange ad-hoc meetings to supplement these when required.

The Chairman met informally with the Non-Executive Directors during the year and feedback was provided to the MD/CEO by the Chairman.

Resolutions concerning business matters may be passed by circulation, within regulations. However, if a single

Director deems it necessary that such resolution must be decided at a Board meeting and not by circulation, the Chairman shall put the resolution to be decided in a meeting.

The Board met seven (7) times during the year. All Board minutes are circulated to members, within 04 weeks of the meeting being held. The Company Secretaries are in the process of expediting this to within 2 weeks. Minutes are formally approved at the subsequent Board meeting, Directors' concerns regarding matters which are not resolved unanimously are recorded in the minutes. Directors have access to the past Board papers and minutes in case of need via electronic means at all times.

## Attendance at Meetings

Directors	Date of Appointment	Attendance	
		Board	Audit
A.M. Pandithage (Chairman) *	01 July 2007	7/7	-
E.R.P. Goonetilleke (MD/CEO) *	01 March 2013	7/7	-
Dhammika Perera **	24 September 2009	1/7	-
S.C. Ganegoda **	01 November 2009	4/7	-
H. Somashantha ***	02 February 2012	5/7	3/4
R.N. Somaratne ***	02 February 2012	4/7	-
Dr. S.J. Nawartne ***	25 April 2014	4/7	4/4
A.S. Jayatileka ***	30 March 2015	6/7	3/4
R. Rohitha Bandara (Appointed w.e.f. 15.05.18) *	15 May 2018	6/6	-
Ms. Y. Bhaskaran (Alternate Director to Mr. K.D.D. Perera) **	01 June 2015	4/7	-
<b>Total No. of Meetings</b>		<b>7</b>	<b>4</b>

\* Executive Director

\*\* Non-Executive Director

\*\*\* Independent Non-Executive Director

### Directors Independence

Directors exercise their independent and unfettered judgment, promoting constructive Board deliberations and objective evaluation of the performance of the Company.

Independence of Directors is determined by the Board, based on annual declarations submitted by the Non-Executive Directors in line with the Schedule K of the Code. The Board believes the independency of Mr. A.S. Jayatilleka is not compromised by being a Board member in an independent capacity of Unisyst Engineering PLC (Former Alufab PLC), a subsidiary of the Parent Company considering his experience and knowledge particularly in the manufacturing field.

### Other Business Commitments / Related Party Transactions / Conflicts of Interests

The Board is aware of other commitments of its Directors and is satisfied that all Directors allocate sufficient time to enable them to discharge their responsibilities.

Directors declare their business interests at appointment and quarterly thereafter. Details are maintained in a Register by the Company Secretary and tabled at the next Board meeting. The Register is available for inspection in terms of the Companies Act. Details of the business interests are submitted to the Finance department for statutory disclosure. Key appointments of the directors are included in their profiles on pages 26 to 30. The total number

of Board seats (excluding directorship in Hayleys Fabric PLC) held by each director as at 31st March 2019 is given in the Directors' profiles on pages 26 to 30.

Directors excuse themselves from the meeting when the Board considers any matters in which a conflict may arise, abstaining from participating in the discussion.

The Related Party Transactions Review Committee considers all transactions that require approval, in line with the Group's Related Party Transactions Policy and in compliance with regulations. Related party transactions are disclosed in Note 25 to the Financial Statements on page 154 .

### Board Committees

The Board has appointed an Audit Committee and a Remuneration Committee to assist in the discharge of its duties and also has access to the Hayleys Group Nominations Committee and the Related Party Transactions Review Committee. The areas of oversight and the composition of these committees are given below.

Board Committee	Areas of Oversight	Composition	Further Information
Audit Committee	<ul style="list-style-type: none"> <li>Financial Reporting</li> <li>Internal Controls</li> <li>Internal Audit</li> <li>External Audit</li> </ul>	Comprises 3 Independent Non-Executive Directors including the Chairman of the Committee	Report of the Audit Committee on page 110
Nominations Committee	<ul style="list-style-type: none"> <li>Appointment of Key Management Personnel/ Directors</li> <li>Succession Planning</li> <li>Effectiveness of the Board and its Committees</li> </ul>	Hayleys PLC (parent company) Nominations Committee acts as Company's Nomination Committee	
Remuneration Committee	<ul style="list-style-type: none"> <li>Remuneration policy for Key Management Personnel</li> <li>Goals and targets for Key Management Personnel</li> <li>Performance evaluation</li> </ul>	Comprises 2 Independent Non-Executive Directors including the Chairman of the Committee	Report of the Remuneration Committee on page 112
Related Party Transactions Review Committee	<ul style="list-style-type: none"> <li>Review of related party transactions</li> </ul>	Hayleys PLC (Parent company) Related Party Transactions Committee acts as Company's Related Party Transaction Review Committee	Report of the Related Party Transactions Review Committee on page 113



## Induction and Ongoing Training for Directors

On appointment, Directors are provided with an orientation pack with all relevant external and internal regulation documents and a tour of the factory premises. The Board of Directors recognize the need to keep abreast of current developments affecting the sector both globally and locally. They undertake training and professional development in their personal capacity as they consider necessary in assisting them to carry out their duties as Directors. They are members of the Sri Lanka Institute of Directors and attend sessions from time to time. Other training and continuous professional development undertaken by Directors in 2018/19 includes attending seminars/workshops/conferences, using web based learning resources and reading regulatory updates etc.

## Board Evaluation

The Board is currently engaged in establishing procedures and finalizing arrangements to conduct an annual self-assessment of its performance, to ensure responsibilities are satisfactorily discharged. The evaluation will be conducted for the FY 2019/20. Directors will assess their collective performance against pre-determined goals and targets, as well as the independence of Directors, in judgement and character. The results will be collated and made available to the Board by the Hayleys Group Nominations Committee, with recommendations for improvement including training needs and skills and knowledge gaps.

## Appraisal of the Managing Director /CEO

The Board assesses the performance of the MD/CEO annually using criteria aligned to the short, medium and long-term objectives of the Company which are agreed with the MD/CEO at the beginning of the year. Performance is reviewed at the end of the financial year against the backdrop of the operating environment and remuneration revised based on performance.

## Remuneration

### Remuneration Policy

The Hayleys Fabric PLC's Remuneration Policy seeks to motivate and reward performance while meeting regulatory requirements, market expectations and corporate values. Remuneration Committee (RC) is responsible for making recommendations to the Board regarding the remuneration of the Executive Directors within agreed terms of reference and in accordance with the remuneration policies of the Company. The Board, as a whole, determines the remuneration of the Non-Executive Directors (NEDs) who receive a fee for being a Director of the Board and additional fee for being a member of a committee. Remuneration for Non-Executive Directors reflects the time commitment and responsibilities of their role, taking into consideration market practices. Services of HR professionals are sought when required, by the Board and Remuneration Committee (RC) in discharging their responsibilities. Report of the Remuneration Committee is given on page 112.

### Level and Make Up of Remuneration

The remuneration packages of Executive Directors are designed to attract eminent professionals as Directors with the requisite skills and experience. Remuneration is structured taking into consideration performance and risk factors entailed in the job and aligned to corporate and individual performance.

Remuneration of Executive Directors are compliant with the provisions of Schedule E of the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka in 2017 and comprises two components, fixed remuneration and variable remuneration comprising of an annual performance bonus. No special early termination clauses are included in the contract of employment of Executive Directors that would entitle them to extra compensation. However, such compensation, if any, would be determined by the Board of Directors.

Please refer page 151 for the total Directors' Remuneration.

## THE HAYLEYS WAY

- Shareholders
- Employees
- Business Integrity
- Environment
- Consumers
- Corporate Responsibility
- Public Activities
- Conflict of Interest
- Regulatory Compliance
- Competition

## Code of Conduct and Ethics

Hayleys Fabric PLC is committed to conducting its business operations with honesty, integrity and with respect to the rights and interests of all stakeholders. The Company is bound by the "The Hayleys Way"- The Ethical Road Map for Code of conduct developed by Hayleys PLC (Parent Company) for the Group. It applies to all employees including key management personnel. The Board is not aware of any material violations of any of the provisions of the Code by any Director or employee of the Company.

## Relations with Shareholders

The Board is conscious of their responsibility towards stakeholders and is committed to fair disclosure, with emphasis on the integrity, timeliness and relevance of the information provided. Information is communicated accurately and in such a manner as to avoid the creation of a false market.

## Communication with Shareholders

Shareholders are engaged through multiple channels of communication, including the Annual General Meeting (AGM) (detailed below), annual report, interim financial statements, a dedicated investor relations page on the Company's website and notification of key events through announcements in the CSE.

The Annual Report presents a fair and balanced review of the Company's financial position, performance and prospects combining narrative and visual elements to facilitate readability and comprehension. All statutory requirements have been complied with in the Annual Report and the interim financials have been reviewed and recommended by the Audit Committee and approved by the Board of Directors, prior to publication.

Hayleys Fabric PLC will post on its website ([www.hayleysfabric.com](http://www.hayleysfabric.com)) as soon as practicable and after they have been released to the stock exchange, copies of annual reports, interim reports, stock information, stock exchange announcements, shareholder circular etc.

Shareholders also have the opportunity to ask questions, make the comments and suggestions to the Board through the Company Secretaries whose contact details are provided on inner back cover of this report and the Investor Relations page of our website. All significant issues and concerns of Shareholders are always referred to the Board of Directors with the views of the Management.

### **Constructive Use of Annual General Meeting (AGM)**

The AGM is the main mechanism for the Board to interact with and account to shareholders and provides an opportunity for shareholders' views to be heard. Notice of the AGM, the Annual Report and Accounts and any other resolution together with the corresponding information that may be set before the shareholders at the AGM, are circulated to shareholders minimum 15 working days prior to the AGM allowing for all the shareholders to attend the AGM. Hayleys Fabric PLC proposes a separate resolution for each item of business, giving shareholders the opportunity to vote on each of such issue, separately. Voting procedures at the AGM are circulated to the shareholders in advance.

At the AGM, the Board provides an update to shareholders on the Company's performance and shareholders have the opportunity to ask questions and vote on resolutions. It is the key forum for shareholders to engage in decision making matters reserved for the shareholders which typically include proposals to adopt the Annual Report and Accounts and appointment of Directors and Auditors. The Board Chairman, Board members particularly Chairmen of the Audit, Remuneration and Nomination committees on the request of the Board Chairman, and external auditors, are present and available to answer questions.

All Shareholders are encouraged to participate at the AGMs and exercise their voting rights.

The Company has an effective mechanism to record and count all proxy votes lodged for each resolution. The following information is made available at the AGM and posted on the Company website, as soon as practicable.

- Number of shares in respect of which proxy appointments have been validly made
- Number of votes for and against the resolution
- Number of shares in respect of which the vote was directed to be withheld

In the event there are a significant proportion of the votes cast against a resolution, the Board will take steps to understand the reasons behind the vote results and determine if any actions are required.

### **Major or Material Transactions**

During the year, there were no major or material transactions as defined by Section 185 of the Companies Act No. 07 of 2007 which materially affect the net asset base of the Company.

### **Risk Management and Internal Control**

The Board is responsible for formulating and implementing effective risk management and internal control systems to safeguard shareholder interests and the assets of the Company. These systems cover all controls, including financial, operational and compliance and are monitored and regularly reviewed for effectiveness by the Board. The Hayleys Group Internal Audit Department supports the Audit Committee, reviewing the adequacy and effectiveness of the Hayleys Fabric PLC's internal control systems and reporting to the Audit Committee on a regular basis.

### **Compliance**

Directors are conscious of their duty to comply with the laws, regulations, regulatory guidelines, internal controls and approved policies. Hayleys Fabric PLC is compliant with all relevant legal and statutory requirements.

### **Cyber Security**

The Board has identified the need for management of IT and cyber risk. Hayleys Group IT Department oversees and manages the IT requirement of Hayleys Fabric PLC and other Group companies. The Group Head of IT who is also the Chief Information Security Officer (CISO) is responsible for implementing the Group IT policy and the Group Information Security Policy at entirety level in liaison with the Group Companies, under the supervision of an Executive Director of the Group. Coverage and scope of related Group policies and guidelines are given in below table.

Cybersecurity is an agenda of the monthly Group Management Committee meetings with matters escalated to the Hayleys Fabric PLC's Board where deemed necessary considering risk, impact and other prudential measures. IT and Cyber security formed part of the Group's annual statutory audit of financial statements.

# CORPORATE GOVERNANCE

Group IT Policy	Group Information Security Policy	Principles	Guidelines for Corporate Websites
<ul style="list-style-type: none"> <li>Group Connectivity</li> </ul>	<ul style="list-style-type: none"> <li>Protection of information from unauthorized access</li> </ul>	<ul style="list-style-type: none"> <li>Acceptable IT Use</li> </ul>	<ul style="list-style-type: none"> <li>Guidelines for web hosting</li> </ul>
<ul style="list-style-type: none"> <li>Access requirements/ Resource utilization</li> </ul>	<ul style="list-style-type: none"> <li>Confirmation of information</li> </ul>	<ul style="list-style-type: none"> <li>Password Protection Standards</li> </ul>	<ul style="list-style-type: none"> <li>Guidelines for secure web development</li> </ul>
<ul style="list-style-type: none"> <li>Individual Sector Networks/ System Management</li> </ul>	<ul style="list-style-type: none"> <li>Confidentiality, availability and integrity of information</li> </ul>	<ul style="list-style-type: none"> <li>Email Usage</li> </ul>	<ul style="list-style-type: none"> <li>Enforcement</li> </ul>
<ul style="list-style-type: none"> <li>Backup &amp; Recovery/ Software Modification</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory requirements</li> </ul>	<ul style="list-style-type: none"> <li>Internet Usage</li> </ul>	
<ul style="list-style-type: none"> <li>IT Equipment &amp; Software &amp; Third Party Involvement</li> </ul>	<ul style="list-style-type: none"> <li>Business continuity plans</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring</li> </ul>	
<ul style="list-style-type: none"> <li>IT Assets &amp; Media disposal and procurement</li> </ul>	<ul style="list-style-type: none"> <li>Information security training</li> </ul>	<ul style="list-style-type: none"> <li>Enforcement</li> </ul>	
<ul style="list-style-type: none"> <li>Responsibility for Adherence</li> </ul>	<ul style="list-style-type: none"> <li>Reporting breaches of information security</li> </ul>		
	<ul style="list-style-type: none"> <li>IT policy embedded in to employee induction program</li> </ul>		

## External Auditor

The External Auditor is appointed subject to the provision of the Companies Act. The Audit Committee (AC) makes recommendations to the Board for the appointment, re-appointment or removal of the External Auditor in-line with professional & ethical standards and regulatory requirements. The Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process considering relevant professional and regulatory requirements.

In the assignment of non-audit services to External Auditors, the Audit Committee ensures that the External Auditor has the necessary skills and experience for the assignment and ascertains that independence and objectivity of the External Auditor in carrying out his duties and responsibilities will not be impaired.

On the recommendation of the Board, the shareholders approved the reappointment of Messrs. Ernst & Young (Chartered Accountants) as the External Auditor for 2018/19 at the last AGM. In compliance with Section 163 (3) of the Companies Act No. 07 of 2007, the External Auditors submit a statement annually confirming their independence in relation to the external audit.

## Accountability & Audit

Every effort has been made to present a balanced and understandable assessment of the Company's financial position, performance and prospects in compliance with the various legal enactments applicable, the Sri Lanka Financial Reporting Standards, the GRI standard on Sustainability Reporting published by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council. The Company's position and prospects have been discussed in detail in the following sections of this annual report.

- Chairman's Message pages 18 to 21
- Managing Director's Review pages 22 to 25
- The Capitals Report on pages 64 to 91
- Way Forward on pages 92 to 93
- Managing Risk on pages 94 to 99

The Company has also complied with the requirements of the Colombo Stock Exchange and published Interim Reports on the Company website within 15 days of first three quarters and within 2 months of the last quarter. Price sensitive information, which may have an impact on the shares of the Company, has been disclosed in a comprehensive but concise manner to the Colombo Stock Exchange on a timely basis. Reports required by regulators including the Department of

Inland Revenue, Sri Lanka Accounting & Auditing Standards Monitory Board, and the Colombo Stock Exchange have been filed in a timely manner in compliance with specified requirements. The following reports set out further information required by the Code:

- The Directors' Report on page 121 (including the declaration that the Company is a going concern)
- The Statement of Directors' Responsibility on page 121
- Report of the Auditors on pages 123 to 125

## Sustainability Reporting

Sustainable reporting is part of the established annual reporting process of the Company and Hayleys Fabric PLC has presented the relevant information within this report as follows:

- Economic sustainability - page 60
- The Environment – Natural Capital on page 84
- Labour Practice – Human Capital on page 79
- Society – Social & Relationship Capital on page 73
- Product Responsibility - Social & Relationship Capital on page 73
- Shareholder identification, engagement and effective communication – Investor Relations on page 54



**Appendix I- Compliance with the Continuing Listing Requirements Section 7.10 on Corporate Governance Rules for Listed Companies issued by the Colombo Stock Exchange.**

<b>Rule No.</b>	<b>Subject</b>	<b>Applicable requirement</b>	<b>Compliance Status / Applicable Section in the Annual Report</b>
7.10.1(a)	Non-Executive Directors (NED)	At least two or one third of the Directors, whichever is higher, should be Non- Executive Directors	<b>Compliant.</b> Six out of eight Directors were Non- Executive Directors up to 15th May 2018. Six out of nine Directors were Non- Executive Directors from 15th May 2018 to 31st March 2019.
7.10.2(a)	Independent Directors	Two or one-third of Non-Executive Directors, whichever is higher, should be independent	<b>Compliant</b> Four (4) out of six (6) Non-Executive Directors were independent as at 31st March, 2019.
7.10.2(b)	Independence of Directors	Each Non-Executive Director should submit a declaration of Independence/ Non-Independence	<b>Compliant</b> All Non-Executive Directors have submitted their confirmations in the prescribed format.
7.10.3(a)	Disclosure relating to Directors	The names of Independent Directors should be disclosed in the Annual Report	<b>Compliant</b> The names of Independent Directors are disclosed in the Board profile presented on pages 26 to 30
7.10.3(b)	Independence of Directors	The Board shall make a determination annually as to the Independence or Non-Independence of each Non-Executive Director	<b>Compliant</b> The Board has determined that Four (4) Non-Executive Directors satisfy the criteria for “independence” set in the Listing Rules & disclosed in Corporate Governance
7.10.3(c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the Director’s areas of expertise.	<b>Compliant</b> Board of Directors (profile) section in the Annual Report on Pages 26 to 30
7.10.3(d)	Appointment of new Directors	Provide a brief resume of any new Director appointed to the Board	<b>Compliant</b> Board of Directors (profile) section in the Annual Report on Pages 26 to 30
7.10.5	Remuneration Committee	A listed company shall have a Remuneration Committee	<b>Compliant</b> Remuneration Committee Report on page 112
7.10.5(a)	Composition of Remuneration Committee	Shall comprise of Non-Executive Directors, a majority of whom shall be Independent	<b>Compliant</b> Remuneration Committee Report on page 112
7.10.5(b)	Functions of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and the Executive Directors	<b>Compliant</b> Remuneration Committee Report on page 112

# CORPORATE GOVERNANCE

Rule No.	Subject	Applicable requirement	Compliance Status / Applicable Section in the Annual Report
7.10.5(c)	Disclosure in the Annual Report relating to Remuneration	The Annual Report should set out; a) Names of the Directors comprising the Remuneration Committee b) Statement of Remuneration policy c) Aggregate remuneration paid to Executive and Non-Executive Directors	<b>Compliant</b> Remuneration Committee Report on page 112 Remuneration Committee Report on page 112 Financial Statements - Note 22 on page 151
7.10.6	Audit Committee	A listed company shall have an Audit Committee	<b>Compliant</b> Audit Committee Report -page 110
7.10.6(a)	Composition of Audit Committee	Shall comprise of Non-Executive Directors, a majority of whom are Independent  Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings  The Chairman of the Audit Committee or one member should be a member of a professional accounting body	<b>Compliant</b> Audit Committee Report -page 110  The Managing Director/CEO and Chief Financial Officer attend Audit Committee meetings by invitation  The Chairman of the Audit Committee is a member of The Institute of Chartered Accountants of Sri Lanka
7.10.6(b)	Audit Committee Functions	Should be as outlined in the Section 7.10 of the Listing Rules	<b>Compliant</b> Audit Committee Report on Page 110
7.10.6(c)	Disclosure in the Annual Report relating to Audit Committee	a) Names of the Directors comprising the Audit Committee b). The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination c) The Annual Report shall contain a Report of the Audit Committee in the prescribed manner	<b>Compliant</b> Audit Committee Report on page 110
9.3.2	Related Party Transactions Review Committee	a). Details pertaining to Non-Recurrent Related Party Transactions b). Details pertaining to Recurrent Related Party Transactions c). Report of the Related Party Transactions Review Committee d). Declaration by the Board of Directors as an affirmative  Statement of Compliance with the rules pertaining to Related Party Transactions, or a negative statement otherwise	<b>Compliant</b> Note to the Financial Statements - page 154 Note to the Financial Statements - page 154 Report of the Related Party Transactions Review Committee on page 113 Annual Report of the Board of Directors on pages 115 to 119

**Appendix II: Compliance with the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka in 2017.**

Code Ref.	Disclosure	Compliance	Page Ref.
A Directors			
A.1 An effective Board should direct, lead and control the Company	Corporate Governance	Yes	35
A.1.1 Regular meetings Structure and process of submitting information information to be reported	Meetings & Minutes	Yes	38
A.1.2 Role & Responsibilities of the Board	Board Responsibilities	Yes	36
A.1.3 Act in Accordance with laws - act in accordance with laws - Independent professional advice	Compliance Board access to information and resources	Yes	37
A.1.4 Access to advise and services of Company Secretary  Insurance Cover	Company Secretary Board Responsibilities Annual report of the Board of Directors on the Affairs of the Company	Yes	38 36 119
A.1.5 - Independent Judgement	Directors Independence	Yes	39
A.1.6 Dedicate adequate time and effort to matters of the Board and the Company Sufficient time to review Board Pack	Other Business Commitments / Related Party Transactions / Conflicts of Interests Meetings & Minutes	Yes	38 - 39
A.1.7 Calls for resolutions by at least 1/3rd of Directors	Meetings & Minutes	Yes	38
A.1.8 Board induction and Training Annual assessment of training needs	Induction and ongoing training for Directors	Yes	40
A.2 Chairman & Chief Executive Officer - clear division of responsibilities. No one Director with unfettered power	Role of Chairman and MD/CEO	Yes	37
A2.1 Combining roles of Chairman and CEO	Not applicable	Not Applicable	-
A.3. Chairman's role in preserving good corporate governance	Role of Chairman and MD/CEO	Yes	37
A.4 Availability of financial acumen	Board Composition	Yes	35
A.5 Board Balance	Board Composition	Yes	35
A.5.1 sufficient caliber and number of NED	Board Composition	Yes	35
A.5.2 If only 3 NEDs, they should be independent	Not applicable	Not Applicable	-
A.5.3 Independence of Directors	Director Independence	Yes	39
A.5.4 Annual declaration by Directors	Director Independence	Yes	39
A.5.5 Annual determination of independence of Director in judgment and character - based on declaration and other information	Director Independence	Yes	39
A.5.6 Alternate Directors	Director Profiles (Alternate Director Mrs. Bhaskaran is not an executive of the Company)	Yes	30
A.5.7 & A.5.8 Senior Independent Directors	Chairman is an Executive Director. A Senior independent Director is expected to be appointed at the May 2019 Board meeting	Not complied	-
A.5.9 Annual meeting with NEDs	Meetings and minutes	Yes	38



# CORPORATE GOVERNANCE

Code Ref.	Disclosure	Compliance	Page Ref.
A.5.10 Recording of dissent in minutes	Meetings and minutes	Yes	38
A.6. Supply of Information	Board access to information and resources	Yes	37
A6.1 Quality information, timely Directors should inquire for further information Chairman ensures board is adequately briefed	Supply of and Access to Information Chairman's role & responsibilities	Yes	37
A6.2 Timelines	Board Meetings	Yes	38
Board pack Board meeting minutes	Board Meetings - minutes are circulated to Directors within 1 month of the meeting being held	Yes	
A.7. Appointments to the Board & Re-election	Appointment, Re-election and Resignation	Yes	36
A 7.1 Nomination Committee - appointment, terms of reference, members, disclosure,	Appointment, Re-election and Resignation	Yes	36
A7.2 Annual assessment of whether Board's skill and knowledge composition, meets Organisation's strategic demands	Board Evaluation – In the process of setting up an appraisal system. Not complied.	Yes	40
A 7.3 Disclosure of Appointments to the Board	Appointment, Re-election and Resignation	Yes	36
A.8 Directors to submit themselves for re- election	Appointment, Re-election and Resignation	Yes	36
A8.1 Re-election in accordance with Companies Act	Appointment, Re-election and Resignation	Yes	36
A8.2 Re-election by shareholders	Appointment, Re-election and Resignation	Yes	36
A8.3 Resignation	Appointment, Re-election and Resignation	Yes	36
A.9. Appraisal of Board & Committee Performance			
A 9.1 Formal annual assessment	The Board is in the process of setting up a formal Board appraisal mechanism	Yes	40
A9.2 Self-evaluation. Nomination Committee to assess improvements	The Board is in the process of setting up a formal Board appraisal mechanism	Yes	40
A9.3 Review participation, engagement and contribution of each director at Re-election	Appointment, Re-election and Resignation	Yes	36
A9.4 disclose evaluation procedure in Annual report	Board Evaluation	Yes	40
A.10 Annual Report to disclose specified information regarding Directors	Directors' Profiles	Yes	26
A.11 Annual appraisal of the CEO	Appraisal of MD/CEO	Yes	40
A11.1 Predefined targets	Appraisal of MD/CEO	Yes	40
A11.2 Year end appraisal	Appraisal of MD/CEO	Yes	40
B. Directors' Remuneration			
B.1. Establish process for developing policy on executive and Director remuneration.	Remuneration Policy	Yes	40
B.2. Level & Make Up of Remuneration	Level and Make Up of Remuneration	Yes	40
B.3 Disclosures - Remuneration Policy statement - Aggregate Board remuneration paid - HRRC report	Remuneration Policy Financial Statements Report of the Remuneration Committee	Yes	112

Code Ref.	Disclosure	Compliance	Page Ref.
C. Relations with Shareholders			
C.1. Constructive use of the AGM & Other General Meetings	Constructive use of Annual General Meeting (AGM)	Yes	41
C.2. Communication with shareholders	Communication with Shareholders	Yes	40
C.3. Major and Material Transactions	Disclosure of Major Transactions	Yes	41
D. Accountability & Audit			
D.1 Accountability & audit	Communication with Shareholders – Annual Report	Yes	40
D1.1 Balanced Annual Report	Communication with Shareholders	Yes	40
D1.2 Balanced and understandable communication	Corporate communication	Yes	40
D1.3 CEO/CFO declaration	Chief Executive Officer's and Chief Financial Officer's Responsibility Statement	Yes	114
D 1.4 Directors Report declarations	Annual report of the Board of Directors on the Affairs of the Company	Yes	115
D1.5 Financial reporting -statement on board responsibilities, Statement on internal control	Directors' Responsibility for Financial Reporting Directors' Statement on Internal Control	Yes	120
D1.6 Management Discussion & Analysis	Capital reports	Yes	64
D1.7 Net Assets < 50%	In the unlikely event of the net assets of the Company falling below 50% of Shareholders Funds the Board will summon an Extraordinary General Meeting (EGM) to notify the shareholders of the position and to explain the remedial action being taken	Yes	41
D1.8 Related Party Transactions report	Directors' Interest in Contracts with the Company	Yes	39
D.2. Risk Management & Internal Control	Risk Management and Internal Control	Yes	94
D2.1 Monitor, review and report risk and internal control systems	Report of the Audit Committee	Yes	110
D2.2 Confirm assessment and risks identified and mitigated	Risk Review	Yes	94
D2.3 Internal audit function	Risk Management and Internal Control	Yes	94
D2.4 Board responsibilities for disclosure	Risk Review / Directors' Statement on Internal Control	Yes	120
D2.5 Directors responsibility for internal control system	Directors' Statement on Internal Control	Yes	120
D.3. Audit Committee	Report of the Audit Committee	Yes	110
D.4 Related Party Transactions Review Committee	Report of the Related Party Transactions Review Committee	Yes	113
D.5. Code of Business Conduct and Ethics	Code of Conduct and Ethics	Yes	40
D 5.1 Board declaration for compliance with Code Schedule J- topics recommended	Code of Conduct and Ethics	Yes	40
D 5.2 price sensitive information	Relations with Shareholders	Yes	40
D 5.3 Monitor Share purchase by Directors/ KPI	Other Business Commitments / Related Party Transactions / Conflicts of Interests	Yes	39
D5.4 Chairman's statement	Chairman's Message	Yes	18

# CORPORATE GOVERNANCE

Code Ref.	Disclosure	Compliance	Page Ref.
D.6 Corporate Governance Disclosures	Corporate Governance Report	Yes	34
E /F . Institutional and other Investors	Relations with Shareholders	Yes	40
G. Internet of Things & Cybersecurity			
G.1 Identify connectivity and related cyber risks	Cyber Security	Yes	41
G.2 Appoint a CISO and allocate budget to implement a cybersecurity policy		Yes	41
G.3 Include cyber security in Board agenda		Yes	41
G.4 Obtain periodic assurance to review effectiveness of cybersecurity risk management		Yes	41
G.5 Disclosures in Annual Report		Yes	42
H. Environment, Society & Governance			
H Sustainability Reporting	Sustainability Reporting	Yes	42

## Service

Service excellence is driven through on time delivery and a detailed focus on fabric specifications with the aim of delighting our customers. This is supported by structured relationship management to understand customer needs and expectations in order to deliver service excellence supporting mutual growth.

## Responsibility

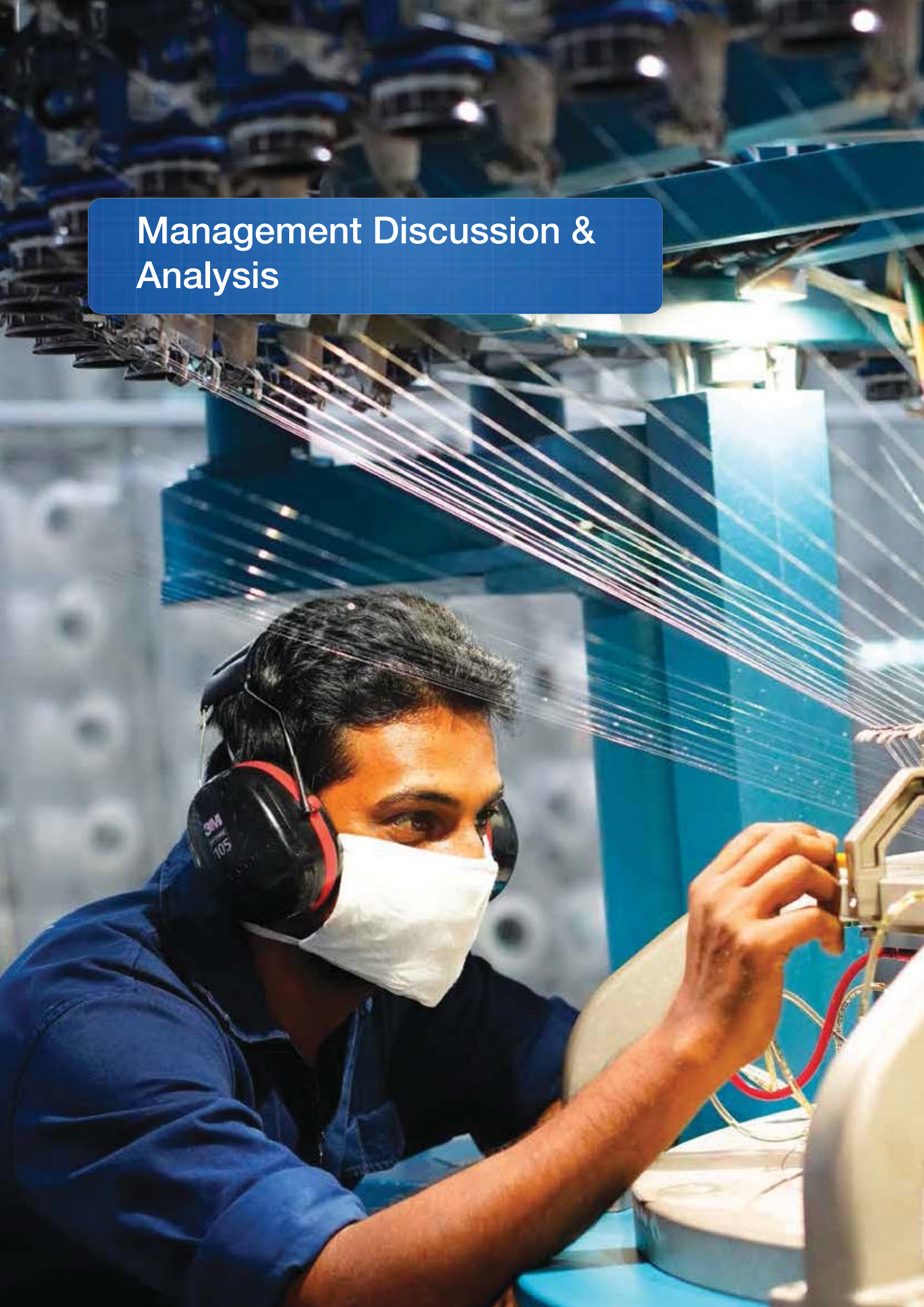
We take responsibility for our actions that affect our stakeholders and are committed to creating shared value through sustainable practices.

## Statement of Compliance under Section 7.6 of the Listing Rules of the Colombo Stock Exchange (CSE) on Annual Report Disclosure

	Rule	Compliance Status	Reference
(i)	Names of persons who were Directors of the Entity	Yes	Profiles of Board of Directors pages 26 to 30
(ii)	Principal activities of the entity during the year, and any changes therein	Yes	Note to the Financial Statements Page 130
(iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Yes	Share Information Page 165
(iv)	The public holding percentage	Yes	Share information Page 165
(v)	A statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of each financial year	Yes	Share information Page 165
(vi)	Information pertaining to material foreseeable risk factors of the Entity	Yes	Risk Management Page 94
(vii)	Details of material issues pertaining to employees and industrial relations of the Entity	Yes	The Capital reports Page 64
(viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	Yes	Note to the Financial Statements Page 143
(ix)	Number of shares representing the Entity's stated capital	Yes	Note to the Financial Statements Page 146
(x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Yes	Share information Page 164
(xi)	Financial ratios and market price information	Yes	Ten year summary Page 161 & Share Information Page 164
(xii)	Significant changes in the Company's fixed assets, and the market value of land, if the value differs substantially from the book value as at the end of the year	Yes	Note to the Financial Statements Page 143
(xiii)	Details of funds raised through a public issue, rights issue and a private placement during the year	Yes	Not Applicable
(xiv)	Information in respect of Employee Share Ownership or Stock Option Schemes	Yes	Not Applicable
(xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules	Yes	Corporate Governance Commentary Pages 34 to 48
(xvi)	Related Party transactions exceeding 10 per cent of the equity or 5 per cent of the total assets of the Entity as per audited financial statements, whichever is lower	Yes	Corporate Governance Commentary Pages 34 to 48



# Management Discussion & Analysis







Focus on Strategy .....	52
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# FOCUS ON STRATEGY

## Creating Value

Over the recent years, we've followed a clear set of strategies to create a niche market as an innovative fabric solution provider. Our success today is reflected in our strong financial performance and market positioning as a business fit for purpose in a dynamic and conscientious fashion industry. Leveraging on the understanding gained and tools developed, we are geared to drive greater sustainable value for all stakeholders whilst realizing our vision for the Company.

## Our Business Model

### How We Create Value

#### Inputs



Financial Capital  
Page 65



Manufactured Capital  
Page 70



Social & Relationship Capital  
Page 73



Human Capital  
Page 79



Natural Capital  
Page 84



Intellectual Capital  
Page 90

End to End  
Manufacturing  
Capabilities

### Value Created for Stakeholders

#### Shareholders

EBITDA USD 4.86 Mn  
Total assets USD 47.61 Mn

#### Customers

Fabric produced 9,004 MT  
New Inno products 7

#### Employees

Remuneration USD 7.77 Mn  
Training hours 3,024

#### Government

Taxes paid USD 0.38 Mn  
Foreign exchange  
USD 69.12 Mn

## Impact



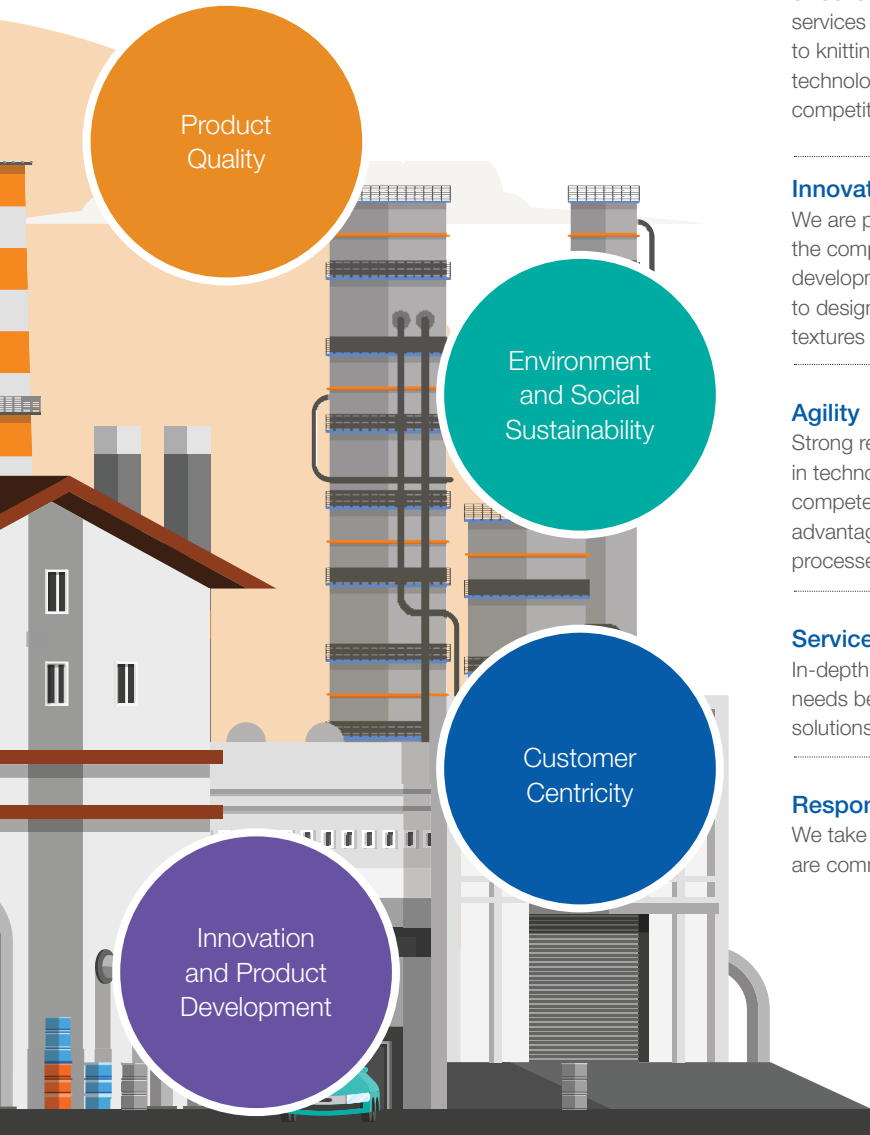
1,822,231 M<sup>3</sup>  
Water Withdrawal



62%  
Renewable Energy



74 GJ/MT  
Energy Intensity



### Comprehensive Manufacturing Solutions

We offer end to end manufacturing solutions for an extensive portfolio of fabric which includes cotton, polyester, nylon and blends. Our services range from design , product development and customization to knitting, dyeing and finishing using advanced manufacturing technologies operated by a skilled team ensuring high quality, competitive pricing and short lead time.

### Innovation

We are passionate about creating innovative products that cater to the complex needs of our customers. Our dedicated research and development team have the industry insights and technical expertise to design and develop bespoke fashion forward fabric of varied textures and hues.

### Agility

Strong relationships throughout our supply chain, investments in technology and lean workflows within the factory enable us to compete effectively on flexibility, speed and cost. A key competitive advantage, we constantly raise the bar as we continue to fine tune our processes and systems.

### Service

In-depth customer engagement focused on understanding customer needs better has enabled us to deliver service excellence- fabric solutions that meet the expectations of high-end retail fashion brands.

### Responsibility

We take responsibility for our actions that affect our stakeholders and are committed to creating shared value through sustainable practices.

#### Suppliers

Yarn 5,886 MT  
No. of developments 120

#### Community

Direct employment 1,391  
Indirect employment > 1,500 jobs

#### Lenders

Interest USD 0.99 Mn  
Loans USD 15.19 Mn



**30,347 tCO<sub>2</sub>e**  
Emissions



**1,905 MT**  
Total Waste



**94%**  
Employee Retention






# FOCUS ON STRATEGY




## Stakeholder Identification

As a large fabric manufacturer in the country, the Company engages with a number of stakeholders in different ways. The Company identifies a stakeholder as a person or an entity who has the potential to impact the business or whom the Company has an impact on.

## Stakeholder Engagement

Engaging with stakeholders is a shared responsibility across the organization with both formal and informal feedback playing a key role in how we enhance our value creation processes.

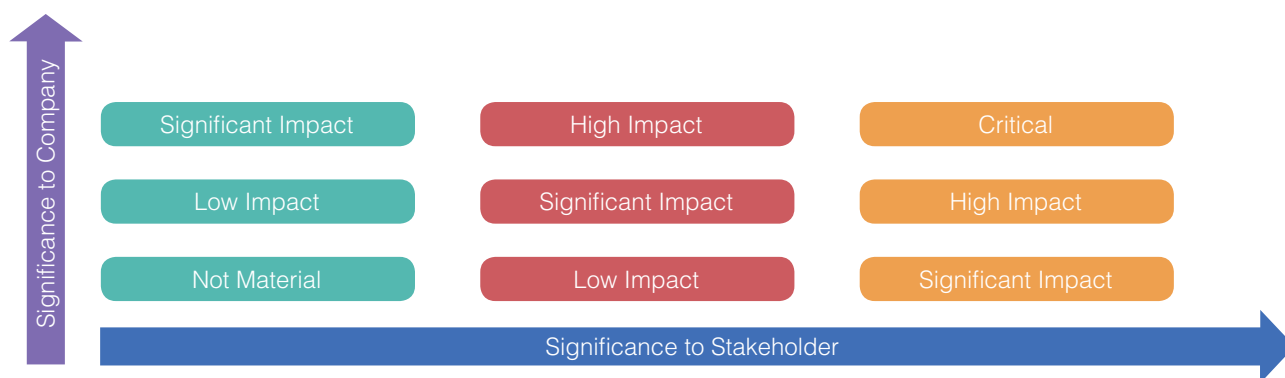
	 <b>Brand Owners &amp; Apparel Manufacturers</b>	 <b>Investors</b>	 <b>Employees</b>
Importance	Engagement with brand owners and apparel manufacturers drives innovation and supports our growth	Investor Relations is a structured process with sign off by the Board on written communications	Managing employee relationships is key to driving growth, innovation and productivity
Engagement Mechanisms	<ul style="list-style-type: none"> <li>Multi layered relationship management</li> <li>Visits</li> <li>Trade exhibitions &amp; fairs</li> <li>Customer survey</li> <li>Quality &amp; performance review</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly Financial Statements</li> <li>Press releases</li> <li>Annual Report</li> <li>Annual General Meeting</li> <li>CSE Announcements</li> </ul>	<ul style="list-style-type: none"> <li>Open-door policy</li> <li>Formal performance appraisals</li> <li>Regular meetings with unions</li> <li>Communication of company performance</li> </ul>
Concerns	<ul style="list-style-type: none"> <li>Innovations</li> <li>Product quality</li> <li>Lead times</li> <li>Labour practices</li> <li>Environmental footprint</li> <li>Sustainable supply chain</li> <li>Price competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>Earnings &amp; Dividends</li> <li>Growth prospects</li> <li>Environment &amp; social impact</li> <li>Governance</li> <li>Share price and liquidity</li> </ul>	<ul style="list-style-type: none"> <li>Remuneration</li> <li>Employee benefits</li> <li>Conducive workplace</li> <li>Training &amp; development</li> <li>Career progression</li> <li>Health &amp; safety</li> </ul>
How We Managed Concerns	<ul style="list-style-type: none"> <li>Invested in R &amp; D center</li> <li>Invested in technology upgrades</li> <li>Engaged in Lean manufacturing processes</li> <li>Implemented TPM</li> <li>Obtained new accreditations</li> <li>Employee training and development</li> <li>Employee engagement</li> <li>Maintained good industrial relations</li> <li>Enhanced biodiversity, environmental practices</li> <li>Strengthened supply chain</li> </ul>	<ul style="list-style-type: none"> <li>Augmented synthetic business through new product developments, innovations</li> <li>New buyers</li> <li>Increased penetration with existing buyers</li> <li>Subcontracted part manufacturing/ bottlenecks</li> <li>Improved productivity and cost efficiencies</li> <li>Improved social and environmental practices</li> <li>Obtained new accreditations</li> </ul>	<ul style="list-style-type: none"> <li>Benchmarked remuneration and benefits to industry stats</li> <li>Fair and transparent performance appraisal system</li> <li>Established new collective agreement</li> <li>Employee engagement initiatives</li> </ul>
Outcomes	<ul style="list-style-type: none"> <li>Better understanding of our business model, our strengths and values</li> <li>Increased awareness of our commitment to sustainability</li> </ul>	<ul style="list-style-type: none"> <li>Good relationship with shareholders</li> <li>Positive reputation amongst investors</li> </ul>	<ul style="list-style-type: none"> <li>Better understanding of company policies, performance and management decisions</li> <li>Inclusivity in decision making</li> </ul>
Report Reference	Social & Relationship Capital Report on page 73	Investor Relations information on page 164	Human Capital Report on page 79

	 <b>Suppliers</b>	 <b>Regulators</b>	 <b>Community</b>
<b>Importance</b>	Large scale suppliers are assessed for environment and social practices and are typically accredited by brand owners while SMEs in the vicinity are given preference for ancillary services	We engage with government agencies to ensure compliance with regulatory requirements	As a responsible corporate, our engagements with the community are multi-faceted: as an employer, a responsible manufacturer and through strategic philanthropy
<b>Engagement Mechanisms</b>	<ul style="list-style-type: none"> <li>Relationship management</li> <li>Feedback</li> <li>Supplier assessment forms</li> <li>Visits</li> </ul>	<ul style="list-style-type: none"> <li>Regular visits to premises</li> <li>Filing of returns &amp; tax compliances</li> <li>Compliance with CEA, BOI, SEC &amp; CSE regulations</li> </ul>	<ul style="list-style-type: none"> <li>Engagement with religious leaders</li> <li>Workshops</li> <li>Village festivals</li> </ul>
<b>Concerns</b>	<ul style="list-style-type: none"> <li>Capacity</li> <li>Timely payments</li> <li>Constructive feedback</li> <li>Social and environment conformity</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with regulations</li> <li>Timely payments</li> <li>Environmental protection</li> <li>Compliance with applicable regulations</li> </ul>	<ul style="list-style-type: none"> <li>Employment</li> <li>Livelihoods</li> <li>Sponsorships</li> </ul>
<b>How We Managed Concerns</b>	<ul style="list-style-type: none"> <li>Established procurement committee</li> <li>Shared sustainable social and environmental practices</li> </ul>	<ul style="list-style-type: none"> <li>Finance division monitors compliance</li> </ul>	<ul style="list-style-type: none"> <li>Offered ancillary services to SME in the vicinity</li> <li>Identified philanthropic initiatives</li> </ul>
<b>Outcomes</b>	<ul style="list-style-type: none"> <li>Social and environmental compliance throughout the supply chain</li> <li>Good relationship with shareholders</li> </ul>	<ul style="list-style-type: none"> <li>An opportunity to share the Hayleys Fabric PLC's commitment, policies and procedures towards sustainable operations</li> </ul>	<ul style="list-style-type: none"> <li>Increased awareness of Hayleys Fabric PLC's sustainability commitments</li> <li>Better understanding of business</li> <li>Stronger relationship with Hayleys Fabric PLC</li> </ul>
<b>Report Reference</b>	Social & Relationship Capital Report on page 73	Investor Relations information on page 164	Social & Relationship Capital Report on page 73

# FOCUS ON STRATEGY

## Determining Material Issues

We believe the issues identified below are the most relevant and important to the operation of our business and creation of value. These were identified, evaluated and prioritized as summarized in the heat map and table below, considering their significance to stakeholders and economic, social and environmental impact to the Company.



Critical	High Impact	Significant Impact
Quality	Compliance	Labour relations
Innovation	High service levels	Supplier assessment
Short lead times	State of the art technology	Product labelling
Industrial safety	Local community relations	Anti-corruption
Speed of delivery	Government policy	Grievance mechanisms
Timely delivery	Raw material	Bio diversity
Product responsibility	Customer health and safety	Child labour
Flexible manufacturing	Training & development	Forced labour
Cost efficiency		Emissions
Water		
Energy		
Effluents & waste		

### REFLECTING CHANGES IN 2018/19

The heat map was reviewed to reflect the greater emphasis on innovation, quality, short lead times and Industrial safety on the Company's business model following shifts in industry trends.

#### New factors added to 'Critical Impact'




Factor	Reason
Quality	These parameters are critical when catering to high end customers
Short lead times	
Industrial safety	This is one of the key benchmarks that the Company needs to adhere to

#### New factors added / shifted to 'High Impact'

Factor	Reason
Compliance	This is one of the key benchmarks that the Company needs to adhere to
High service levels	Essential to enhance our credibility





## Strategy

The business strategy was developed, taking into consideration matters deemed as Critical in the heat map above. Key Performance Indicators identified for each material issue are proactively monitored throughout the year, with responsibilities assigned to relevant heads of department ensuring progress towards achievement of goals.

Vision						
To be the most sought-after fabric manufacturer in South Asia						
Strategic Drivers	 Profitability Growth		 Innovation		 Speed	
Goals	Drive Revenue growth and cost efficiency		Grow Inno brand		Increase agility of Supply chain	
Strategy	<ul style="list-style-type: none"> <li>New buyers</li> <li>Enhanced capacity</li> <li>Increase penetration with existing buyers</li> <li>Engage in lean manufacturing processes</li> <li>Implement TPM</li> <li>Incentivise labour productivity through training, rewards</li> <li>Invest in new technology, Improve cost efficiencies, productivity</li> </ul>		<ul style="list-style-type: none"> <li>New Inno product developments</li> <li>Invest in R&amp;D, dedicated R&amp;D centre</li> <li>Stimulate learning culture</li> </ul>		<ul style="list-style-type: none"> <li>Restructure process flow</li> <li>Increase raw material inventory</li> <li>Improve machine productivity by Investment in new technology</li> <li>Implement TPM</li> </ul>	
Key Performance Indicators (KPI)	Fashion Brands	+1 New > 9 Cumulative	Product developments	+ 74 new > 400 Cumulative	Lead time	3 days for speed orders
	Revenue	21% increase	Innovation and product developments	67% of the GP	Inventory holding	62 days
	GP Margin	37% increase	R&D expenditure	USD 16,793	Investment in plant and machinery	USD 0.6 Mn
	TPM project	94 projects Average monthly cost savings USD 38,426				
Enablers	Inspiring our team Human Capital - page 79		Nurturing our capitals Financial Capital - page 65 Manufactured Capital - page 70 Intellectual Capital - page 90 Social and Relationship Capital - page 73			

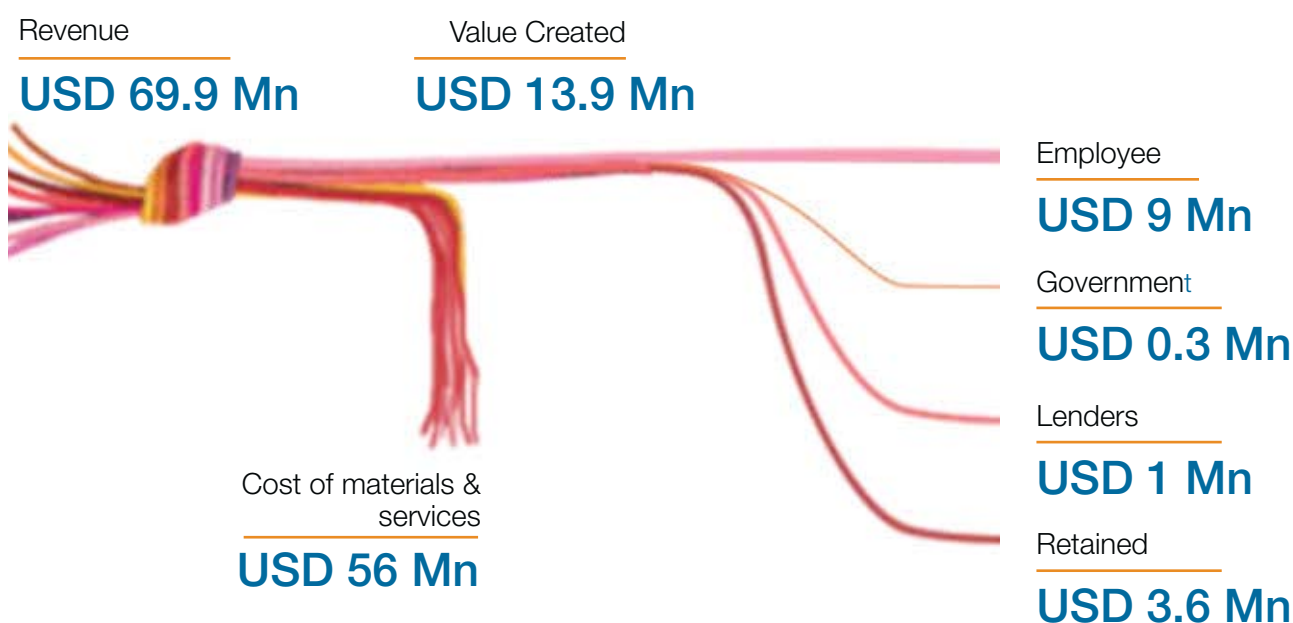


# FOCUS ON STRATEGY

Strategic Drivers	 Reliability	 Quality	 Service	 Happy Employees																												
Goals	Improve Corporate Responsibility	Drive Technological advancement	Focus on Customer centricity	Nurture Motivated and productive employees																												
Strategy	<ul style="list-style-type: none"> <li>Improve environmental impact</li> <li>Improve society impact</li> <li>Increase accreditations</li> <li>Engage in brand building CSR initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Invest in and upgrade to new technology</li> <li>Invest in training and development</li> </ul>	<ul style="list-style-type: none"> <li>Close customer engagement to understand needs</li> <li>Invest in training and development</li> <li>Enhance customer value proposition</li> </ul>	<ul style="list-style-type: none"> <li>Fair remuneration</li> <li>Employee engagement</li> <li>Invest in training and development</li> <li>Career progression</li> <li>Health and safety</li> </ul>																												
Key Performance Indicators (KPI)	<table border="1"> <tr> <td>Accreditations</td> <td>+ 6 New &gt; 47 cumulative</td> </tr> <tr> <td>Carbon emission intensity</td> <td>3% Reduction</td> </tr> <tr> <td>Renewable energy</td> <td>62% of total energy consumed</td> </tr> <tr> <td>Indirect employment</td> <td>&gt; 2000 jobs</td> </tr> </table>	Accreditations	+ 6 New > 47 cumulative	Carbon emission intensity	3% Reduction	Renewable energy	62% of total energy consumed	Indirect employment	> 2000 jobs	<table border="1"> <tr> <td>Investment in new factory building</td> <td>USD 1.5 Mn</td> </tr> <tr> <td>Training and development</td> <td>3,024 hours</td> </tr> <tr> <td>Quality inspection</td> <td>100%</td> </tr> </table>	Investment in new factory building	USD 1.5 Mn	Training and development	3,024 hours	Quality inspection	100%	<table border="1"> <tr> <td>Innovation and product developments</td> <td>40% of the Revenue</td> </tr> <tr> <td>Alignment with customer strategy</td> <td>80% - 90%</td> </tr> <tr> <td>Dye cycle time</td> <td>Reduction from 24 hours to 12 hours for certain qualities of fabric</td> </tr> </table>	Innovation and product developments	40% of the Revenue	Alignment with customer strategy	80% - 90%	Dye cycle time	Reduction from 24 hours to 12 hours for certain qualities of fabric	<table border="1"> <tr> <td>Employee productivity</td> <td>USD 21 per man hour</td> </tr> <tr> <td>Remuneration</td> <td>8% Increase</td> </tr> <tr> <td>Retention rates</td> <td>94%</td> </tr> <tr> <td>No. of work related fatalities</td> <td>Nil</td> </tr> </table>	Employee productivity	USD 21 per man hour	Remuneration	8% Increase	Retention rates	94%	No. of work related fatalities	Nil
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Enablers	Responsible Business Corporate Governance - Page 34 Risk Management - Page 94 Natural Capital - Page 84																															

# STATEMENT OF VALUE ADDED

	2019 USD	2018 USD
<b>Revenue</b>	69,940,639	57,686,803
Cost of production & other OH	(55,998,309)	(46,024,262)
<b>Value added by operating activities</b>	<b>13,942,330</b>	<b>11,662,541</b>
<b>Distributed to:</b>		
<b>Employees</b>		
Salaries, wages and other benefits	8,992,898	8,560,963
<b>Government</b>		
Taxes	375,131	311,946
<b>Lenders</b>		
Interest	991,393	827,555
<b>Distribution</b>	<b>10,359,422</b>	<b>9,700,464</b>
<b>Gross value retained</b>	<b>3,582,908</b>	<b>1,962,077</b>



# OPERATING ENVIRONMENT

## Economic Environment

Sri Lanka's subdued economic growth of 3.2% in 2018 was well below projections following unfavourable domestic and external developments. Political instability, weak domestic demand and continued tightening of monetary and fiscal policy underpinned political and economic tensions, hindering business and investor sentiment.

However, the impact to the Company was not significant in view of the fact that it is an export oriented B2B business.

### INFLATION

Tightening of fiscal and monetary policy contained headline inflation at low single digit levels against rising interest rates.

### GROSS FOREIGN RESERVES

Declined to USD 6.9 Bn by year end, providing an import cover of 3.7 months.

### TRADE VOLUMES

IMPORTS : grew 6.0% to USD 22.2 Bn whilst

EXPORTS: grew 4.7% to USD 11.9Bn. Key export was textile and garments accounting for 44.7% of exports

### TRADE DEFICIT

Expanded on the back of increased import of personal vehicles and fuel. Import restrictions imposed towards the end of the year, lagged impact.

### EXCHANGE RATE

LKR Depreciated sharply by 16.4% (2017 - 2%) against the USD, following widening trade deficit, investment outflows combined with tightening US market conditions and less market intervention by the Central Bank of Sri Lanka (CBSL).

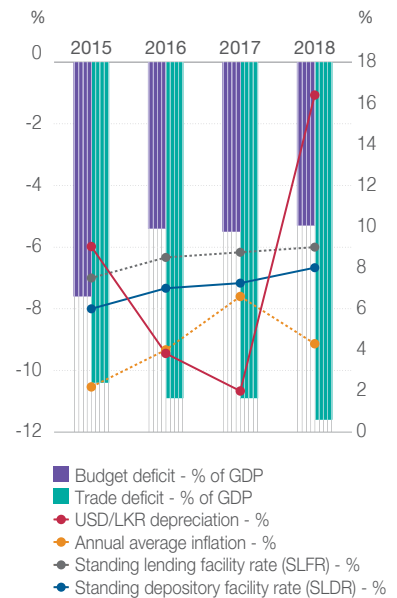
### CURRENT ACCOUNT

Improved foreign exchange inflows from tourism and workers' remittances helped cushion impact on current account

### BUDGET DEFICIT

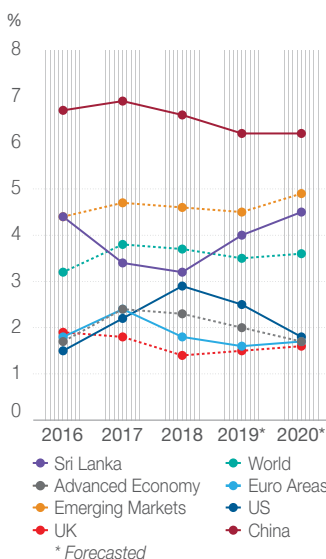
Narrowed to 5.3% of GDP through the Government's fiscal consolidation efforts.

Sri Lanka economic indicators



Source : CBSL Annual Report 2018

## GDP growth



Source: IMF World Economic Outlook, Jan 2019 & CBSL Annual Report 2018

Despite a resurgence in activity in 2017, global expansion weakened in 2018 to 3.6%, following a slowdown in manufacturing and trade and tightening financial conditions. International trade was mainly affected by trade tensions, notably between the United States and China impacting policy uncertainty.

USA , Sri Lanka's main apparel export market, witnessed steadfast growth in 2018, as tax cuts fueled consumption demand.

China, the largest global exporter of apparel and textiles, continued its managed slowdown, to avoid overheating the economy.

The Eurozone and UK economies, other key apparel markets slowed, plagued by political uncertainty, particularly in the UK, over ambiguity on the likely consequences of Brexit.

## Apparel and Textile Fashion Industry

**GLOBAL GROWTH**  
4.7% to USD 1.6 trillion in 2017

**FASTEST GROWTH - Geographical markets**  
Emerging markets in Asia Pacific at 7.5%, particularly China and India, driven by rising middle class expansion  
*Source - Mckinsey*

**FASTEST GROWTH - Products**  
Sportswear, at 7%, offering customers a combination of both fashion and functionality  
*Source - Mckinsey*

**FASTEST GROWTH - Delivery Channel**  
E-Commerce sales grew 25% in 2017, accounting for 10% of global retail sales.  
*Source - Statista*

**TOP GLOBAL APPAREL EXPORTERS-2017**  
China-35% of exports  
EU - 27%  
Bangladesh - 7%  
Vietnam - 6%  
*Source: WTO*

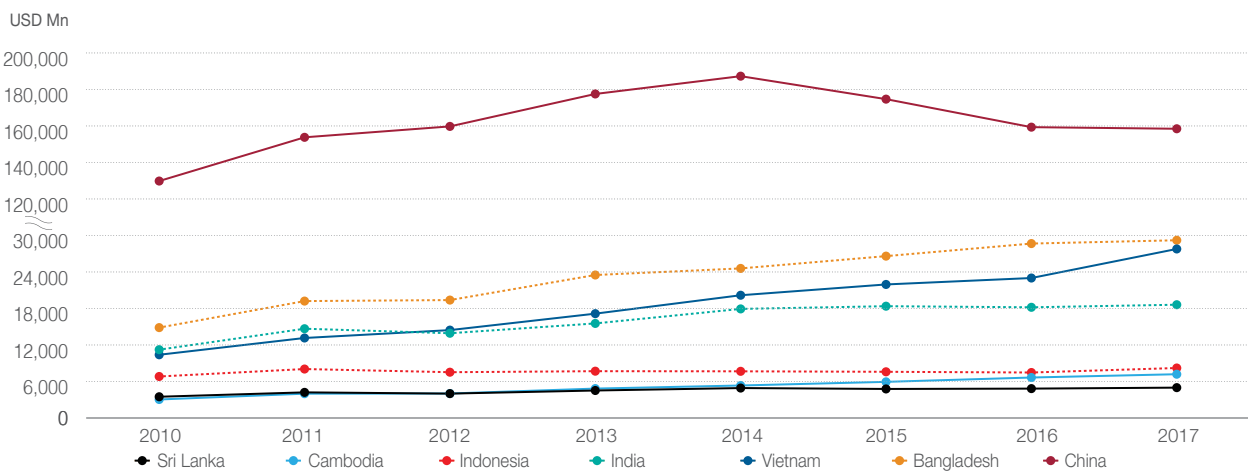
**TOP GLOBAL TEXTILE EXPORTERS - 2017**  
China - 37% of exports  
India 6%  
USA -5%  
*Source - WTO*

Current retail trends are driven by a combination of new technologies, social media and shifting preferences of consumers as demographics begin to skew younger consumers who increasingly seek variety, convenience and sustainability while demanding affordability, speed and increased transparency throughout the value chain.

Elevated consumer expectations are now technical possibilities. Consumers expect instant gratification and speed-to-market has developed into a key differentiating factor of brand owners.

To be successful in the new paradigm, industry players must be nimble, think digital-first, and achieve faster speed-to-market. They need to be proactive on social issues, deliver on consumer demands for transparency and sustainability, think fresh and be fearlessly innovative to appeal to the changing preferences of younger consumers.

### Global apparel exporters



*Source: World Trade Organization 2018*



# OPERATING ENVIRONMENT

## Sri Lankan Context

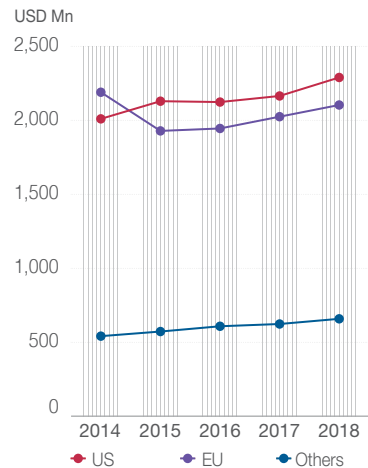
Valued at USD 5,317.7 Mn and accounting for 44.7% of total exports in 2018, (2017 – USD 5,031.9 Mn, 44.3%), Apparel and textile is Sri Lanka’s lead export and a key contributor to the economy. The industry comprises approximately 300 apparel manufacturers and 4 large scale fabric mills, of which Hayleys Fabric was a pioneer.

Fabric mills mainly supply local apparel manufacturers, partially substituting textile imports. The Sri Lankan apparel and textile industry has nurtured a reputation of being a strategic supply chain partner to reputed global brands including NIKE, Victoria’s Secret, Next, Gap, Decathlon, TESCO, H&M, and Tommy Hilfiger; building competitive edge on value-addition with greater emphasis on innovation and design, product quality, on time delivery and ability to manufacture niche products. Positioned as "Garments without guilt", attention to sound social and environmental policies and practices has been a key differentiator.

Sri Lanka’s main market is the USA, accounting for 46 % of total exports, followed by the EU (excluding UK) 24% and UK 15 % in 2018. Exports to the USA grew 6% (2017 – 2%) as the country benefited from the GSP+ programme, trade tensions between the USA and China and improved consumer sentiment in the USA. Export growth to the EU remained static at 4% attributed to the economic slowdown in the region and prolonged winter impacting consumer’s pattern of purchasing.

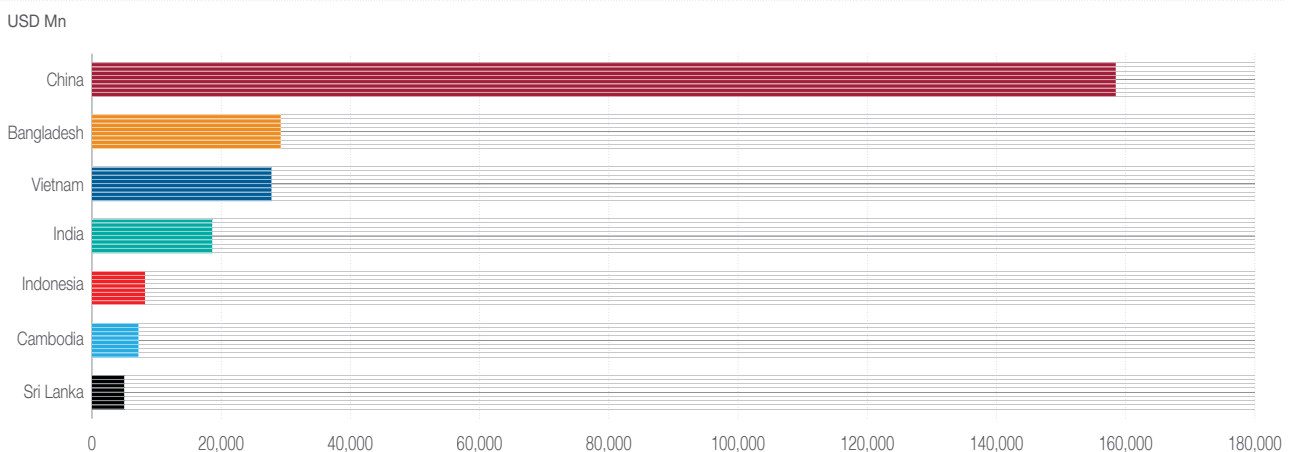
Local apparel FOB improved for the second consecutive year, by 1%, from USD 5.24 to USD 5.32, reflecting the shift towards manufacture of value-added products.

## Apparel export markets



Source: Sri Lanka Apparel Exporters Association 2018

## Regional apparel exporters 2017



Regional Apparel manufacturers such as Bangladesh, Vietnam and Cambodia have grown significantly in comparison to Sri Lanka, due to cost competitiveness from scalability and preferential access to major markets. Sri Lanka’s growth has been underpinned by innovation and value addition to niche markets.

Source: World Trade Organization 2018

Opportunities	Threats
<p><b>Business potential for innovators</b></p> <p>Large retailers seek to remain at the forefront of innovation by leveraging their scale to fast-track capability building through mergers and acquisitions of smaller players and partnering innovation labs</p>	<p><b>Over dependence on few export markets</b></p> <p>Though, over 85% of supply is to USA and EU, Sri Lanka's exports account only for 1.8% and 0.8% of USA and EU textile &amp; garment import volumes respectively (Source : World Bank /World Integrated Trade Solution, 2017)</p>
<p><b>Growing trend of nearshoring and on-shoring</b></p> <p>Escalating trade tensions between the USA and China, has increased trade costs, resulting in many retail brands seeking to move production closer to markets in the East, through nearshoring or on-shoring</p>	<p><b>Availability of skilled labour and productivity</b></p> <p>Productivity of labour employed in the apparel sector of Sri Lanka is identified to be low in comparison with competitors due to factors such as lack of properly trained labour, higher level of labour turnover and rigidity in labour laws</p>
<p><b>Capitalize on China's shift in focus from apparel to textiles</b></p> <p>China's gradual scale down of its apparel manufacture with increased focus on textiles, is opportunity for industry players to gain market share in apparel, whilst building specialized markets in textile</p>	<p><b>New entrants</b></p> <p>Central and Eastern European, countries such as Czech Republic, Hungary, and Bulgaria have become important apparel suppliers to the European market</p>
	<p><b>Innovation</b></p> <p>Maintaining the status of a leading fabric innovator is challenging given products cannot be patented due to the nature of the industry and duplicates are created within a short period of time</p>

## MATTE TRICOT

ATHLEISURE FLEECE COMFORT



- Yarn Induced Comfort
- Half Brushed Comfort Inside
- Bulk and Drape Handle
- MMA Treated Breathability
- Lounge Performance

FPES40(IN)  
200 GSM | 100% POLY & 1% SPANDEX  
FLEECE

Hayleys Fina

*Sportswear dominates as the fastest growing product segment*

# THE CAPITALS REPORT

We energise our business by investing in our CAPITALS and nurturing it for sustainable growth.

**TRICOT MECHANO**  
Atmossferico Fitness Comfort



**65**  
**Financial Capital**




**BLENDED MEL**  
Soft Recovery Milano Comfort



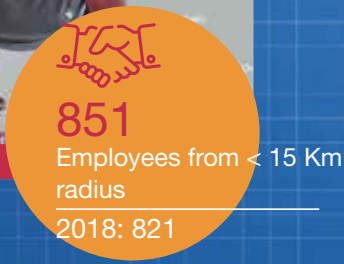
**70**  
**Manufactured Capital**



**PLEXSUS MICRO**  
Soft Active Run



**73**  
**Social & Relationship Capital**




**CONFORTO VERSALITIS 1.2.0**  
Microfibrato Active Run



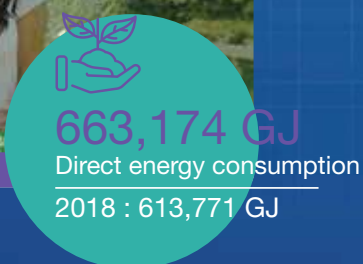
**79**  
**Human Capital**



**PIQ-CASUAL**  
Soft Piume Comfort Scoring



**84**  
**Natural Capital**



**RHYTHM RIB**  
Microfibrato Casual Smart



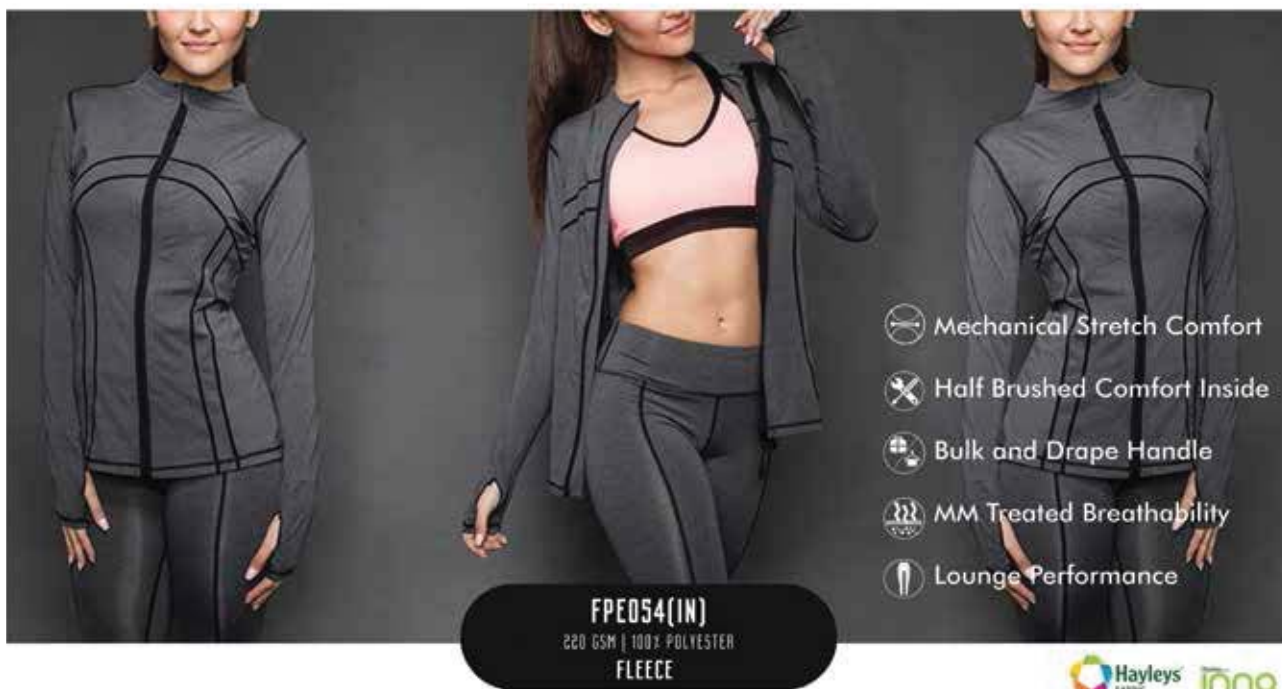
**90**  
**Intellectual Capital**



# FINANCIAL CAPITAL

## TRICOT MECHANO

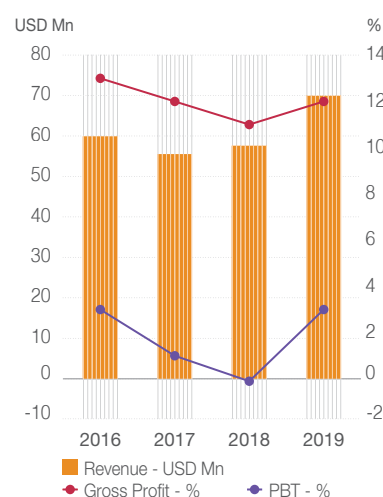
ATHLEISURE FLEECE COMFORT



2018/19 was an exciting and busy year for Hayleys Fabric PLC. Anticipated orders of Inno and in-house product developments by top US fashion brands, materialized during the year, turning around financial performance. Strong topline growth and margin expansion drove PBT by over 100% to USD 1.85 Mn (2017/18 - loss of USD 0.05 Mn) and EPS by 256% to USD 0.005.

A robust Financial Position, growing pipeline of orders and healthy progress against our strategic goals leaves us confident for the future.

Revenue, GP & PBT





# FINANCIAL CAPITAL

## Revenue

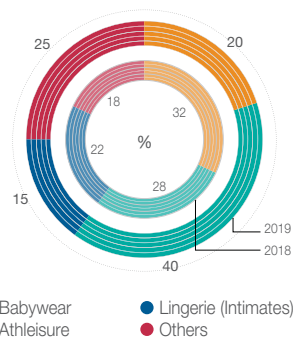
Revenue grew 21% to a record turnover of USD 69.9Mn underpinned by 20% volume growth and improved pricing from a richer sales product mix. Inno accounted for 20% of volume growth, contributing 4% (2017/18 0.3%) to revenue and 10% to Gross Profit. Product developments & Innovations contributed 38% to Revenue (2017/18 32%). Increased consumer interest following improved economic outlook in the US, deeper collaboration with fashion brands in developing customized products and increase in the number of successful market trials buoyed materialization of Inno orders.

Revenue from other products grew 12% to USD 43.69Mn compounding top line growth. Overall, sales of synthetic fabric grew to 42% (2017/18 – 34%) driven by the athleisure product line. Hayleys Fabric PLC part outsourced production to meet the orders of lower end products, due to insufficient factory capacity given the focus on Inno, as explained on page 77 - Outsourcing. Despite outsourcing, some selected orders were yet foregone to meet delivery commitments of accepted orders. Current factory capacity utilization stands at over 91%.

### Product mix

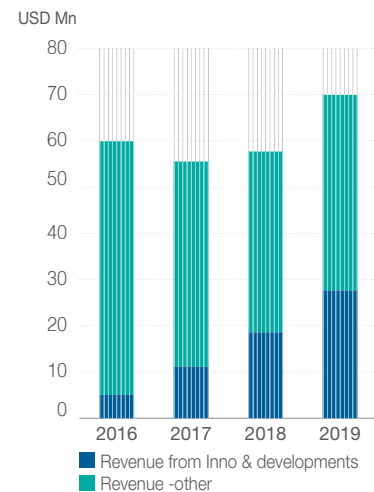


### Product categories



Athleisure surpassed Baby wear, manufactured from cotton/cotton blends, as the key product line in 2018/19.

### Revenue from Inno & other



The shift towards synthetic fabric accelerated during the year. At present, Polyester and polyester blends account for 42% (34% - 2017/18) of revenue.

## Gross Profit

Gross profit grew 37% to USD 8.34Mn and GP margin increased to 12% (2017/18: 11%), largely on improved pricing from Inno and other synthetic fabric and reduction in cost of sales per kg sold.

## Cost of Sales

Cost of sales per kg sold reduced 1% during the year notwithstanding the increased shift towards production of costly synthetic fabric. Tight cost management and productivity improvements combined with positive forex impact from the sharp

depreciation of LKR against USD during the year on local payments including energy and labour, offset higher input costs.

Cost of raw materials, comprising yarn and dyes accounting for over 70% of cost of sales, was prudently managed at 4% increase per kg sold. The main reason for lower increase, is the shift in product mix from cotton yarn to polyester. Cost of dyes however increased following the enhanced use of quality dyes in synthetic fabric. Hayleys Fabric PLC is conscious of its input costs, critically managing

materials through initiatives including the following;

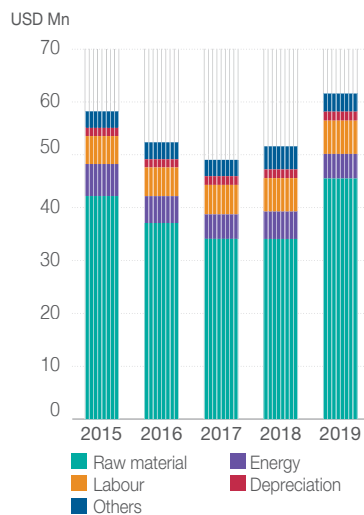
- Monitoring of yarn global price movements and placement of forward bookings based on forecast trends
- Collaborating with suppliers to develop Low priced dyes without compromising quality
- Engaging in research and development with suppliers to find cost effective substitutes.

Cost of energy / kg sold declined in comparison to the previous year

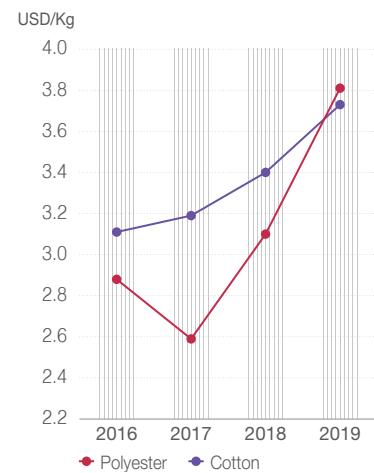
despite increased consumption mainly due to depreciation of LKR against USD, and in addition energy saving initiatives. Energy saving initiatives as explained on page 86, contributed towards curtailing consumption.

Lean processes and high levels of cost consciousness facilitated efficiencies in reducing costs. The wastage division continued to drive the identification, monitor and control of production related wastage in all departments whilst the TPM (Total Productive Maintenance) program benefited lower machine down time and productivity gains.

Cost of sales composition



Global cotton & synthetic yarn prices



Source: The United Nations, Comtrade database 2019

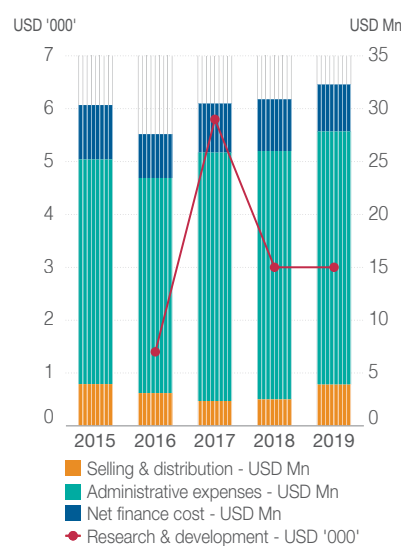
## Operating Expenses

Operating expenses increased 7%, in a year where we invested to support our revenue growth initiatives resulted in increasing selling & distribution expenses while maintaining admin expenses without significant increase compare to last year.

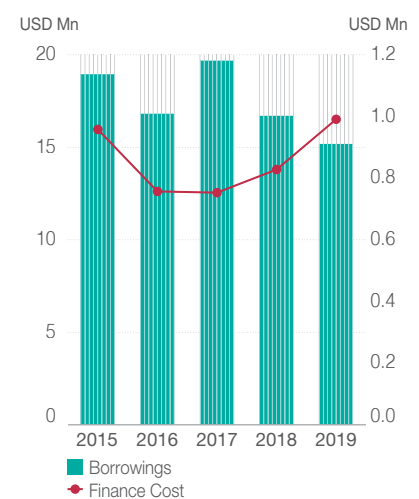
Research and development (R & D) expenditure reflects the cost of fabric used to develop samples. Relevant overhead costs are absorbed separately. Although only 47 (2017/18 – 150) new products were developed during the year, their potential for commercialization is comparably higher considering our customer centric approach adopted.

Interest on borrowings increased by 20% on account of rising global USD interest rates (LIBOR), despite settlement of debt. Forex impact on LKR related expenses positively impacted net finance cost as the USD is the reporting currency of the Company.

Operational expenses



Borrowings Vs Finance cost



# FINANCIAL CAPITAL

## PBT, PAT & Cash Profit

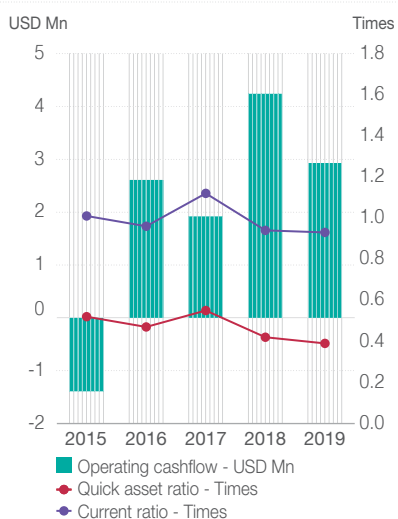
Profit before tax (PBT) grew substantially to USD 1.85Mn (2017/18 – Loss 0.05Mn) and profit after tax (PAT) to USD 1.06Mn (2017/18-Loss 0.68Mn). Cash profits rose to USD 4.46Mn (2017/18 – 2.52Mn).

A provision of USD 0.79Mn has been made in respect of income tax which fully represents Economic Service charge (ESC) of USD 0.34Mn paid in 2018/19 and the deferred tax of USD 0.45Mn.

With the enactment of the Inland Revenue Act No. 24 of 2017, the Company is able to claim all taxable losses to the extent of taxable income in an entity. Considering that, Economic Service Charge (ESC) paid is recoverable only during the year of payment and two subsequent years, the Management has made an assessment of ESC recoverable and accordingly, ESC paid in 2018/19 was fully charged to the Income Statement.

## Cash Flows, Working Capital and Liquidity

### Operating cash flow, Current & Quick assets ratios



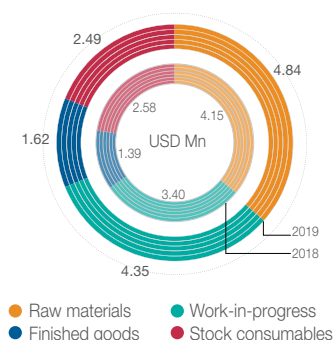
Operating cash flows before working capitals changes grew significantly by 59% to USD 5.26Mn (2017/18 -USD 3.30Mn) through improved profitability.

However, Operating cash flows after working capital adjustment has declined by 31% to USD 2.93Mn (2017/18 : USD 4.24Mn) mainly due to increase in Inventory by USD 1.86Mn (2017/18: USD 0.39Mn). This increase in Inventory is to cater to Tier 1 customers' short lead time demand.

Settlement terms were renegotiated with customers on the back of increased business volumes and stronger relationships reducing debtor days by a week to 44 days, whilst smart settlement terms negotiated from suppliers last year continued to benefit cash flows. These gains more than offset cash outflows on increased inventory holding, inherent of an agile supply chain capable of delivering on speed orders from high end customers. Cash generated was invested in capital expenditure nurturing future growth, and balance utilized to settle debt.

Increased inventory holding weighed down on Company's current ratio.

### Inventories

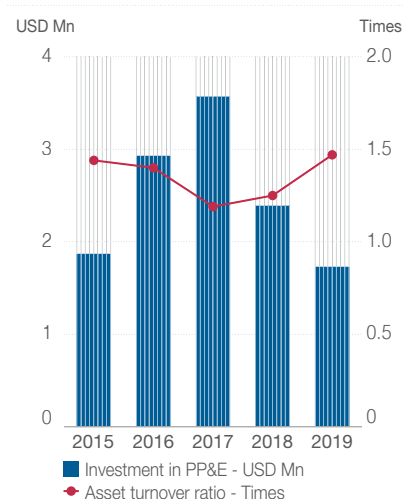


## Capital Expenditure

Hayleys Fabric PLC invested in expanding production capacity whilst continuing to upgrade their technology to state of the art, keeping abreast of modern manufacturing techniques and driving product quality, flexibility, cost efficiency and environment sustainability. This year, investments were made in quality control, dyeing and finishing machines for USD 0.59Mn.

Rising asset turnover reflects efficient use of PPE in generating sustainable profits.

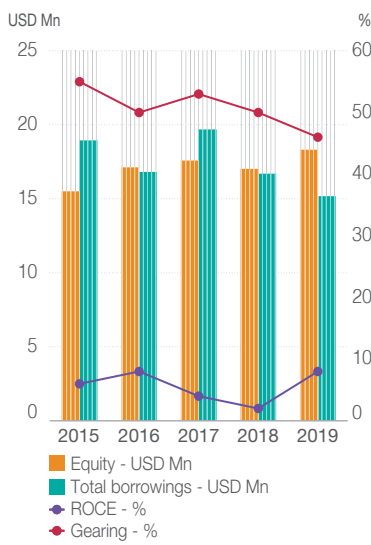
### Capital expenditure & Assets turnover



## Capital Structure

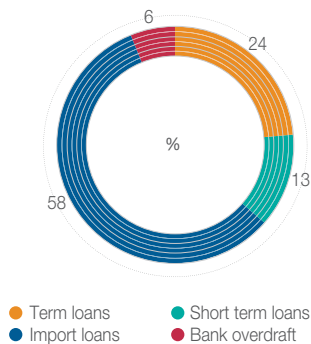
Capital structure strengthened on the back of higher profits and settlement of debt. Gearing (defined as debt/debt+equity) declined to 46% (2017/18 – 50%) and Return on Capital Employed (ROCE) rose to 8 % by year end (2017/18: 3%).

### Capital structure



Of the total debt outstanding of USD 15.18 Mn at the year end, only USD 1.05 Mn (7%) is payable after 1 year.

### Borrowing composition



## Value Added

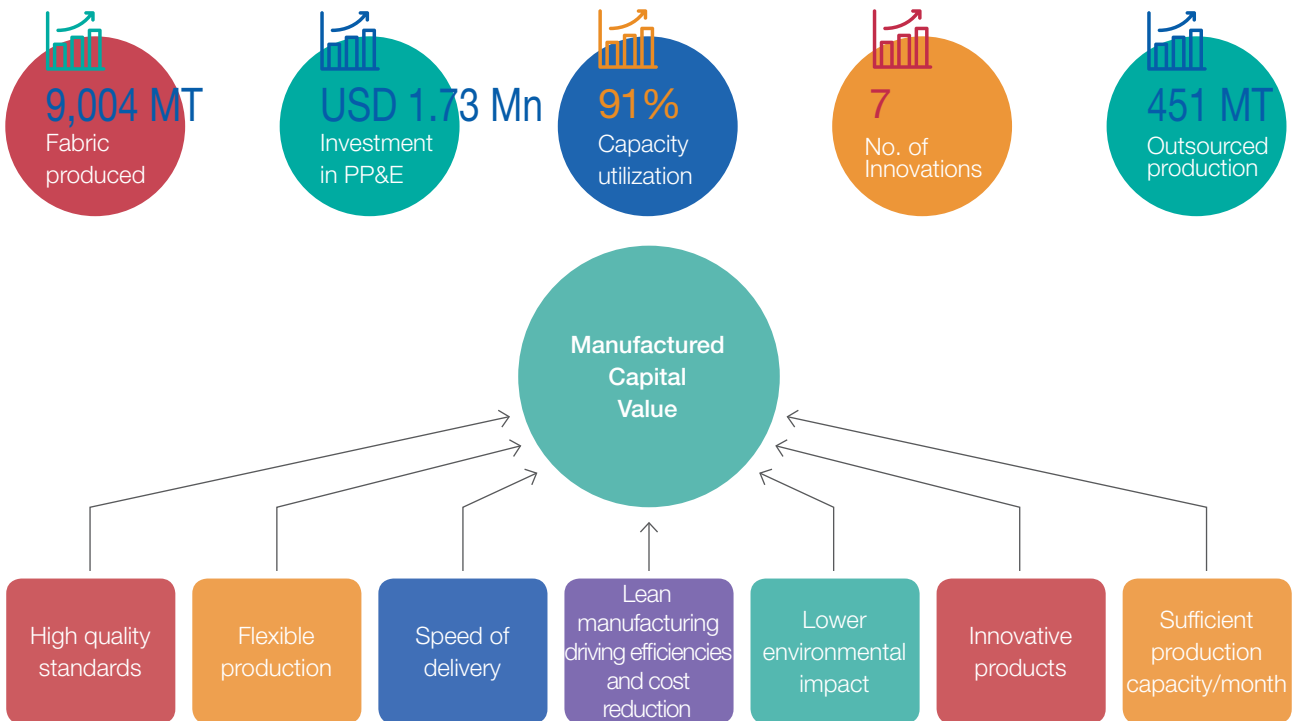
Through sound strategy and efficient use of capital to create higher profits, we continued to grow positive value generated by our operations, as reflected on page 59 – Statement of value added.



# MANUFACTURED CAPITAL

## BLENDED MEL

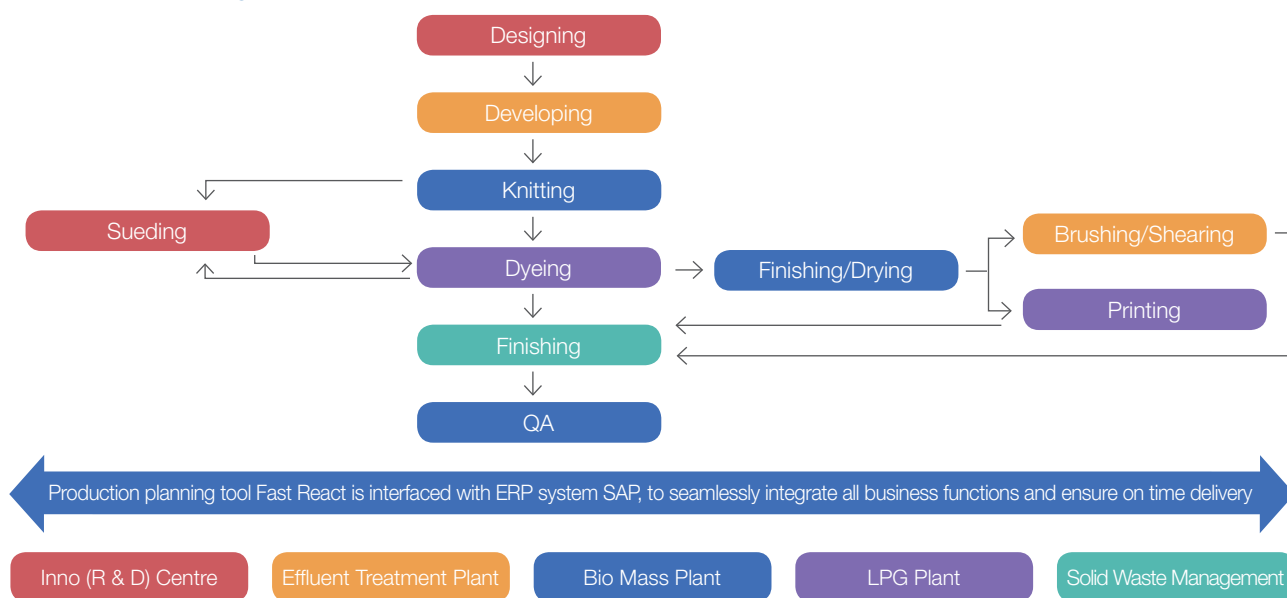
SOFT BLENDED MELANGE CASUALS



As a leading fabric mill in the region offering innovative, customized fabric solutions to international retail brands, our manufactured capital is a critical element of our value creation process. We regularly invest in best in class machinery and innovative technology, to enhance the reliability and flexibility of our production processes and the quality of our products.

A state-of-the-art facility, the Hayleys Fabric PLC plant is highly diversified and is capable of producing a comprehensive range of value-added products and finishes including peach finish, Brushing (in large capacity), Sueding, Printing (discharge printing, reactive printing, pigment printing and embossing) in pure and blended polyester, nylon and cotton fabric. In recognition of our capabilities, Hayleys Fabric PLC has been appointed the designated synthetic fabric supplier in Sri Lanka to a top global apparel brand.

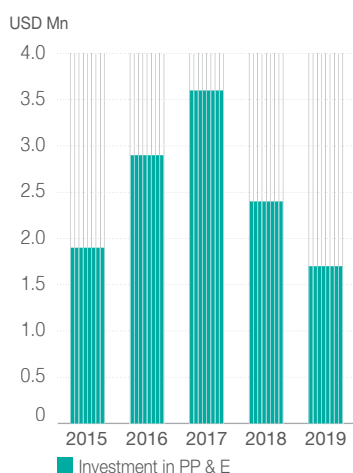
## Our Manufacturing Facility



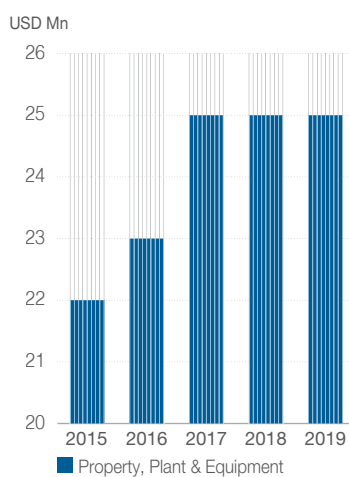
This year we consolidated on our past capex investments, reaping the envisioned benefits, as we watched business volumes expand under the new strategy. We were selective in our investments expensing only those that were critical to the synthetic business. These include:

- Augmenting printing capability with advanced laser engraver
- Enhancing dyeing capability with new dye machines, automatic lab dispensing system and Improving quality control through new inspection machines having advanced technology
- Upgrading existing stenters to improve productivity, quality and speed

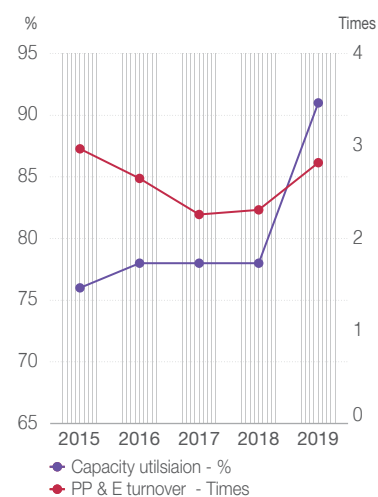
### Capital expenditure



### Property, Plant & Equipment



### PP & E turnover and capacity utilisation



An improvement in capacity utilization is seen especially in 2019. This is mainly attributable to the materialization of bulk volumes of innovative fabric.

# MANUFACTURED CAPITAL

Having reached optimum production capacity manufacturing Inno and premium synthetic fabric orders for Tier 1 customers, a bottleneck was identified in knitting cotton greige used in the manufacture of lower end products of Tier 2 customers. Hayleys Fabric PLC opted to outsource the production of greige, as further explained on page 77 . During the year, Company outsourced over 400 MT fabric due to lack of in-house capacity.



Enhanced dyeing capability with new dye machines and automatic lab dispensing system



Augmenting printing capability with advanced laser engraver



New chemical warehouse which facilitates the systematic and safe storage of chemicals



Effluent treatment plant



Establishment of the new knitting building



54 acres of land, of which 20 acres are forest reserve



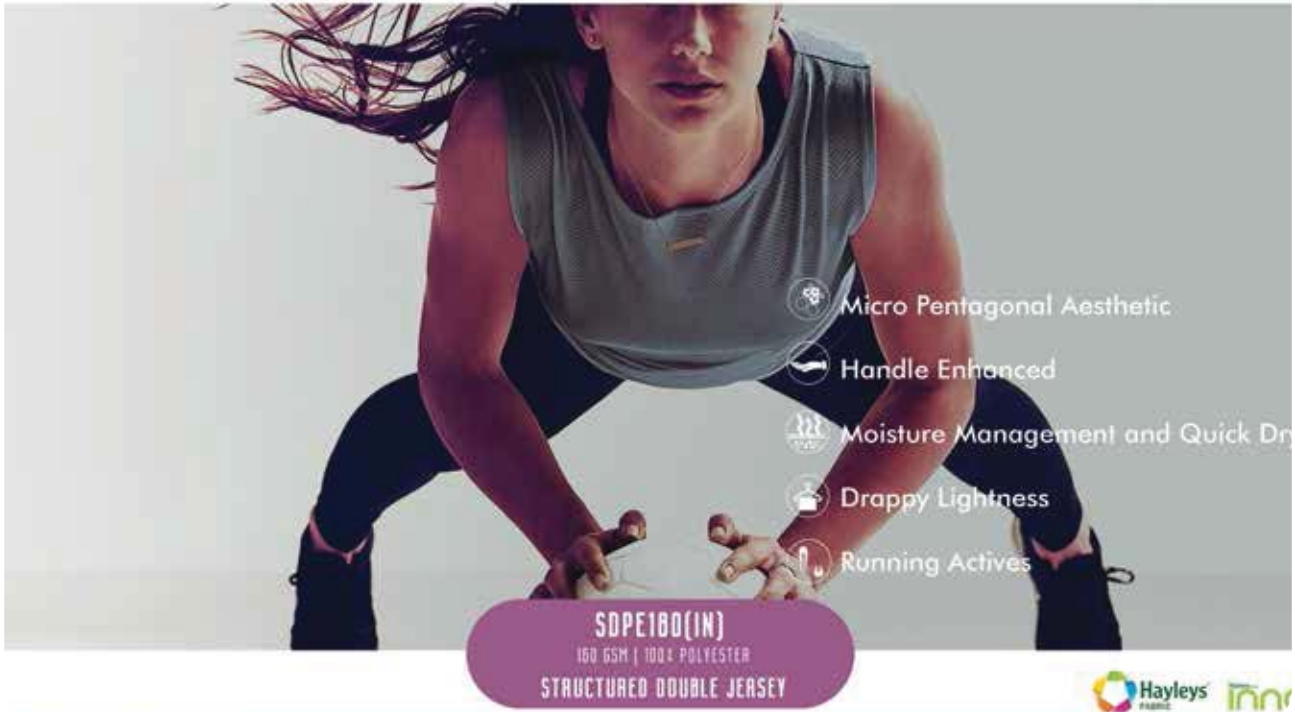
'Fast React' planning tool interfaced to 'SAP' ERP systems with 'File Maker Advance Pro'



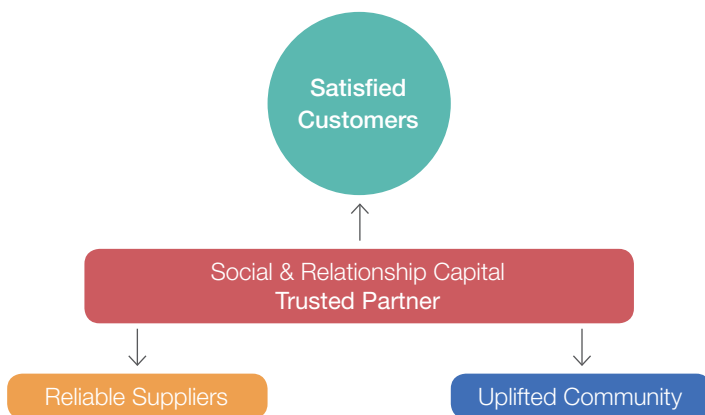
# SOCIAL & RELATIONSHIP CAPITAL

## PLEXSUS MICRO

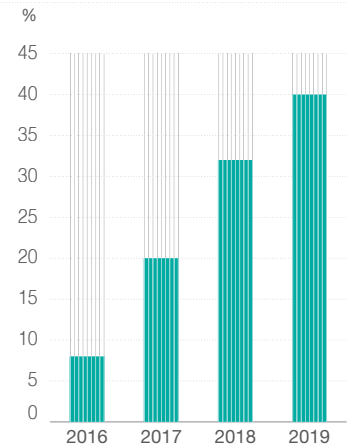
DRAPE. BREATHE. RUN



Relationship capital is critical to our growth and is carefully nurtured throughout the year through a comprehensive framework of policies and structured relationship management processes in pursuit of our goal to become a trusted partner.



Percentage of revenue from Innovations & product proposals





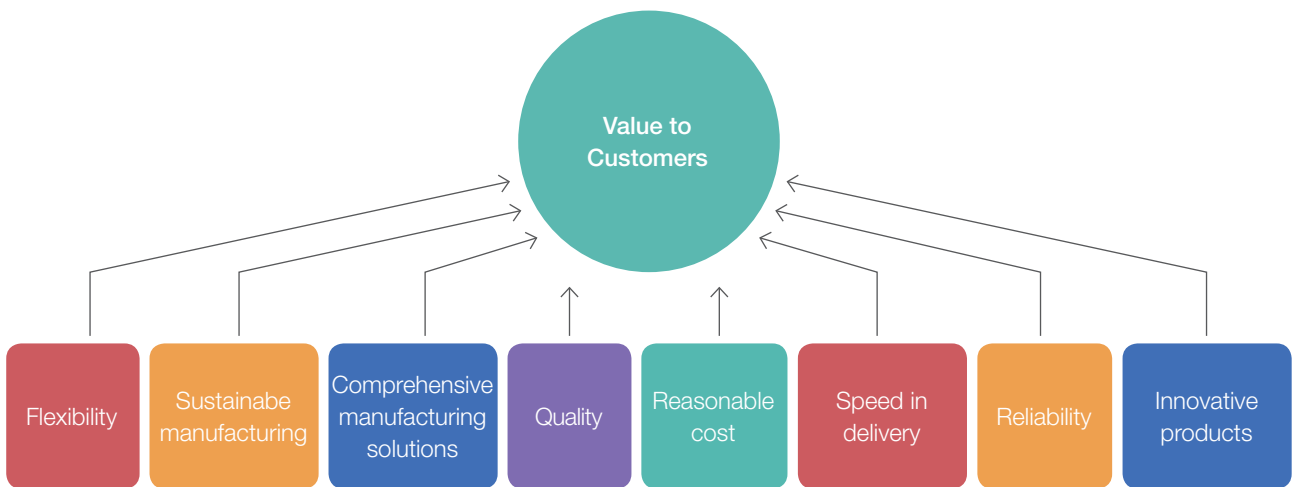
# SOCIAL & RELATIONSHIP CAPITAL

## Satisfied Customers

This year we narrowed our customer engagement to focus on the specialized needs of Tier 1 brand owners enhancing our relationship through greater understanding of their needs. This has allowed us to cater to their specific requirements in designing and developing a high value and fashion forward portfolio of fabric that has gained their interest through confirmed orders. Bespoke products combined with strengthening demand in the USA, catalyzed demand for Hayleys Fabric PLC's innovative products, driving significant sales growth. Sales of Inno grew sharply to account for 3 % (2017/18 – 0.4%) of total sales.

Customers & Engagement	Markets
We engage with the Tier 1 brand owners through regular visits to offices/ factories, dedicated account teams, joint business planning, joint product development initiatives and customer satisfaction surveys.	Hayleys Fabric PLC's export market is in the process of shifting to the USA, accounting for 20% of total sales ( 2017/18 – 16%) driven by 100% of Inno sales. Other markets are the UK – 30%( 2017/18 – 36%) and EU – 45% (2017/18 – 46%). The shift is timely considering current political and economic headwinds in the EU/UK and growing competition from apparel manufacturers within the EU itself ( please refer Operating environment on pages 60 and 63).

We've worked hard to build strong customer relationships to create shared success. Our customer relationships have taken time to mature in to orders due to stringent assessments of innovation, production capabilities, reliability- in quality and speed and environmental, social and governance practices. Our customer accreditations speak for our success, as does our growing order book. We are pleased to be ranked 3rd best fabric mill globally, for the past 5 quarters, in the quarterly survey conducted by a leading global apparel brand.



References to Value to Customers		
Sustainable Manufacturing	Refer Natural Capital	Page 84
Comprehensive Manufacturing Solutions	Refer Manufactured Capital	Page 70
Quality	Refer Quality Management	Below
Reasonable Cost	Refer Financial Capital and Supply Chain	Page 65 and below
Speed in Delivery	Refer Agile Supply Chain	Below
Reliability	Refer Agile Supply Chain and Quality Management	Below
Innovative Products	Refer Intellectual Capital	Page 90
Flexibility	Refer Agile Supply Chain	Below

For Our Customers 
Developed 74 products in 2019
Expanded Inno range to 33 products
Reduced lead time to 3 days
Dedicated compliance function
Accreditations from 8 customers
95% Lab to Bulk RFT

## Agile Supply Chain

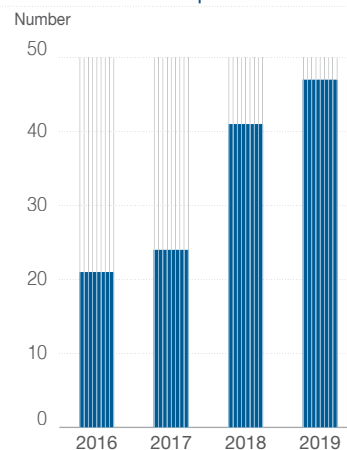
Our supply chain is critical to meeting customer demands of lower cost, speed, efficiency, responsiveness and reliability in sourcing.

Investments in state-of-the-art technology, advanced software, automation, enhanced warehouse facilities, reworking of processes flows to drive lean manufacturing and strong relationships with our suppliers has supported development of an agile supply chain. Appointment of departmental process flow champions, a dedicated procurement committee and implementation

of Total Productivity Management Programme further enhanced efficiency, whilst reducing cost.

We have developed the flexibility to deliver small order quantities in a lead time of 3 days and are fully geared to provide high levels of transparency that retail brands demand. Combined with a strong commitment to product responsibility embodied across our value chain and affirmed through International certifications and accreditations, these developments have enabled us to achieve superior ratings on regular assessments conducted by our customers.

## Certifications / Accreditations / Audits & Memberships



## Quality Assurance

Quality control checks span the entire length of our value chain from receipt of raw material to dispatch of finished goods, ensuring compliance with specifications (Including product labeling) and timely delivery. State of the art machinery and deep technical experience of our employees combine to ensure the high standards of uncompromised quality that our customers demand.

This year we invested in cutting edge technology that further enhanced our quality assurance process;

- State of the art inspection systems have been purchased to check the quality of finished fabric and will replace old machines. The new machines use smart visual sensors to improve the detection efficiency and will cover 100% of the fabric
- Automatic Lab Dispensing System  
A second Dispenser was added to the existing system in order to improve Recipe lead time, accuracy and quality
- The other investments include a laser engraver, stenter modification and dye machines that have enhanced quality standards in lab, dyeing and printing departments

Certifications & Systems	Held Since
<b>Consumer Well being</b>	
OEKO Tex 100 (Cotton & Polyester)	Nov-2006
<b>Environment Sustainability</b>	
ISO 14001:2015 Environment Management System	Dec-2017
Carbon Conscious Certificate	Mar-2017
Water Conscious Certificate	Apr-2017
Global Organic Textile Standard (GOTS)	Jan-2012
Organic Content Standard (OCS)	Aug-2008
Better Cotton Initiative (BCI) Membership	May-2015
Zero Discharge of Hazardous Chemicals (ZDHC) Joint Road Map	Dec-2015
Higg FEM 3.0 Membership	Nov-2017
Clean Chain Chemical Inventory Management Tool	Sep-2018
Nike Sustainable Water Program - Green Certification	Sep-2016
<b>Social Sustainability</b>	
OSHAS 18001:2007 Occupational Health & Safety Assessment Series	Dec-2017
SEDEX Membership	Mar-2016
Disney Facility & Merchandising Authorization (FAMA) Approvals	Sep-2016
George / Walmart Responsible Sourcing Program	Aug-2017
United Nation's Global Compact (UNGC) Membership	Nov-2018

# SOCIAL & RELATIONSHIP CAPITAL

## Reliable Suppliers

We work with over 400 suppliers to procure the finest raw materials, equipment and services. Services and input materials are sourced locally where ever possible, to support local communities in surrounding villages.

Partnering with compliance responsible suppliers allows our Company to focus on what we do best – producing innovative, high quality fabric. Accordingly, supplier selection, development, and integration are vital elements of our business model. Their input, cooperation and trust are critical to the Company’s success.



## Supplier Selection

Potential raw material suppliers are evaluated through a rigorous and documented process which includes assessments on product quality, environmental and social criteria as graphically depicted alongside. No significant issues were identified during the year.



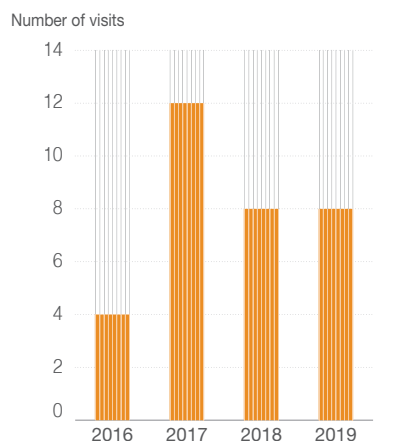
## Supplier Development

We conduct supplier audits, visit factories and train selected suppliers in raw material product development. These initiatives have helped reap considerable economic gains from higher quality materials, improved product development, greater supplier support, shared risk taking and more favourable terms. Supplier audits are conducted quarterly, and constructive feedback offered. In 2018/19 88% of suppliers obtained the highest rating of 1, an increase from 79% in 2017/18.

## Supplier Integration

We have integrated the supply chain into our business model. Suppliers are involved from design of fabric to development - collaborating with Hayleys Fabric PLC in developing solutions together to independently designing and creating products. During the year, 120 new products were developed with suppliers. Substantial benefits have been gained including shorter product development time, faster delivery to customers, improved product quality and reduction in cost of development and innovation. These factors contribute towards maximizing customer service and creating a stronger, more sustainable differentiation from competitors.

## Suppliers' factory visits



Product Collaborations	2019	2018
Yarn Suppliers	105	158
Dye Suppliers	1	5
Chemical Suppliers	13	12
Print & Ink suppliers	1	2
<b>Total product collaborations</b>	<b>120</b>	<b>177</b>

Despite a lower number of product collaborations in 2018/19, the commercial viability is greater following a more customer centric approach to product development.

### Outsourcing

During certain period of the year the Company outsourced greige fabric to satisfy customer requirements whenever there was a short fall in knitting capacity. This strategy enabled the Company to maximize its dye capacity resulting in a better output.

During the year, 451 MT of fabric was outsourced and the outsourcing was carried out after a rigorous evaluation to ensure high standards of quality and responsible manufacture through out the Company's supply chain. Hayleys Fabric PLC own employees have been appointed to supervise the quality control process of the factory during production guaranteeing compliance with Hayleys Fabric PLC's stringent standards.

### Building Trust and Uplifting Communities

We contribute towards positive economic and social change of the communities we operate in by investing to support their development and enhance their quality of life. During the year we focused our efforts on three key areas in creating value for the community – empowering people, fostering deeper relationships and operating by our core value of Good Citizenship – by caring for the community outside the factory and village.

#### Empowering People

As the main employer within a 15 km radius, we contribute significantly towards the socio-economic progress of the local community employing 68% of our employees from the area.

We source locally wherever possible to support growth of Micro and Small & Medium Enterprises. In 2018/19 we sourced saw dust, janitorial and gardening services, man power, transportation and canteen services.

#### Engaging With the Community

Strong relationships with the local community leaders, built on goodwill and trust enable us to engage with the community. We initiate / sponsor numerous CSR activities in and outside the village.



Hayleys Fabric PLC became the 1st fabric mill to organize a chemical suppliers' awareness forum in Sri Lanka by joining all relevant textile industry stake holders (local & International)



Annual eye clinic conducted at the factory premises by vision care



Sponsorship for Annual Unduwap perahera of Warakagoda gal lena rajamaha viharaya



Employee's children with 3 As at the 2018 A/L examinations received a cash gift



# SOCIAL & RELATIONSHIP CAPITAL



Planting of over 200 kumbuk trees between Kahathuduwa and Gelanigama interchanges on the southern expressway



Health check carried out by the MOH Dodangoda for all employees at the factory premises



Grade 5 scholarship winners of our employee's children were given a study pack



2018 mercantile B division softball cricket Champions Hayleys PLC



Provided study packs to around 500 children in Rathmalgahawewa village, Anuradhapura



Sports equipment and Stationary were given to Horana and Nagoda Hospitals



Horana Sri Medhankara MV, a Local school's educational visit at the Factory premises



Blood donation campaign carried out at the factory premises for 6th consecutive year to collect 150 pints of blood

# HUMAN CAPITAL

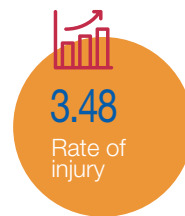
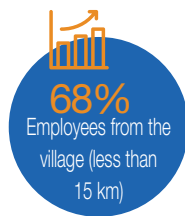
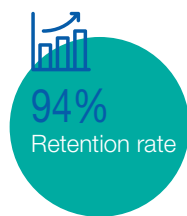
## CONFORTO VERSALITIS 1.2.0

MULTIFACETED HYBRID ACTIVE BRA

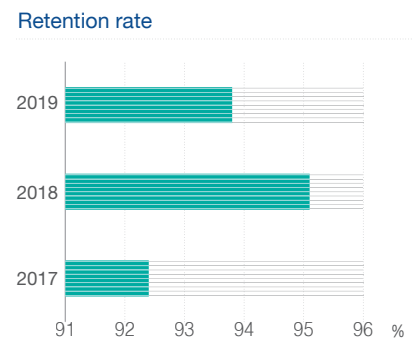
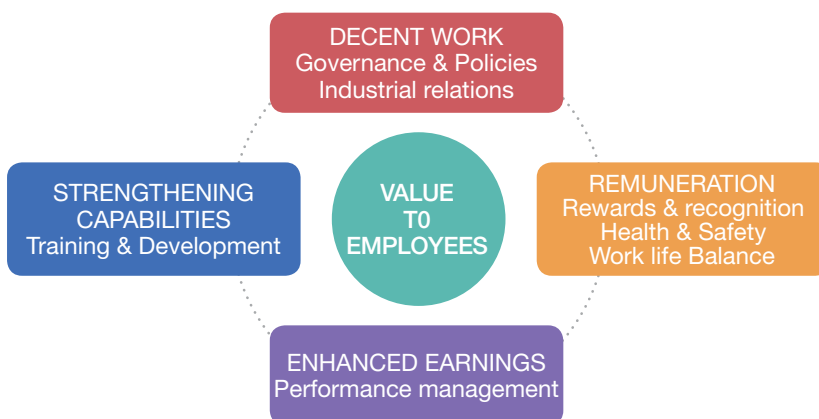


- Hybrid Comfort and Strength
- Unique Yarn Aesthetics
- Hybrid Performance & Aesthetic Properties
- Moisture Management
- Silk -Like Drape

**JPV520(IN)**  
190 GSM | 44% POLY, 44% VISCOUS, 12% SPANDEX  
SINGLE JERSEY

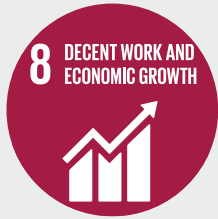


Our team of 1,249 motivated employees make our Company what it is and create value by growing our business responsibly and sustainably. By delivering an employee value proposition aligned to the needs of the organization, we have been successful in attracting and retaining talent with the correct skill sets, vital in the execution of our strategy. In an industry where retention of employees is a key challenge, an above industry retention rate of 94%, is testimony of our strong employee value proposition.





# HUMAN CAPITAL



## Decent Work

Guided by a robust governance and policy structure, Hayleys Fabric is committed to promoting inclusive and productive employment, in an environment conducive to dignity, mutual respect, wellbeing and safety. Our strong governance structure ensures that we balance the interests of our employees with the interests of other stakeholders.

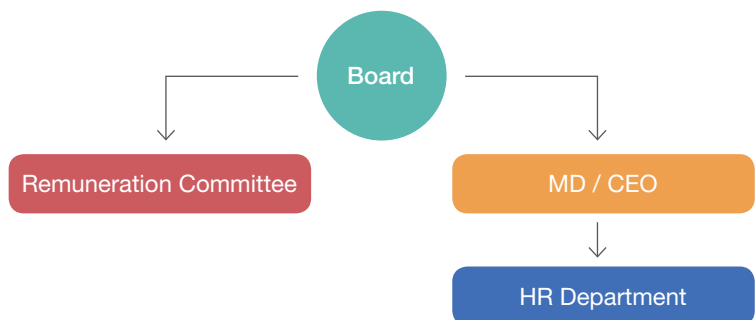
A comprehensive policy framework outlines the Company’s approach to managing Human Capital while the Code of Business Conduct and Ethics communicates the employees’ rights and obligations. The policies are formulated with reference to regulatory enactments and international best practice.

The Company has a zero-tolerance policy on bribery and corruption which is reinforced with high levels of awareness, nurtured through orientation programs and reinforced regularly at meetings and through internal communications. There are no pending legal cases on issues of bribery or corruption.

The Board, Remuneration Committee and the Managing Director regularly assess the progress and effectiveness of the HR Function. The HR Department is responsible for implementing the HR strategy, continuously improving processes and systems to strengthen the employee value proposition.

	
<b>Nine Principles of Ethical Trading Initiative Base Code</b> As mentioned its Social Accountability Policy, Hayleys Fabric PLC is committed to follow the internationally recognized 09 principles given in Ethical Trading Initiative (ETI) Base Code as bellow;	
	1. Employment is freely chosen, no use of forced, bonded or involuntary prison labour.
	2. Freedom of association and the right to collective bargaining are respected.
	3. Working conditions are safe and hygienic. Steps shall be taken to prevent hazards in the working environment.
	4. Child labour shall not be used. Children and young persons under 18 shall not be recruited to our company.
	5. Living wages are paid as per national legal standards to meet basic needs and to provide some discretionary income.
	6. Working hours are not excessive with the applicable laws and industry standards on working hours.
	7. No discrimination is practiced based on race, caste, religion, gender, age or any other applicable attribute of a person.
	8. Regular employment is provided on the basis of recognized employment relationship established through national laws.
	9. No harsh or inhumane treatment is allowed. Any kind of physical or verbal abuse or harassment is prohibited.
	

Hayleys Fabric PLC has pledged itself to the Ethical Trading Initiative (ETI), an alliance of companies, trade union and non-government organizations committed to improving working conditions in global supply chains and is bound by the ETI Base Code, an internationally recognized code of labour practice founded on the conventions of the International Labour Organisation (ILO). By complying with the local and international standards, we do not use child or forced labour and also we do not deal with suppliers who use child or forced labour.



### HR Policy Coverage

Recruitment	Engagement	General
<ul style="list-style-type: none"> <li>• “No Child labour” policy</li> <li>• “No Forced labour” policy</li> <li>• Job description policy</li> <li>• “No Discrimination” policy</li> </ul>	<ul style="list-style-type: none"> <li>• Remuneration policy</li> <li>• Performance management system policy</li> <li>• Internal mobility policy</li> <li>• Employee relations</li> </ul>	<ul style="list-style-type: none"> <li>• Grievance handling policy</li> <li>• Industrial relations policy</li> <li>• Health &amp; safety policy</li> <li>• Disciplinary policy</li> <li>• Communication policy</li> </ul>

### Team Profile

Employee Category	Total	Distance		Gender		Age Group			
		<15 Kms	> 15 Kms	Male	Female	18-30	30-40	40-50	> 50
Executive & above	216	42	174	178	38	46	76	67	27
Manual	467	377	90	465	2	68	271	113	15
Supervisors	241	199	42	232	9	16	98	96	31
Casual	325	233	92	323	2	270	49	6	-
<b>Total</b>	<b>1,249</b>	<b>851</b>	<b>398</b>	<b>1,198</b>	<b>51</b>	<b>400</b>	<b>494</b>	<b>282</b>	<b>73</b>
<b>% of Total</b>	<b>100%</b>	<b>68%</b>	<b>32%</b>	<b>96%</b>	<b>4%</b>	<b>32%</b>	<b>39%</b>	<b>23%</b>	<b>6%</b>

Given the manual nature of work involved, the workforce is predominantly young and male. We strive to redress the gender balance by increasing the number of females recruited to administrative departments. We offer employment opportunity to villagers from the vicinity, nurturing trust with the Company whilst driving economic empowerment.

All the Company permanent employees and those who are under probation are working on a full time basis.

### Recruitment

Period	Total	Distance		Gender		Age Group			
		<15 Kms	> 15 Kms	Male	Female	18-30	30-40	40-50	> 50
2017	219	128	91	210	9	154	53	10	2
2018	119	49	70	112	7	104	9	4	2
2019	127	55	72	116	11	102	18	5	2

As an equal opportunity employer, we recruit employees based on objective criteria applied in a consistent manner to select the candidate best suited for the role. Our partnerships and collaborations with universities and technical institutes, facilitates attracting some of the best talent.

### Attrition

Period	Total	Gender		Turnover Rate (%)	From Village	Age Group			
		Male	Female			18-30	30-40	40-50	Above 50
2017	70	58	12	8%	35	22	25	12	11
2018	46	40	6	5%	20	21	11	7	7
2019	58	53	5	6%	10	22	18	9	9

Attrition is mainly due to economic migration as younger employees seek opportunities in the capital or overseas.



# HUMAN CAPITAL

## Employee Engagement

In an industry fraught with skilled labour shortages, we are committed to engaging with our employees to nurture a strong company culture and improve employee productivity. Formal and informal channels are used to address concerns ranging from discipline, dignity of labour to socio economic progress. We maintain dialogue through regular staff and team meetings whilst our open-door policy has proved to be an effective mechanism for handling grievances. Informal engagement is encouraged through numerous cultural, entertainment and sports activities.

## Remuneration

Our remuneration structure is above minimum wage requirements. This includes gratuity and leave allocations at rates above regulatory requirements, comprehensive medical insurance benefits for staff and family members and benevolent benefits.

### Annual Leave Allocation

Employee Category	Legal Requirement			Hayleys Fabric PLC			
	Annual	Casual	Total	Annual	Casual	Medical	Total
Executives	14	7	21	16	7	7	30
Cl., Sup. & Allied grades	14	7	21	14	7	21	42
Manual grade	14	0	14	14	7	7	28

## Performance Appraisal

We align corporate objectives with that of our employees through the performance management system, linking departmental KPIs with individual KPIs. Performance appraisals are carried out for all employees on an annual basis following a formal and transparent process. High performing employees are recognized with rewards linked to salary increments, annual bonuses and promotions, spurring productivity and growth. In 2018/19, 54 employees were promoted.

## Health & Safety

We are committed to providing a safe work place and are guided by a comprehensive Health and Safety policy. Continuous dialogue is maintained between employees and management on improving health and safety aspects with high levels of awareness and strict enforcement of minimum safety procedures. Joint worker management committees on Health and Safety represent an average of 2% workforce participation.

For the current year, 59 injuries in total have been recorded out of which, 40 injuries were categorized as first aid cases while the balance 19 injuries have been identified as loss time injuries. During 2018/19, we achieved a 9% reduction in employee accidents through provision of technical training and safety awareness programmes conducted during the year.

### Types of Injuries

Year	*Rate of Injury	Occupational Diseases	Lost Days	Work Related Fatalities
2016	3.17	Nil	20	Nil
2017	6.64	Nil	43	Nil
2018	4.08	Nil	100	Nil
2019	3.48	Nil	83	Nil

\* Injury rates have been calculated based on 200,000 hours worked method

## Industrial Relations

We maintain cordial relations with three trade unions representing 37% of our employees. Open and effective dialogue is sustained through monthly meetings between the management and the unions. We recognise and respect our employees' right to freedom of association and Collective Bargaining. As such, a collective agreement was signed for the first time in 2017, with the main trade union the Sri Lanka Nidahas Sevaka Sangamaya (SLNSS), effective 1st April 2017 for a period of 3 years. The agreement stipulates salary increments for the next 3 years, industrial dispute resolution and other worker conditions. There were no industrial disputes during the year under review.

## Strengthening Capabilities

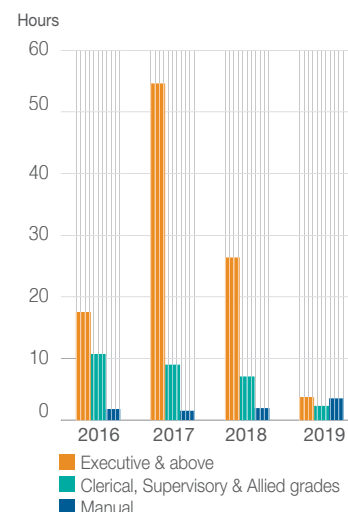
We invest in our employees to match internal skills with business needs and successfully execute the Company's strategy. In a dynamic and demanding industry, where flexibility, speed of delivery and service are critical factors, employees need to be agile and innovative to respond quickly and effectively to changing conditions.

More emphasis is given to on the job training, particularly of training in machine technology provided to supervisors and operators, considering the enhanced learning outcomes compared to course work. A total of 3,024 training hours was dedicated to employees, averaging 3.27 hours per employee for the year (2017/18- 8.56 hours). Training coverage was 58%. However, this data does not capture on the job training, due to its inherent nature and therefore is largely limited. The data covers mostly classroom-based training and attendance of workshops, seminars etc, which programmes are popular with executives.

All of our new employees will be provided with a proper understanding of the Company values, principles, standards and norms at their orientation by the HR department and in addition, these details will be displayed around the factory premises in Sinhala and English languages.

We facilitate employees to obtain relevant lifelong qualifications. 24 employees obtained qualifications from Sri Lanka Institute of Textile and Apparel (SLITA) during the year.

Average training hours



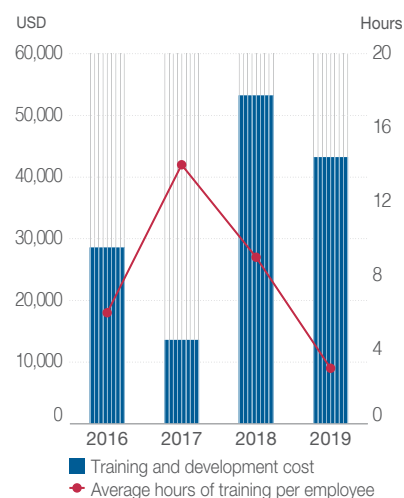
Average Training Hours

Year	By Gender		By Employment Category		
	Male	Female	Executive & above	Clerical, Supervisory and Allied grades	Manual
2018	8.27	13.90	26.39	7.09	1.96
2019	3.37	1.49	3.76	2.32	3.54

## Spurring Innovation

We are focused on stimulating innovation and nurturing a culture of learning and growth. Training and development is provided to employees to learn new and modern concepts and technologies and facilitate application of their learning at the factory. They are empowered in their roles and responsibilities, encouraging out of the box thinking and innovation and are rewarded and recognized for their efforts. 103 employees were recognized in 2018/19 for their cost saving initiatives proposed under the Total Productive Maintenance (TPM) programme (please refer page 90 – Intellectual Capital).

Training & development



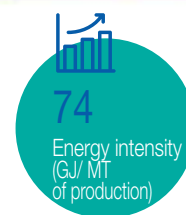
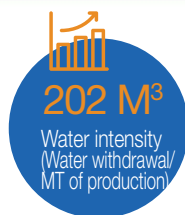
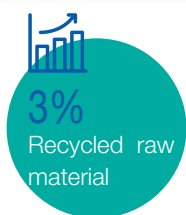
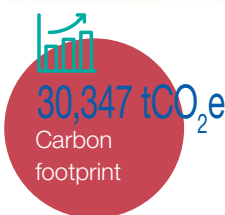
# NATURAL CAPITAL

## PIQ-CASUAL

SOFT PIQUE CASUAL SLOUNGE



LCMS01(IN)  
100 GSM | 47% COTTON, 47% MODAL & 6% SPANDEX  
SINGLE PIQUE



### Raw Materials

Our key raw materials are yarn, dye and chemicals, accounting for 74% of our cost of production. Renewable raw materials consisting largely cotton, reduced following growth in athleisure and other polyester based product categories. Recycled raw materials showed promise, rising to 2.6% of total consumption reflecting increased interest

in recycled polyester despite being more expensive than virgin polyester, given the process of recycling. Selection of yarn suppliers is at the discretion of the buyers in some instances and we have flexibility in sourcing raw materials of our choice too. We are committed towards responsible consumption of raw materials and engage in several initiatives as detailed below.

**As we progressively shift to synthetic fabric, the debate continues as to which fiber - synthetic polyester or cotton is eco-friendlier. Both have their pros and cons. Either way, conscious of our profound bearing on the environment, we constantly explore the use of innovative technologies and solutions to drive sustainability and cleaner production throughout our production processes. To mitigate these impacts we constantly develop processes to reduce water through re-cycling and energy consumption reductions.**

### Environmental Policy

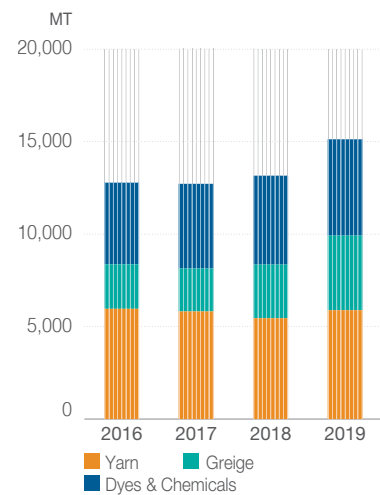
- Identify and comply with all legislation, standards and codes of practice which are relevant to our business activities
- Continue to improve our environment, Health & Safety performance through effective communication, provision of staff training and adoption of the best techniques available
- Enhance the awareness, skills and competent of our employees to take responsibility for Health & Safety at works in order to prevent incidents and accidents
- Effective conservation of energy and natural resources

Renewable / Recycled	2019	2018
Raw material consumption (MT)	15,127	13,160
Renewable materials	32%	37%
Recycled materials	3%	1%

### Initiatives Implemented in 2019

- Improving material efficiency
- Investment in state of the art dyeing and recipe dispensing equipment
- Continuous product developments to improve dye and chemical recipes
- Sourcing of premium quality dyes to improve recipes
- Attraction of new suppliers for the procurement of dyes and chemicals at better quality and lower cost for existing dye recipes.
- Monitor and minimize waste through Waste Management Department
- Sourcing of raw materials from suppliers certified for their product quality, environmental and social management practices

### Raw material consumption



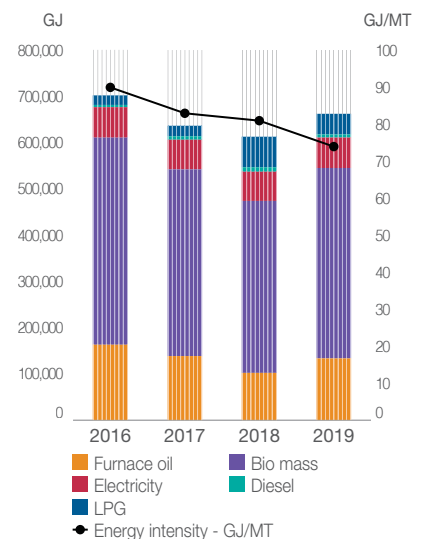
### Energy

Our energy expense is significant and it accounts for 8% of the production costs. Despite the increase in energy consumption during the year, given the increase in production volumes, energy intensity continued to decline following conscious efforts to improve energy efficiency through investments in new technology and process improvements, as described below.



Bio mass generated from saw dust, is the main source of energy trailed by furnace oil and electricity. As such, consumption of energy from renewable sources, is high at 62% (2018 – 61%). Further expansion is constrained by the difficulty in sourcing saw dust in the required quantities. The Company sources LPG as an alternative to furnace oil when it is cost effective to do so, given its higher combustion efficiency.

### Energy consumption



Energy Sources	2019	2018	Variance %
Renewable sources - Sawdust (GJ)	411,860	371,844	11%
Non-renewable sources (GJ)	251,313	241,927	4%
Furnace oil (GJ)	133,828	102,623	30%
Electricity (GJ)	65,716	63,071	4%
LPG (GJ)	44,683	66,001	(32%)
Petrol & Diesel (GJ)	7,087	10,233	(31%)
Direct energy consumption (GJ)	663,174	613,771	8%



# NATURAL CAPITAL

## Initiatives Implemented in 2019

Savings Per Annum  
kWh      Rs. Mn

Combination of two Thermic boiler heaters to reduce Furnace oil and Electricity consumption	Savings from Furnace oil and Electricity	14.40
Successful implementation of the compressed air saving project which have generated the following benefits; <ul style="list-style-type: none"> <li>Increased compressed air quality</li> <li>Reduction of the electricity consumption</li> <li>Reduction of the sudden pressure drops</li> </ul>	360,000	3.60
Replacement of CFL and other inefficient bulbs with LED Lights in the Indoors	888	5.56
Replacement of CFL and other inefficient bulbs with LED Lights in the Outdoors	150	0.63

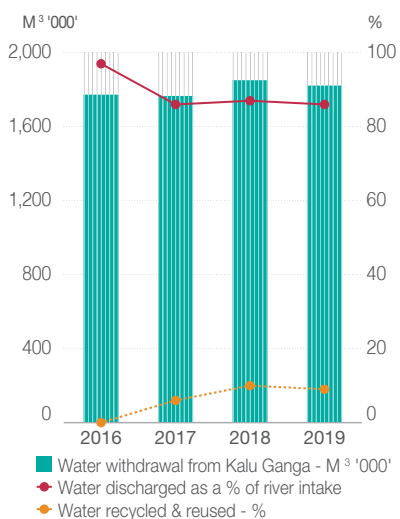


## Water

Hayleys Fabric PLC is conscious of its excessive water footprint and responsibilities towards the sustainability of freshwater resources. We source water solely from the adjacent river “Kalu Ganga” which is abundant in supply of water with regular flooding occurring in many areas around the village.

Every effort is taken to increase our water efficiency including the re-cycling of 9% at present whilst maintaining purity of the balance water discharged to the river. Details regarding the discharge of water to the river is provided in the Effluents segment of this report on page 88.

### Water recycled & discharged



Investments in technology enhancements and process mechanisms have improved our water efficiency over the past years, although these efforts have been overshadowed by the increase in ‘water intensive’ value added solutions such as the new Washing Range and increased orders for double dying.

Given the increased quantities used for steam generation, as the Company shifts towards synthetic value added fabric and high end printing solutions, water discharged to the river has been reduced comparatively.

## Initiatives Implemented in 2019

- Replacement of old dyeing plants with new machinery of advanced technology
- Recycling cooling water from dye machines back into the cooling process
- Recycling of water from the water treatment plant to produce steam in the boiler
- Engaging staff in conservation, through awareness building and training programmes



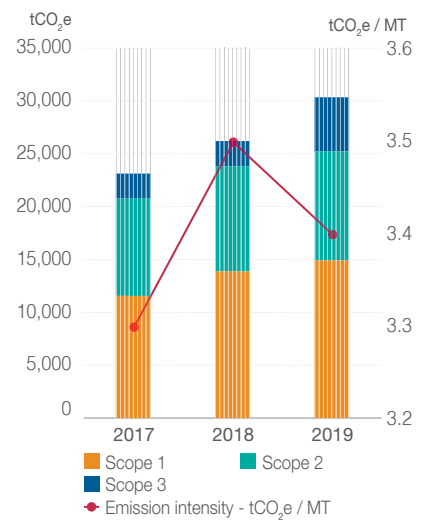
**Emissions**

We are conscious of our impact on climate change and we focus on decreasing our carbon footprint by reducing energy consumption and converting to renewable energy sources such as bio-gas. Initiatives

implemented to save energy are explained on page 86.

The carbon footprint for 2018/19 was determined at 30,347 tCO<sub>2</sub>e (2017/18 – 26,207 tCO<sub>2</sub>e) by Climate Smart Initiatives (Pvt) Ltd, in accordance with ISO 14064-1 and the World Business Council for Sustainable Development and World Resources Institute, Green House Gas Protocol. The carbon footprint intensity has reduced to 3.4 tCO<sub>2</sub>e / MT from 3.5 tCO<sub>2</sub>e / MT, the previous year even though there is an increase in the overall production capacity.

**GHG emissions**



Carbon Neutral Certificate - Annual Report 2019



Carbon Conscious Certificate - 2019

Emissions	tCO <sub>2</sub> e
Furnace oil	11,354
Grid electricity	10,317
Sea freight	3,004
LPG	2,748
Others	2,924
Carbon emissions	30,347
Carbon emissions/MT	3.4

**Air & Noise Pollution**

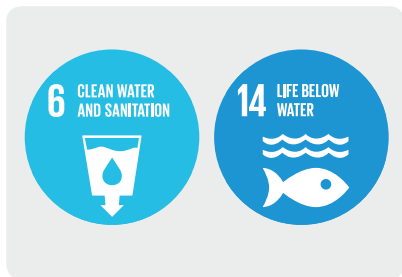
The quality of air and the level of noise, within factory doors and outdoors was tested by the National Institute of Occupational Safety and Health, against standards stipulated by the American Conference of Government Industrial Hygienist (ACGIH) and National Environment Act No.47 of 1980, and was found to be satisfactory.

# NATURAL CAPITAL

## Effluents

Over the years, we have continuously made investments to upgrade our effluent treatment technology. In December 2015, we committed to the Zero Discharge of Hazardous Chemicals (ZDHC) Programme, leading textile, leather and footwear industries to advance towards zero discharge of hazardous chemicals by 2020 by driving responsible chemical management. We are pleased to inform that we have already eliminated the use of 20 chemicals identified for this purpose in 2018/19, well ahead of the time line, creating a safer environment.

**ZERO DISCHARGE OF  
HAZARDOUS  
CHEMICALS – compliant**



## Quality of Water

Our modern water treatment plant utilizes enhanced purification methodology to ensure good quality water is consistently discharged to the adjacent river, used by the villagers for their daily needs.

All treated water is checked in house once in two hours and regular checks are carried out by external agencies such as the Central Environment Authority (CEA), the Water Board and the Board of Investment (BOI). Our commitment to high standards is reflected in the awarding of a NIKE Green Certification for Sustainable Water Program since 2016.

Discharge Water Quality	2019	2018	Standard
pH	7.85	7.71	6.5 - 8.5
Temperature °C	31.64	35.17	< 40
BOD (mg /L)	22.05	20.67	<30
COD (mg /L)	157.10	181.92	<250
Total suspended solids (mg/L)	22.67	23.08	<50



Member of the United Nation's Global Compact initiative since November 2018



Environment Management System ISO 14001:2015, obtained by the Company in December 2017 through SGS Lanka

## Ø ZDHC Zero Discharge of Hazardous Chemicals

Voluntarily follows the ZDHC Joint Road Map since December 2015



**RESPONSIBLE CARE**  
OUR COMMITMENT TO SUSTAINABILITY

Member of the Lanka Responsible Care Council since June 2017



### Solid Waste

All solid waste is disposed according to the CEA's guidelines. Recyclable material and e-waste are disposed of through professionals in waste management approved by the Central Environment Authority (CEA). Sludge from the operation is

incinerated by INSEE Eco-cycle, the only approved agency by the CEA. Given the capacity constraints of a single incinerator in the country and impact on Company's growing business, Hayleys Fabric PLC is exploring avenues of disposing sludge through own incineration or chemical management.

Hazardous & Non-hazardous Waste	2019	2018
Hazardous waste - Incinerated		
Sludge (MT)	867	863
Non-hazardous waste - Reused / Resold		
Fluff (MT)	12	15
Fabric strips, off cuts, etc. (MT)	437	481
Cardboards, yarn cones, etc. (MT)	312	383
Polythene (MT)	102	95
Others (MT)	175	114
Total Non-hazardous waste (MT)	1,038	1,088
Total (MT)	1,905	1,951

Further, waste yarn and fabric are sold to local villagers encouraging self-employment and cottage industries and fabric off cuts are donated to the Psychiatric Rehabilitation Unit of the Nagoda Hospital, Kalutara and Senior Citizens Society of Kalutara, to design and produce handcraft.



### Nurturing the environment

We are committed to nurturing and sustaining the environment and to this end have engaged in the following initiatives.

#### Initiatives Implemented in 2019

- Maintaining 20 acres of forest coverage, adjacent to the factory property
- Collaborative effort by the factory employees to grow organic vegetables and fruits in the factory gardens sans any chemicals or pesticides. The produce is shared amongst factory employees.
- Nurturing the partly grown "Kumbuk Trees" planted within the vicinity of the factory water treatment plant, near the Kalu Ganga river bed and along the Southern Expressway

### Compliance

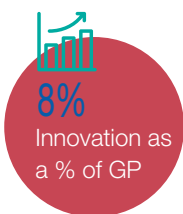
Hayleys Fabric PLC is compliant with all relevant environmental laws and regulations.



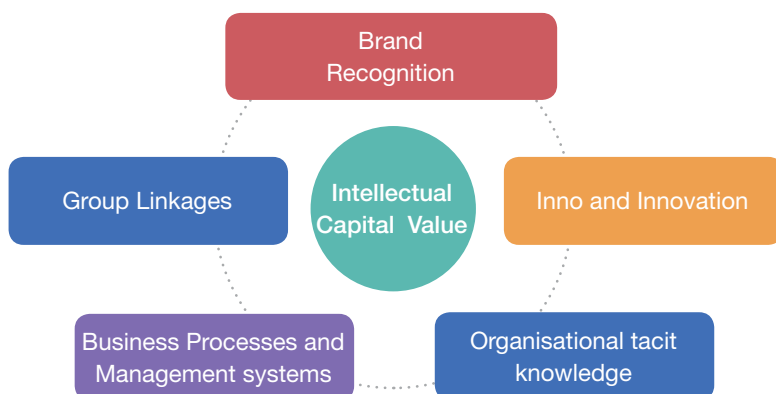
# INTELLECTUAL CAPITAL

## RHYTHM RIB

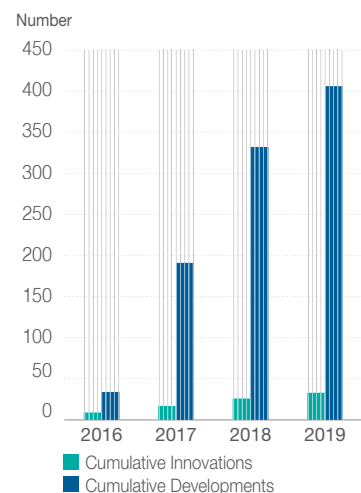
RHYTHMIC CASUAL DRAPE



Hayleys Fabric PLC's Intellectual capital is key to Company's success as a globally recognized niche supplier of synthetic fabric to premium retail brands. Our Innovation Centre is reputed for creating innovative and technologically advanced fabric that cater to evolving consumer preferences, as confirmed by Hayleys Fabric PLC's recognition as the best innovator in Sri Lanka for the past five quarters ended December 2018 by a top apparel brand.



Innovations & developments



## Brand Recognition

Established as a pioneer in the textile industry we have gained global recognition as a niche supplier of premium, innovative fabric to fashion brands, delivering on innovation, speed, reliability, quality, service and (social and environment) responsibility. Our accreditations, endorsements, ratings and awards, detailed on page 75 enhances our brand value and bears testimony to the success of our business strategy.

## Innovation

### Inno Center

Our innovation center is led by a robust research and development team who have the industry insights and technical expertise to bring cutting-edge design to market. The team includes account officers, project designers and project engineers. The team is supported by state-of-the-art technology and has online access to daily trend intelligence, retail analytics and consumer insights, to continually track and monitor evolving consumer preferences, shifting market conditions and emerging futuristic trends. They collaborate with University of Moratuwa in fabric development and technology, spurring innovation.

7 innovations and 74 developments including variants of existing fabric to cater to specific customer requirements on texture and functionality were created during the year. These value-added synthetic fabric are used in performance and sports-inspired apparel particularly Athleisure. We maintained strict customer confidentiality in the development of these products.

Account Officers	Project Designers	Project Engineers
<ul style="list-style-type: none"><li>Each dedicated to a brand owner, account officers engage with the customer closely to understand their expectations and liaise with the Inno team to ensure these requirements are met</li></ul>	<ul style="list-style-type: none"><li>Inspired design consultants forecast fashion trends following in-depth analysis of consumer requirements, latest fashion trends and customer brand values to create fabric concepts</li></ul>	<ul style="list-style-type: none"><li>These concepts are made a reality by the dynamic product development team, who experiments with new fabric and finishes and researches new textile technology to develop premium fabric with the appliance and functionality customers require</li></ul>

In 2018/19, we adopted a more customer centric approach to innovation, centered around deep consumer insights. Closely engaging and collaborating with the brand owners in developing fabric that suited their specific fashion palates, we were able to fast track products to market and reduce cost of developments.

Although the number of innovations and product developments were less this year, these products had higher potential for commercialization. Sales of Inno and developments grew 49% in 2018/19 accounting for 40% of revenue (2017/18 -32%). Inno grew rapidly to 3% of total revenue (2017/18 - 0.4%).

### Total Productive Maintenance (TPM) Management

Last year, the Company conducted a Total Productive Maintenance (TPM)

programme where employees across the organization were encouraged to propose process improvements and mechanisms to increase production efficiency, eliminate waste and reduce costs. 175 proposals were evaluated and prioritized for implementation, generating substantial savings of USD 38,426 / month.

### Business Processes and Systems

We have continuously improved, innovated and optimized our operations, strengthening internal systems and processes, to create a leaner, flexible and cost efficient business. Our commitment to operational excellence is reflected in the stringent accreditations and certifications obtained as well as achievement of high customer ratings by brand owners and global apparel manufacturers, as listed on page 75

### Organizational Capital and Tacit Knowledge

Our systems, standards and processes together with the skills and industry insights of employees and strategic leadership of the management team, nurtures an invaluable base of organizational capital in driving competitive advantage. Employee tacit knowledge is fostered through a learning culture which stimulates innovation and knowledge sharing.

### Group Linkages

As part of the Hayleys PLC Group, we tap in to high standards of corporate governance, mature systems of management and expertise of leading professionals in the country. Entrepreneurship and professionalism is combined to ensure strategic direction and resource allocation.

# WAY FORWARD

Global economy is expected to slow down to 3.3% in 2019 (3.6% - 2018), amid continued trade tensions between the United States and China, moderation of international trade and investments, tightening of financial conditions and higher policy uncertainty across many economies. Emerging markets and developing countries are forecasted to soften to 4.4%, while advanced economies, which include our principal markets, are expected to drop to 1.8%. Global growth is forecast to pick up to 3.6% in 2020, driven by more growth-friendly policies in Emerging markets and developing countries. Following

the economic shift, retail brands will continue to look towards emerging nations for new markets of growth.

In Sri Lanka, the country is stabilizing following political and economic tensions witnessed in 2018 and the economy is expected to gradually improve to 3.8% and 4.1% in 2019 and 2020 respectively (3.2% - 2018), subject to the continuation of a stable economic and social environment.

Retail trends driven by a combination of evolving technological landscape and shifting consumer preferences as demographics begin to skew younger,

demand increased investments by brand owners in e-commerce, omni channel integration, customer-relationship-management, in-store experiences, and brand building. Consequently, supply chains require to be more responsive, pushing time limits from design to shelf while ensuring responsible manufacture and enhanced transparency throughout the supply chain. Delivery of new, innovative products at increased speed, flexibility and lower cost, require supplier business models to adopt a more customer-centric approach - with the retailer as the main driver of design and manufacture.

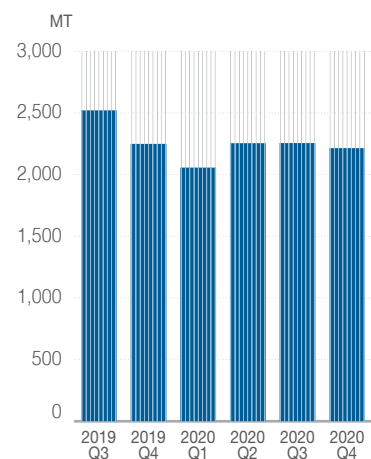
Hayleys Fabric PLC is already in gear to meet evolving customer needs and challenges. Having adopted a customer centric business model last year, the Company is nurturing innovation, design and development capabilities in collaboration with retail chains, under the Inno brand while investing in e-commerce, digitization and advance technologies in molding an agile and transparent supply chain and driving responsible production. A growing pipeline of orders demonstrates the confidence of retailers in the Company.

A healthy economic outlook in the US, Company's main market and added benefits from the restoration of US GSP+ since April 2018 is expected to support increased business volumes. The following initiatives will be implemented by the Company in 2019.

We believe these initiatives will deliver the following goals:

Key Performance Indicators	Goals
Profitability growth	20% growth in PBT
New products	Over 10
Lead time	3 days for fast orders
Employee productivity	25% increase
Reduce carbon footprint intensity	5% reduction
Reduce water intensity	5% reduction

Order pipeline





### Financial Capital

- Growth in earnings through high margin, value added products
- Drive cost efficiencies through smart sourcing strategies and operational excellence



### Manufactured Capital

- Increase capacity through investments of USD 2.1 Mn
- Investment in responsible production using energy efficient and clean technology



### Social & Relationship Capital

- Grow supply chain by improving response times, increased customization, reduced turnaround times
- Strengthen order pipeline through deeper customer engagement
- Innovate and inspire fashion as a niche supplier to international brands
- Support the external community through economic and social development initiatives



### Human Capital

- Inspire team to deliver corporate goals through improved communication and performance management
- Acquire and nurture talent
- Recognise and Reward



### Natural Capital

- Responsible consumption and production
- Manage and minimise our impacts through clean technology
- Deepen engagement in sustainability



### Intellectual Capital

- Innovate and Increase our Inno range
- Improve our research and Development capability



# MANAGING RISK

**"WE CONSTANTLY MONITOR, MANAGE AND MITIGATE EMERGING AND POTENTIAL RISKS TO ENSURE A STABLE PATH TOWARDS GROWTH."**

## Managing Risk & Opportunities

Managing risk is a vital function of the Board and the Corporate Management Team provides a regular report on Key Risks to the Board to ensure that potential threats are identified, measured, monitored and managed. A risk is defined as a factor that can become an impediment to the achievement of corporate goals. Our process of identifying material issues described on page 56 serves as an annual objective overhaul of the risk identification process as we review number of potential risk factors prior to applying filters to prioritise them and identify those that are likely to have the highest impact and those that are most likely to pose a threat in the year ahead, considering current developments.

Risk	Impact	Mitigating Factors/Activities	Net Risk Assessment															
External Risks																		
Demand in Key Markets	<p>IMF forecasts moderating growth in key markets for the Sri Lankan apparel industry</p> <table border="1"> <thead> <tr> <th colspan="3">GDP Growth (%)</th> </tr> <tr> <th></th> <th>2019</th> <th>2018</th> </tr> </thead> <tbody> <tr> <td>USA</td> <td>2.3</td> <td>2.9</td> </tr> <tr> <td>Euro Area</td> <td>1.3</td> <td>1.8</td> </tr> <tr> <td>UK</td> <td>1.2</td> <td>1.4</td> </tr> </tbody> </table>	GDP Growth (%)				2019	2018	USA	2.3	2.9	Euro Area	1.3	1.8	UK	1.2	1.4	<ul style="list-style-type: none"> <li>Securing key buyers through Innovation, lead time and cost advantages enabling recovery of overheads</li> <li>Our Tier 1 customers who are premium brands have growth forecast for 2019</li> </ul>	Assessment: Moderate
GDP Growth (%)																		
	2019	2018																
USA	2.3	2.9																
Euro Area	1.3	1.8																
UK	1.2	1.4																

Risk	Impact	Mitigating Factors/Activities	Net Risk Assessment												
Industry Shifts	China is forecast to become the largest market for fashion in 2019 and India is forecast to become a focal point for the fashion industry	<ul style="list-style-type: none"> <li>We work with global brands that work across markets</li> <li>Growth in US and Europe continues to be strong</li> <li>Credentials of supplying global brand owners will support growth in new markets</li> </ul>	Assessment: Moderate												
Government Policy	Government policies, taxes, foreign relations, interest rates, inflation, energy and wages have a direct impact on the Company	<ul style="list-style-type: none"> <li>Continuation of the GSP + in EU and negotiating preferential Trade Agreement with the UK, productivity improvements to mitigate Rising inflation, interest rates and wages are strategies to minimize impact where possible</li> </ul>	Assessment: High												
<b>Opportunities</b>															
Develop Own Branded Portfolio	Having our own branded portfolio of fabric will enable us to differentiate ourselves from competitors and provide significant resource management opportunities	<ul style="list-style-type: none"> <li>We continue to develop and refine our Inno branded portfolio of synthetic fabric to meet current trends in fashion</li> <li>7.7% of Gross profit has been from our Inno range</li> </ul> <div data-bbox="826 1048 1145 1435"> <p><b>Inno profitability (GP)</b></p> <table border="1"> <caption>Inno profitability (GP) - USD '000</caption> <thead> <tr> <th>Year</th> <th>Total GP</th> <th>Inno GP (Teal)</th> <th>Other GP (Grey)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>~800</td> <td>~50</td> <td>~750</td> </tr> <tr> <td>2019</td> <td>~800</td> <td>~650</td> <td>~150</td> </tr> </tbody> </table> </div>	Year	Total GP	Inno GP (Teal)	Other GP (Grey)	2018	~800	~50	~750	2019	~800	~650	~150	Potential: High
Year	Total GP	Inno GP (Teal)	Other GP (Grey)												
2018	~800	~50	~750												
2019	~800	~650	~150												
Focus on Synthetic Fabric Catering to the Lingerie and Athleisure Trends	Synthetic fabric attract higher margins which will enhance profitability of the Company	<ul style="list-style-type: none"> <li>Close monitoring of fashion trends to determine direction</li> </ul> <div data-bbox="826 1563 1145 1989"> <p><b>Revenue analysis by product category</b></p> <table border="1"> <caption>Revenue analysis by product category - %</caption> <thead> <tr> <th>Year</th> <th>Synthetic (%)</th> <th>Natural (%)</th> <th>Other (%)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>~35</td> <td>~65</td> <td>~0</td> </tr> <tr> <td>2019</td> <td>~42</td> <td>~58</td> <td>~0</td> </tr> </tbody> </table> </div>	Year	Synthetic (%)	Natural (%)	Other (%)	2018	~35	~65	~0	2019	~42	~58	~0	Potential: High
Year	Synthetic (%)	Natural (%)	Other (%)												
2018	~35	~65	~0												
2019	~42	~58	~0												

# MANAGING RISK

Risk	Impact	Mitigating Factors/Activities	Net Risk Assessment														
GSP ++	GSP+ enhances the competitiveness of Sri Lankan exports in the Euro Zone markets which has contributed to the increase in the country's exports in 2018	<ul style="list-style-type: none"> <li>We continue to nurture our relationships with customers in the EU to exploit potential opportunities</li> </ul>	Potential: Significant														
<b>Key Risks Arising from Our Business Model</b>																	
Strategic Risk	Company has pursued a long term strategy of developing its own branded portfolio of synthetic fabric which addresses a number of issues with the supply chain and holds the promise of enhanced gains for shareholders	<ul style="list-style-type: none"> <li>Interest shown by buyers with contracts for capacity enabling recovery of overheads</li> <li>Order pipeline for Inno and synthetic fabric</li> </ul> <div style="text-align: center;"> <p><b>Order pipeline</b></p> <table border="1"> <caption>Order pipeline (MT)</caption> <thead> <tr> <th>Quarter</th> <th>Order pipeline (MT)</th> </tr> </thead> <tbody> <tr> <td>2019 Q3</td> <td>2,500</td> </tr> <tr> <td>2019 Q4</td> <td>2,200</td> </tr> <tr> <td>2020 Q1</td> <td>2,000</td> </tr> <tr> <td>2020 Q2</td> <td>2,200</td> </tr> <tr> <td>2020 Q3</td> <td>2,200</td> </tr> <tr> <td>2020 Q4</td> <td>2,200</td> </tr> </tbody> </table> </div>	Quarter	Order pipeline (MT)	2019 Q3	2,500	2019 Q4	2,200	2020 Q1	2,000	2020 Q2	2,200	2020 Q3	2,200	2020 Q4	2,200	Assessment: High
Quarter	Order pipeline (MT)																
2019 Q3	2,500																
2019 Q4	2,200																
2020 Q1	2,000																
2020 Q2	2,200																
2020 Q3	2,200																
2020 Q4	2,200																
<b>Critical Aspects</b>																	
Customer Satisfaction	Customer satisfaction is key to our growth and we work together with them to gain deeper insights in to potential areas for improvement. We have used feedback received as an opportunity to implement changes addressing key concerns, enhancing our competitive edge	<ul style="list-style-type: none"> <li>System integration with key customers to enhance ease of doing business with the Company</li> <li>Structured relationship management</li> <li>Regular visits to customers and vice versa</li> <li>Reduced our ability to turnaround orders on key products from 14 days to 3 days</li> </ul> <p>Refer Creating Value for Customers on page 74</p>	Assessment: Moderate														
Innovation	Our ability to innovate is key to growth and profitability	<ul style="list-style-type: none"> <li>Monitoring of fashion trends to anticipate customer needs in developing own portfolio</li> <li>Investment in our own Design Centre with state of the art equipment</li> <li>Ability to attract and retain highly qualified and experienced talent to operate the Design Centre</li> <li>Continuous monitoring of performance to inspire and motivate these highly skilled employees</li> </ul>	Assessment: High														

Risk	Impact	Mitigating Factors/Activities	Net Risk Assessment
Timely Delivery	Timely delivery is key to profitability as late delivery comes with penalties and loss of customer satisfaction	<ul style="list-style-type: none"> <li>Strengthening the planning system within the Company</li> <li>Increased inventory to facilitate shorter lead times</li> <li>Production scheduling to maximize capacity utilization and ensure timely delivery</li> <li>Quality control checks at each stage of the process to ensure compliance with specifications and timely delivery</li> </ul> <p>Refer Creating Value for Customers on page 74</p>	Assessment: Moderate
Product Responsibility	Product responsibility is critical to our reputation and growth	<ul style="list-style-type: none"> <li>OEKO Tex certification for all Dye &amp; Chemicals</li> <li>Zero usage of hazardous chemicals identified by the Brands under the ZDHC initiatives.</li> <li>Compliance with regulatory and certification requirements</li> <li>Monitoring of customer complaints</li> <li>Supplier screening for financial, social and environmental criteria</li> <li>Quality control processes</li> </ul> <p>Refer Creating Value for Customers on page 74</p>	Assessment: Moderate
Cost Efficiency	As the country's productions costs increase, cost efficiency provides a competitive edge	<ul style="list-style-type: none"> <li>Process improvements</li> <li>Lean processes</li> <li>Sourcing strategies</li> <li>Product re-engineering</li> </ul>	Assessment: Moderate
Availability of Water	<p>The non -availability of flowing river water in drought condition affects production due to salinity</p> <p>As our processes require water at all stages, both production and community relations may be impacted by a prolonged drought</p>	<ul style="list-style-type: none"> <li>Principal source of water is the river Kalu Ganga which has the highest discharge of water to the sea in the country. estimated 4,000 million m<sup>3</sup> annually *</li> <li>Monitor water levels of river and consumption continuously. It is noteworthy that the Kalu Ganga has the highest water levels in the country</li> <li>Recycle water withdrawn from source for cooling and heating purposes</li> <li>Review operations to reduce water usage intensity</li> <li>Compliance with licensing requirements of the Central Environment Authority</li> </ul> <p>Refer page 84 of the Natural Capital segment for further information</p>	Assessment: High
Raw Materials Availability	Raw materials directly impact the quality of the product including the consumer experience as our product directly touches the skin. The availability of raw materials impact our profitability as well.	<ul style="list-style-type: none"> <li>Broadbasing of suppliers and deepening relations to drive competitive advantage</li> <li>Ensure that suppliers of raw material have certifications for their manufacturing processes</li> <li>Quality control processes from receiving point to ensure a match with specifications</li> <li>Monitoring market trends for yarn, chemicals etc to ensure we receive competitive pricing</li> </ul> <p>Refer page 76 on Creating Value for Suppliers for further information</p>	Assessment: Moderate

\*Source - Ampitiyawatta, A. & Guo, S., (2010). Precipitation trends in the Kalu Ganga basin in Sri Lanka. *Journal of Agricultural Sciences*. 4(1), pp.10-18.



# MANAGING RISK

Risk	Impact	Mitigating Factors/Activities	Net Risk Assessment
Energy	Energy is required at every stage of our manufacturing operations and has a direct impact on our carbon footprint and profitability	<ul style="list-style-type: none"> <li>Review energy mix and decrease dependency on main grid</li> <li>Increased investments in renewable energy sources</li> <li>Investing in energy efficient machinery and equipment</li> <li>Driving cost leadership through energy management</li> <li>Continuous monitoring of energy intensity ratio to drive required action</li> </ul> <p>Refer page 84 of the Natural Capital segment for further information</p>	Assessment: Low
Employee Health & Safety	We value our employees and recognize our responsibility to provide a safe working environment. We also understand that specific aspects of our processes present higher levels of risk to employees' health and safety.	<ul style="list-style-type: none"> <li>Establishment of worker management health and safety committees to ensure their views are understood and addressed</li> <li>Establishing safety procedures for all operations that present risks to employees and ensuring implementation of the same</li> <li>Maintaining and monitoring employee health and safety statistics</li> </ul> <p>Refer page 79 of the Human Capital Report for further information</p>	Assessment: Moderate
Employee Relations	Employee relations are a key concern as 68% are employed from the vicinity and 37% are members of politically allied trade unions as Hayleys Fabric PLC recognizes the right to freedom of association	<ul style="list-style-type: none"> <li>Open door policy for employees to discuss areas of concern</li> <li>Regular structured dialogue with union representatives to identify areas of concern</li> <li>Balanced HR policies applied in a consistent manner building trust with employees</li> <li>Communicating how personal goals are aligned with organization goals through an organization wide performance management system</li> </ul> <p>Refer page 79 of the Human Capital Report for further information</p>	Assessment: Moderate
Effluents & Waste	Effluents from our processes contain chemicals and are discharged to the river after treatment which can affect the community and the bio diversity of the surrounding area	<ul style="list-style-type: none"> <li>Investing in effluent treatment and solid waste management</li> <li>Monitoring quality of effluents on an hourly basis to ensure conformity with CEA requirements</li> <li>Residual sludge is disposed at INSEE Eco-cycle for safe disposal approved by the CEA.</li> </ul> <p>Refer Natural Capital Report on page 84</p>	Assessment: High
Emissions	Directly impacts our carbon footprint, compliance with CEA license and the quality of air in the community	<ul style="list-style-type: none"> <li>Investments in energy efficient technology</li> <li>Investments in switching to low carbon intensity energy sources</li> <li>Managing energy mix to reduce emissions</li> <li>Continuous monitoring of emissions to ensure compliance with CEA requirements and certifications</li> </ul> <p>Refer Natural Capital Report on page 84 for more information</p>	Assessment: Moderate

Risk	Impact	Mitigating Factors/Activities	Net Risk Assessment												
<b>High Impact</b>															
Speed of Delivery	Our ability to turn around an order within a few days is highly valued by customers	<ul style="list-style-type: none"> <li>Company has shortened the lead time of products within the Inno portfolio to 3 days from 14 days for certain programs.</li> <li>Supply chain &amp; inventory geared to support the promise</li> </ul>	Assessment: Moderate												
State of the Art Technology	High end fabric require state of the art technology and a wide range of finishes which we have in place	<ul style="list-style-type: none"> <li>Company has invested regularly in upgrading machinery</li> </ul> <div style="text-align: center;"> <p><b>Investment in PP&amp;E</b></p> <table border="1"> <caption>Investment in PP&amp;E (USD Mn)</caption> <thead> <tr> <th>Year</th> <th>Investment (USD Mn)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>1.8</td> </tr> <tr> <td>2016</td> <td>2.9</td> </tr> <tr> <td>2017</td> <td>3.5</td> </tr> <tr> <td>2018</td> <td>2.4</td> </tr> <tr> <td>2019</td> <td>1.7</td> </tr> </tbody> </table> </div>	Year	Investment (USD Mn)	2015	1.8	2016	2.9	2017	3.5	2018	2.4	2019	1.7	Assessment: Moderate
Year	Investment (USD Mn)														
2015	1.8														
2016	2.9														
2017	3.5														
2018	2.4														
2019	1.7														
Employment, Local Community Relations, Market Presence & Indirect Economic Impacts	As the largest employer within a 15 km radius, the employment opportunities provided are critical for the socio economic progress of the community and an interdependency exists which requires continuous engagement with both employees and the local community	<ul style="list-style-type: none"> <li>High levels of engagement with employees and community</li> <li>Robust employee and community value propositions to maintain an appropriate balance</li> <li>Building pride in the organization with employees and community</li> </ul> <p>Refer Human Capital Report and Creating Value for the Community on page 82 and 77 respectively</p>	Assessment: Low												
Marketing Communications	Marketing communications are key to growth requiring a fine balance that does not over promise while conveying our capability to potential and existing customers	<ul style="list-style-type: none"> <li>Marketing communications are reviewed at Corporate Management level to ensure accuracy, integrity and appeal</li> </ul>	Assessment: Low												
Transport	The industry typically has a long supply chain spanning continents which is under constant scrutiny. Additionally, we provide transport to employees as rural transport infrastructure is insufficient to support Company requirements.	<ul style="list-style-type: none"> <li>Distance is factored in to the supplier selection criteria for orders</li> <li>Transport of hazardous chemicals is done under stringent conditions contracted with a third party provider with specialized capability to ensure safe transportation</li> <li>Employee transport provided by a third party evaluated for safe driving</li> <li>Workmen compensation cover extended to cover travel and from work</li> </ul>	Assessment: Low												

GRI Standard	Disclosure	Page number(s)	Remarks
General Disclosures			
GRI 102: General Disclosures 2016	102-1 Name of the organization	08	
	102-2 Activities, brands, products, and services	08 & 71	
	102-3 Location of headquarters	IBC	
	102-4 Location of operations		Operates only in Sri Lanka
	102-5 Ownership and legal form	08 & IBC	
	102-6 Markets served	74	
	102-7 Scale of the organization	11 - 13	
	102-8 Information on employees and other workers	81	
	102-9 Supply chain	73, 75 - 77	
	102-10 Significant changes to the organization and its supply chain		No significant changes
	102-11 Precautionary Principle or approach	97	
	102-12 External initiatives	06	
	102-13 Membership of associations	75	
	102-14 Statement from senior decision-maker	19 - 21	
	102-16 Values, principles, standards, and norms of behaviour	09, 40 & 80	
	102-18 Governance structure	35	Sustainability comes under the purview of the Finance Director
	102-40 List of stakeholder groups	54 & 55	
	102-41 Collective bargaining agreements	82	
	102-42 Identifying and selecting stakeholders	54 & 55	
	102-43 Approach to stakeholder engagement	54 & 55	
	102-44 Key topics and concerns raised	54 & 55	
	102-45 Entities included in the consolidated financial statements		Hayleys Fabric PLC
	102-46 Defining report content and topic Boundaries	06 & 103	
	102-47 List of material topics	56 & 103	
	102-48 Restatements of information	12 & 13	
	102-49 Changes in reporting		No significant changes
	102-50 Reporting period	06	
	102-51 Date of most recent report	06	
102-52 Reporting cycle	06		
102-53 Contact point for questions regarding the report	06		
102-54 Claims of reporting in accordance with the GRI Standards	06		
102-55 GRI content index	100 - 102		
102-56 External assurance	06, 104 & 105		

GRI Standard	Disclosure	Page number(s)	Remarks
<b>Management Approach</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	103	
	103-2 The management approach and its components	103	
	103-3 Evaluation of the management approach	103	
<b>Economic</b>			
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	59	
	201-3 Defined benefit plan obligations and other retirement plans	147 & 151	
GRI 204: Procurement practices 2016	204-1 Proportion of spending on local suppliers	12	
<b>Environmental</b>			
GRI 301: Materials 2016	301-1 Materials used by weight or volume	12, 84 & 85	
	301-2 Recycled input materials used	84 & 85	
GRI 302: Energy 2016	302-1 Energy consumption within the organization	12 & 85	
	302-3 Energy intensity	12 & 84	
	302-4 Reduction of energy consumption	12 & 86	
GRI 303: Water 2016	303-1 Water withdrawal by source	12 & 86	
	303-2 Water sources significantly affected by withdrawal of water		No significant Impact
	303-3 Water recycled and reused	12 & 86	
GRI 305 Emissions: 2016	305-1 Direct (Scope 1) GHG emissions	12 & 87	
	305-2 Energy indirect (Scope 2) GHG emissions	12 & 87	
	305-3 Other indirect (Scope 3) GHG emissions	12 & 87	
	305-4 GHG emissions intensity	87	
	305-5 Reduction of GHG emissions	12 & 87	
GRI 306: Effluents and Waste 2016	306-1 Water discharge by quality and destination	12 & 86	
	306-2 Waste by type and disposal method	12 & 89	
GRI 307: Environmental Compliance 2016	307-1 Non-compliance with environmental laws and regulations	12 & 89	
GRI 308: Supplier Environmental Assessment 2016	308-1 New suppliers that were screened using environmental criteria	76	
	308-2 Negative environmental impacts in the supply chain and actions taken	76	



GRI Standard	Disclosure	Page number(s)	Remarks
<b>Social</b>			
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	81	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	82	
GRI 403: Occupational Health and Safety 2016	403-1 Workers representation in formal joint management-worker health and safety committees	82	
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	13 & 82	
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	13 & 83	
	404-2 Programs for upgrading employee skills and transition assistance programs	83	
	404-3 Percentage of employees receiving regular performance and career development reviews	13 & 82	
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	81	
GRI 408: Child Labor 2016	408-1 Operations and suppliers at significant risk for incidents of child labor	13	
GRI 409: Forced or Compulsory Labor 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	13	
GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	77 & 78	
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria	76	
	414-2 Negative social impacts in the supply chain and actions taken	76	
GRI 416: Customer Health and Safety 2016	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services		Nil
GRI 417: Marketing and Labeling 2016	417-2 Incidents of non-compliance concerning product and service information and labeling		Nil
	417-3 Incidents of non-compliance concerning marketing communications		Nil
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data		Nil
GRI 419: Socioeconomic Compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area		Nil

## Table of Our Material Matters

Material Topic	Management Approach (103-1, 103-2 & 103-3)	Topic Boundary (102-46)						
		Internal Stakeholders	External Stakeholders					
		The Company	Brand Owners & Apparel Manufacturers	Investors	Employees	Suppliers	Regulators	Community
Economic Performance (201)	65 - 69	√	√	√	√	√	√	√
Procurement Practices (204)	75 & 76	√	√	√		√		
Materials (301)	84 & 85	√	√				√	
Energy (302)	85 & 86	√					√	√
Water (303)	86 & 88	√	√				√	√
Emissions (305)	87	√	√				√	√
Effluents and Waste (306)	88 & 89	√	√				√	√
Environmental Compliance (307) and Socioeconomic Compliance (419)	41 & 89	√	√	√			√	√
Supplier Environmental Assessment (308) and Supplier Social Assessment (414)	76	√	√			√		
Employment (401)	79 - 83	√			√		√	√
Occupational Health and Safety (403)	82	√	√		√		√	
Training and Education (404)	83	√			√			
Diversity and Equal Opportunity (405)	80 & 81	√	√		√		√	√
Child Labor (408) and Forced or Compulsory Labor (409)	80 & 81	√	√			√	√	
Local Communities (413)	77 & 78	√		√				√
Customer Health and Safety (416) and Marketing and Labeling (417)	75, 97 & 99	√	√					
Customer Privacy (418)	74 & 91	√	√					

# INDEPENDENT ASSURANCE REPORT



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## Independent Assurance Report to Hayleys Fabric PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report- 2018/19

### Introduction and scope of the engagement

The management of Hayleys Fabric PLC (“the Company”) engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2018/19 (“the Report”).

- Reasonable assurance on the information on financial performance as specified on page 59 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: ‘In accordance’ – Core guidelines.

### Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): ‘Assurance Engagements Other than Audits or Reviews of Historical Financial Information’, issued by the Institute of Chartered Accountants of Sri Lanka (“ICASL”).

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines (“GRI Guidelines”) and related information in particular, the requirements to achieve GRI

Standards ‘In accordance’ - Core guideline publication, publicly available at GRI’s global website at “www.globalreporting.org”.

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

### Management of the Company’s responsibility for the Report

The management of the Company is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustainability reporting

process in line with the GRI Sustainability Reporting Guidelines.

### Ernst & Young’s responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: ‘In accordance’ - Core guidelines. This report is made solely to the Company in accordance with our engagement letter dated 13 March

2019. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the ICASL.

### Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing the relevant Company’s personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Company on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Company’s audited financial statements for the year ended 31 March 2019.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: ‘In accordance’ – Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

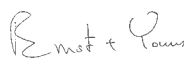
### Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

### Conclusion

Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on page 59 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 March 2019.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Core.



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Chartered Accountants

13 May 2019

Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited



# Financial & Statutory Reports







**“ENGINEERED AND DESIGNED  
TO DELIVER OUTSTANDING  
VALUE, OUR LONG TERM  
STRATEGY AND BUSINESS  
MODEL CONTINUES TO SET US  
APART FROM OTHER PLAYERS  
IN THE INDUSTRY.”**



# FINANCIAL REPORTS

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# REPORT OF THE AUDIT COMMITTEE

## PURPOSE OF THE COMMITTEE

The Audit Committee of Hayleys Fabric PLC is established to assist the Board in fulfilling its oversight responsibility for the Company's financial reporting system, compliance with legal and regulatory requirements, internal control mechanism, risk management process, internal audit function and review of Independence and External Auditors' performance, with a view to safeguarding the interests of the shareholders and all other stakeholders.

The power and responsibilities of the Audit Committee of Hayleys Fabric PLC are governed by the Audit Committee Charter which is approved and adopted by the Board.

## TERMS OF REFERENCE

The Audit Committee has written terms of reference, dealing with its authority and duties, which is carefully designed to discharge the Committee's purpose and duties and responsibilities of the Committee

The terms of reference comply with the requirements of the Section

7.10 of the Corporate Governance Listing Rules of the Colombo Stock Exchange (CSE).

## MEMBERS AND MEETINGS

The Audit Committee of Hayleys Fabric PLC is consists of Independent Non-Executive Directors and formally constituted as a sub-committee of the Main Board. The Committee's composition met the requirements of the rule 7.10.6 of Listing Rules of the Colombo Stock Exchange. The members of the Audit Committee are as follows;

Audit Committee Members	
Chairman	Mr. H. Somashantha*
Members	Dr. N.S.J. Nawartne*
	Mr. A.S.J. Jayatilleka*
	(*Independent Non-Executive Director)
Secretary to the Committee	Hayleys Group Services (Pvt) Ltd
Attendance by Invitation	Mr. A.M. Pandithage - Chairman -Hayleys Fabric PLC
	Mr. E.R.P. Goonetilleke- Managing Director/CEO-Hayleys Fabric PLC
	Mr. S.C. Ganegoda - Director - Hayleys Fabric PLC
	Mr. R. Rohitha Bandara -Director Finance-Hayleys Fabric PLC
	Mr. A. Mathangaweera- Manager -(MA & SRD)-Hayleys PLC
	Mr. Choliya. De. Silva -Group CFO -Hayleys PLC

The Audit Committee comprises individuals with extensive experience in the fields of Accounting & Finance, Corporate Management, and Marketing & Strategic Management. The Chairman of the Audit Committee is a member of the Institute of Chartered Accountants of Sri Lanka and the profiles of the members are given on pages 26 to 30 of this report.

## Key Responsibilities

Audit Committee assesses the integrity of the Financial Statements of the Company and ensures that good financial reporting system is in place sound enough to give accurate appropriate and timely information that is in accordance with the Companies Act No. 7 of 2007 and other legislative reporting requirements and that adequate disclosures are made in the

Financial Statements in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs).

The compliance with legal and regulatory requirements of Companies Act and other relevant financial reporting related regulations and requirements.

Committee evaluates the performances and independence of The External and Internal Auditors (Hayleys Management Audit and System Review Department (HMA and SRD) and make the recommendations to the Board the re-appointment of the change of External Auditors and to recommend their remuneration and terms of engagement and to maintain free and open communication.

Review of the adequacy and effectiveness of the Company's Internal Control and Risk Management systems, over the financial reporting process.

Audit Committee assesses the Company's ability continue as a going concern in the foreseeable future.

## MEETINGS

The Audit Committee met four (4) times during the year and attendance by the Committee members at each of these meetings are given in the Corporate Governance Report on page 38.

The Committee has a written Terms of Reference, which clearly defines the oversight role and responsibility of the Audit Committee as summarized below:

## SUMMARY OF KEY FOCUS AREAS DURING THE YEAR ENDED 31ST MARCH 2019

### Financial Reporting and Financial Control

The Audit Committee reviewed the quarterly and annual Financial Statements prior to its publication

The review included:

- Appropriateness and changes in Accounting Policies.
- Significant estimates and judgment made by the management.
- Compliance with relevant Accounting Standards (SLFRS/ LKASs) and applicable regulatory requirements.
- Issues arising from the Internal Audit and Independent External Audit.
- The Company's ability to continue as a going concern.
- Statements and Reports include in the Annual Report.

### Internal Audit

The Committee monitors the effectiveness of the internal audit function and empowered them to access to information required to conduct their audits.

The internal audit of the Company has been carried out by Hayleys Management Audit and System Review Department (HMA and SRD) and they directly submit their findings to the Audit Committee and relevant reports are available to External Auditors.

Audit Committee has met the Internal Auditors during the year under review and followings were reviewed;

- The Internal Audit program and process
- The effectiveness of Internal Audit functions
- Coverage and adequacy of the internal audit plan
- Follow up the actions taken by the Company recommended by the Internal Audit.

### Risk management and Internal controls

The Audit Committee has reviewed Risk Management Process & Procedures adopted by the Company. The key risks that could impact the operations of the Company have been identified and appropriate actions have been taken to mitigate their impact to the minimum extent.

### External Audit

The Audit Committee reviewed the independence and objectivity of the Independent External Auditors, Messrs Ernst & Young, Chartered Accountants. The Audit Committee has met with the External Auditors to review their audit plan and any observations made by them.

At the conclusion of the audit, the External Auditors met with the Audit Committee to discuss any matters of concern found in the course of the audit and also to discuss the matters mentioned in the Management Letter.

Management responses for those concerns raised by the External Auditors were discussed with the Managing Director/CEO and Chief Financial Officer of the Company.

There were no significant issues during the year under review.

The Committee has received a declaration from the External Auditors, confirming that they do not have any relationship or interest in the Company.

The Committee reviewed the non-audit services and its impact on the independence of the External Auditors.

The current auditors, Messrs Ernst & Young, was initially appointed as the external auditors of the Company, and continue to hold that position at present. A partner rotation of the auditor took place in the current year.

The Audit Committee has recommended to the Board that

Messrs Ernst & Young be re-appointed as the Independent External Auditor.

### COMPLIANCE WITH FINANCIAL REPORTING AND STATUTORY REQUIREMENTS

The Audit Committee receives statutory declaration from Chief Financial Officer quarterly on financial reporting and statutory compliances.

In addition, Committee reviewed the compliance with relevant Sri Lanka Accounting Standards and the Committee has pursued the assistance from Messrs Ernst & Young, Chartered Accountants to assess and review existing Accounting policies and procedures adopted by the Company.

### SUPPORT TO THE COMMITTEE

The Committee received the necessary support and information from the management of the Company during the year to enable them to carry out its duties and responsibilities effectively.

### CONCLUSION

The Audit Committee is satisfied that the effectiveness of the Organizational structure of the Company and the implementation of the Company's Accounting policies and operational controls provide reasonable assurance that the affairs of the Company are managed in accordance with accepted policies and the assets are properly accounted for and adequately safeguarded.



**H. Somashantha**  
Chairman-Audit Committee  
13 May 2019

# REPORT OF THE REMUNERATION COMMITTEE

## COMPOSITION OF THE COMMITTEE

The Committee is currently composed of two Independent Non-Executive one of whom functions as the Chairman. The members of the Committee have wide experience and knowledge of finance, business and industry. The Committee act as a sub-Committee to the Remuneration Committee of the Parent Company, Hayleys PLC.

The Members of the Remuneration Committee consist of as below;

Mr. A.S. Jayatilleka – Chairman

Mr. H. Somashantha

## INDEPENDENCE OF THE COMMITTEE

The members of the Remuneration Committee are independent Directors and are completely free from any business, Operational, personal or other relationships that may interfere with the exercise of their independent, unbiased judgment

## KEY OBJECTIVE

The Committee advises the Board on the policy to be followed on executive remuneration packages for individual Directors and senior management.

## RESPONSIBILITIES

The Remuneration Committee is responsible to the Board for;

- Determining the policy of the remuneration package of the Directors.
- Evaluating performance of the Managing Directors, Executive Directors as well as the individual and collective performance of Directors.
- Deciding on overall individual packages, including compensation on termination of employment

## REMUNERATION POLICY

The remuneration policy is designed to reward, motivate and retain the Company's executive team, with market competitive remuneration and benefits, to support the continued success of the business and creation of shareholder value. Accordingly, salaries and other benefits are reviewed periodically, taking into account the performance of the individual and industry standards.

The remuneration packages which are linked to individual performances are aligned with the Company's short-term and long-term strategy. The Committee makes every effort to maintain remuneration levels that are sufficient to attract and retain Executive Directors.

All Non-Executive Directors receive a fee for serving on the Board and serving on sub-committees. They do not receive any performance related incentive payments. The Hayleys Fabric PLC does not have an employee share ownership plan for members of the Board, who are considered as Key Management Personnel (KMP).

## Directors' Emoluments

The Directors' emoluments are disclosed in Note 22 on page 151.



**A.S. Jayatilleka**

Chairman - Remuneration Committee  
13 May 2019

# REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Related Party Transaction Review Committee of Hayleys PLC, the parent Company functions as the Committee of the Company in terms of the Code of Best Practice on Related Party Transactions issued by the Securities & Exchange Commission of Sri Lanka and the Section 9 of the Listing Rules of the Colombo Stock Exchange.

## Composition of the Committee

The Related Party Transactions Review Committee comprises two Independent Non-Executive Directors and one Executive Director.

The Committee comprises the following members.

Name	Status
Dr. Harsha Cabral, PC.	Chairman - Independent Non -Executive Director
Mr. M.Y.A. Perera	Independent Non-Executive Director
Mr. S.C. Ganegoda	Executive Director

## Meetings & Attendance

Number of Meetings held in 2018/19

Dates of the Meeting	
• 16.05.2018	• 08.11.2018
• 06.08.2018	• 06.02.2019

Name	Attendance
Dr. Harsha Cabral, PC.	4/4
Mr. M.Y.A. Perera	4/4
Mr. S.C.Ganegoda	2/4

## The duties of the Committee

- To review in advance all proposed related party transactions of the group either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.
- Seek any information the Committee requires from management, employees or external parties to with regard to any transaction entered into with a related party.
- Obtain knowledge or expertise to assess all aspects of proposed related party transactions where necessary including obtaining appropriate professional and expert advice from suitably qualified persons.
- To recommend, where necessary, to the Board and obtain their approval prior to the execution of any related party transaction.
- To monitor that all related party transactions of the entity are transacted on normal commercial terms and are not prejudicial to the interests of the entity and its minority shareholders.
- Meet with the management, Internal Auditors/External Auditors as necessary to carry out the assigned duties.

- To review the transfer of resources, services or obligations between related parties regardless of whether a price is charged.
- To review the economic and commercial substance of both recurrent/non recurrent related party transactions
- To monitor and recommend the acquisition or disposal of substantial assets between related parties, including obtaining 'competent independent advice' from independent professional experts with regard to the value of the substantial asset of the related party transaction.

## Task of the Committee

The Committee re-viewed the related party transactions and their compliances of Hayleys Fabric PLC and communicated the same to the Board.

The Committee in its re-view process recognized the adequate of the content and quality of the information forwarded to its members by the management.

**Dr. Harsha Cabral, PC.**

Chairman - Related Party Transactions Review Committee of Hayleys PLC

15 May 2019



# RESPONSIBILITY STATEMENT OF MANAGING DIRECTOR/CEO AND DIRECTOR-FINANCE / CHIEF FINANCIAL OFFICER

The Financial Statements of Hayleys Fabric PLC are prepared in compliance with following requirements;

- Sri Lanka Accounting and Auditing Standards Act No.15 of 1995
- Companies Act No.07 of 2007
- Listing Rules of the Colombo Stock Exchange

The Accounting policies used in preparation of the Financial Statements of the Company are appropriate and applied consistently.

All applicable Sri Lanka Accounting Standards have been duly applied. The significant Accounting policies and estimates involved a high degree of judgment and complexity have been informed discussed with the Audit Committee.

The Board of Directors and the Management of the Company accept the responsibility for the integrity and objectivity of Financial Statements. The estimates and judgments relating to the Financial Statements were made in a prudent and reasonable basis, in order to reflect true and fair picture and the form and substance of transactions and reasonably present the Company's State of affairs.

Company has established proper system of internal control and accounting system in order to safeguard assets, preventing and detecting frauds and other irregularities, which is reviewed and updated on an ongoing basis.

The Internal Auditors Hayleys Management Audit and System Review Department (HMA and SRD) have conducted periodic audits to provide reasonable assurance that the established policies, internal controls and procedures of the Company were consistently followed.

The Financial Statements of the Company were audited by Messrs.' Ernst & Young-Chartered Accountants, the Independent External Auditors.

The Audit Committee of the Company meets periodically with Internal Auditors and where necessary with External Auditors to review the manner in which these Auditors are performing their responsibilities. In addition, internal control and financial reporting issues are also discussed. In order to ensure the independence of the Internal and External Auditors. They have been given full and free access to the members of the Audit Committee to discuss any matters they thing important.



**E. R. P. Goonetilleke**  
Managing Director/CEO



**R. Rohitha Bandara**  
Director – Finance  
13 May 2019

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Board of Directors of Hayleys Fabric PLC are pleased to present its Annual Report to the shareholders for the financial year ended 31st March 2019, together with the audited Financial Statements of the Company and the Auditor's Report on those Financial Statements, conforming to the requirements of the Companies Act No 7 of 2007 and Listing Rules of the Colombo Stock Exchange (CSE).

Hayleys Fabric PLC is a public limited liability company incorporated in Sri Lanka in 1993 under the previous

Companies Act No 17 of 1982 and re-registered as required under the provisions of the Companies Act No 7 of 2007. The re-registration number of the Company is PQ 37.

The issued shares of the Company were listed on the main Board of the Colombo Stock Exchange in Sri Lanka in April 2003.

The registered office of the Company is located at 400, Deans Road, Colombo-10.

The Financial Statements, together with the Reviews and other Reports which form part of the Annual Report were approved by the Board of Directors on 13th May 2019.

## Statutory disclosures

Section 168 of the Companies Act No. 07 of 2007, requires the following information to be published in the Annual Report prepared for the year under review.

Disclosure requirements	Reference to the Companies Act No. 07 of 2007	Disclosure reference for compliance	Page
The nature of the business of the Company	Section 168 (1) (a)	About Us	6
Financial Statements for the accounting Period completed and signed in accordance with section 152	Section 168 (1) (b)	The Financial Statements of the Company for the year ended 31st March 2019	126 to 158 Signed on page 126
Auditor's report on the Financial Statements of the Company	Section 168 (1) (c)	Independent Auditors' Report.	123 to 125
Any change in accounting policies made During the accounting period	Section 168 (1) (d)	Note 3 to the Financial Statements - Changes in Accounting Policies	131
Particulars of entries in the interests register made during the accounting period	Section 168 (1) (e)	Directors' Interest in Contracts with the Company Details of the Directors' shareholdings. Investor Information There were no changes to the Directors' shareholding during the financial year.	165
Remuneration and other benefits of directors during the accounting period	Section 168 (1) (f)	Note 22 to the Financial Statements - Profit/ (Loss) Before Tax. Corporate Governance report - Directors' and Executive Remuneration, provides details of the remuneration framework	151 40
Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Note 22 to the Financial Statements - Profit/ (Loss) Before Tax	151

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Disclosure requirements	Reference to the Companies Act No. 07 of 2007	Disclosure reference for compliance	Page
Names of the persons holding office as Directors of the Company as at the end of the accounting period and the names of any persons who ceased to hold office as directors of the Company during the accounting period	Section 168 (1) (h)	Board Profiles  In terms of the Article 29 of the Articles of Association of the Company, Mr. A. M. Pandithage and Mr. S. C. Ganegoda retire by rotation and being eligible offer themselves for re-election	26 to 30
New Appointment	Section 168(1) (h)	Mr. Malith Hasantha Jayasinghe was appointed to the Board with effect from 1st April 2019. In terms of Article 27(2) of the Article of Association of the Company, shareholders will be requested to elect him at the Annual General Meeting, a Director. His profile is given on page 32.	
Amounts payable by the Company to the Person or firm holding office as auditor of the Company as audit fees and as a separate item, fees payable by the Company for other services provided By that person or firm ;	Section 168 (1) (i)	Note 22 to the Financial Statements - Profit/ (Loss) Before Tax	151
Particulars of any relationship (other than that of auditor) which the auditor has with or any interests which the auditor has in, the Company or any of its subsidiaries	Section 168 (1) (j)	The Company's auditors during the period under review were Messrs. Ernst & Young, Chartered Accountants.	111
		The auditors do not have any relationship or interest with the Company other than that of an Auditor.	111
		A resolution authorizing the Directors to fix the remuneration of the Auditors who are deemed re-appointed in terms of the section 158 of the Companies Act No 07 of 2007 will be proposed at the Annual General Meeting.	111
Signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Annual Report of the Board of Directors	119

In addition to the above, the following information is disclosed. The details are provided within notes to the Annual report, which form an integral part of the Annual Report of the Board of Directors.

Disclosure	Note Reference	Page
Principal Activities	About us	8
Vision, Mission and Values	The Company is committed to upholding high standards of business conduct and ethics in the work place at all times, paramount in retaining the trust of stakeholders. All employees abide by the Company's Code of Conduct and Ethics in achieving the vision and mission.	9

Disclosure	Note Reference	Page
Review of Business performance	Chairman's Message	18
	Managing Director's Review	22
	Managing Our Capitals & Impacts	64
	Measures taken to manage risks are given in the Risk Management Report	94
Financial Statements	The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and comply with the requirements of Companies Act No 7 of 2007.  These Statements have been duly approved by the Directors and certified by the Chief Financial Officer/Director Finance.	126
Directors' Responsibility for Financial Reporting	The Statement of Directors' Responsibility for Financial Reporting	121
Auditors' Report	Independent Auditors' Report	123
Significant Accounting Policies	Note 3 to the Financial Statements - Significant Accounting Policies	131
Going Concern	Note 3.2 to the Financial Statements – Going Concern	132
Revenue	Note 18 to the Financial Statements – Revenue	150
Financial Results and Appropriations	Statement of Profit or Loss and other Comprehensive Income	127
	Statement of Changes in Equity	128
Taxation	Note 23 to the Financial Statements - Taxation	152
Corporate Donations	Note 22 to the Financial Statements - Profit Before Tax	151
Stated Capital and Reserves	Statement of Changes in Equity	128
Property, Plant and Equipment	Note 6 to the Financial Statements - Property, Plant and Equipment	142
Intangible assets	Note 7 to the Financial Statements – Intangible Assets	144
Capital Expenditure	The total capital expenditure on acquisition of property, property, plant and equipment and intangible assets of the Company amounted to USD 1,733,345 and USD 5,625 respectively. Details are given in Note 6 and 7 to the Financial Statements. Capital expenditure approved and contracted for, and not contracted for, as at Reporting date are given in Note 26 to the Financial Statements under Commitments and Contingencies.	143, 144 and 155
Market Value of Freehold Properties	Note 6.8 to the Financial Statements - Property, Plant and Equipment.	143
Contingent Liabilities and Commitments	Note 26 to the Financial Statements - Commitments and Contingencies	155
Events after the Reporting period	Note 28- to the Financial Statements - Events After the Reporting Period	156
Risk Management	Disclosure of the different types of risks the Company activities were exposed to, are given in Note 29- to the Financial Statements.	156
	The Company's risk management process is described in the Annual Report.	94



# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Disclosure	Note Reference	Page
Statutory Payments	The Directors, to the best of their knowledge are satisfied that all statutory payments in relation to the Government and the employees have been made up to date.	121
Internal Control	The Board is responsible for formulating and implementing sound internal control systems to safeguard shareholder interests and assets of the Company. Directors' Statement on Internal Control	120
Corporate Governance	Corporate Governance Report The Company has complied with the Listing Rules of the Colombo Stock Exchange (CSE) and the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (ICASL)	35
Environmental Protection	To the best of knowledge of the Board, the Company has not engaged in any activity that is harmful or hazardous to the environment and has complied with the relevant environmental laws and regulations. Specific measures taken to protect the environment are found in the Natural Capital Report.	89
Compliance	To the best of their knowledge, the Board believes that the Company has not engaged in any activity which contravenes laws and regulations. There have been no irregularities involving management or employees that could have any material financial or other effect.	
Stated Capital	Note 13 to the Financial Statements – Stated Capital	146
Share Information and Shareholdings	Share Information Investor information	164 164
Register of Directors and Secretaries	As required under Section 223 (1) of the Companies Act No 7 of 2007, the Company maintains a Register of Directors and Secretaries which contains the name, surname, former name (if any), residential address, business, occupation, dates of appointment and dates of resignation (if applicable) of each Director and the Secretary.	
Board of Directors	Board Profiles Board Composition The Board, Corporate Governance Report	26 35
Board Committees	Board Committees - Corporate Governance Report	39
Board and Committee meeting attendance	Attendance at meetings - Corporate Governance Report	38
Directors' shareholdings	Investor Information	165
Directors' interest in transactions	The Directors declared in terms of the requirement of the listing rules of the Colombo Stock Exchange that the transactions carried out by the Company with its Related Parties during the financial year ended 31st March 2019 did not exceed 10% of equity or 5% of the total assets of the Company. Related party transactions are disclosed in Note 25 to the Financial Statements	
Directors' Remuneration	Note 22 to the Financial Statements - Directors' Emoluments	151
Human Resources	Human Capital	79

Disclosure	Note Reference	Page								
Insurance and Indemnity	A Corporate Guard has been taken from Orient Insurance Ltd for the Group by Hayleys PLC (parent company) to indemnify all past, present and future directors and officers liability of the Company <table border="1"> <tr> <td>Policy No.</td> <td>P/100/6020/2015/10</td> </tr> <tr> <td>Limit of Liability</td> <td>USD 5,000,000</td> </tr> <tr> <td>Policy Premium</td> <td>LKR 8,321,959</td> </tr> <tr> <td>Period</td> <td>From 01.06.2018 to 31.05.2019</td> </tr> </table>	Policy No.	P/100/6020/2015/10	Limit of Liability	USD 5,000,000	Policy Premium	LKR 8,321,959	Period	From 01.06.2018 to 31.05.2019	
Policy No.	P/100/6020/2015/10									
Limit of Liability	USD 5,000,000									
Policy Premium	LKR 8,321,959									
Period	From 01.06.2018 to 31.05.2019									
Material Foreseeable Risk Factors (As per Rule No. 7.6(VI) of the Listing Rules of the Colombo Stock Exchange)	Risk Management Review	94								
Material Issues Pertaining to Employees and Industrial Relations Pertaining to the Company (As per Rule No. 7.6 (VII) of the Listing Rules of the Colombo Stock Exchange)	No material issues occurred during the year									
Operational Excellence	Performance Highlights	11 to 13								

### Related Party Transactions

The Board of Directors has given the following statement in respect of the related party transactions. The related party transactions of the Company during the financial year have been re-viewed by the Related party Transactions Review Committee of Hayleys PLC, the Parent Company of Hayleys Fabric PLC and are in compliance with Section 09 of the CSE Listing Rules.

### Notice of Annual General Meeting

The Annual General Meeting of the Company is convened on 26th June 2019, at 3.00 pm, at the Auditorium of the Registered Office of the Company, No 400, Deans Road, Colombo. The Notice of the Annual General Meeting appears on page 166.

### Acknowledgement of the Contents of the Report

As required by Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors hereby acknowledges the contents of this Annual Report.

For and on behalf of the Board of Directors



**A.M. Pandithage**  
Chairman



**E.R.P. Goonetilleke**  
Managing Director



**Hayleys Group Services (Pvt) Ltd**  
Secretaries  
13 May 2019

# BOARD OF DIRECTORS' STATEMENT ON INTERNAL CONTROLS

## Requirement

The Section D.1.5 of the 'Code of Best Practice on Corporate Governance 2017' (The Code) issued by the Institute of Chartered Accountants of Sri Lanka recommends that the Board of Directors present a Statement on Internal Controls in the Annual Report.

The Board of Directors is responsible for formulating and implementing a sound system of internal controls and for periodically reviewing its effectiveness and integrity in terms of mitigating any risk associated and safeguard the Company's assets and prevention of their misused or unauthorized disposal.

The Board is in the opinion that the system of internal controls is sound and adequate and accordingly the System of internal controls can provide a reasonable but not absolute assurance against successful management of risk, financial losses or fraud.

The Board identifies significant risk on an ongoing basis and take necessary actions for implementation of appropriate procedures to evaluate and manage the identified risks.

## Board Committee

The Board Committee and Management Committee have been established to assist the Board to ensure the effectiveness of the Company's operations and are directed towards corporate objectives, strategy, Company's budgets, Company policies, taking in to consideration the business environment and internal operating conditions.

## Internal Audit

Company's Internal Audit function is performed by Hayleys Management Audit and System Review

Department (HMA and SRD) which is an independent function report directly to Audit Committee that provides assurance on the efficiency and effectiveness of the Internal Control System of the Company and more details are available in Audit Committee Report on page 110.

## Review adequacy and Effectiveness

The Board and Audit Committee have reviewed effectiveness of the financial, operations and compliance controls and internal control system including the risk management and taken appropriate actions where necessary. Thereby the Board and the Audit Committee assure that effective system of risk management and internal control system are in place to safeguard the assets of the Company.

## Code of Business Conduct and Ethics

The Board ensures that Directors and employees strictly comply with Company's Code of Ethics at all levels in the performance of their official duties, communications, role modelling and in any other circumstances, so as to prevent the tarnishing of the Company's image in any manner. The violation of the Code of Ethics is an offence that is subject to disciplinary action.

## Confirmation

The Board of Hayleys Fabric PLC confirms that all Financial Statements are prepared in accordance with the requirements of the Companies Act No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act, the Listing Rules of the Colombo Stock Exchange and other regulatory bodies as applicable for the Company.

We have duly complied with all the requirements prescribed by the regulatory authorities including the Colombo Stock Exchange and

the Registrar of Companies. The Company Financial Statements for the year ended 31st March 2019 have been audited by Messrs. Ernst & Young, Chartered Accountants,

By order of the Board



**E.R.P. Goonetilleke**  
Managing Director/CEO



**H. Somashantha**  
Chairman-Audit Committee



**R. Rohitha Bandara**  
Director - Finance

Colombo  
13 May 2019

# STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The responsibilities of the Directors in relation to the Financial Statements of the Company are set out in this statement. The responsibility of the Auditors, in relation to the Financial Statements is set out in the Report of the Auditors on pages from 123 to 125 as required by the Companies Act No.7 of 2007.

## The financial statements comprise of:

- Income statement and statement of comprehensive income of the Company, which present a true and fair view of the profit and loss of the Company for the financial year.
- A statement of financial position, which presents a true and fair view of the state of affairs of the Company as at the end of the financial year.
- Statement of Changes in Equity and Cash Flow for the year then ended and Accounting Policies and Notes thereto.

Accordingly, the Board of Directors confirms that the Financial Statements of the Company give a true and fair view of the;

- Financial position of the Company as at 31st March 2019; and Financial performance of the Company for the financial year ended 31st March 2019

The Directors are required to confirm that the Financial Statements have been prepared:

- Using appropriate accounting policies which have been selected and applied in a consistent manner, and material departures, if any, have been disclosed and explained; and

- The Financial Statements of the Company are prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs/ LKASs); and that reasonable and prudent judgments and estimates have been made so that the form and substance of transactions are properly reflected; and
- Listing Rules of the Colombo Stock Exchange are complied with.

The Directors are also required to ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy the financial position of the Company.

The Directors are required to prepare the Financial Statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections that may be considered being appropriate to enable them to give their audit opinion

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

The Directors are of the view that they have discharged their responsibilities as set out in this statement

## Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company, and all other known statutory dues as were due and payable by the Company as at the reporting date have been paid, or where relevant provided for, except as specified in Note 26.2 to the Financial Statements covering contingent liabilities.

By Order of the Board,

**Hayleys Group Services (Pvt) Ltd**  
Secretaries  
Colombo

13 May 2019



# FINANCIAL CALENDAR 2018/19

1st Quarter Report	31 July 2018
2nd Quarter Report	01 November 2018
3rd Quarter Report	21 January 2019
4th Quarter Report	13 May 2019
Annual Report 2018/19	31 May 2019
27th Annual General Meeting	26 June 2019

# INDEPENDENT AUDITOR'S REPORT



Ernst & Young  
Chartered Accountants  
201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

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**To the Shareholders of Hayleys Fabric PLC**  
**Report on the audit of the financial statements**

## Opinion

We have audited the financial statements of Hayleys Fabric PLC ("the Company") which comprise the statement of financial position as at 31 March 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were

addressed in the context of the audit of the financial statements as a whole, and in forming the opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

## Key audit matters

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Valuation of Inventories</b></p> <p>Inventories amount to USD 13,299,520 as at the reporting date, being 28% of the Total Assets of the Company.</p> <p>The Company has applied judgment in the determination of inventories that are slow moving, also considering the ageing of inventories. An impairment of USD 795,001 has been recorded as an impairment loss as reflected in Note 8 to the financial statements.</p> <p>Further, the Company has identified finished goods amounting to USD 98,697 as second grade finished goods, which are recorded at net realizable value (NRV). The determination of NRV also represents a significant judgement as such is dependent on prices that the Company would be able secure.</p> <p>The significance of the balance coupled with the judgment involved in the determination of impairment as well as the determination of NRV for second grade finished goods has resulted in the valuation of inventories being identified as a key audit matter.</p>	<p>To validate the valuation of inventories, we;</p> <ul style="list-style-type: none"> <li>- assessed the appropriateness of the impairment recognized by the Company, checking inventory ageing reports to determine whether management has appropriately considered slow moving inventories, and</li> <li>- for finished goods identified as second grade, we checked the appropriateness of net realizable value, performing tests on sales prices secured by the Company for similar or comparable items of inventories,</li> </ul> <p>We also assessed the adequacy of disclosures made in relation to the valuation of inventories in Note 8 to the financial statements.</p>

# INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Impairment Assessment of Plant and Machinery</b></p> <p>The carrying value of the Company's plant and machinery as at 31 March 2019 amounted to USD 14,154,844.</p> <p>The carrying values of these assets are reviewed annually by management for potential indicators of impairment. For assets where such indicators exist, management performs an impairment test, taking into account, inter alia, the impact of revenue assumptions and technical factors which may affect the expected remaining useful lives and carrying value of the assets.</p> <p>An amount of USD 90,019 was recognized as an impairment loss by the Company as described in Note 6.9 to the financial statements.</p> <p>We identified the impairment of plant and machinery as a key audit matter because the assessment can involve a significant degree of management judgement in determining the production capabilities of identified items of plant and machinery as well as expected sales volumes from the related products.</p>	<p>Our audit procedures to assess the impairment of plant and machinery included the following:</p> <ul style="list-style-type: none"> <li>- obtaining, discussing with management and evaluating the key assumptions underlying management's assessment of potential impairment of these assets, and</li> <li>- where potential indicators of impairment were identified, evaluating management's impairment assessments and the assumptions adopted therein, including the determination of production capabilities, revenue assumptions with reference to the actual revenue levels achieved in the current year and future operating plans.</li> </ul> <p>We also assessed the adequacy of disclosures made in relation to the assessment of impairment in the financial statements.</p>

## Other Information included in the 2019 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that

a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on other legal and regulatory requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2440.

*Ernst & Young*

Chartered Accountants  
13 May 2019  
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited



# STATEMENT OF FINANCIAL POSITION

As at 31st March	Note	2019 USD	2018 USD
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	6	24,819,631	25,015,918
Intangible assets	7	64,117	152,030
		24,883,748	25,167,948
<b>Current Assets</b>			
Inventories	8	13,299,520	11,524,663
Trade receivables	9	8,394,207	7,896,734
Other receivables	10	373,932	664,891
Advances and prepayments	11	373,499	489,158
Cash and cash equivalents	12	284,635	345,731
		22,725,793	20,921,177
<b>Total Assets</b>		47,609,541	46,089,125
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Stated capital	13	17,561,761	17,561,761
Revaluation reserve		1,415,280	1,240,369
Retained losses		(1,117,816)	(1,765,160)
<b>Total Equity</b>		17,859,225	17,036,970
<b>Non-Current Liabilities</b>			
Interest bearing loans and borrowings	14	1,054,778	3,286,112
Deferred tax liabilities	23.2	1,768,003	1,360,184
Retirement benefit obligations	15	2,534,443	2,033,015
		5,357,224	6,679,311
<b>Current Liabilities</b>			
Trade and other payables	16	8,729,229	8,212,686
Interest bearing loans and borrowings	14	14,130,063	13,420,559
Amounts due to Hayleys PLC		62,018	52,934
Other non financial liabilities	17	1,471,782	686,665
		24,393,092	22,372,844
<b>Total Equity and Liabilities</b>		47,609,541	46,089,125

These financial statements are in compliance with the requirements of the Companies Act No : 07 of 2007.



Ruwan Rohitha Bandara  
Director - Finance

The Board of Directors is responsible for these financial statements. Signed for and on behalf of the Board by,



A.M.Pandithage  
Chairman

Colombo  
13 May 2019



E.R.P.Goonetilleke  
Managing Director

The accounting policies and notes on pages 130 through 158 form an integral part of these financial statements.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31st March	Note	2019 USD	2018 USD
<b>Revenue from Contracts with Customers</b>	18	69,940,639	57,686,803
Cost of Sales		(61,601,834)	(51,609,217)
<b>Gross Profit</b>		8,338,805	6,077,586
Other operating income	19	67,049	60,914
Administrative expenses		(4,779,539)	(4,724,567)
Distribution expenses		(781,286)	(488,944)
Other expenses	20	(103,757)	-
Net financing costs	21	(892,404)	(974,034)
<b>Profit/(loss) before tax</b>		1,848,868	(49,045)
Income tax expense	23	(790,533)	(630,471)
<b>Profit/(loss) for the year</b>		1,058,335	(679,516)
Other Comprehensive Income not to be reclassified to profit or loss			
- Surplus on revaluation of land	6.8	203,386	-
- Income tax effect on revaluation of land	23.2	(28,475)	(201,920)
- Actuarial gain/(loss) on defined benefit plans	15	(477,896)	387,138
- Income tax effect on actuarial gain/(loss) on defined benefit plans	23.2	66,905	(54,199)
<b>Total Comprehensive Income, Net of Tax</b>		822,255	(548,497)
Basic / Diluted Earnings/(loss) per Share	24	0.005	(0.003)

The accounting policies and notes on pages 130 through 158 form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

Year ended 31st March 2019	Stated capital USD	Revaluation reserve USD	Retained earnings/ (losses) USD	Total USD
<b>Balance as at 1st April 2017</b>	17,561,761	1,442,289	(1,418,583)	17,585,467
Loss for the year	-	-	(679,516)	(679,516)
<b>Other comprehensive income</b>				
Income tax effect on surplus on revaluation of land	-	(201,920)	-	(201,920)
Actuarial gain on defined benefit plans	-	-	387,138	387,138
Income tax effect on actuarial gain on defined benefit plans	-	-	(54,199)	(54,199)
Total other comprehensive income	-	(201,920)	332,939	131,019
Total comprehensive income	-	(201,920)	(346,577)	(548,497)
<b>Balance as at 31st March 2018</b>	17,561,761	1,240,369	(1,765,160)	17,036,970
Profit for the year	-	-	1,058,335	1,058,335
<b>Other comprehensive income</b>				
Surplus on revaluation of land	-	203,386	-	203,386
Income tax effect on surplus on revaluation of land	-	(28,475)	-	(28,475)
Actuarial loss on defined benefit plans	-	-	(477,896)	(477,896)
Income tax effect on actuarial loss on defined benefit plans	-	-	66,905	66,905
Total other comprehensive income	-	174,911	(410,991)	(236,080)
Total comprehensive income	-	174,911	647,344	822,255
<b>Balance as at 31st March 2019</b>	17,561,761	1,415,280	(1,117,816)	17,859,225

The accounting policies and notes on pages 130 through 158 form an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

Year ended 31st March	Note	2019 USD	2018 USD
<b>Cash flows from / (used in) operating activities</b>			
Profit /(loss) before income tax expense		1,848,868	(49,045)
Adjustments for			
Depreciation on property, plant and equipment	6	2,020,888	1,955,485
Amortization of intangible assets	7	93,538	143,410
Provision for retiring gratuity	15	362,013	394,668
Net unrealised gain on translation of foreign currency		(227,873)	(47,507)
Net finance costs		991,393	827,555
(Profit)/loss on disposal of property, plant and equipment		13,738	(182)
Loss on impairment of property, plant and equipment		90,019	-
Creditors write back	6	(47,044)	(60,732)
Impairment for bad and doubtful debts		26,397	65,566
Impairment for slow moving inventories		84,282	73,041
Operating profit before working capital changes		5,256,219	3,302,259
Increase in trade and other receivables		(185,867)	(1,272,576)
Decrease in advances and prepayments		115,659	733,612
Increase in inventories		(1,859,139)	(389,861)
Increase in trade and other payables and other non financial liabilities		991,780	2,992,095
Cash generated from operations		4,318,652	5,365,529
Retiring gratuity paid	15	(110,608)	(123,598)
Interest paid		(955,178)	(794,970)
Economic service charge paid		(325,316)	(211,448)
Net cash flows from operating activities		2,927,550	4,235,513
<b>Cash flows from / (used in) investing activities</b>			
Purchase and construction of property, plant and equipment		(1,469,566)	(2,329,077)
Proceeds from disposal of property, plant and equipment		8,375	509
Purchase of intangible assets	7	(5,625)	(48,233)
Interest received		-	1,027
Net cash flows used in investing activities		(1,466,816)	(2,375,774)
<b>Cash flows from / (used in) financing activities</b>			
Proceeds from new term loans	14	310,000	-
Repayment of term loans	14	(2,710,509)	(2,572,428)
Net cash flows used in financing activities		(2,400,509)	(2,572,428)
<b>Net Decrease in Cash and Cash Equivalents</b>		(939,775)	(712,690)
<b>Cash and Cash Equivalents at the beginning of the year</b>	12	(10,380,320)	(9,667,630)
<b>Cash and Cash Equivalents at the end of the year</b>	12	(11,320,095)	(10,380,320)

The accounting policies and notes on pages 130 through 158 form an integral part of these financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

### 1.1 Domicile and Legal Form

Hayleys Fabric PLC (“Company”) is a limited liability company incorporated and domiciled in Sri Lanka. The ordinary shares of the Company are listed on the Colombo Stock Exchange of Sri Lanka. The Company’s registered office is situated in 400, Deans Road, Colombo 10 and the principle place of business of the Company is at Narthupana Estate, Neboda.

### 1.2 Principal Activities and Nature of Operations

The Company’s principal activity is the manufacture of knitted fabric.

### 1.3 Parent Enterprise

In the opinion of the Directors, the Company’s ultimate parent undertaking and controlling party is Hayleys PLC, which is incorporated in Sri Lanka.

### 1.4 Approval of Financial Statements

The financial statements of Hayleys Fabric PLC were authorized for issue in accordance with a resolution of the Board of Directors on 13th May 2019

### 1.5 Responsibility for Financial Statements

The responsibility of the Directors in relation to the Financial Statements is set out in the Statement of Directors’ Responsibility Report in the Annual Report.

## 2. BASIS OF PREPARATION

The financial statements of the Company comprise the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows together with the Accounting Policies and Notes to the financial statements.

The financial statements have been prepared on a historical cost basis, except for land which is reflected at fair value.

### 2.1 Statement of Compliance

The financial statements have been prepared in accordance with the Sri Lanka Accounting and Auditing Standards Act No 15 of 1995, which requires compliance with Sri Lanka Accounting Standards promulgated by The Institute of Chartered Accountants of Sri Lanka (CASL), and with the requirements of Companies Act No 7 of 2007.

### 2.2 Functional and Presentation Currency

The financial statements are presented in United States Dollars (USD) as commercial transactions are primarily carried out by the Company in USD and such would better reflect the economic substance of underlying events and circumstances relevant to the enterprise.

### 2.3 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

### 2.4 Comparative information

Comparative information including quantitative, narrative and descriptive information as relevant is disclosed in respect of previous period in the Financial Statements. The presentation and classification of the Financial Statement of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

No restatements were made to comparative information as a

result of the Company’s adoption of SLFRS 9 and SLFRS 15.

### 2.5 Offsetting

Assets and liabilities or income and expenses, are not offset unless required or permitted by Sri Lanka Accounting Standards.

### 2.6 Use of Estimates and Judgments

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of income, expenses, assets, liabilities, and the disclosure of contingent liabilities, at the end of the reporting period.

Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual experience and results may differ from these judgments and estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period and any future periods.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are discussed below.

### Depreciation of Property, Plant and Equipment

Management assigns useful lives and residual values to property, plant and equipment based on the intended use of assets and the economic lives of these assets. Subsequent changes in

circumstances such as technological advances or utilization of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Management reviews annually the residual values and useful lives of major items of property, plant and equipment. Refer Note 3.6.7 for useful lives used in depreciating Property, Plant and Equipment in the Company.

#### Retirement Benefit Obligations

The cost of defined benefit plan is determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Further details about the assumptions used are provided in Note 15.3.

#### Valuation of Inventories

The Company manufactures and sells fabric based on customized specifications made by its customers. The price of fabric manufactured by the Company varies based on the Company's determination of whether the stock items are 1st Grade or 2nd Grade Stocks. Judgement is required to assess whether finished goods can be resold as 1st or 2nd Grade stocks as well as to determine the appropriate level of impairment for items which may not be resold or which would be sold in the local market at a nominal price. Such judgements include management's expectations of repeat orders to utilize the finished goods in stock and the price that would be

recovered through a sale in the local market.

#### Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

#### Deferred Tax

Deferred Tax Assets as reflected in Note 23.2 are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Changes in Accounting Policies

##### 3.1.1 New and amended standards and interpretations

The Company applied SLFRS 15 and SLFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018/19, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

#### a) SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 supersedes LKAS 11 Construction Contracts, LKAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. SLFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

SLFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted SLFRS 15 using the modified retrospective method of adoption. Based on the assessment performed, the Company concluded that SLFRS 15 does not have a material impact on the Company's Financial Statements.

#### b) SLFRS 9 Financial Instruments

SLFRS 9 Financial Instruments replaces LKAS 39 Financial Instruments: Recognition and Measurement for annual periods

# NOTES TO THE FINANCIAL STATEMENTS

beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

## Classification and measurement

Under SLFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Company's business model was made as of the date of initial application, 1 April 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 April 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

Trade receivables and Other non-current financial assets previously classified as Loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as Debt instruments at amortised cost. The classification and measurement requirements of SLFRS 9 did not have a significant impact on the Company.

## Impairment

SLFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables,

either on a 12-month or lifetime basis. The Company applies the simplified approach and records lifetime expected losses on all trade receivables. The Company reassessed the impairment loss recognized by the Company and there was no significant effect which arose on the adoption of SLFRS 9.

## 3.2 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

## 3.3 Foreign Currency Transactions

Transactions in foreign currencies are translated to USD at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in the Statement of Profit or Loss. Non-monetary assets and liabilities which are measured in terms of historical cost in a foreign currency are translated using exchange rates at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition

of gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Company initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Company determines the transaction date for each payment or receipt of advance consideration.

## 3.4 Current versus Non-Current Classification

The Company presents assets and liabilities in the statement of financial position as current and non-current.

An asset is classified as current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- It does not have a right at the reporting date to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

### 3.5 Fair Value Measurement

The Company measures land at fair value in these financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-

financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has

determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### 3.6 Property, Plant and Equipment

The Company applies the requirements of LKAS 16 on 'Property Plant and Equipment' in accounting for its owned assets which are held for and use in the provision of the services or for administration purpose and are expected to be used for more than one year.

#### 3.6.1 Basis of recognition

Property, plant and equipment is recognised if it is probable that future economic benefit associated with the assets will flow to the Company and cost of the asset can be reliably measured.

#### 3.6.2 Basis of measurement

Items of property, plant & equipment including construction in progress are measured at cost net of accumulated depreciation and accumulated impairment losses, if any, except for land which is measured at fair value.

#### 3.6.3 Owned Assets

The cost of property, plant and equipment includes expenditure 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 and borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of that equipment.



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When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Revaluation of land is done with sufficient frequency to ensure that the fair value of the land does not differ materially from its carrying amount, and is undertaken by professionally qualified valuers.

Any revaluation surplus is recorded in other comprehensive income and credited to the revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit or loss, in which case, the increase is recognised in the statement of profit or loss. A revaluation deficit is recognised in the statement of profit or loss except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

### 3.6.4 Leased Assets

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a Finance Lease. Finance leases are capitalised at the commencement of the lease at the fair value of the

leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the Statement of Profit or Loss on a straight-line basis over the lease term.

### 3.6.5 Subsequent Costs

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 Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised in accordance with the derecognition policy given below.

The costs of the repair and maintenance of property, plant & equipment are recognised in the Statement of Profit or Loss as incurred.

### 3.6.6 Derecognition

The carrying amount of an item of property, plant & equipment is derecognised on disposal; or when no future economic benefits are expected from its use. Any gains and losses on derecognition are recognised (calculated as the difference between the net disposal

proceeds and the carrying amount of the asset) in the Statement of Profit or Loss. Gains are not classified as revenue. When revalued assets are sold, any related amount included in the Revaluation Reserve is transferred to Retained Earnings.

### 3.6.7 Depreciation

Depreciation is recognised in the statement of profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets unless it is reasonably certain that the Company will have ownership by the end of the lease term. Freehold land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows;

Buildings	40 years
Water Treatment Plant	15 years
Plant & Machinery	15-20 years
Motor Vehicles	5 years
Furniture and Fittings	6 2/3 years
Office Equipment	6 2/3 years
Computers	6 2/3 years
Factory Equipment	6 2/3 years
Safety and Medical Equipment	6 2/3 years
Bungalow Equipment	6 2/3 years

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

### 3.7 Intangible Assets

#### 3.7.1 Basis of recognition

An Intangible asset is recognised if it is probable that future economic benefit associated with the assets will flow to the Company and cost of the asset can be reliably measured.

#### 3.7.2 Basis of measurement

Intangible assets acquired separately are measured on initial recognition at cost. The costs of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in the Statement of Profit or Loss in the year in which the expenditure is incurred.

#### 3.7.3 Useful economic lives and amortisation

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category

consistent with the function of the intangible assets.

Intangible Assets of the Company consists of Computer Software, which being an intangible asset with a finite useful life is amortized over a period of 4 – 6 2/3 years, as such represents management's best estimate.

#### 3.7.4 De-recognition of intangible assets

Intangible assets are de-recognised on disposal or when no future economic benefits are expected from its use. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Statement of Profit or Loss when the asset is derecognised.

### 3.8 Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- 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 share of production overhead based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business less, the estimated cost of completion and the estimated costs necessary to make the sale.

### 3.9 Cash and Cash Equivalents

Cash and cash equivalents are cash in hand and demand deposits that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts, and short term loans.

### 3.10 Impairment of Non-Financial Assets

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. In assessing indicators of impairment, management assesses, (amongst others) the existence of assets which remain idle, assets which have been subject to wear and tear or technological obsolescence, and items of inventories which have not been sold or used in the production process for a significant period of time. If any such indication exists, then the asset's recoverable amount is estimated. 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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss.

### 3.11 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another entity.

#### 3.11.1 Financial Assets

##### 3.11.1.1 Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair

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value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under SLFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

## 3.11.1.2 Subsequent measurement of financial assets

For purposes of subsequent measurement, financial assets are classified in four categories;

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

All financial assets of the Company represent Financial assets at amortised cost (debt instruments). Prior to the adoption of SLFRS 9, Financial Assets at the amortised cost was classified as Loans and Receivables. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade and other receivables.

## 3.11.1.3 Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e: removed from the Company's financial position) when:

The rights to receive cash flows from the asset have expired

Or

The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either

- (a) the Company has transferred substantially all the risks and rewards of the asset, or
- (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

#### 3.11.1.4 Impairment of financial assets

Further disclosures relating to impairment of Trade receivables is provided in the note 9.2 to the Financial Statements

For trade receivables and contract assets, the Company applies a simplified approach in calculating Expected Credit Loss (ECLs). Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

### 3.11.2 Financial liabilities

#### 3.11.2.1 Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, amounts due to related parties, bank overdrafts, loans and borrowings.

#### 3.11.2.2 Subsequent measurement

After initial recognition, financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the Statement of Profit or Loss.

#### 3.11.2.3 Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of Profit or Loss.

### 3.11.3 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if,

- There is a currently enforceable legal right to offset the recognised amounts and
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

## 3.12 Employee benefits

### Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Provident and Trust Funds covering all employees are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

The Company contributes 12% and 3% of gross emoluments to employees as Provident Fund and Trust Fund contribution respectively.

### Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The defined benefit is calculated by independent actuaries using Projected Unit Credit (PUC) method as recommended by LKAS 19 – “Employee benefits”. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability. The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Key assumptions used in determining the defined retirement benefit obligations are given in Note 15.3. Any changes in these assumptions will impact the carrying amount of defined benefit obligations. Actuarial gains



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or losses are recognised in full in the Other Comprehensive Income.

Provision has been made for retirement gratuities from the beginning of service for all employees, in conformity with LKAS 19 on employee benefit. 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. The settlement of the liability is carried out on the following basis;

Length of service (years)	No. of months' salary for each completed year
5 and Up to 20	1/2
Over 20 and up to 25	3/4
Over 25 and up to 30	1
Over 30 and up to 35	1 ¼
Over 35	1½

## Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

## 3.13 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## 3.14 Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

## 3.15 Revenue from contract with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

## Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of goods, the Company considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

## Variable considerations

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be

entitled in exchange for transferring the goods to the customer.

The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

## Right of return assets

Right of return asset represents the Company's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Company updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Up to 31 March 2018, revenue from the sales of goods was recognized in the statement of profit or loss when significant risks and rewards of ownership were transferred to the buyers in accordance with LKAS 18.

## 3.16 Other Income

### Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial assets or liability (or, where appropriate a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

The calculation of effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental cost that are directly attributable to the acquisition or issue of a financial asset or liability. Interest income is presented in finance income in the Statement Profit or Loss.

#### Gains and losses

Gains and losses on disposal of an item of property, plant & equipment are determined by comparing the net sales proceeds with the carrying amounts of property, plant & equipment and are recognised net within "other income" in profit or loss.

#### Other income

Other income is recognized on an accrual basis.

### 3.17 Expenses

Expenses are recognized in the profit or loss on the basis of a direct association between the cost incurred and the earnings of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year. For the purpose of presentation of the Statement of Profit or Loss, the function of expenses method is adopted.

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

#### 3.17.1 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### 3.18 Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the Statement of Profit or Loss except items recognised directly in Other Comprehensive Income.

#### 3.18.1 Current tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current tax relating to items recognised directly in Other Comprehensive Income is recognised in Other Comprehensive Income and not in the Statement of Profit or Loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### 3.18.2 Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the

time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, equity accounted investee and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, equity accounted investee and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised

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deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside the Statement of Profit or Loss is recognised outside the Statement of Profit or Loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## 4. GENERAL

### 4.1 Events Occurring After the Reporting Date

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

### 4.2 Earnings Per Share

The Company presents basic 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.

### 4.3 Statement of Cash Flows

The Statement of Cash Flows has been prepared using the "indirect method".

Interest paid is classified as operating cash flow. Interest income is classified as cash flows from investing activities.

## 5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

### SLFRS 16 Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('Lessee') and the supplier ('Lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations.

SLFRS 16 introduces a single accounting model for the lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

The new Standard requires a lessee to:

- recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value
- present depreciation of lease assets separately, from interest on lease liabilities in the income statement.

SLFRS – 16 substantially carries forward the lessor accounting requirement in LKAS – 17.

Accordingly, a lessor continues to classify its leases as operating lease or finance lease, and to account for those two types of leases differently.

SLFRS -16 will become effective on 1st January 2019. The impact on the implementation of the above Standard has not been quantified yet.

### IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 and does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together

with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply interpretation from its effective date.

#### **Amendments to LKAS 19: Plan Amendment, Curtailment or Settlement**

The amendments to LKAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss.

An entity then determines the effect of the asset ceiling after the

plan amendment, curtailment or settlement.

Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted.

These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

#### **Annual Improvements 2015-2017 Cycle (issued in December 2017) in relation to LKAS 23 – Borrowing Costs**

The amendment clarifies that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its consolidated financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

## 6. PROPERTY, PLANT & EQUIPMENT

### 6.1 Gross Carrying Amounts

	As at 01.04.2018 USD	Re-valuation USD	Additions USD	Disposals USD	As at 31.03.2019 USD
<b>At valuation</b>					
Freehold Land	2,773,808	203,386	-	-	2,977,194
<b>At cost</b>					
Buildings	5,912,418	-	1,509,556	-	7,421,974
Water Treatment Plant	2,221,729	-	-	-	2,221,729
Plant and Machinery	32,743,046	-	590,006	(39,461)	33,293,591
Motor Vehicles	1,101	-	-	-	1,101
Furniture and Fittings	1,279,633	-	636,531	(568)	1,915,596
Office Equipment	281,779	-	9,097	(17,216)	273,660
Computers	452,824	-	56,554	(75,015)	434,363
Factory Equipment	3,449,916	-	317,401	-	3,767,317
Safety and Medical Equipment	198,740	-	61,282	(81,514)	178,508
Bungalow Equipment	8,263	-	-	(410)	7,853
<b>Total Value of Depreciable Assets</b>	<b>49,323,257</b>	<b>203,386</b>	<b>3,180,427</b>	<b>(214,184)</b>	<b>52,492,886</b>

### 6.2 In the course of construction

	As At 01.04.2018 USD		Incurring during the year USD	Transfers USD	As At 31.03.2019 USD
Work in Progress	1,864,758	-	1,584,302	(3,031,383)	417,677
<b>Total gross carrying amount</b>	<b>51,188,015</b>	<b>203,386</b>	<b>4,764,729</b>	<b>(3,245,567)</b>	<b>52,910,563</b>

### 6.3 Accumulated Depreciation and Impairment

	Balance As at 01.04.2018 USD	Impairment USD	Charge for the Year USD	Disposals/ Transfers USD	Balance As at 31.03.2019 USD
<b>At Cost</b>					
Buildings	2,327,705	-	169,359	-	2,497,064
Water Treatment Plant	1,481,854	-	68,453	-	1,550,307
Plant and Machinery	17,620,752	90,019	1,455,897	(27,921)	19,138,747
Motor Vehicles	1,101	-	-	-	1,101
Furniture and Fittings	1,124,787	-	93,630	(568)	1,217,849
Office Equipment	256,606	-	7,720	(17,216)	247,110
Computers	327,261	-	39,078	(75,008)	291,331
Factory Equipment	2,843,114	-	179,638	-	3,022,752
Safety and Medical Equipment	180,661	-	7,106	(70,949)	116,818
Bungalow Equipment	8,256	-	7	(410)	7,853
<b>Total Depreciation</b>	<b>26,172,097</b>	<b>90,019</b>	<b>2,020,888</b>	<b>(192,072)</b>	<b>28,090,932</b>

## 6.4 Net Book Values

As at 31st March	2019 USD	2018 USD
<b>At Cost</b>		
Freehold Land	2,977,194	2,773,808
Buildings	4,924,910	3,584,713
Water Treatment Plant	671,422	739,875
Plant and Machinery	14,154,844	15,122,294
Furniture and Fittings	697,747	154,846
Office Equipment	26,550	25,173
Computers	143,032	125,563
Factory Equipment	744,565	606,802
Safety and Medical Equipment	61,690	18,079
Bungalow Equipment	-	7
	24,401,954	23,151,160
<b>In the course of construction</b>		
Work in Progress	417,677	1,864,758
Total carrying amount of property, plant and equipment	24,819,631	25,015,918

**6.5** During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of USD 1,733,345 (2018 - USD 2,385,921). Cash payments amounting to USD 1,469,566 (2018 - USD 2,329,077) were made during the year for the purchase of Property, Plant and Equipment.

**6.6** Property, plant and equipment includes fully depreciated assets having gross carrying amounts of USD 10,108,634 which are still in use. (2018 - USD 9,197,798).

**6.7** 25 permanent buildings are located in Narthupana Estate, Neboda where the principle place of the business is operated.

**6.8** The Company revalued its land (extent of 54.3 Acres) during the financial year 2018/19. The fair value of the land was determined by using market comparable methods which mean that valuation performed by the valuer are based on market prices, significantly adjusted for difference in the nature, location or condition of the specific property.

The fair value of land is based on valuations performed by Messrs P.B Kalugalgedara and Associates., an accredited independent valuer, on 31 March 2019.

The significant unobservable valuation input used for Revaluation of Land, is the estimated market price of a perch of land, which was estimated as follows:

Land extent of 34.1 acres of Land in Anguruwatota demarcated by survey plan - Rs. 85,000 a perch (2018 - Rs. 70,000)

Land extent of 20.2 acres of Land in Anguruwatota demarcated by survey plan - Rs. 18,750 a perch (2018 - Rs. 12,500)

Significant increase/(decrease) in estimated price per perch in isolation would result in a significantly higher/(lower) fair value.

The surplus arising from the revaluation ,was transferred to a revaluation reserve.

If land was measured using the cost model, the carrying amounts would be USD 1,331,519 (2018 - USD 1,331,519)

**6.9** The Company recorded an impairment loss of USD 90,019 relating to items of knitting and dyeing machinery during the year. The impairment was recognised based on specific identification of assets which are recently idle and which are unlikely to be brought back into use by the Company.

# NOTES TO THE FINANCIAL STATEMENTS

## 7. INTANGIBLE ASSETS

	2019 USD	2018 USD
<b>Software</b>		
<b>Cost</b>		
At beginning of the year	1,297,509	1,249,276
Acquisitions	5,625	48,233
At end of the year	1,303,134	1,297,509
<b>Amortization</b>		
At beginning of the year	(1,145,479)	(1,002,069)
Amortization	(93,538)	(143,410)
At end of the year	(1,239,017)	(1,145,479)
<b>Net Book Value</b>	64,117	152,030

## 8. INVENTORIES

	2019 USD	2018 USD
<b>Raw materials</b>	5,083,173	4,441,697
Less : Impairment for slow moving items	(247,480)	(287,416)
	4,835,693	4,154,281
<b>Work-in-progress</b>	4,477,163	3,551,151
Less : Impairment for slow moving items	(124,460)	(148,869)
	4,352,703	3,402,282
<b>Finished goods (8.1)</b>	2,041,008	1,659,809
Less : Impairment for slow moving items	(423,061)	(274,434)
	1,617,947	1,385,375
<b>Stock consumables</b>	2,493,177	2,582,725
	2,493,177	2,582,725
	13,299,520	11,524,663

8.1 Second grade finished goods amounting to USD 98,697 (2018 USD 78,084) are carried at net realizable value.

## 9. TRADE RECEIVABLES

	2019 USD	2018 USD
<b>Trade receivables</b>	8,543,291	8,102,588
Less : Impairment loss recognised (9.2)	(149,084)	(205,854)
	8,394,207	7,896,734

### 9.1 The aging analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired					Total
		0 - 60 days	61-120 days	121-180 days	181-365 days	> 365 days	
As at 31/03/2019	4,881,802	3,165,670	221,575	96,314	28,846	-	8,394,207
As at 31/03/2018	3,859,773	3,492,323	427,882	104,758	11,998	-	7,896,734

See note 29 on credit risk of trade receivables, which explains how the Company manages and measures credit quality of trade receivables that are neither past due nor impaired.

### 9.2 The impairment recognised in relation to Trade Receivables of the Company has been based on a collective impairment model and is as follows:

	2019 USD	2018 USD
Balance as at the beginning of the year	205,854	140,288
Impairment loss recognized during the year	26,397	65,566
Written off of previously recognized impairment loss	(83,167)	-
Balance as at the end of the year	149,084	205,854

## 10. OTHER RECEIVABLES

	2019 USD	2018 USD
VAT recoverable	248,746	386,756
Claim receivable	10,746	42,909
WHT recoverable	8,738	9,877
Staff loans & advances	4,799	98,796
Deposits	100,903	126,553
	373,932	664,891

## 11. ADVANCES AND PREPAYMENTS

	2019 USD	2018 USD
Advances paid to related parties - The Kingsbury PLC	-	1,111
Advances paid to suppliers	240,604	310,882
Other prepayments	132,895	177,165
	373,499	489,158



# NOTES TO THE FINANCIAL STATEMENTS

## 12 CASH AND CASH EQUIVALENTS IN CASH FLOW STATEMENT

Components of Cash and Cash Equivalents

### 12.1 Favourable Cash and Cash Equivalent Balances

	2019 USD	2018 USD
Cash and Bank Balances	284,635	345,731
	284,635	345,731

### 12.2 Unfavourable Cash and Cash Equivalent Balances

	2019 USD	2018 USD
Bank Overdraft	(840,068)	(594,769)
Short term loans	(1,902,500)	(4,000,000)
Import loans	(8,862,162)	(6,131,282)
	(11,604,730)	(10,726,051)
<b>Total cash and cash equivalent balance for the purpose of cash flow statement</b>	<b>(11,320,095)</b>	<b>(10,380,320)</b>

## 13. STATED CAPITAL

	2019		2018	
	Number	USD	Number	USD
Ordinary shares (13.1)	207,740,888	17,561,761	207,740,888	17,561,761

### 13.1 Fully Paid Ordinary Shares

	2019		2018	
	Number	USD	Number	USD
Balance at the beginning of the year	207,740,888	17,561,761	207,740,888	17,561,761
Balance at the end of the year	207,740,888	17,561,761	207,740,888	17,561,761

### 13.2 Nature and Purpose of Reserve

Revaluation Reserve

The Revaluation Reserve is maintained to record any surplus on revaluation of the Company's Land, net of the tax effect of such re-valuation

## 14. INTEREST BEARING LOANS AND BORROWINGS

	2019			2018		
	Amount Repayable Within 1 Year USD	Amount Repayable After 1 Year USD	Total USD	Amount Repayable Within 1 Year USD	Amount Repayable After 1 Year USD	Total USD
Term loans (Note 14.1)	2,525,333	1,054,778	3,580,111	2,694,508	3,286,112	5,980,620
Short term loans (12.2)	1,902,500	-	1,902,500	4,000,000	-	4,000,000
Import loans (12.2)	8,862,162	-	8,862,162	6,131,282	-	6,131,282
Bank overdraft (12.2)	840,068	-	840,068	594,769	-	594,769
	14,130,063	1,054,778	15,184,841	13,420,559	3,286,112	16,706,671

## 14.1 Term loans

	2019 USD	2018 USD
Balance at the beginning of the year	5,980,620	8,553,052
New loans obtained	310,000	-
Repayments	(2,710,509)	(2,572,428)
Effect of movements in exchange rates	-	(4)
Balance at the end of the year	3,580,111	5,980,620

## 14.2 Aging Analysis for Interest -bearing loans and borrowings

	On demand USD	Less than 3 months USD	3 to 12 months USD	1 to 5 years USD	>5 years USD	Total USD
Total Interest bearing borrowings - As at 31.03.2019	993,898	10,644,803	2,491,362	1,054,778	-	15,184,841
Total Interest bearing borrowings- As at 31.03.2018	933,620	10,122,379	2,364,560	3,286,112	-	16,706,671

## 15. RETIREMENT BENEFIT LIABILITY

	2019 USD	2018 USD
Retirement Benefit Obligation - Gratuity		
At beginning of the year	2,033,015	2,196,587
Effects of movement in exchange rate	(227,873)	(47,503)
Benefits paid by the plan	(110,608)	(123,599)
Current service cost	169,561	144,255
Interest cost	192,452	250,413
Actuarial (gain)/loss recognized directly in Other Comprehensive Income	477,896	(387,138)
At end of the year	2,534,443	2,033,015

### 15.1 Expenses recognised in the Statement of Profit or Loss

	2019 USD	2018 USD
Current service cost	169,561	144,255
Interest cost	192,452	250,413
	362,013	394,668

### 15.2 Legal Liability as at 31st March

	2019 USD	2018 USD
Legal Liability	1,860,206	1,831,064

# NOTES TO THE FINANCIAL STATEMENTS

**15.3** The Gratuity liability as at 31st March 2019 is based on an actuarial valuation carried out by Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries.

The following key assumptions were made in arriving at the above figure.

	2019 USD	2018 USD
Rate of discount	11%	11%
Salary increase	10%	7%
Retirement age	60 Years	60 Years
Weighted average remaining working life	6.95 Years	6.46 Years

Assumptions regarding mortality are based on a 1967/70 Mortality Table, issued by The Institute of Actuaries, London.

**15.4 A quantitative sensitivity analysis for significant assumptions as at 31st March 2019 is as follows:**

	Salary increment rate		Discount rate	
	1% Increase USD	1% decrease USD	1% Increase USD	1% decrease USD
As at 31st March 2019	218,637	(196,249)	(182,986)	206,864
As at 31st March 2018	162,313	(146,142)	(131,973)	148,376

**15.5 Maturity Profile**

	2019 USD	2018 USD
Within the next 12 months	197,589	225,865
Between 1 to 5 years	827,055	731,381
Between 5 to 10 years	652,926	499,869
More than 10 years	856,873	575,900
	2,534,443	2,033,015

**16. TRADE AND OTHER PAYABLES**

	2019 USD	2018 USD
Trade Payables		
- Related Parties (16.2)	111,104	90,296
- Others	8,388,538	7,906,197
Other Payables	229,587	216,193
	8,729,229	8,212,686

## 16.1 Aging Analysis for Trade and Other Payables.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
	USD	USD	USD	USD	USD	USD
31.03.2019 Related party	49,146	59,508	2,450	-	-	111,104
Others	1,350,468	6,591,303	511,731	46,820	117,803	8,618,125
Total	1,399,614	6,650,811	514,181	46,820	117,803	8,729,229
31.03.2018 Related party	49,909	36,080	4,307	-	-	90,296
Others	1,317,881	6,439,720	67,952	105,727	191,110	8,122,390
Total	1,367,790	6,475,800	72,259	105,727	191,110	8,212,686

## 16.2 Payable to related parties

Name of the Company	Relationship	Nature of Transaction	2019 USD	2018 USD
Puritas (Pvt) Ltd	Fellow Subsidiary	Purchase of oxypura products	-	149
Hayleys Electronics Lighting (Pvt) Ltd	Fellow Subsidiary	Purchase of electronic items	-	60
The Kingsbury PLC	Fellow Subsidiary	Entertainment facility	-	66
Hayleys Travels (Pvt) Ltd	Fellow Subsidiary	Reservations, ticketing and other travel related services	12,216	3,452
Hayleys Tours (Pvt) Ltd	Fellow Subsidiary	Reservations and travel related services	3,246	1,359
Hayleys Aventura (Pvt) Ltd	Fellow Subsidiary	Purchase spare parts and obtained technical support	7,222	15,582
Haycolor (Pvt) Ltd	Fellow Subsidiary	Purchases of dyes & chemicals	9,625	-
Energynt Pvt. Ltd	Fellow Subsidiary	Service charge of electrical equipment	8,145	-
MIT Cargo (Pvt) Ltd	Fellow Subsidiary	Logistic service	9,396	9,986
Logiwiz Limited	Fellow Subsidiary	Storage facility	134	77
Advantis Projects & Engineering (Pvt) Ltd	Fellow Subsidiary	Logistic service / Purchase of containers	12,307	-
Expelogix (Pvt) Ltd	Fellow Subsidiary	Logistic service	4,085	5,157
Agility Logistics (Pvt) Ltd	Fellow Subsidiary	Logistic service	295	-
Hayleys Business Solutions Int.(Pvt) Ltd	Fellow Subsidiary	Payroll charges	3,090	7,806
Delmege Forsyth & Co.(Pvt) Ltd	Affiliate Company	Purchases of mechanical items	519	-
Hayleys Aviation and Projects(Pvt) Ltd	Fellow Subsidiary	Project management	-	4,307
Fentons Ltd	Fellow Subsidiary	Instillation of fire solutions & cabling	23,892	38,602
Alufab PLC	Fellow Subsidiary	Instillation of fire doors	-	1,840
Singer Sri Lanka PLC	Fellow Subsidiary	Purchases of electrical items	16,932	1,351
Advantis Freight (Pvt) Ltd	Fellow Subsidiary	Logistic service	-	502
			111,104	90,296

## 17. OTHER CURRENT NON FINANCIAL LIABILITIES

	2019 USD	2018 USD
Accrued Expenditure	1,006,995	686,665
Advances Received	464,787	-
	1,471,782	686,665



# NOTES TO THE FINANCIAL STATEMENTS

## 18. REVENUE FROM CONTRACTS WITH CUSTOMERS

### 18.1 Disaggregated revenue contracts

	2019 USD	2018 USD
Sales of Fabric	69,616,351	57,285,305
Sundry Sales	324,288	401,498
	69,940,639	57,686,803

### 18.2 Nature of revenue

	2019 USD	2018 USD
Direct exports	8,078,153	4,791,483
Indirect exports	60,750,732	51,496,362
Local sales	1,111,754	1,398,958
	69,940,639	57,686,803

**18.3** In relation to Indirect exports and sundry sales, the performance obligation is satisfied upon delivery of the goods. In relation to Direct exports, the performance obligation is satisfied upon shipment of the goods considering the terms under which the shipment has been carried out.

**18.4** Payments for all revenue from contracts with customers is generally due within 15 to 30 days from delivery.

**18.5** Contract assets from advances received amount to USD 464,787 (2018-Nil) and are reflected in Note 17.

## 19. OTHER OPERATING INCOME

	2019 USD	2018 USD
Profit on disposal of property, plant and equipment	-	182
Creditors write back	67,049	60,732
	67,049	60,914

## 20. OTHER EXPENSES

	2019 USD	2018 USD
Loss on disposal of property, plant and equipment	13,738	-
Impairment of Property, Plant and Equipment	90,019	-
	103,757	-

## 21. NET FINANCING COST

### 21.1 Finance income

	2019 USD	2018 USD
Interest income	-	(1,027)
Gain on translation of foreign currency	(98,989)	-
	(98,989)	(1,027)

### 21.2 Finance cost

	2019 USD	2018 USD
Interest on short term borrowings	723,367	542,475
Interest on long term loans	268,026	286,107
Loss on translation of foreign currency	-	146,479
Finance cost	991,393	975,061
<b>Net finance cost</b>	<b>892,404</b>	<b>974,034</b>

## 22. PROFIT/(LOSS) BEFORE TAX

	2019 USD	2018 USD
Profit/(loss) before tax is stated after charging all expenses including the following ;		
Staff cost (Note 22.1)	7,765,053	7,597,325
Directors' fees	13,910	17,270
Directors' emoluments	232,533	240,207
Depreciation of property, plant and equipment	2,020,888	1,955,485
Impairment of property, plant and equipment	90,019	-
Amortization of intangible assets	93,538	143,410
Legal fees	49,071	85,624
Audit fees	15,059	15,444
Non-audit professional services	5,006	6,151
Donations	5,076	5,335
Impairment charge for slow moving inventories	84,282	73,041
Impairment charge for Receivables	26,397	65,566
Research & Development	16,793	15,153

### 22.1 Staff cost

	2019 USD	2018 USD
Salaries and other personnel cost	6,468,164	6,270,449
Defined contribution plan cost- EPF and ETF	934,876	932,208
Defined benefit plan cost- Retiring gratuity	362,013	394,668
	7,765,053	7,597,325

# NOTES TO THE FINANCIAL STATEMENTS

## 23. INCOME TAX

The major components of income tax expense for the years ended 31st March are as follows :

	2019 USD	2018 USD
Income Tax on profit for the year (Note 23.1)	-	-
(Over)/under provision in respect of previous year	-	(7,607)
Irrecoverable Economic service charge (ESC) (Note 23.3)	344,283	727,727
Provision for deferred tax (Note 23.2)	446,250	(89,649)
<b>Income tax expense reported in the Statement of profit or loss</b>	<b>790,533</b>	<b>630,471</b>

### 23.1 Reconciliation of Current Tax Expenses and product of Accounting Profit/(loss)

	2019 USD	2018 USD
Profit/(loss) before tax	1,848,868	(49,045)
Disallowable expenses	2,777,482	2,928,188
Tax deductible expenses	(2,366,785)	(2,963,116)
Tax loss set-off	(2,259,565)	-
Taxable income/(loss)	-	(83,973)
Income tax @ 14%	-	-
Income tax on profit for the year	-	-
<b>Details of Tax Losses carried forward</b>		
Tax Loss brought forward	7,960,214	8,059,015
Add: incurred during the year	-	83,973
Less: Set off against the current income tax liability	(2,259,565)	-
Effects of movement in exchange rate	(466,880)	(182,774)
<b>Tax Loss carried forward</b>	<b>5,233,769</b>	<b>7,960,214</b>

Company's profit from exports is taxed at 14% and other income is liable at the rate of 28%

## 23.2 Deferred Tax Assets, Liabilities and Income Tax relates to the following

	Statement of Financial Position		Statement of Profit or Loss and Comprehensive Income	
	2019	2018	2019	2018
	USD	USD	USD	USD
<b>Deferred Tax Liabilities</b>				
Capital allowances for tax purposes	2,757,331	2,685,636	71,695	445,997
Tax re-valuation of land	230,395	201,920	28,475	201,920
	2,987,725	2,887,556	100,169	647,917
<b>Deferred Tax Assets</b>				
Tax effect of tax loss carried forward	732,728	1,114,430	381,702	(425,451)
Defined Benefit Plans	354,822	284,621	(70,201)	(21,032)
Impairment for Slow Moving Inventories	111,300	99,501	(11,799)	(22,979)
Impairment for Doubtful Debts	20,872	28,820	7,948	(11,985)
	1,219,722	1,527,372	307,650	(481,447)
<b>Net Deferred Tax Liability</b>	1,768,003	1,360,184		
Deferred Income Tax Charged/(Reversal) to Profit or Loss			446,250	(89,649)
Deferred Income Tax Charged to Other Comprehensive income- Land re-valuation			28,475	201,920
Deferred Income Tax Charged/(Reversal) to Other Comprehensive income- Defined benefit plan			(66,905)	54,199
Charge to Statement of Profit or Loss and Other Comprehensive Income			407,820	166,470

**23.3** With the enactment of the Inland Revenue Act No.24 of 2017, the Company is able to claim all taxable losses to the extent of taxable income in an entity. Considering that Economic Service Charge (ESC) paid is recoverable only during the year of payment and two subsequent years. Management has made an assessment of ESC recoverable and an amount of USD 344,283 (2018-USD 727,727) has been impaired in these Financial Statements.

## 24. BASIC / DILUTED EARNINGS/(LOSS) PER SHARE

Basic Earnings/(Loss) per share is calculated by dividing the profit/(loss) for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the earnings/(loss) per share computations.

### 24.1 Amount Used as the Numerator:

	2019	2018
	USD	USD
Earnings attributable to Ordinary Shareholders of the Company for Earnings/(loss) per Share	1,058,335	(679,516)
	1,058,335	(679,516)

### 24.2 Number of Ordinary Shares Used as the Denominator:

	2019	2018
Weighted Average Number of Ordinary Shares in issue applicable to Basic Earnings/(loss) per Share	207,740,888	207,740,888
	207,740,888	207,740,888

# NOTES TO THE FINANCIAL STATEMENTS

## 25. RELATED PARTY DISCLOSURES

### 25.1 Transactions with the parent and related entities during the year

a)

Name of the Company	Relationship	Nature of Transaction	2019 USD	2018 USD
Hayleys PLC	Parent	Office space together with other related facilities	633,775	639,380
Puritas (Pvt) Ltd	Fellow Subsidiary	Purchase oxypura products	210	376
Hayleys Agriculture Holding Ltd	Fellow Subsidiary	Purchases of machinery items	104	-
Hayleys Electronics Lighting (Pvt) Ltd	Fellow Subsidiary	Purchase of electronic items	469	31,160
The Kingsbury PLC	Fellow Subsidiary	Entertainment facility	1,717	1,368
Hayleys Travels (Pvt) Ltd	Fellow Subsidiary	Reservations, ticketing and other travel related services	98,805	75,391
Hayleys Tours (Pvt) Ltd	Fellow Subsidiary	Reservations and other travel related services	9,634	17,705
Hayleys Aventura (Pvt) Ltd.	Fellow Subsidiary	Purchase spare part items and obtained technical support	94,255	140,251
Haycolour (Pvt) Limited	Fellow Subsidiary	Purchases of dyes & chemicals	10,255	-
MIT Cargo (Pvt) Ltd	Fellow Subsidiary	Logistic service	58,518	47,333
Hayleys Advantis Ltd	Fellow Subsidiary	Cost of intangible assets/Service	16,365	-
Agility Logistics (Pvt) Ltd	Fellow Subsidiary	Logistic service	8,944	2,381
Advantis Freight (Pvt) Ltd	Fellow Subsidiary	Logistic service	5,004	5,168
Logiwiz Limited	Fellow Subsidiary	Storage facility	840	12,644
Advantis Projects & Engineering (Pvt) Ltd	Fellow Subsidiary	Logistic service / Purchase of containers	12,673	387
Expelogix (Pvt) Ltd.	Fellow Subsidiary	Logistic service	21,334	26,419
Hayleys Business Solutions Int.(Pvt) Ltd	Fellow Subsidiary	Payroll charges	39,913	46,084
Dipped Products PLC	Fellow Subsidiary	Cost of intangible assets/Service	-	12,079
Volanka (Pvt) Ltd.	Fellow Subsidiary	Warehouse Facility	-	12,515
Fentons Ltd.	Fellow Subsidiary	Instillation of fire solutions & cabling	66,440	134,045
Delmege Forsyth & Co.(Pvt) Ltd	Affiliate Company	Purchases of office equipment	2,440	1,141
Energynet (Pvt) Ltd.	Fellow Subsidiary	Service charge of electrical equipment	13,268	198
Mabroc Teas (Pvt) Ltd.	Fellow Subsidiary	Purchase of tea	134	1,429
Hayleys Lifesciences (Pvt) Ltd.	Fellow Subsidiary	Purchase of Stationery	4,189	257
Singer Sri Lanka PLC	Fellow Subsidiary	Purchase of electrical equipment	55,507	1,858
Alufab PLC	Fellow Subsidiary	Installation of aluminum doors	-	5,102
Cosco Shipping Lines Lanka	Fellow Subsidiary	Logistic service	-	12,522

b) Transactions with related parties have been carried out under relevant commercial terms and conditions.

c) Amounts due from /to related parties are reflected in these Financial Statements within notes 9,11,16 and directly in the Statement of Financial Position.



d) Mr. K.D.D.Perera who is a Director of the Company has a significant influence on the operation of Pan Asia Bank PLC. The Company has carried out transactions in the ordinary course of business with Pan Asia Bank PLC during the year, the details of which are as follows:

	Facility	2019			2018		
		Facility Amount USD	Outstanding amount USD	Interest & charges incurred during the year USD	Facility Amount USD	Outstanding amount USD	Interest & charges incurred during the year USD
Pan Asia Bank	Trade facility	3,000,000	2,119,385	106,177	3,000,000	2,197,276	73,046
	Overdraft facility	-	(5,749)	-	-	(5,441)	-

## 25.2 Transactions with Key Management Personnel

Key management personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Directors of the Company (including executive and non executive Directors) have been designated as KMP of the entity while their immediate family members have also been identified as related parties.

An immediate family member is defined as spouse or dependent. A dependent is defined as anyone who depends on the respective Director for more than 50% of his/ her financial needs.

### a) Loans to Key Management Personnel

No loans have been provided to the Directors of the Company.

### b) Compensation of key management personnel

	2019 USD	2018 USD
Short term employment benefits	232,533	240,207

The amounts disclosed above are the amounts recognised as an expense during the reporting period related to key management personnel.

## 26. COMMITMENTS AND CONTINGENCIES

**26.1** The amount of capital expenditure approved by the Directors but not contracted for was nil (2018-USD nil)

**26.2** Contingent liabilities as at 31 March 2019 on bills discounted amounted to USD 273,510 (2018 - USD 32,415).

# NOTES TO THE FINANCIAL STATEMENTS

## 27. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included under
		2019 USD	2018 USD	
Plant & Machinery, Water Treatment Plant	Primary Mortgage for Loans and Borrowings	14,826,266	15,862,169	Property, Plant & Equipment
Land & Buildings	Primary / Concurrent mortgage for Loans and Borrowings	7,902,104	6,358,521	Property, Plant & Equipment
Inventories	Primary / Concurrent mortgage for Loans and Borrowings	10,806,343	8,941,938	Inventories
Trade Receivables	Primary / Concurrent mortgage for Loans and Borrowings	8,394,207	7,896,734	Trade Receivable

## 28. EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after the reporting date that require adjustments to or disclosure in the financial statements.

## 29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's financial assets included trade other receivables, cash and cash equivalent that arrive directly from its operations.

The Company is exposed to Market risk, Interest rate risk, Foreign currency risk and liquidity risk. The Company continuously evaluates the mentioned risks and appropriate actions are being taken with assistance from Group Treasury Department to minimize the adverse impact arising from such risks .

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise two types of risk: interest rate risk and foreign currency risk. Financial instruments affected by the said risks in the Company includes loans and borrowings,

The sensitivity analysis in the following sections relate to the position as at 31 March in 2019 and 2018. The following assumptions have been made in calculating the sensitivity analyses:

The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 March 2019 and 2018.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's debt obligations with floating interest rates.

The Company manages its interest rate risk by constantly monitoring the interest rates and negotiating them with the banks through assistance from the Parent Company's Treasury. Company's strategy is to keep the borrowing rates at AWPLR for LKR borrowings and USD borrowings at 3 Months LIBOR +3.5% or less.

### Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the Company's profit before tax is affected through the impact on floating rate borrowings outstanding as of the reporting date is as follows:

2019		2018	
Increase/Decrease in basis points	Effect on profit before tax -USD	Increase/Decrease in basis points	Effect on profit before tax -USD
0.61	(90,188)	0.53	(86,923)
-0.61	90,188	-0.53	86,923

### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when local expense is denominated in a different currency from the Company's presentation currency).

The Company manages its foreign currency risk by closely monitoring the rates with the assistance of the Parent Company's Treasury. Transactions are entered in to on carefully chosen dates to maximize the positive impact on exchange variance while caution is practiced to negate and minimize any negative effect.

The Company does not hedge its exposure to fluctuations on the translation in to USD of its LKR denominated expenses. However, care is taken to reduce such liability thus nullifying any impact on exchange variance. No currency hedge is applied against other major currencies such as EURO or GBP due to their triviality.

### Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in LKR and EURO exchange rates, with all other variables held constant. The impact on the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Company's exposure to foreign currency changes for all other currencies is not material.

The movement in the post-tax effect is a result of a change in the monetary assets and liabilities denominated in other currencies such as LKR and Euro, where the functional currency is US dollars.

	2019		2018	
	Change in LKR Rate	Effect on profit before tax -USD	Change in LKR Rate	Effect on profit before tax -USD
Change in LKR Exchange Rate	3%	32,346	3%	26,745
	-3%	(34,347)	-3%	(28,399)

	2019		2018	
	Change in EURO Rate	Effect on profit before tax -USD	Change in EURO Rate	Effect on profit before tax -USD
Change in Euro Exchange Rate	3%	1,146	3%	2,698
	-3%	(1,217)	-3%	(2,865)

### Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables)

# NOTES TO THE FINANCIAL STATEMENTS

## Trade receivables

Customer credit risk is managed by customer wise and is subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit.

An impairment analysis is performed at each reporting date on an individual basis for major all clients.

The calculation is based on expected credit losses. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets reported in these financial statements.

The Company does not hold collateral as security. The Company evaluates the concentration of risk with respect to trade receivables as low, as its customers are well reputed; cash rich and operate in largely independent markets.

## Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Company's policy. However, currently the Company does not hold any cash deposits or any other financial instrument other than those disclosed and is not affected by any credit risk emanating from such balances.

## Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. The Company's policy is that the gearing is managed to a sustainable level. Company forecasts its financial commitments and collections on a weekly basis and any gap is bridged with an alternate fund sourcing in consultation with the Parent Company Treasury and financial institutions.

Approximately 93% of the Company's debt will mature in less than one year at 31 March 2019 (2018: 80%) based on the carrying value of borrowings reflected in the financial statements. The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

## Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The maturity profile of the Company's financial liabilities based on contractual undiscounted payments are provided in Notes 14.2 and 16.1 to the financial statements.

## Capital Management

The Company's Capital is made up of both equity and debt capital which have been disclosed in Notes 13 and 14 respectively.

## Fair Value of Financial Instruments

Financial assets of the Company include cash and cash equivalents, trade receivables and other receivables, whilst financial liabilities include trade and other payables and interest bearing loans and borrowings.

The management assessed that cash and cash equivalents, trade receivables, other receivables, trade and other payables approximate their carrying amounts largely due to the short term maturities of these instruments. The management also assessed that long term variable rate borrowings approximate their carrying amounts largely due to the market based interest rates charged.

# STATEMENT OF FINANCIAL POSITION

## TRANSLATED INTO LKR

As at 31 March	2019 LKR '000	2018 LKR '000
<b>ASSETS</b>		
Non-Current Assets		
Property, plant and equipment	4,418,391	3,939,757
Intangible assets	11,414	23,943
	4,429,805	3,963,700
<b>Current Assets</b>		
Inventories	2,367,580	1,815,019
Trade receivables	1,494,337	1,243,657
Other receivables	66,567	104,714
Advances and prepayments	66,490	77,037
Cash and cash equivalents	50,671	54,449
	4,045,646	3,294,876
<b>Total Assets</b>	<b>8,475,450</b>	<b>7,258,576</b>
<b>EQUITY AND LIABILITIES</b>		
Capital and Reserves		
Stated capital	1,968,193	1,968,193
Revaluation reserve	251,948	195,346
Retained earnings	51,673	(59,237)
Exchange fluctuation reserve	907,485	578,850
<b>Total Equity</b>	<b>3,179,299</b>	<b>2,683,152</b>
<b>Non-Current Liabilities</b>		
Interest bearing loans and borrowings	187,771	517,530
Deferred tax liabilities	314,740	214,215
Retirement benefit obligations	451,182	320,180
	953,693	1,051,925
<b>Current Liabilities</b>		
Trade and other payables	1,553,977	1,293,416
Interest bearing loans and borrowings	2,515,434	2,113,604
Amounts due to Hayleys PLC	11,040	8,336
Other current non financial liabilities	262,007	108,143
	4,342,458	3,523,499
<b>Total Equity and Liabilities</b>	<b>8,475,450</b>	<b>7,258,576</b>

The financial statements prepared and presented in US Dollars reflect the economic substance of underlying events and circumstances of the enterprise. The supplementary information in SL Rupees is presented for convenience purposes only. The statements presented in SL Rupees are not a full set of financial statements and are not purported to comply with Sri Lanka Accounting Standards. They represent selected information taken from the US Dollar financial statements, translated into SL Rupees generally using the principles set out in Sri Lanka Accounting Standards (LKAS) 21 for the translation of financial statements to a presentation currency from a measurement currency. Revenue and costs are converted using the average exchange rate for the period. Assets and liabilities are converted using the exchange rate at the end of the year. The revenue reserves incorporates the profit for the period reflected in the income statements.

In accordance with advice received from the Urgent Issue Task Force of the Institute of Chartered Accountants of Sri Lanka, stated capital is represented at it's original SL Rupee value.

Followings exchange rates were used to convert the financials into LKR

	2019	2018
Statement of Profit or Loss and Other Comprehensive Income	171.33	155.40
Statement of financial position	178.02	157.49



# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME TRANSLATED INTO LKR

Year ended 31 March	2019 LKR '000	2018 LKR '000
<b>Revenue</b>	11,982,988	8,964,529
Cost of sales	(10,554,294)	(8,020,072)
<b>Gross Profit</b>	1,428,694	944,457
Other operating income	11,488	9,466
Administrative expenses	(818,882)	(734,198)
Distribution expenses	(133,858)	(75,982)
Other expenses	(17,777)	-
Net financing costs	(152,897)	(151,365)
<b>Profit/(loss) before tax</b>	316,768	(7,622)
Income tax expense	(135,443)	(97,975)
<b>Profit/(loss) for the year</b>	181,325	(105,597)
Other Comprehensive Income not to be reclassified to profit or loss		
- Surplus on revaluation of land	34,846	-
- Income tax effect on revaluation of land	(4,879)	(31,378)
- Actuarial gain/(loss) on defined benefit plans	(81,878)	60,161
- Income tax effect on actuarial gain/(loss) on defined benefit plans	11,463	(8,423)
<b>Total Comprehensive Income, Net of Tax</b>	140,878	(85,237)
Basic / Diluted Earnings/(Loss) per Share - LKR	0.87	(0.51)

# TEN YEAR SUMMARY

As at 31 March	10-year compound growth %	2019 USD	2018 USD	2017 USD	2016 USD	2015 USD	2014 USD	2013 USD	2012 USD	2011 USD	2010 USD
<b>Results</b>											
Net turnover	4	69,940,639	57,686,803	55,537,401	59,924,103	65,031,509	61,252,088	44,193,490	45,936,097	58,322,307	50,056,501
Profit after tax	(11)	1,058,335	(679,516)	490,267	1,845,409	679,920	(1,388,400)	(3,642,771)	(7,581,712)	(7,078,596)	3,163,627
<b>Funds Employed</b>											
Stated capital	12	17,561,761	17,561,761	17,561,761	17,561,761	17,561,761	13,563,304	13,563,304	6,534,102	6,534,102	6,534,102
Reserves	(36)	297,464	(524,791)	23,706	(434,262)	(2,052,032)	(2,875,191)	(1,508,395)	2,012,633	9,594,346	17,021,818
Shareholders' fund	(3)	17,859,225	17,036,970	17,585,467	17,127,499	15,509,729	10,688,113	12,054,909	8,546,735	16,128,448	23,555,920
Borrowings (both short & long term)	(1)	15,184,841	16,706,671	19,686,731	16,818,660	18,951,491	16,866,448	12,655,851	19,996,108	23,706,118	16,362,217
		33,044,066	33,743,641	37,272,198	33,946,159	34,461,220	27,554,561	24,710,760	28,542,843	39,834,566	39,918,137
<b>Assets Employed</b>											
Non current assets	(1)	24,883,748	25,167,948	24,833,016	23,096,764	22,610,098	22,622,634	24,304,984	25,750,288	27,616,695	26,737,822
Current assets	(0)	22,725,793	20,921,177	21,942,322	19,649,659	22,507,145	19,490,701	11,753,515	13,006,227	18,987,220	23,428,147
Current liabilities net of borrowings	4	(10,263,029)	(8,952,285)	(6,112,839)	(5,575,020)	(7,555,519)	(11,615,635)	(8,632,504)	(7,453,474)	(3,954,781)	(7,520,043)
Provisions	5	(4,302,446)	(3,393,199)	(3,390,301)	(3,225,244)	(3,120,504)	(2,943,139)	(2,715,235)	(2,760,199)	(2,814,569)	(2,727,790)
Capital Employed	(2)	33,044,066	33,743,641	37,272,198	33,946,159	34,461,220	27,554,561	24,710,760	28,542,843	39,834,566	39,918,137
<b>Cash Flow</b>											
Net cash inflow/(outflow) from operating activities		2,927,550	4,235,513	1,916,117	2,606,119	(1,392,458)	(3,763,827)	589,410	5,660,679	(4,837,120)	3,783,556
Net cash outflow from investing activities		(1,466,816)	(2,375,774)	(4,521,131)	(2,734,731)	(1,712,927)	(401,501)	(507,460)	(1,339,693)	(2,485,654)	(2,046,136)
Net cash inflow/(outflow) from financing activities		(2,400,509)	(2,572,428)	2,939,367	(2,420,540)	10,185,800	1,291,588	5,654,647	(1,827,919)	897,130	(2,568,869)
Increase / (decrease) in cash & cash equivalents		(939,775)	(712,690)	334,353	(2,549,151)	7,080,416	(2,873,740)	5,736,597	2,493,067	(6,425,644)	(831,449)
<b>Key Indicators</b>											
Earnings/(Loss) per share (basic) USD		0.005	(0.003)	0.002	0.009	0.004	(0.008)	(0.025)	(0.120)	(0.1394)	0.062
Net assets per share USD		0.086	0.082	0.085	0.082	0.075	0.07	0.08	0.13	0.31	0.46
Dividend per share Rs.		-	-	-	-	-	-	-	-	-	2.50
Gearing %		46	50	53	50	55	61	51	70	60	41
Turnover to capital employed (times)		2.12	1.71	1.49	1.77	1.89	2.22	1.79	1.61	1.46	1.25

# GLOSSARY OF FINANCIAL TERMINOLOGY

## Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

## Accrual Basis

Recording revenues and expenses in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period.

## Actuarial Gain/Loss on defined benefit plan

Gain or loss arising from the difference between estimates and actual experience in an entity's defined benefit plan.

## Amortized cost

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayment plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

## Assets Turnover

Revenue divided by average total assets.

## Borrowings

Bank loans and overdrafts.

## Capital Employed

Shareholders' funds plus debt.

## Cash Equivalents

Liquid investments with original maturities of three months or less.

## Contingent Liabilities

Conditions or situations at the date of Statement of Financial Position, the financial effect of which are to be determined by future events which may or may not occur.

## Current Ratio

Current Assets divided by Current Liabilities.

## Debt/Equity Ratio

Debt as a percentage of Shareholders' funds.

## Deferred Taxation

Sum set aside for income tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

## Direct Employment

The workers employed by the Company.

## Discount Rate

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

## Diluted Earnings Per share

Profit attributable to equity holders divided by the weighted average number of ordinary shares in issue during the period adjusted for options granted but not exercised and outstanding unexpired warrants.

## Earnings Per Share (EPS)

Profit attributable to equity holders divided by the weighted average number of ordinary shares in issue during the period.

## EBIT

Earnings before interest and tax (Includes other operating income).

## EBITDA

Earnings before interest, tax, depreciation and amortization.

## Effective Rate of Taxation

Income tax including Deferred tax over Profit before tax.

## Energy Intensity

Total energy consumed by the Company in GJ divided by the production in MT

## Equity

Shareholders' funds

## Fair value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## Financial Instrument

A financial instrument is any contract that gives rise to both a financial assets in one entity and a financial liability or equity instrument in another entity.

## Interest cover

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

## Market capitalization

Number of Shares in issue at the end of the period multiplied by the share price at the end of the period.

## Market value added

Market capitalization minus shareholders' funds.

## Net Assets

Total assets minus long term and current liabilities.

## Net Assets Per Share

Net assets at the year- end divided by the number of Ordinary shares in issue

## Net Profit Ratio

Profit after tax attributable to equity holders of the Company divided by total revenue.

**Net working capital**

Current assets minus current liabilities.

**Organic wastage**

Bio-degradable waste.

**Price Earnings Ratio**

Market price of share as at the year- end divided by Earnings Per Share.

**Public Holding**

Percentage of shares held by the public calculated as per the Colombo Stock Exchange Listing Rules as at the date of the Report.

**Quick Asset Ratio**

Current Assets other than inventory divided by Current liabilities.

**Return on Assets (ROA)**

Profit after tax divided by average total assets.

**Return on Capital Employed (ROCE)**

Earnings before interest and tax as a percentage of average shareholders' funds plus total debt.

**Return on Equity (ROE)**

Profit after tax as a percentage of Average shareholders' funds.

**Recycle**

The process of converting waste into reusable materials.

**Risk Management**

The identification, analysis, assessment, control and avoidance , minimization or elimination of unacceptable risk.

**Shareholders' Funds**

Total of issued and fully paid share capital and both capital and Revenue Reserves.

**Stewardship**

The role of supervising or taking care of the organization.

**Total Assets**

Non- current assets plus current assets.

**Total Debt**

Long term loans plus short term loans and overdrafts.

# INVESTOR INFORMATION

## Ordinary Shareholders as at 31 March 2019

No. of shares held	Residents			Non-Residents			Total		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
1 - 1,000	1,716	631,224	0.304	9	3,850	0.002	1,725	635,074	0.306
1,001 - 10,000	1,220	4,977,051	2.396	4	23,700	0.011	1,224	5,000,751	2.407
10,001 - 100,000	538	17,776,705	8.557	12	508,154	0.245	550	18,284,859	8.802
100,001 - 1,000,000	75	21,420,935	10.311	5	1,555,276	0.749	80	22,976,211	11.060
Over 1,000,000	10	160,843,993	77.425	-	-	-	10	160,843,993	77.425
	3,559	205,649,908	98.993	30	2,090,980	1.007	3,589	207,740,888	100.000

Categories of shareholders	Residents			Non-Residents			Total		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
Individuals	3,346	34,608,983	16.660	28	1,755,642	0.845	3,374	36,364,625	17.505
Institutions	213	171,040,925	82.333	2	335,338	0.162	215	171,376,263	82.495
	3,559	205,649,908	98.993	30	2,090,980	1.007	3,589	207,740,888	100.000

## Market Value

The market value of an ordinary share of Hayleys Fabric PLC was :

	2019 (LKR)	2018 (LKR)
Highest	13.70 (on 26 April 2018)	17.70 (on 28 April 2017)
Lowest	8.40 (on 04 July 2018)	12.20 (on 28 March 2018)
Year end	8.50	12.50

## Share Trading

	2019	2018
No. of transactions	7,911	9,990
No. of shares traded	24,782,369	30,273,485
Value of shares traded (LKR)	241,563,086	484,704,794



## MAJOR SHAREHOLDING

The twenty major shareholders and the percentage held by each is as follows :

### First twenty shareholders as at 31 March 2019

	Name of Shareholder	No. of Shares as at 31/03/2019	%	No. of Shares as at 31/03/2018	%
1	HAYLEYS PLC NO 3 SHARE INVESTMENT ACCOUNT	122,487,023	58.96	122,487,023	58.96
2	THE CEYLON GUARDIAN INVESTMENT TRUST PLC A/C # 02	8,417,992	4.05	8,645,207	4.16
3	THE CEYLON INVESTMENT PLC A/C # 02	8,247,810	3.97	8,474,184	4.08
4	EMPLOYEES PROVIDENT FUND	5,540,727	2.67	5,540,727	2.67
5	HAYLEYS ADVANTIS LIMITED	5,036,850	2.42	5,036,850	2.42
6	HAYLEYS AGRICULTURE HOLDINGS LIMITED	3,472,257	1.67	3,472,257	1.67
7	THE CEYLON CHAMBER OF COMMERCE ACCOUNT NO 02	2,467,400	1.19	2,506,275	1.21
8	MR.A.M.WEERASINGHE	1,850,000	0.89	1,800,000	0.87
9	MR.A.N.ESUFALLY	1,815,000	0.87	1,815,000	0.87
10	HATTON NATIONAL BANK PLC A/C NO.4 (HNB RETIREMENT PENSION FUND)	1,508,934	0.73	1,528,934	0.74
11	HATTON NATIONAL BANK PLC - ASTRUE ALPHA FUND	1,000,000	0.48	-	-
12	FREUDENBERG SHIPPING AGENCIES LIMITED	841,786	0.41	841,786	0.41
13	J.B.COCOSHELL (PVT) LTD	819,963	0.39	-	-
14	BANK OF CEYLON A/C NDB WEALTH GROWTH FUND	774,565	0.37	774,565	0.37
15	BANK OF CEYLON NO.01 ACCOUNT	774,098	0.37	774,098	0.37
16	MR.G DANGAMPOLA & MRS.N.P.DANGAMPOLA	773,077	0.37	773,077	0.37
17	MR.D.F.G.DALPETHADO & MRS.H.F.A.K.D. FONSEKA	715,748	0.34	1	0.00
18	MR.K.A.S.R NISSANKA	700,000	0.34	700,000	0.34
19	MRS.V.SARASWATHI	650,535	0.31	-	-
20	MERCHANT BANK OF SRI LANKA & FINANCE PLC 01	630,408	0.30	275,000	0.13
	Total	168,524,173	81.12	165,444,984	79.64

### The issued number of shares of the Company

As at 31.03.2018 - 207,740,888

As at 31.03.2019 - 207,740,888

Registered Shareholders as at 31 March 2019 - 3,589 (3,371)

The percentage of shares held by public as at 31st March, 2019 was 36.92% (36.92%)

No. of shareholders representing Public Holding as at 31 March 2019 3,582 (3,365)

Float adjusted Market Capitalization as at 31 March 2019 was Rs.651,932,454.72

## DIRECTORS' SHAREHOLDING

Directors' shareholding as at 31 March	Direct holding	
	No. of Shares 2019	No. of Shares 2018
Mr. A.M.Pandithage	Nil	Nil
Mr. K.D.D.Perera **	4,090	4,090
Mr. S.C.Ganegoda	Nil	Nil
Mr. H.Somashantha	20,000	20,000
Mr. R.N.Somaratne	25,000	25,000
Mr. E.R.P.Goonetilleke	Nil	Nil
Dr. N.S.J.Nawaratne	Nil	Nil
Mr. A.S.Jayatilleka	Nil	Nil
Mr. R.Rohitha Bandara	5,000	5,000
Mrs. Y.Bhaskaran ( alternate Director to Mr.K.D.D.Perera )	Nil	Nil

\*\* Mr.K.D.D.Perera holds 50.44% directly and indirectly of the total issued shares of Hayleys PLC which has 122,487,023 shares in Hayleys Fabric PLC.

# NOTICE OF MEETING

Notice is hereby given that the Twenty Seventh Annual General Meeting of Hayleys Fabric PLC, will be held at the Registered Office of the Company, at No.400, Deans Road, Colombo 10, on Wednesday 26th June, 2019 at 3.00 p.m. and the business to be brought before the meeting will be:

1. To consider and adopt the Annual Report of the Board and the Statements of Accounts for the year ended 31st March, 2019 with the Report of the Auditors thereon.
2. To elect Mr. M. H. Jayasinghe who has been appointed to the Board since the last Annual General Meeting, a Director.
3. To re-elect Mr. S. C. Ganegoda, who retires by rotation at the Annual General Meeting, a Director.
4. To re-elect Mr. A. M. Pandithage, who retires by rotation at the Annual General Meeting, a Director.
5. To authorise the Directors to determine contributions to charities for the year 2019/20.
6. To authorize the Directors to determine the remuneration of the Auditors, Messrs. Ernst & Young, Chartered Accountants who are deemed to have been re-appointed in terms of section 158 of the Companies Act No. 07 of 2007 as Auditors for the year 2019/20.
7. To consider any other business of which due notice has been given.

## NOTE :

A shareholder is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a shareholder 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, 2019.

By Order of the Board

**HAYLEYS FABRIC PLC**  
**HAYLEYS GROUP SERVICES (PRIVATE) LIMITED**  
Secretaries

Colombo

25th May 2019

# FORM OF PROXY

I/We\* ..... (Full name of shareholder\*\*)

NIC No./Reg. No. of Shareholder(\*\*) .....

of .....

being a shareholder/shareholders of HAYLEYS FABRIC PLC hereby appoint,

1. .... (Full name of Proxyholder\*\*)

NIC No. of proxyholder (\*\*) .....

of .....

or failing him/them,\*

2. ABEYAKUMAR MOHAN PANDITHAGE (Chairman of the Company) of Colombo, or failing him, one of the Directors of the Company as my/our\* proxy to attend, speak and vote as indicated hereunder for me/us\* and on my/our\* behalf at the Twenty Seventh Annual General Meeting of the Company to be held on Wednesday, 26th June, 2019 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

For Against

- |                                                                                                                                                                                                                                                                 |                          |                          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| 1. To consider and adopt the Annual Report of the Board and the Statements of Accounts for the year ended 31st March, 2019, with the Report of the Auditors thereon.                                                                                            | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To elect Mr. M .H. Jayasinghe who has been appointed to the Board since the last Annual General Meeting, a Director.                                                                                                                                         | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To re-elect Mr. S. C. Ganegoda, who retires by rotation at the Annual General Meeting, a Director                                                                                                                                                            | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To re-elect Mr. A. M. Pandithage, who retires by rotation at the Annual General Meeting, a Director                                                                                                                                                          | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To authorise the Directors to determine contributions to charities for the year 2019/20.                                                                                                                                                                     | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. To authorize the Directors to determine the remuneration of the Auditors, Messrs. Ernst & Young, Chartered Accountants who are deemed to have been reappointed in terms of section 158 of the Companies Act No. 07 of 2007 as Auditors for the year 2019/20. | <input type="checkbox"/> | <input type="checkbox"/> |

(\*\*) The proxy may vote as he thinks fit on any other resolution brought before the Meeting of which due Notice has been given.

As witness my/our\* hands this ..... day of..... 2019.

.....  
Signature Of Shareholder

Witness(\*\*);

Name ..... Address .....

Signature ..... NIC No. ....

Notes:

- (a) \* Please delete the inappropriate words.
- (b) A shareholder entitled to attend and vote at the Annual General meeting of the Company, is entitled to appoint a proxy to attend and vote instead of him/her and the proxy need not be a shareholder of the Company .  
\*\* Full name of shareholder/proxy holder and their NIC Nos and Witness are mandatory. Your Proxy Form will be rejected if these details are not completed.
- (c) A shareholder is not entitled to appoint more than one proxy to attend on the same occasion.
- (d) Instructions are noted on the reverse hereof.
- (e) This Form of Proxy is in terms of the Articles of Association of the Company.

# 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 Monday, 24th June, 2019.
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.
7. In case of Marginal Trading Accounts (slash accounts), the form of Proxy should be signed by the respective authorised Fund Manager/Banker with whom the account is maintained.

# CORPORATE INFORMATION

## Name of Company

Hayleys Fabric PLC

## Legal Form

A Quoted Public Company with Limited Liability  
(Incorporated in Sri Lanka in 1993 )

## Company Registration Number

PQ 37

## Accounting year end

31st March

## Principal Activity

Manufacturing of knitted fabric

## Directors

A.M. Pandithage - Chairman  
E.R.P. Goonetilleke - Managing Director  
K.D.D. Perera  
S.C. Ganegoda  
H. Somashantha  
R.N. Somaratne  
Dr. S.J. Nawaratne  
A.S. Jayatilleka  
R. Rohitha Bandara (*Appointed w.e.f. 15 May 2018*)  
Ms. Yogadinusha Bhaskaran (*Alternative Director to K.D.D. Perera*)

## Secretaries

Hayleys Group Services (Pvt) Ltd.  
400, Deans Road, Colombo 10.  
Telephone: (94-11) 2627650 /51/52/53

## Registered Office

400, Deans Road ,  
Colombo 10.  
Telephone: (94-11) 2627000

## Main Office & Factory

Narthupana Estate , Neboda.  
Telephone: (94-34) 4297100, 2242055

## Bankers

Standard Chartered Bank  
Hongkong and Shanghai Banking Corporation  
Hatton National Bank PLC  
Bank of Ceylon  
National Development Bank PLC  
Sampath Bank PLC  
Deutsche Bank AG  
Citibank, N.A.  
Seylan Bank PLC  
Pan Asia Banking Corporation PLC  
People's Bank

## Auditors

Ernst & Young  
Chartered Accountants,  
201, De Saram Place,  
Colombo 10.

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