

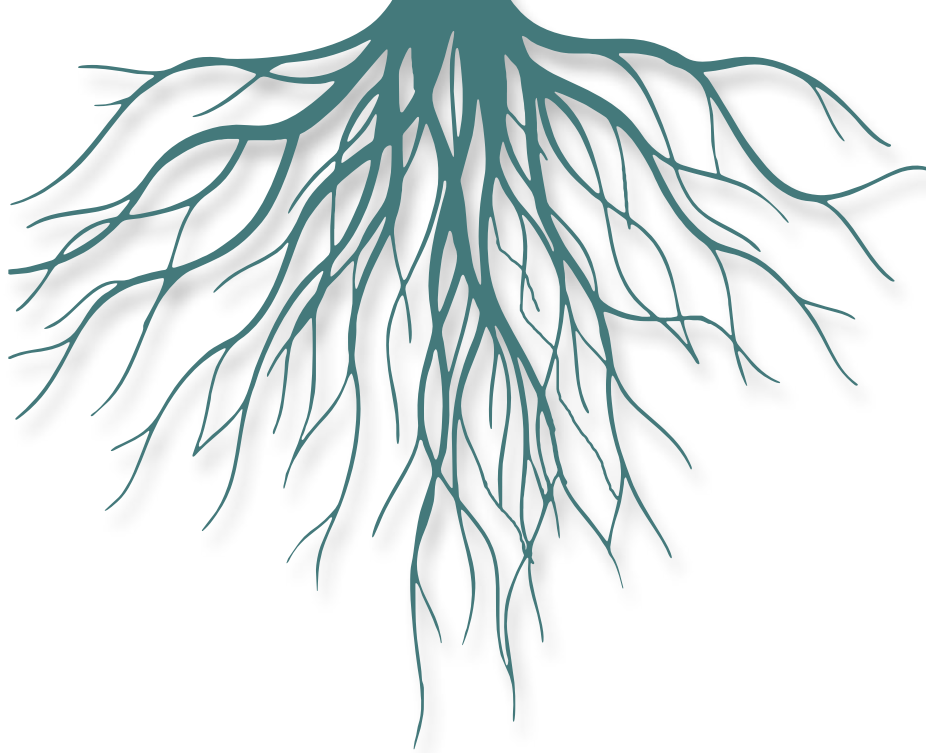
Rooted In Trust






www.hayleysfabric.com
SCAN to access full Integrated
Annual Report





Rooted In Trust

Deeply rooted in an ethos of sustainability and trust, Hayleys Fabric PLC has continued to build on our promise to bring value to every stakeholder, even amidst a challenging year.

It is because of these strong roots that we have continued to reach new heights, constantly expanding our potential year on year. Our core values enabled us to stay on course and achieve our vision of being the most sought-after manufacturer of fabric in South Asia, by realigning strategies and setting clear goals to leverage on our distinctive capabilities.

This report is a testament to the wide-ranging impact that has enabled us to revolutionise the landscape in which we operate. As we anticipate the many opportunities the future holds, Hayleys Fabric PLC is rooted in our stakeholders' trust, with a steadfast will to generate sustainable growth, and ensure a positive impact on people and planet.







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ABOUT THE REPORT

This is our seventh Integrated Annual Report which sets out the performance of Hayleys Fabric PLC for the financial year ended 31 March 2021. The report provides our stakeholders with a concise and transparent assessment of our ability to create sustainable value and provides material information relating to our strategy and business model, operating context, material risks, stakeholder interests, performance, prospects and governance.

Scope and Boundary

An annual reporting cycle has been adopted. The Report covers the activities of the Company for the period from 1st April 2020 to 31st March 2021. Any material events after this date and up to the Board approval date of 11th May 2021 have also been included. The most recent previous

report for the financial year ended 31st March 2020 is available on website (www.hayleysfabric.com).

The report focuses on aspects deemed material to Hayleys Fabric PLC's operations and to our key stakeholders. The process for determining materiality is described on page 51 of this Report.

There are no significant changes in the scope and aspect boundaries.

Reporting Standards

The following frameworks were used to prepare the report moving beyond regulatory compliance to incorporate international best practice into our reporting processes.

| Financial Reporting | Narrative Reporting | Corporate Governance | Sustainability |
|---|---|--|---|
| <ul style="list-style-type: none"> Sri Lanka Financial Reporting Standards Companies Act No. 7 of 2007 Sri Lanka Accounting & Auditing Standards Act No.15 of 1995  | <ul style="list-style-type: none"> Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)  | <ul style="list-style-type: none"> Continued Listing Requirements of the Colombo Stock Exchange Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka  | <ul style="list-style-type: none"> This report has been prepared in accordance with the GRI Standards: Core option  |

Reporting Structure

We have structured the report to provide an overview of how we nurtured our capitals to deliver value to our stakeholders. We aim to continually improve the quality of our reporting and this year's report includes the following features to enhance clarity and readability.

- Increased strategic orientation in reporting
- Improved connectivity using navigation icons
- Careful consideration of relevant and material information

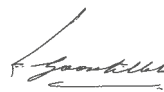
Independent Assurance

Hayleys Fabric PLC has obtained an independent assurance on both the Financial Statements and Sustainability Reporting, from External Auditors Messrs Ernst & Young. These reports have been set out on pages 126 and 107, respectively.

Statement of the Board

The Board acknowledges its responsibility to ensure the integrity of the annual Integrated Report and is of the opinion that the report addresses all material issues that it believes to have a bearing on Hayleys Fabric PLC's capacity

to create value over the short- medium- and long-term. The Board has applied its collective mind to the preparation and presentation of this report and believes that it has been prepared in accordance with the IIRC <IR> Framework. The report was unanimously approved by the Board and is signed on its behalf by



E.R.P Goonetilleke
Managing Director/CEO



Ruwan Rohitha Bandara
Director- Finance

Feedback

We welcome feedback on our Annual Report as it enables us to continuously improve our integrated reporting. Kindly address your comments and suggestions to;

For inquiries about this report, please contact:

Mr. Ruwan Rohitha Bandara : Director - Finance
rohitha.bandara@hayleysfabric.com

Finance Department,
Hayleys Fabric PLC, Narthupana Estate, Neboda, Sri Lanka.

0094 -34- 2297100

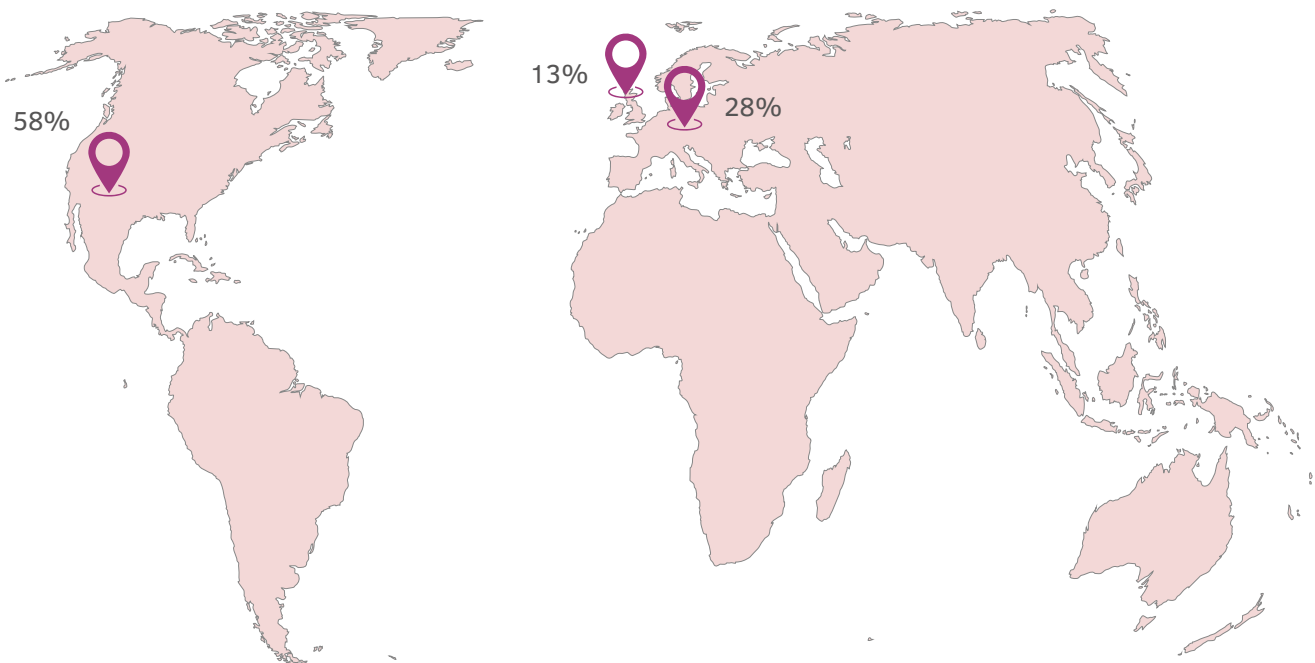
www.hayleysfabric.com

ABOUT US

Hayleys Fabric PLC manufactures innovative, higher value-added fabrics, under its own branded range to top global fashion brands. A pioneer in the industry, we offer concept-to-delivery solutions of a wide range of knits and finishes and are recognized as one of Sri Lanka's best innovators. The Company is also Sri Lanka's largest synthetic fabric manufacturer. A passion for innovation, agility and expertise in manufacturing and, a commitment to sustainability, combined with consistent high service levels have earned us the continued trust and confidence of our buyers, as we progress towards becoming the "most sought after fabric manufacturer in South Asia". As a publicly listed subsidiary of Hayleys Group, we are strengthened by a heritage of entrepreneurship and governance spanning 140+ years.

Our Markets & Sources

We benefit from a broad base of geographical locations.



Our Team

Our dynamic and multi-skilled team is a key strength and strategic differentiator. Their knowledge, skills and attitude are central to driving the sustainability and growth of our business.

1,414 employees



Our Inno Portfolio

Launched in 2014, Inno is the first brand owned by a textile manufacturer in Sri Lanka, focused on developing high performance, sports and leisure fabrics of superior aesthetics and functionality.

- 250+ innovations and developments
- 63% sales in 2020/21



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:

invest 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

18%

Return on Equity (ROE)

32%

Renewable Raw material consumption

1,414

Employees



28,041

Total Carbon footprint (tCO₂e)

20%

Reduction in Electricity cost due to Solar Power

400+

Trees Planted

ABOUT US

Earning Our License to Operate

We believe that the only way to create long-term value for all our stakeholders is through sustainable growth. Sustainability is integrated into every aspect of our strategy. Our certifications, memberships and voluntary initiatives are a testament to our commitment to high work ethics and standards; and effort to reduce our environmental impact.

Certifications



Memberships



Voluntary Initiatives



"Since 2018 Hayleys Fabric PLC has been committed to the UN Global Compact corporate responsibility initiative and its principles in the areas of human rights, labour, the environment and anti-corruption."



Our Partners

We have the scale and execution capability to meet the stringent service requirements of our partners' segments.

Our Partners



Our State-of -the Art Facilities

End-to-end manufacturing solutions from design to knitting, dyeing and finishing, use advanced technologies to create a high-quality, extensive portfolio of cotton, polyester and nylon blends.



Product development



Circular knitting of fabric



Fabric dyeing & finishing



Fabric printing



Brushing & sueding

PERFORMANCE HIGHLIGHTS

USD 57.95 Mn
Total Assets



63%
Sales from Inno and Product development

15,795 tCO₂e
Direct Green house gas emissions



44%
Average Training Coverage



254,800M³
Water re-cycled and re-used



USD 6.5 Mn
Cash Profit



30%
Purchased from Suppliers in Sri Lanka

12%

Return on Capital Employed (ROCE)

USD 20.92 Mn
Total Equity





FINANCIAL INDICATORS

| REVENUE AND PROFITABILITY | | 2021 | 2020 |
|---|--------------|--------|--------|
| Revenue | USD '000' | 77,281 | 67,116 |
| Results from operating activities | USD '000' | 4,591 | 2,852 |
| Profit before tax | USD '000' | 3,823 | 1,669 |
| Profit after tax | USD '000' | 3,852 | 1,271 |
| Basic / Diluted earnings per share | USD | 0.009 | 0.003 |
| Cash Profit | USD '000' | 6,459 | 5,035 |
| Interest cover | No. of times | 5.8 | 3.1 |
| Return on equity (ROE) | % | 18% | 7% |
| Pre-tax return on capital employed (ROCE) | % | 12% | 7% |
| Price earning ratio | No. of times | 15.7 | 15.7 |

| BALANCE SHEET | | 2021 | 2020 |
|---------------------------|-------------|-------------|-------------|
| Total assets | USD '000' | 57,945 | 48,937 |
| Total debt | USD '000' | 16,568 | 16,772 |
| Inventory holding days | No. of days | 79 | 78 |
| Debtors' days | No. of days | 34 | 40 |
| Total shareholders' funds | USD '000' | 20,926 | 18,406 |
| No. of shares in issue | | 415,481,776 | 207,740,888 |
| Net assets per share | USD | 0.05 | 0.09 |
| Debt /(Equity+Debt) | % | 44% | 48% |
| Total debt / Total assets | % | 29% | 34% |

| MARKET / SHAREHOLDER INFORMATION | | 2021 | 2020 |
|--|-------------|--------|-------|
| Market price of share as at 31st March | Rs. | 27.80 | 8.70 |
| Market capitalisation | Rs. Million | 11,550 | 1,807 |
| Dividend per share | Rs. | 0.60 | 0.30 |
| Dividend yield | % | 2% | 3% |

PERFORMANCE HIGHLIGHTS

NON-FINANCIAL INDICATORS

| RESPECT FOR THE ENVIRONMENT | 2021 | 2020 |
|--|-----------|-----------|
| Total extent of land | 54 Acres | 54 Acres |
| Lease land | 2 Acres | - |
| Extent of land reserved as a green belt | 20 Acres | 20 Acres |
| Extent of land designated as a wet land bio-diversity area | 9 Acres | 8 Acres |
| Total raw material consumption (MT) | 17,300 | 15,245 |
| Renewable raw material consumption (MT) | 5,613 | 4,301 |
| Renewable raw material as a percentage of total material consumption | 32% | 28% |
| Recycled raw materials as a percentage of total material consumption | 4.1% | 2.9% |
| Direct energy consumption (GJ) | 812,000 | 749,722 |
| Energy intensity (GJ/ MT of production) | 93.5 | 90.4 |
| Indirect energy consumption (GJ) | 23,111 | 24,511 |
| Indirect energy intensity (GJ/MT of production) | 2.7 | 3.0 |
| Water withdrawal (M ³) | 1,841,000 | 1,898,977 |
| Water intensity (M ³ '000'/MT of production) | 0.21 | 0.23 |
| Water recycled and reused (M ³) | 254,800 | 301,667 |
| Water footprint (M ³) | 2,523,330 | 2,994,952 |

| OUR IMPACT ON THE ENVIRONMENT | 2021 | 2020 |
|---|-----------|-----------|
| Direct greenhouse gas emissions (tCO ₂ e) | 15,795 | 15,256 |
| Indirect greenhouse gas emissions (tCO ₂ e) | 12,246 | 16,622 |
| Total carbon footprint (tCO ₂ e) | 28,041 | 31,878 |
| Carbon emissions intensity (tCO ₂ e/MT of production) | 3.23 | 3.84 |
| Water discharged to the river (M ³) | 1,545,800 | 1,578,129 |
| Waste generated and disposed according to CEA requirements (MT) - Hazardous & Non-Hazardous | 2,913 | 2,520 |
| Waste recycled/ incinerated through third party contractors | 59% | 60% |
| Significant environmental fines - USD | Nil | Nil |

| RELEVANCE TO COUNTRY'S ECONOMY | 2021 | 2020 |
|---|-------|-------|
| Fabric produced (MT) | 8,689 | 8,294 |
| Proportion of purchases from suppliers within Sri Lanka (Local) | 30% | 26% |

| ADVANCED TECHNOLOGY | 2021 | 2020 |
|---|--------|--------|
| Net Book Value - USD '000' | | |
| - Buildings | 5,256 | 4,739 |
| - Plant & Machinery | 15,097 | 14,659 |
| Investments during the year - USD '000' | | |
| - Buildings | 191 | 517 |
| - Plant & Machinery | 1,994 | 2,404 |
| Capacity utilization | 90% | 85% |



| AN INSPIRED TEAM | 2021 | 2020 |
|---|-------------|-------------|
| Total workforce | 1,414 | 1,300 |
| Percentage of employees from the area (within 15 km radius) | 67% | 66% |
| Employee retention | 92% | 95% |
| Employee productivity (USD per man hour) | 22 | 19 |
| Training & development cost - USD | 2,897 | 10,957 |
| Average hours of training per employee (excluding Casual) | 1.52 | 3.6 |
| Training coverage of employees (excluding Casual) | 44% | 74% |
| Injury rate | 1.82 | 1.63 |
| 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 |
| RESPONSIBLE INNOVATION | 2021 | 2020 |
| Percentage of sales from Inno and product proposals | 63% | 62% |
| No. of Accreditations / Certifications & Memberships from Fashion Brands | 37 | 51 |
| STRONG NETWORKS | 2021 | 2020 |
| Community engagement (No. of persons impacted) | Over 2,500 | 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 |

OUR COMMITMENT TO SUSTAINABILITY

Driving Sustainability in 2020/21



| Sustainability Governance | |
|---------------------------|---|
| • | Annual environmental goal setting. |
| • | Establishment of a sustainability team during the year, to lead initiatives in driving an eco-conscious organization culture. |
| • | Compliance team to ensure compliance to customer requirements and legal standards. |
| • | Regular data monitoring through SAP and monthly reports for management review. |
| • | Monthly updates to the Hayleys Group sustainability portal for Board review. |
| • | Clear standard operating procedure for business as usual. |
| • | Eco- Friends team building programme for driving a sustainability culture across the organization. |

Committed to Science-Based Targets Initiative (SBTI)

Science-based targets initiative is a global movement to drive corporate climate action. Hayleys Fabric PLC is the first Sri Lankan textile manufacturer to commit to setting a science-based target for reducing the carbon footprint.

(Find more details at: <https://sciencebasedtargets.org/companies-taking-action?status=Committed&country=Sri%20Lanka#table>)





Hayleys Fabric PLC has been selected to the Climate Emergency Task Force conducted by United Nations Global Compact – Sri Lanka.

| | |
|---|---|
|  | <p>Phase 1</p> <p>Signed commitment letter and registered as a committed company in line with limiting global temperature rise to 1.5 °C</p> |
|  | <p>Phase 2</p> <p>Target setting already started with third party. To be completed June 2021</p> |



4.6 MW Rooftop Solar Installation



| | |
|---|--------------------------------|
|  | 6,241,500 kWh per annum |
|  | 8,936 number of panels |
|  | 20% equivalent of energy usage |
|  | 3Mn USD investment |



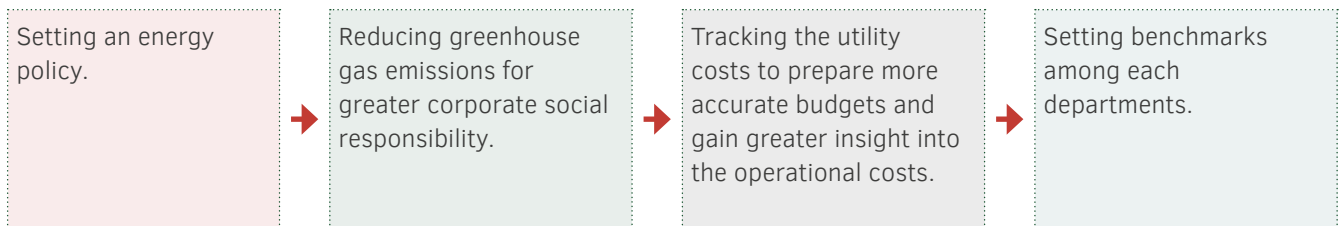
At Hayleys Fabric PLC we are committed to reducing our carbon footprint through investing in renewable energy. The 4.6 MW rooftop installation is the largest single rooftop system in Sri Lanka. Solar installation supplies renewable energy to the Sri Lankan National Grid through the Net plus program. During the year, the first phase of the project (1.1MW) was completed and commissioned. Phase 2 installation is completed and will be commissioned in end of April 2021.

Replacing Fossil fuels with Biomass

Usage of renewable energy for producing heat and steam is prioritized at Hayleys Fabric PLC. 64% of our overall energy consumption is from biomass.

ISO 50001 EMS

We are in the process of implementing an ISO 50001 certified energy management system at Hayleys Fabric PLC to ensure our energy usage has maximum efficiency. The implementation process is expected to be completed in August 2021.



Recycling Water

As a water dependent business, Hayleys Fabric PLC is committed to conserving our water. Last year an initiative to recycle water used for machine cooling was implemented to reduce our ground water dependency (Phase 1). In September 2020, the expansion of the water recycling project to Dye house II was completed (Phase 2).

| Project Phase | Phase 1 | Phase 2 |
|-----------------------|---------|---------|
| Water saving capacity | 16% | 25% |

Wastewater Management System

Wastewater management is a key part of our process, therefore we are continuously upgrading and improving the system to meet regulatory standards.

| Biological sludge management | Chemical sludge management |
|---|---|
| <ul style="list-style-type: none"> • Installed screw press for biological sludge dewatering. • Dispose of dry biological sludge waste for fertilizer manufacturing. • Project completed - March 2021 | <ul style="list-style-type: none"> • Project in progress to install sludge dryer unit to reduce the moisture quantity of the chemical sludge. Research being conducted to produce bricks out of dried chemical sludge. • Target completion date – December 2021 |



Clarifier



Chemical Mixing and Dosing Unit



Screw Press Machine



Sludge Mixing Tank



Screw Unit (Squeezing)

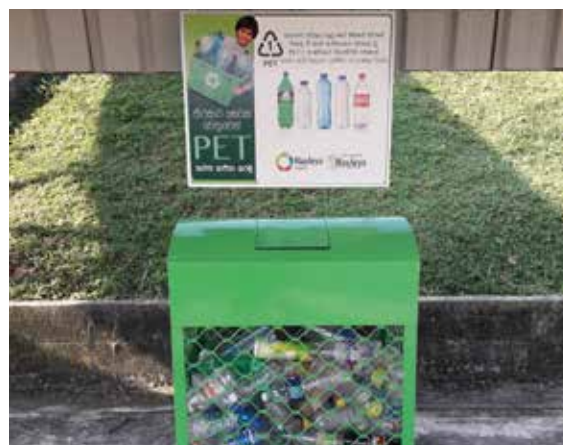
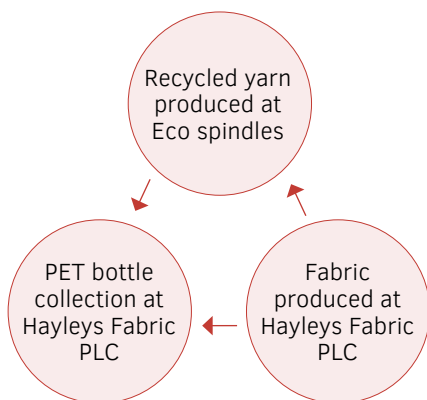
OUR COMMITMENT TO SUSTAINABILITY

Practising Circular Economy

We are committed to building a local circular economy. We installed a PET bottle collection point in our premises to encourage recycling. The PET waste collected through this is sent for manufacturing recycled yarn which is used as a raw material for fabric production at Hayleys Fabric PLC.

- 660 waste PET bottles collected
- 748,113 Kg yarn purchased

PET Waste Collection to Fabric



Furthering Sustainability of Our Business through Innovation

SustainabiliTea – Hayleys Fabric PLC has pioneered a natural tea dye produced from waste tea, as a sustainable alternative to synthetic dyes and treatments. The tea dye has been tested to ensure it is on par with internationally accepted standards, and is totally free of hazardous chemicals, making it safer for the wearer, the environment and for those involved in the manufacturing process. Tea waste is sourced from a Hayleys’ sister company, facilitating the development of a circular economy within the Hayleys Group.

The Company also uses other natural dyes, derived from pomegranate (*Punica granatum*), mulberry (*Morus alba*), mexican marigold (*Tagetes erecta*) and black cutch (*Acacia catechu*).



SUSTAINABILITEA™

Hayleys Fabric's natural SustainabiliTea project has a close loop natural dye process, enhancing its sustainable manufacturing processes, while reducing the potential hazards to its consumers and the environment.

- 01 Natural tea waste is collected from Sri Lankan tea estates
- 02 The tea is extracted from the tea waste by our own Hayleys supplier base
- 03 In house fabric dyeing via the Hayleys Fabric jet dye machine with no hazardous chemicals emitted
- 04 Finally, the tea dyed fabric is produced with a fixed colour and unique smell.

The World Of **Hayleys** 



OUR COMMITMENT TO SUSTAINABILITY

Biodiversity



400+ trees planted throughout the year



| Endemic Species conservation | | |
|--|--|---|
| Phase 1 | Phase 2 | Phase 3 |
| 9 Acres land allocation for wetland conservation | 3 Biodiversity specialist have covered 3 days land investigation | Identify opportunities for enrichment of natural forest. Use land for education, organic farming activities |
| Completed | Completed | To be launched on 2021 June |
| Project initiated with the guidance of Ministry of Environment | | |

Eco Friends

Eco Friends - Team Building programme for Sustainability



The Eco Friends team leads initiatives in driving an eco-conscious organization culture.



CHAIRMAN'S MESSAGE

A.M. Pandithage
Chairman





Adopting a customer-centric business model, we remained steadfast to our strategy, fine tuning innovation, supply chains, workflows, and production to meet the high service levels expected.

Dear Shareholder,

I am pleased to report that Hayleys Fabric PLC delivered outstanding results for the financial year ended 31st March 2021. Recording a turnover of USD 77.3Mn and profit after tax of USD 3.8 Mn, the Company achieved historical best performance amidst the challenges brought on by the COVID-19 pandemic. The results are even more pertinent against industry performance. Company's turnover grew 15% year on year, against a decline of 9% in national textile exports. The Company's success is a testament to the strategy of aligning Brand strategy with Tier-1 Customers pursued over the past four years.

Operating Context

The Global fashion industry suffered its worst year on record in 2020. Lockdowns, travel restrictions, retail store closures and factory shutdowns placed unprecedented pressure on retail operations with many companies across the world losing money.

Large scale order cancellation, postponements, and non-fulfillment of existing contractual obligations by retail brands affected the apparel and textile supply chain markets. Financially stressed garment factories across the world reduced operations, closed down or laid off workers.

Decline in the apparel and textile manufacturing sector in Sri Lanka was limited to an extent by the agility and adaptability of the industry, with several key apparel producers quickly pivoting to manufacture Personal Protective Equipment (PPE) by first quarter of 2020. Hayleys Fabric PLC was the first entity to commence operations on April 17th, 2020 under stringent health protocols, leading the industry in the production of PPE. Following the subsequent return of buyers with standard orders, key players were able to return to normal business by second quarter 2020/21.

Industry Consumer Trends

The pandemic accelerated trends that were in motion prior to the crisis. Primary driver of retail growth remains digital channels while heightened focus on environmental sustainability and social justice has led to increased demand for greater accountability and transparency. Lockdowns and restrictions on movement have strongly influenced consumer choices around what to wear. Desire for comfort when working from home and rising health and self-consciousness leading to active lifestyles, has accelerated the demand for loungewear and athleisure. Recovery of these fashion categories has outpaced others and demand is likely to continue to be strong.

Our Strategy

Over the past four years, we pursued a differentiated strategy, distinct from key textile manufacturers in Sri Lanka, driving innovations in polyester and poly mix under our own branded range, to top retail brand owners. Our innovations and product developments focused on high performance fabrics, attractive to the growing sports and leisure market. Adopting a customer centric business model, we remained steadfast to our strategy, fine tuning innovation, supply chains, workflows, and production to meet the high service levels expected. Today, I am proud to say that your Company is the largest synthetic fabric manufacturer in Sri Lanka, having gained the confidence of select Tier-1 brand owners and securing the required business volumes.

Performance

Strategic partnerships with our buyers founded on reliability and trust, held us in good stead through the past year. The shift in global consumer demand towards sports and leisurewear during the pandemic, presented a significant opportunity for Hayleys Fabric PLC. By June 2020, Tier-1 buyers returned to the Company with orders for athleisure, and factory capacity filled quickly. Business volumes grew 30% by year end.

PBT increased 129% to USD 3.8Mn supported by turnover growth of 15%. Gross profit margins increased to 14% upheld by a richer revenue product mix driven by increased sales of high yielding Inno Brand and product developments, which accounted for 63% of total sales. Higher cash flows were utilized to settle debt, invest in capital expenditure, and pay dividends. I am pleased to report to shareholders that the Company has emerged financially robust from the COVID-19 crisis, with a strong balance sheet and a healthy cash position.

Responding to Covid

Ensuring the safety of our employees remains our main priority. We continue to take proactive action to mitigate the risk of spread of COVID-19, in compliance with the guidelines and regulations stipulated by the health

CHAIRMAN'S MESSAGE

authorities, whilst rolling out additional voluntary and precautionary measures. The stringent health and safety protocols adopted enables us to sustain our business, avoid disruptions and continuously supply our buyers. We are pleased that these actions resulted in the Company not having to resort to pay cuts and loss of jobs, although it took place across the industry.

As our business evolved faster than ever in 2020/21, our core values of excellence and customer service served us well. An increased focus on continued learning and smart risk-taking supported adaptation as we seized opportunities to create value for all our stakeholders.

Dividends

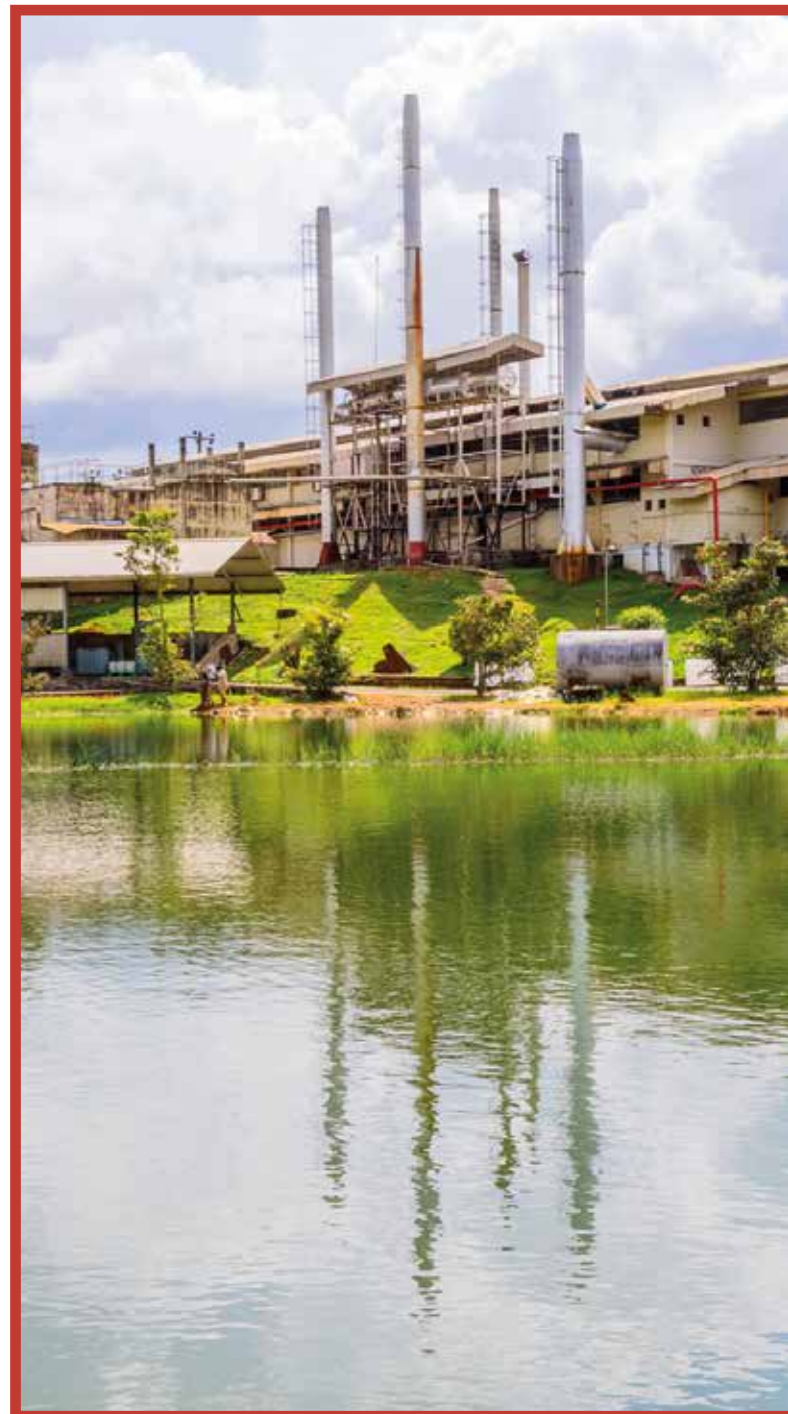
The prudent and effective allocation of capital remained a priority across the Company. We aim to continue investing in our existing business and in value-creating growth opportunities and acquisitions, while also paying dividends and maintaining a robust financial position. As part of our commitment to paying dividends to shareholders, we paid a total dividend of LKR 0.60 per share for the financial year (FY 2019/20: LKR 0.30 per share). In addition, a final dividend of Rs. 0.10 per share has been proposed for 2020/21 which will be presented to the shareholders at the Annual General Meeting.

Sustainability

At Hayleys Fabric PLC, sustainability is a business imperative and integral to our decision-making. We adopt responsible consumption practices and remain committed to minimizing our impact on the environment. Key commitments this year include full installation of the largest rooftop solar system of a 4.6 MW in Sri Lanka for a substantial investment of USD 3 Mn and pioneering a natural tea dye produced from waste tea, as a sustainable alternative to chemical dyes. We are also the first Sri Lankan textile manufacturer to commit to Science Based Targets Initiative (SBTI) towards climate action and are in the process of setting emissions reduction targets leading to zero-carbon transition by 2050.

Looking Ahead

Our strong growth and the significant progress delivered this year has confirmed the relevance of our strategy in progressing towards our Vision of becoming "South Asia's most sought-after fabric supplier". We will continue to align our strategies to the growth strategies of our Tier-1 customers as strategic partner. We are making investments in this regard and the establishment of the Wagawatte Knitting factory and purchase of majority equity stake of South Asia Textiles Limited in April 2021 support our plans to build capacity.



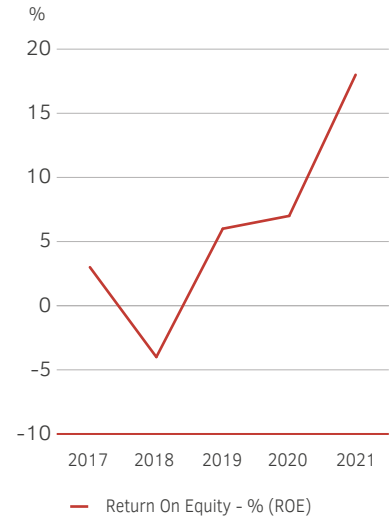
USD 15.72 Mn
Value added by Operating
Activities



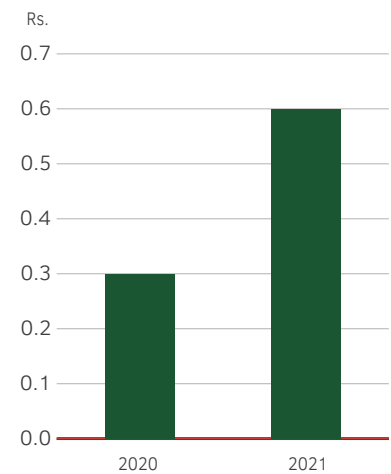
Appreciation

The outstanding performance set out in the report would not have been possible without the strong commitment of our team, in an exceptionally challenging year. I am sincerely appreciative of their effort and seek their continued support in the year ahead. I commend Mr. Rohan Goonetilleke for his strong leadership and wish him success in the months ahead. I also take this opportunity to welcome Mr. K.P.C.P.K. Pathirana to the Board of Hayleys Fabric PLC during the year, as an Executive Director.

Return on Equity (ROE)



Dividends Per Share



On behalf of the Board, I thank all our stakeholders for their trust and confidence and look to their continued support to drive the Company to new heights.

A.M. Pandithage
Chairman

11th May 2021

MANAGING DIRECTOR'S REVIEW



E.R.P. Goonetilleke
Managing Director/ CEO





Dear Shareholder,

A challenging year with incredible results!

It is with great pleasure that I wish to report the performance of your Company for the financial year 2020/2021. Despite a set-back in April 2020 due to COVID-19 closure for three weeks, the year ended with the highest turnover & highest profits ever achieved.

The strategies developed a few years ago on product range and innovation capabilities to differentiate your Company and attract targeted brands, the continued focus on sustainability, alignment to brand strategies, the focus on reducing environmental impact on the use of dyes, chemicals, fossil fuels, water and re-cycled raw materials have had a positive impact on the progress towards sustainability and enhanced results.

The year ended with a PAT of USD 3.85Mn compared to USD 1.27Mn in the previous year. Total revenue for the year was USD 77.28 Mn compared to USD 67.12Mn in the previous year. The earnings per share increased to USD 0.009 from USD 0.003. The Company also paid three interim dividends of Rs. 0.60 per share in total and wish to declare a final dividend of Rs. 0.10 per share at the Annual General Meeting.

How was it possible...

A proactive strategy was adopted in January 2020 when COVID-19 was spreading in China to increase raw material imports from China and build inventory in excess of requirement in order to mitigate possible delays.

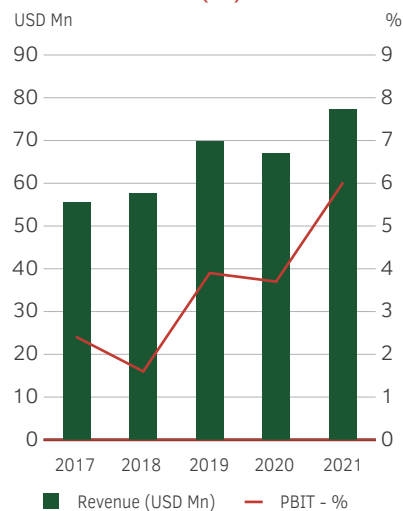
Also, when global brands requested manufacturing to be halted, the innovation and marketing teams worked closely with the large local garment manufacturers to develop fabric for PPE (Personal Protective Equipment). The first large order secured by MAS Holdings for PPE helped kick-start the entire industry. Your Company was the first fabric mill to commence operations immediately after the 2nd week with required approvals from relevant authorities. Thereafter, in June 2020, the Company was able to totally move away from the PPE business and continue with regular business due to the availability of raw material.

The strict COVID Protocols within the Company, the continued follow up with public health authorities, the untiring commitment by the HR team in carrying out a marvelous screening process, resulted in zero COVID-19 cases detected in-side the premises and zero work stoppage and no COVID-19 spread inside the premises.

The support received by all employees of the Company including the Trade Unions to return to work when needed was a great strength. To mitigate the cash flow situation, the trade unions extended their support by agreeing to a 6-month postponement of salary increments from the due date as per the collective agreement. Assistance provided by

People at all levels are committed to improving productivity, reducing waste and cooperating with management decisions to ensure that the Company remained successful in all initiatives.

Revenue Vs PBIT (%)



the Government through financial moratoriums also assisted the Company to recover quickly.

Whilst the industry in general had pay cuts and retrenchments, your Company was able to achieve these results without any such pressure on the employees of the Company.

Due to the above efforts, your Company was able to get up to pre-COVID-19 speed in a few days and end a very challenging year with incredible results amidst a global pandemic.

Sustainability

Environment has transitioned into a key business factor and if not taken seriously, it will have adverse impacts on the business. In fact, the world economic

MANAGING DIRECTOR'S REVIEW

forum has also identified and mentioned in their report in 2020, that the “top five long-term risks by likelihood” are environmental factors.

A dedicated team was set up in the Company five years ago to focus on this area and this team is recognized in the region and have been panelists in many international fora to share best practices and showcase some of the leading initiatives taken in a fabric manufacturing facility.

Your Company is a participant of United Nations Global Compact (UNGC) since 2018, the world's largest corporate sustainability initiative. This aligns strategies and operations to fall in-line with universal principles on human rights, labour, environment and anti-corruption.

Your Company was the first fabric mill in Sri Lanka to commit to SBTi (Science Based Target initiative), a joint initiative by United Nations Global Compact (UNGC), World Resources Institute and WWF (World Wide Fund for Nature) enabling companies to set science-based emissions reduction targets helping to prevent the impacts of climate change.

The first fabric mill in the region to identify and declare a part of its own land as a Wetland biodiversity park to preserve surrounding wetlands & its biodiversity. This project is ongoing with the guidance of the Biodiversity Secretariat, Ministry of Environment. The biodiversity survey report carried out by the secretariat has identified 146 plant species belonging to 63 families and 149 animal species. The study has concluded with the findings of two endemic plant species and 18 endemic animal species.

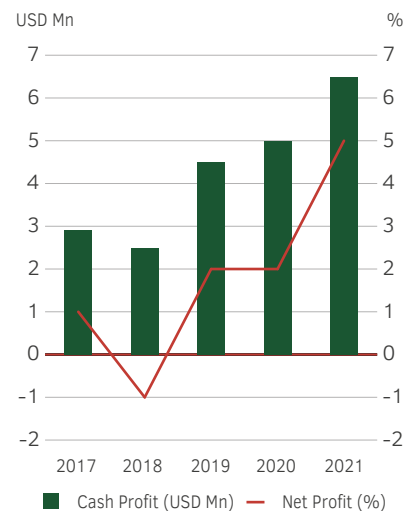
Your Company is a pioneer in Sri Lanka to partner with Cotton made in Africa (CmiA), an initiative of the Aid by Trade Foundation, which is one of the world's leading standards for sustainably produced cotton.

Recently, your Company initiated a project titled “SustainabiliTea”, to use natural dyes extracted from Tea waste, sourced from tea estates within the Hayleys Group in Sri Lanka, to dye fabric. This has now been developed for commercial production. Leading sports brands who work with the Company have shown great interest in commencing production shortly. This dye meets with all required technical parameters including colour fastness.

Your Company invested in a roof top solar power generation project. This is the largest single roof-top project in Sri Lanka with a generation capacity of 4.5 MW. As at March 2021, 3MW has been commissioned. This project when fully completed will be equivalent to 20% of the electricity requirement of the Company. This will result in the reduction of the carbon footprint by 8%.



Cash Profit vs NP Ratio





As high-water consumption in fabric manufacture is one of the key elements that impact natural water resources. The Company has been continually improving its water recycling capability. Presently, a target of 20% saving through recycling has been achieved. This reduces the discharge of water to the river as well as energy costs.

Your Company has been following the ZDHC (zero discharge of hazardous chemicals) and has been in compliance since 2015. The Company has been a part of the road map to zero program, supporting the protection of the planet by reducing the chemical foot print with the global objective of reaching a toxic free fashion industry in the future.

Strategic Engagement with the Customers

Your Company has a clear strategy in ensuring alignment with the requirements of its Tier-1 customer base. This involves product innovation to enhance sales and profitability, flexibility in lead times, ensuring timely delivery whilst maintaining the highest quality standards and sustainability initiatives.

Separate teams engage with these strategic customers to ensure the highest service levels and to ensure speed of response in product development and tracking of bulk production. Your Company has given limited remote access for customers to follow the production plan which enables a closer link to be established through integration of SAP systems.

The sales and marketing team is well experienced in working with the Tier-1 brand segment and the best of Sri Lanka garment manufacturers. They have built strong working relationships across all levels to ensure a sustainable strategic partnership.

Industry Outlook 2021/22

According to the World Trade Organization 2020, Global demand for clothing & textile industry declined by -1% in 2019/20 compared to a positive growth of 6.6% in 2018.

In Sri Lanka, based on Export Development Board (EDB) information in 2020, 42% of majority apparel and textile exports have been to USA, 14% and 26% to the UK and Europe respectively. However, the total export value of Apparel and Textile industry was unable to surpass the USD 5 Billion mark in 2020. Contrastingly, Bangladesh recorded an annual turnover of USD 33 Billion, while Vietnam recorded USD 32 Billion. In order to capture these opportunities, Sri Lanka needs higher capacities for which availability of water and energy is yet a concern.

Synthetic apparel products have attracted leading Global clothing brands and your Company has a wide range of Synthetic fabric with innovations to suit brand requirements and strategies.

Since June 2020 the market slowly returned to normalcy with the fashion industry recovering with a new normal work ethic and adaption with new hope for the future growth.

Continued focus to improve Technology and Productivity

Several teams have been formed to work on technology and productivity improvements across all areas.

Dye cycle times have been shortened to increase productivity. This has resulted in a marginal increase in capacity, reduction in liquor ratios (ratio of chemical to water) thereby reducing consumption of dyes, chemicals, water and energy.

MANAGING DIRECTOR'S REVIEW

The effluent treatment plant efficiency was increased with cost reductions by installing a screw press to reduce the water content of the sludge. This reduces the volume of sludge disposed to incineration thus reducing costs. Experiments are now in progress to separate the biological sludge and obtain certification for disposal of biological sludge for fertilizer.

A scouring machine, was designed and built by the engineering team to reduce wax from greige fabric thus eliminating the requirement for scouring in the dyeing process. This saved almost three hours from the dyeing process. The scouring machine also helps protect the environment by limiting exhaust fumes emanating from the burning wax during presetting fabric.

The team

Technically competent teams with experience in synthetic production have been well established.

People at all levels are committed to improving productivity, reducing waste, cooperating with management decisions to ensure that the company is successful. The enthusiasm displayed to continue with production during the start of the pandemic was a demonstration of their commitment.

Systems, Processes and Controls

ICT is an area which increasingly becomes important for the successful operation of a business, especially a large-scale manufacturing plant.

During the year, all fiber optic cables were replaced, servers, switches and other key items were replaced where necessary and a fully functional Disaster Recovery system was set up in a remote location within the large extent of land available in the premises.

Once again, during the year under review, the ERP system which covers Sales and Production Planning (Fast React) and the system that runs the production process (File Maker) were up graded to the latest versions to ensure safety and the highest service levels.

Inventory and Stock Management

This key area is directly monitored by the Executive Director- Finance with the support of the Executive Director – Sales and marketing. Weekly meetings are held on reviewing the stock positions, requirements based on forecasts and environmental situations especially due to the pandemic and possible shipping issues.

AI (artificial intelligence) tool for the procurement of Dyes and Chemicals has complemented forecasting and



inventory levels and a definite advantage is seen in the reduction in dye and chemical wastage. The accuracy of the tool keeps improving with time.

Continuing with the tradition of tight control, the Company manages all its inventory through a cycle counting system. This system has ensured that one hundred percent of the inventory relating to dyes, chemicals, yarn, greige and engineering stocks are checked three times a year. As a result of these tight controls by the Finance team, the year-end stock count carried out by the external auditors on 100% of the Company's stocks, resulted in an accuracy of 99.9%. This is an exceptional result and is a repetition of the past 6 years.

Environment, Health, Safety & Compliance

This is an area that receives the focus of a dedicated team. The lead team members are identifiable and in-fact the fire team members are attired in a special coloured uniform.

With the COVID-19 pandemic taking center stage, EHS has reached another level with strict compliance to all COVID-19 health guidelines and monitoring mechanisms. As mentioned earlier in this report, the results are clearly seen with zero COVID-19 cases identified within the factory and zero days of work stoppage due to COVID-19.

Regular PCR testing was carried out on employees who reported to work from high risk areas and where necessary, people were quarantined by the Company when in doubt for safety reasons.

This same team is also active on Dengue prevention and mosquito breeding prevention with regular fogging of the premises with the support of area PHI to ensure that there are no breeding places within the premises which covers 55-acres of land and buildings.

Socially Responsible

Your Company continued with activities relating to the people in the area, especially school children, temples



near the Company and other state institutions and small businesses in the village. However, the activities were somewhat subdued due to health guide lines.

The Company recognized students who passed the grade 5 scholarship exam of employees working in the Company. These students were given all necessary books, bags, stationery, shoes and clothing as a gift.

Further, the prevention of CKD, by supplying potable water to a village in Rathmalgahawewa in Kahatagasdigiliya, Anuradhapura is continuing for the 5th consecutive year.

Over 500 school children in Rathmalgahawewe were given their requirement of school books as per the book list for all grades together with school bags and other stationery.

Distribution of face masks to many schools in the area around the Company and in Rathmalgahawewe was carried out.

Outlook for the Company

Your Company being the largest manufacturer of synthetic fabric in the country, has attracted leading sports and 'athleisure' brands in the world to work on innovations with the Company. Top-end Lingerie brands also require a certain percentage of synthetic fabric and these top brands are also with the Company

Further, with the change in brand strategy to secure vertical solutions, the garment manufacturers have seen the advantages of sourcing fabric locally to take advantage of flexibility and lead time. This has resulted in a capacity shortage and a loss of opportunity.

Overall, your Company is forecasting to achieve higher results than that of the year under review.

Acquisition of South Asia Textiles Limited

On the 22nd of April 2021, the Company acquired majority ownership of South Asia Textiles Limited, located in Pugoda in a 72-acre land, leased from the BOI. The Company is capable of producing 25 gross tons of fabric per day, predominantly in the cotton fabric segment. This acquisition will satisfy the capacity requirement of your Company after certain equipment changes to enable the plant to enter the synthetic fabric segment.

Acknowledgements

On behalf of my entire team, I thank the leading world brands for selecting our innovative fabric range and the world class garment makers, mainly in Sri Lanka, for recognizing the Company as a top-end reliable fabric manufacturer with innovative capabilities. I also take this opportunity to thank all our supply chain partners who have supported the Company strategy with quality, lead time requirements and by being competitive.

A special thank you to the Chairman, a person who is contactable round the clock, for being a pillar of strength, especially this year with all the assistance and guidance he gave to re-commence operations and for continuous monitoring during the height of the pandemic. Further, I wish to thank the Chairman and the Board of directors for the support given to the team in ensuring job security with no cuts in remuneration.

Thank you to our external shareholders who have been patiently supporting the Company and for having the confidence in my management and long-term strategies to enable the Company reach a status of being recognized as a world class fabric manufacturer.

Finally, I take great pleasure in thanking my entire team at all levels in the Company for supporting me to steer through a very challenging year with the COVID-19 pandemic, for supporting the overall strategy of establishing a sustainable Tier-1 strategic customer base and for the untiring efforts in providing the highest service levels to our customers. Further, I wish to thank my management team members for the trust and confidence they have placed in my leadership.

E.R.P Goonetilleke
Managing Director/CEO

11th May 2021

BOARD OF DIRECTORS



A.M. Pandithage
Chairman & Chief Executive



E.R.P. Goonetilleke
Managing Director/ CEO



K. D. D. Perera
Non-Executive Director



S. C. Ganegoda
Non-Executive Director



Haresh Somashantha
Independent Non-Executive Director



R. N. Somaratne
Independent Non-Executive Director



Dr. S. J. Nawaratne
Independent Non-Executive Director



Ananda Jayatilleka
Senior Independent Non-Executive Director



R. Rohitha Bandara
Executive Director



M. H. Jayasinghe
Executive Director



K. P. C. P. K. Pathirana
Executive Director



Ms. Yogadinusha Bhaskaran
(Alternate Director to Mr. K.D.D. Perera)
Non-Executive Director

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 Shipping. Recipient of the Best Shipping Personality award by the Institute of Chartered Shipbrokers; Leadership Excellence 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 PLC, 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 a quintessential strategist and a business leader with interests in a variety of key industries including manufacturing, banking and finance, leisure, plantations and hydro power generation. He has over 30 years of experience in building formidable businesses through unmatched strategic foresight and extensive governance experience gained through membership of the Boards of quoted and un-quoted companies.

Mr Perera is the Chairman of Vallibel One PLC, Royal Ceramics Lanka PLC, Lanka Tiles PLC, Lanka Walltiles PLC, The Fortress Resort PLC, Vallibel Power Erathna PLC, Greener Water Limited, Delmege Limited and LB Microfinance Myanmar Company Limited. He is the Co-Chairman of Hayleys PLC, The Kingsbury Hotels 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 and Dipped Products PLC. Also, a Director of Dhammika and Priscilla Perera Foundation.

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 PLC 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.

We are grateful for our entire team, for supporting the Company steer through a challenging year and a pandemic with their untiring efforts.



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Corporate Governance

HARESH SOMASHANTHA

Independent Non-Executive Director
Appointed – February 2012

Mr. Haresh Somashantha counts 21 years of dynamic leadership career with a rich mix of finance and operations. He possesses an intimate knowledge of internal/ external processes, business planning and development, strategic and financial management. He is an expert with a track record in executing team driven process improvements with innovative solutions to increase revenue, operational efficiency, customer satisfaction and overall profitability.

He is a Fellow member of the Institute of Chartered Accountants of Sri Lanka, a Fellow member of the Institute of Certified Management Accountants of Sri Lanka and an Associate member of CPA Australia, further to holding BSc in Mathematics.

He is the Head of Finance & Treasury of Royal Ceramics Lanka PLC (Rocell Group). 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 several subsidiary companies in the Delmege Group.

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 a subsidiary company. Mr. Somaratne is currently employed in the capacity of General Manager (Manufacturing) for Royal Ceramics Group, which includes Lanka Tiles PLC and Lanka Walltiles PLC and responsible for manufacturing operation of the group.

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 28 years' experience in the manufacturing field and was leading all major factory development projects and cost reduction projects in the group, which has brought substantial savings. He is expert in manufacturing and technology with vast experience and sound academic background.

BOARD OF DIRECTORS

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 also possess a Post Graduate Diploma in Business Finance and Strategy from the Business School of CA Sri Lanka.

He has undergone several corporate leadership training programs including Corporate Leadership Program conducted by HIDA, in Japan.

Dr. S. J. NAWARATNE

Independent Non-Executive Director

Appointed – April 2014

Dr. Sunil Jayantha Nawaratne is presently working as the Director General of National Institute of Education (NIE) at Maharagama.

He was the Secretary of the Ministry of Higher Education (2010-2015) and the Ministry of Poverty Alleviation, Rural Development, Parliamentary Affairs and Up-Country Development (2000 -2002) as well as the Chairman and Director General of National Youth Services Council (NYSC – 1996-2000), Director General of Sri Lanka Samurdhi Development Authority (2002-2004) and the Department of Samurdhi Development (2019/20) and the Chairman of Road Development Authority and Sri Lanka Fertilizer Company too.

He has worked and engaged in the private sector and non-profit sector organizations as well. He was a board member of Pan-Asia Bank Ltd., Sri Lanka Institute of Information Technology (SLIIT), The Video Team (Pvt) –(TVT), Business School of CA Sri Lanka and Outstanding Song Creators Association (OSCA). He was the Director, Human Capital Development of Cargills Ceylon Plc (2007-2010) and Director, Training & Development during the period of 2019/20. He was the competent Authority (CA) of Institute of Technology, University of Moratuwa (ITUM) till he joined the NIE as the Director General.

Dr. Nawaratne, obtained his first degree in BSc (Business Management) from Sri Jayawardenapura University, did his Diploma in Business Management at PIM, MA in Economics, Kagawa University, Japan and PhD in Management, at Keio University, Tokyo, which considered as one of the prestigious universities in Japan. He is a visiting faculty member of MBA/MSc programs of University of Colombo, USJ, UOM, SLIIT and NIBM and NSBM.

ANANDA JAYATILLEKA

Senior 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.

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 15th 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 Jayawardenapura and in addition, an MBA in Finance from the 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 14 years of manufacturing experience in textiles industry as Sector Head of Finance.

**M. H. JAYASINGHE**

Executive Director

Appointed – April 2019

Mr. Malith Jayasinghe joined Hayleys Fabric PLC as a Management Trainee, assuming roles with increasing responsibility in Sales and Marketing functions. He counts over 16 years' experience in the textile industry. Prior to his current appointment, Mr. Jayasinghe served as the General Manager - Sales & Marketing, heading Sales and Marketing for last 9 years. Mr. Jayasinghe holds a B.Sc. Degree from the University of Colombo.

K. P. C. P. K. PATHIRANA

Executive Director

Appointed – August 2020

Mr. 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 15 years' experience in the field of Human Resource Management at leading local and multinational companies.

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



R. ROHITHA BANDARA
Director - Finance



M. H. JAYASINGHE
Director – Marketing



K. P. C. P. K. PATHIRANA
Director - Human Resources & Administration



S. S. PULASINGHE
General Manager – Sustainability,
Engineering & Special projects



M. L. DAYANANDA
General Manager - Supply Chain



PRASANGA KIRIHENA
General Manager - Operations



P. M. P. PERERA
Deputy General Manager - Engineering



C. P. WANASINGHE
Deputy General Manager - Production Planning



K. D. C. R. GUNARATNE
Deputy General Manager - Knitting



SUMITH FERNANDO
Deputy General Manager - Finance



SAMAN JAYAWARDANE
Deputy General Manager - Dyeing and
Colour Lab

MANAGEMENT TEAM



Ranil Yapa
Deputy General Manager – Marketing



Indunil Nimalaruwan
Deputy General Manager – Quality Assurance

E. R. P. GOONETILLEKE

Managing Director / CEO

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 PLC, 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

Mr. 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 the 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 15 years of manufacturing experience in textiles industry as Ssector Head of Finance.

M. H. JAYASINGHE

Director – Marketing

Mr. Malith Jayasinghe joined Hayleys Fabric PLC as a Management trainee, assuming roles with increasing responsibility in sales and marketing functions. He counts over 16 years' experience in the Textile industry. Prior to his current appointment, Mr Jayasinghe served as the General Manager - Sales & Marketing, heading sales and Marketing for last 8 years. Mr Jayasinghe holds a B.Sc. Degree from the University of Colombo.

K. P. C. P. K. PATHIRANA

Director – Human Resources & Administration
(Appointed w.e.f 10 August 2020)

Mr. 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 15 years' experience in the field of Human Resource Management at leading local and multinational companies.



S. S. PULASINGHE

General Manager - Sustainability, Engineering & Special Projects

Mr. 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 Corporate Management (LKCM13- Chubu) from The Association of Overseas Technical Scholarship, Japan. He has over 26 years of experience in manufacturing & construction sectors.

M. L. DAYANANDA

General Manager - Supply Chain

Mr. 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 21 years' experience in finance and procurement in the manufacturing industry.

PRASANGA KIRIHENA

General Manager - Operations

Mr. Prasanga Kirihena with over 31 years' of experience in the fabric industry and garment manufacture has held senior positions in the industry. He holds a Diploma in coloration and finishing from Sri Lanka Institute of Textile and Apparel. He has held managerial positions in the leading fabric mills in Sri Lanka ranging from dyeing, finishing to operations and key senior positions in the leading apparel manufacturers in Sri Lanka.

P. M. P. PERERA

Deputy General Manager - Engineering

Mr. Mahesh Perera holds a National Diploma in Mechanical Engineering from the University of Moratuwa. He has over 25 years' experience in the field of engineering and 15 years' experience in textile manufacturing industry.

C. P. WANASINGHE

Deputy General Manager - Production Planning

Mr. Chinthaka Wanasinghe holds a BSc. 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 11 years' experience in overall planning, SAP - ERP and information systems.

K. D. C. R. GUNARATNE

Deputy General Manager - Knitting

Mr. K. D. Gunaratne has over 21 years' experience in Knitting Technology and Production at Hayleys Fabric PLC.

SUMITH FERNANDO

Deputy General Manager - Finance

Mr. Sumith Fernando holds an Executive Diploma from the Institute of Chartered Accountants of Sri Lanka. He has over 25 years' experience in accounting and finance, out of which, 16 years has been Managerial experience. In addition, Mr. Fernando counts over 9 years' experience in SAP ERP system as a power user.

SAMAN JAYAWARDANE

Deputy General Manager - Dyeing and Colour Lab

Mr. Saman Jayawardane started his career in 1996 and has worked in the leading fabric mills in Sri Lanka engaged in the areas of recipe formulation/ colour lab, dye profile & dyeing technicalities. He has many years of experience in fabric mills in Thailand and Vietnam and has headed operations prior to joining Hayleys Fabric PLC. He holds Diploma in Textile Technology in SLITA and has almost 25 years experiences in textile sector.

Ranil Yapa

Deputy General Manager – Marketing

Mr. Ranil Yapa joined Hayleys Fabric PLC in 2017 as Marketing Manager and prior to that he has worked in different large scale garment manufacturing plants including 12 years in South Africa. He has overall 22 years of industry experiences relate to both textile and garments in merchandising and marketing.

He holds an MBA from Cardiff Metropolitan University of Wales.

Indunil Nimalaruwan

Deputy General Manager – Quality Assurance

Mr. Indunil Nimalaruwan started his career in Hayleys Fabric PLC as Head of Quality Assurance and has over 20 years' experience in quality assurance and quality operations in the leading fabric mills in Sri Lanka.

In addition to the experience in Sri Lanka he also has over 3 years' experience in a leading fabric mill in China.

Enabling Value Delivery

This year, our strategies proved to be a significant contributor to consistent performance even amid a turbulent environment. We positioned ourselves as an agile entity that delivers value spanning across our stakeholder network, ensuring consistent growth across the board.

The tree trunk functions as a means of distributing vital materials, while supporting the entity's growth process.

MANAGEMENT DISCUSSION
& ANALYSIS

STRATEGIC FOCUS

BUSINESS MODEL

Our business model describes the essence of what we do: how we create value for all our stakeholders from the resources and relationships we use to operate the business.

OUR RESOURCES AND RELATIONSHIPS

FINANCE



- We are disciplined in allocation of our Financial Capital. Cash from operations, debt and equity fund our growth.
- USD 21 Mn Equity
- USD 17 Mn Debt

SOCIAL AND RELATIONSHIP



- Strong relationships underpin our reputation and the trust of key stakeholders.
- 4 top Tier-1 clients
- 95% suppliers with A ratings

INTELLECTUAL



- Product innovations and operational excellence systems drives our competitive advantage.
- 37 Accreditations / Certifications
- USD 17,632 R&D

HUMAN CAPITAL



- Attitude, talent and skill drive innovation, efficiency and a zest for excellence.
- 1,414 employees
- 1,548 training hours

MANUFACTURED



- State-of-the-art machinery and our modern factory enables efficient and quality production.
- USD 28.7 Mn PP&E (Net)
- USD 5.6 Mn capex investment

NATURAL



- Includes critical inputs we seek to source responsibly and use efficiently.
- 486 Mn gallons water consumption
- 93.5 (GJ/MT of production) energy intensity

HOW WE CREATE VALUE – CARVING A NICHE

VISION : To Be the Most Sought-After Fabric Manufacturer in South Asia

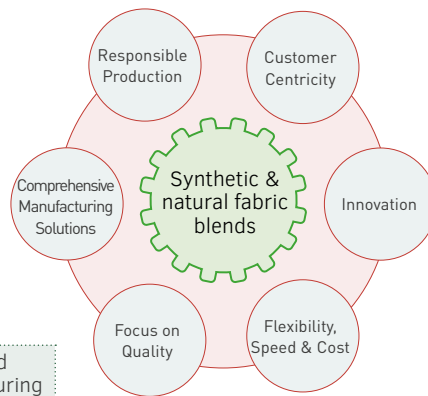
HOW WE DO IT

From sourcing of materials to conscious consumption of water and safe and ethical working conditions for employees, we take responsibility for our actions.

In-depth customer engagement focused on understanding customer needs better.

Delivery of service excellence- fabric solutions that meet the expectations of high-end retail fashion brands.

VALUE IN



Passionate about creating innovative products that cater to the complex and evolving needs of our customers.

End to end manufacturing solutions from design to knitting, dyeing, finishing, printing and brushing an extensive portfolio of fabrics.

Stringent quality control checks span the entire value chain ensures strict compliance with customer specifications.

Robust relationships throughout the supply chain, investments in technology and lean workflows within the factory enable to compete effectively on flexibility, speed and cost.



Product Innovation & Design



Product Development



Circular knitting of Fabric



Fabric Dyeing



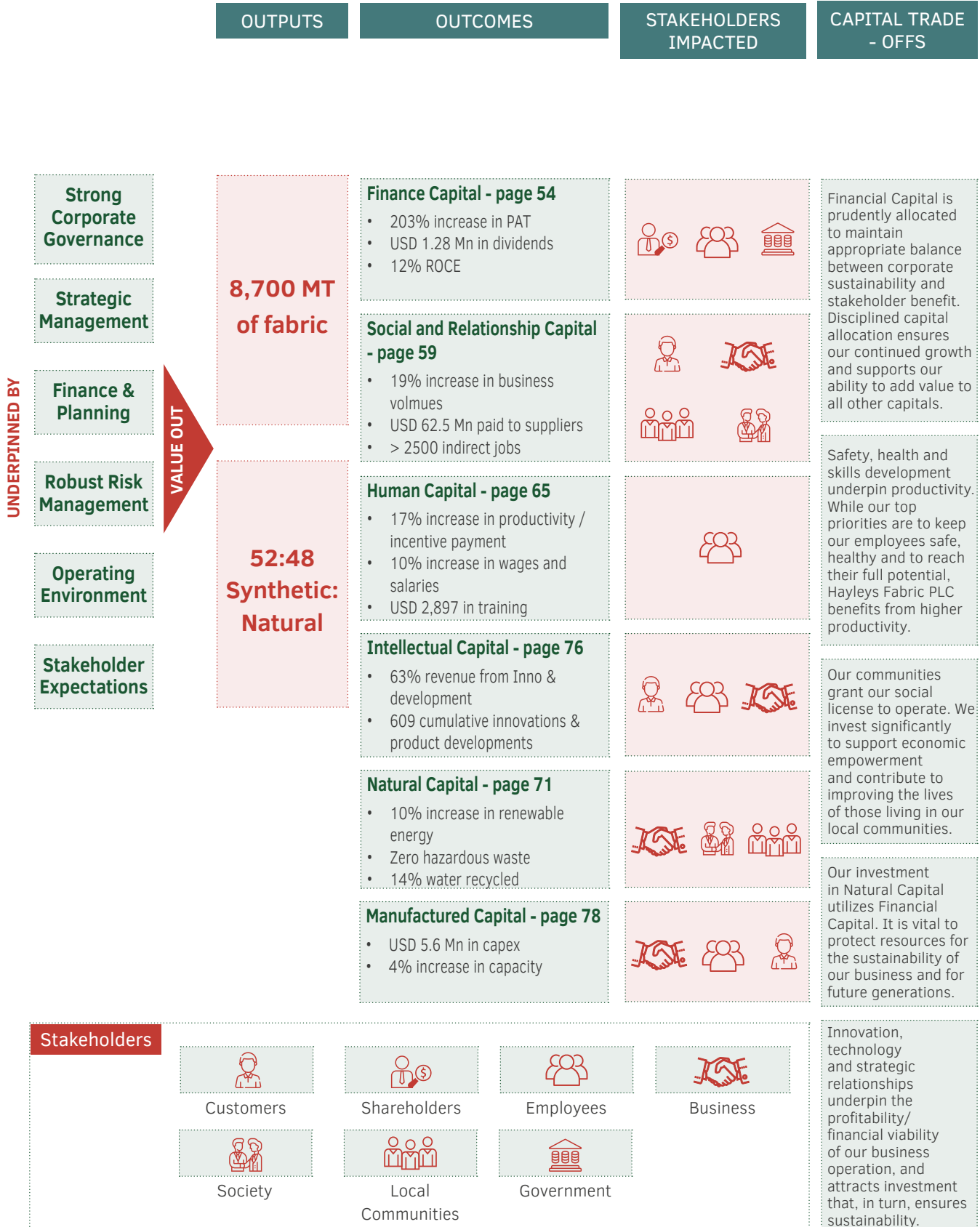
Fabric Printing



Sueding



Finishing



STRATEGIC FOCUS

STAKEHOLDER ENGAGEMENT

When designing new fabrics, developing strategy or setting targets to manage social and environmental impacts on operations, we consider what is meaningful and valuable to our stakeholders. This requires understanding our stakeholders' priorities and expectations.

| | Brand Owners & Apparel Manufacturers  | Investors  | Employees  |
|-------------------------|---|---|--|
| 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"> • Multi layered relationship management • Visits • Virtual trade exhibitions & fairs • Customer survey • Quality & performance review | <ul style="list-style-type: none"> • Quarterly Financial Statements • Press releases • Annual Report • Annual General Meeting • CSE announcements | <ul style="list-style-type: none"> • Open-door policy • Formal performance appraisals • Regular meetings with unions • Communication of company performance |
| Concerns | <ul style="list-style-type: none"> • Innovations • Product quality • Lead times • Environmental footprint • Labour practices • Sustainable supply chain • Price competitiveness | <ul style="list-style-type: none"> • Earnings & dividends • Growth prospects • Environment & social impact • Governance • Share price and liquidity | <ul style="list-style-type: none"> • Remuneration • Employee benefits • Conducive workplace • Training & development • Career progression • Health and safety |
| How we managed concerns | <ul style="list-style-type: none"> • Invested in R&D center • Invested in technology upgrades • Engaged in Lean manufacturing processes • Obtained new accreditations • Employee training and development • Employee engagement • Maintained good industrial relations • Enhanced biodiversity and environmental practices • Strengthened supply chain | <ul style="list-style-type: none"> • Innovations and new product developments • Increased penetration with existing buyers • New buyers • Improved productivity and cost efficiencies • Improved social and environmental practices • Obtained new accreditations | <ul style="list-style-type: none"> • Benchmarked remuneration and benefits to industry statistics • Fair and transparent performance appraisal system • Adhered to the collective agreement effective from 2020/21 • Employee engagement initiatives |
| Outcomes | <ul style="list-style-type: none"> • Better understanding of our business model, our strengths and values • Increased awareness of our commitment to sustainability | <ul style="list-style-type: none"> • Good relationship with shareholders • Positive reputation amongst investors | <ul style="list-style-type: none"> • Better understanding of company policies, performance and management decisions • Inclusivity in decision making |
| Report Reference | Social & Relationship Capital Page 59 | Financial Capital Page 54 | Human Capital Page 65 |



| | Suppliers  | Regulators  | Community  |
|--|---|---|---|
| | 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 |
| | <ul style="list-style-type: none"> • Relationship management • Feedback • Supplier assessment forms • Visits | <ul style="list-style-type: none"> • Visits to premises • Filing of returns | <ul style="list-style-type: none"> • Engagement with religious leaders • Workshops • Village festivals |
| | <ul style="list-style-type: none"> • Capacity • Timely payments • Constructive feedback • Social and environment conformity | <ul style="list-style-type: none"> • Compliance with regulations • Timely payments • Environmental protection • Compliance with regulations | <ul style="list-style-type: none"> • Employment • Livelihoods - Empowering youth and women • Water conservation • Waste management • Sponsorships |
| | <ul style="list-style-type: none"> • Established procurement committee • Shared sustainable social and environmental practices | <ul style="list-style-type: none"> • Finance division monitors compliance | <ul style="list-style-type: none"> • Offered ancillary services to SME in the vicinity • Operating responsibly and sustainably, and addressing issues that are material for our local communities • Identified philanthropic initiatives |
| | <ul style="list-style-type: none"> • Social and environmental compliance throughout the supply chain • Good relationship with shareholders | <ul style="list-style-type: none"> • An opportunity to share the Company's commitment, policies and procedures towards sustainable operations | <ul style="list-style-type: none"> • Increased awareness of Company's sustainability commitments • Increased trust and built stronger relationship with Hayleys Fabric PLC |
| | Social & Relationship Capital Page 59 | Corporate Governance page 84/ Natural Capital Page 71 | Social & Relationship Capital Page 59/ Natural Capital Page 71 |

STRATEGIC FOCUS

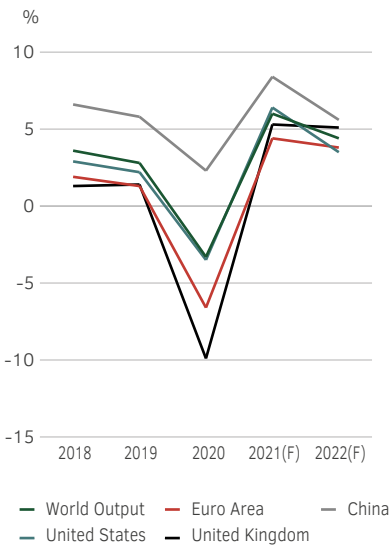
Operating Environment

Economic Landscape

Indicator

Global Economic Environment

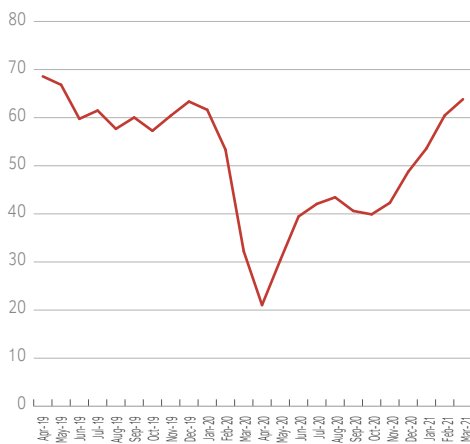
GDP Projections



(Source: World Economic Outlook Update, Jan 2021)

Global Commodity Prices, Oil Prices, Interest Rates and the US Dollar

Crude Oil (Petroleum) USD/Barrel



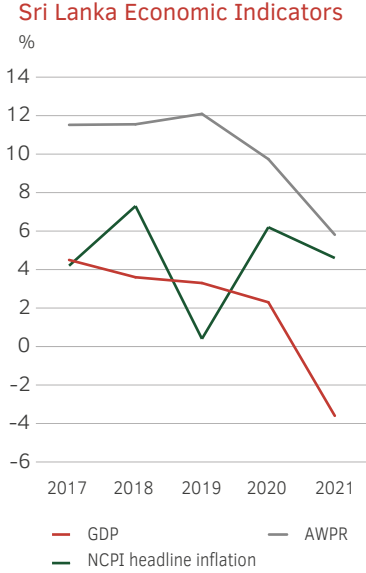
(Source: Index Mundi)

- Global economy collapsed in 2020 triggered by COVID-19 pandemic.

Outlook

- Global economic outlook for 2021 is expected to rebound following successful vaccine rollouts in major economies supported by accommodative fiscal, financial and monetary conditions. Yet, renewed waves and new variants of the virus pose concerns for the outlook. Amidst this uncertainty, the global economy is projected to grow 5.5% in 2021, 4.2% in 2022 from -3.5% in 2020.
- In Hayleys Fabric PLC's key markets USA and UK, growth is forecast at 5.1% and 4.5% from -3.4% and -10% respectively, in 2020.
- With the new Brand strategy to source raw material locally, the local fabric mills will operate at full capacity. Therefore, the outlook for fabric manufacturing sector in Sri Lanka is good.

- Commodity prices fell in 2020 and are expected to rebound in 2021, reflecting the projected global recovery. Commodity prices directly relate to Hayleys Fabric PLC's purchase cost of cotton, dyes and other input materials.
- Oil prices impact price of synthetic yarn, which accounts for 62% of fabric produced. Oil prices slumped to twenty year low in March and April, due to the initial impact of the pandemic lockdowns across several major economies but has since been gradually recovering. Prices are expected to average USD 50.03 in 2021 and USD 48.82 in 2022, from USD 41.29 in 2020 (2019 Average - USD 61.39 / barrel) (Source: World Economic Outlook Update, Jan 2021)
- Dovish Central Bank policies has helped ease the Eurodollar rates. The Federal Reserve has retained USD interest rates at near zero levels since the beginning of the pandemic.
- The US Dollar fell relative to other currencies during 2020, declining to two-year lows during the period. The weakness is expected to persist in 2021. However, this does not have an impact on the Company.

| | |
|---|---|
| <p>Sri Lanka Economic Growth</p> <p>Sri Lanka Economic Indicators</p>  <p>(Source : CBSL Annual Report 2020)</p> | <p>Amidst the economic disruption of the pandemic, the economy is estimated to have contracted by 3.6% in 2020, from a growth of 2.3% in 2019 (3.2%- 2018).</p> <p>Index of Industrial Production (IPP) which represents the status of production in the industrial sector, reflected a marginal growth of 2.0% in 2020. (IPP textiles: 35.9%, apparels: (-) 6.2%).</p> <p>Outlook</p> <p>The economy is expected to recover in the short to medium term supported by the Government’s stimulus measures introduced, improved business sentiments fueled by the COVID-19 vaccination drive and improving prospects of the global economy. 2021 forecast GDP is 3.6%.</p> |
| <p>Inflation, Interest Rates, Exchange Rates</p> | <ul style="list-style-type: none"> • Inflation remained low during the year reflecting the subdued aggregate demand conditions in the economy. Inflation is projected to remain subdued in the targeted range of 4-6 % over the medium term. • Monetary policy measures since early 2020 drove decline in LKR interest rates to historically low, single digit rate structure. This low trend is expected to continue until the economy shows strong signs of sustained recovery. • The Sri Lankan rupee depreciated by 2.6% against the USD in 2020, supported largely by import controls and intervention by the Central Bank. The rate has since depreciated by 4.5% up to end February 2021. |

Textile and Apparel Industry

The industry has been severely affected by the fallout of the pandemic. Lockdowns, travel restrictions, factory shutdowns and retail store closures placed unprecedented pressure on manufacturing supply chains and retail operations in 2020, leading many already troubled fashion retailers to file for Chapter 11 bankruptcy protection.

GROWTH RATE

The global fast fashion market is expected to decline from USD 35.8 Bn in 2019 to USD 31.4 Bn in 2020 at a compound annual growth rate (CAGR) of -12.32%. The market is expected to recover to USD 38.21 Bn in 2023 at a CAGR of 6.7%.

(Source: www.globenewswire.com/Global-Fast-Fashion-Market-Report-2020)

MARKETS

A faster recovery from the pandemic by Asia Pacific apparel markets is expected to revise global rankings, with China tipping the USA as the largest market by 2023.

CHINA’S DOMINANCE IN SUPPLY CHAIN

China’s lockdown at the beginning of the pandemic, had a rippling effect on supply chains across the world including in Sri Lanka, given its dominance as the largest producer and exporter of apparel and textile. Subsequent opening of China borders eased pressure.

BRAND’S UNETHICAL PRACTICES

Concerns have been raised over unethical practices adopted by some brands at the beginning of the pandemic, in effectively off-loading pandemic costs onto vulnerable and poor workers in emerging economies. Large scale order cancellations and non-fulfillment of existing contractual obligations resulted in many garment factories suspending production and laying off millions of workers, often without pay and severance.



STRATEGIC FOCUS

| KEY CONSUMER SHIFTS |
|---|
| The Digital Drive |
| E-commerce has soared during the pandemic. Retailers are investing in technology and digital tools to improve online consumer shopping experience to stay ahead of competition. |
| Higher consciousness over environmental sustainability and ethical practices |
| Increased awareness over issues such as the plight of vulnerable employees in supply chains and textile waste from trashed fast fashion clothing has prompted consumers to make more sustainable and ethical purchases since the beginning of the pandemic. Consumers are demanding greater transparency over supply chains, favouring brands that align with their values and adopt fair trade practices, comply with environmental standards, produce high-quality, durable fashion or use recycled materials. |
| Price and value for money |
| Widespread global recession and rising unemployment rates make price and value for money more important for consumers. |
| Boom in comfortable wear |
| Desire for comfort when working from home and rising health and self-consciousness leading to active lifestyles, has accelerated the demand for loungewear and athleisure. Recovery of these fashion categories has outpaced others. The global athleisure market was estimated at US\$163.7 mn in 2019 and is projected to grow at a CAGR of 5.58% through 2021-2026. (source: www.globenewswire.com/global-athleisure-market-growth-trends-) |
| <ul style="list-style-type: none"> • Enhanced features - Performance-boosting technical features such as moisture management and temperature control, that enhances comfort and prevents potential injury, have caught the interest of consumers, who are willing to pay more for such additional benefits. • Markets - North America and Europe hold significant market share. However, increasing appetite for foreign brands, rising disposable income and desire to lead improved lifestyles is driving stronger demand for sports apparel in the Asia-Pacific region. • Players - Key players include Lululemon, Gap's Athleta, Nike Inc., Adidas AG, Under Armour, The Columbia Sports Company, and New Balance. These brands have sought to actively increase market penetration across the globe, by establishing new bases and production plants, along with associated R&D. • Future Trends - Experts forecast demand for hybrid clothing intertwining dress and comfort to continue, once consumers do return to pre-pandemic routines and activities. Industry is expected to be prepared for a long-term shift in consumer preferences and innovate accordingly. |

| IMPACT TO SUPPLY CHAIN |
|---|
| Building resilience |
| <ul style="list-style-type: none"> • To avoid disruptions to business as experienced at the beginning of the pandemic, brands will seek to diversify supply chains by avoiding dependence on any one country and developing alternative sources. |
| Nearshoring / Regional Sourcing |
| <ul style="list-style-type: none"> • To enhance responsiveness and flexibility of supply chains, production facilities will be progressively shifted out of China closer to consumer markets i.e. Asia for Asia. |
| Embracing strategic supply partnerships |
| <ul style="list-style-type: none"> • Loss of trust between buyers and supplier has prompted suppliers to seek business with a smaller number of retailers who are financially sound. Deep, strategic partnerships will seek to drive accountability in return for greater agility. |
| Digitization |
| <ul style="list-style-type: none"> • Lockdowns and restricted travelling have led to the wider adoption of digital tools including 3D modeling and digital sampling, virtual showrooms, etc. • Data analytics and predictive tools provide new in-sights into consumer purchase patterns in forecasting trends, saving inventory and costs. |
| Sustainability and end to end visibility |
| <ul style="list-style-type: none"> • Increasing concern over environmental footprint, human right abuses and social and ethics violations has increased pressure for greater accountability and visibility across the entire supply chain. No hollow pledges or green washing. Actions and efforts must be impactful. |



Sri Lankan Textile and Apparel Industry

The industry slowly resumed operations in May 2020 subsequent to the island wide lock down in March 2020, by adhering to the Government's strict health guidelines. Mandatory COVID-19 testing - 5%/ week, or 1% / day at factories, is borne by each company, at a significant cost. The industry has utilized relief measures offered by the Government to support COVID-19 affected businesses.

- Despite the severe impact to the global apparel industry, Sri Lanka's garment and textile exports fell by only 21% to USD 4.423Mn in (calendar year) 2020, from the previous year.
- This is largely attributed to the local garment manufacturer's ability to leverage their strategic partnerships with global brands to secure orders for the manufacture of Personal Protective Equipment (PPE) related products early in the pandemic, as brands shifted their product portfolios to meet new consumer needs. Thereafter, as consumers began to work from home, and demand for comfortable and active wear grew, exporters were able to revert to their original product categories including active wear, casualwear, intimate wear, loungewear which product categories are leading growth in the new normal.
- USA and EU remained the main markets, accounting for 43 % each.

INDUSTRY HIGHLIGHTS

| | 2019 | 2020 | % |
|--|---------|---------|---------|
| Apparel and Textile exports – USD Mn | 5,596.5 | 4,423.1 | (21.0%) |
| Garment and Textile exports % of total exports | 47% | 44% | |
| Textile imports – USD Mn | 2,909.4 | 2,335.1 | (19.7%) |

- Apparel and Textile lead Sri Lanka's merchandise exports
- Contributes 3.0% (2019 -3.3%) to GDP
- Comprises over 300 apparel manufacturers and 4 large scale fabric mills
- Fabric mills mainly supply local apparel manufacturers, partially substituting textile imports
- Recognized as a competitive strategic supply chain partner to reputed global brands including Nike, Victoria's Secret, Next, Gap, Speedo and Tommy Hilfiger
- "Made in Sri Lanka" label synonymous with flexibility, innovation and design, product quality, on time delivery and ability to manufacture niche products
- Garments Without Guilt - attention to sound social ethical and environmental policies and practices has been a key differentiator

(Sources: Export Development Board, CBSL Annual Report)

Regional Competition, Establishment of Eravur Fabric Park

Unlike regional apparel manufacturers such as Bangladesh, Vietnam and Cambodia, Sri Lanka is unable to fully benefit from preferential access to major market programmes offered to the country such as the EU GSP+, given most textiles are imported and therefore exports do not meet the Country-of-Origin criteria.

The Government's initiative to establish a fabric processing park in Eravur, will seek to mitigate the limitation and support industry growth. The park is expected to be operational within one year.

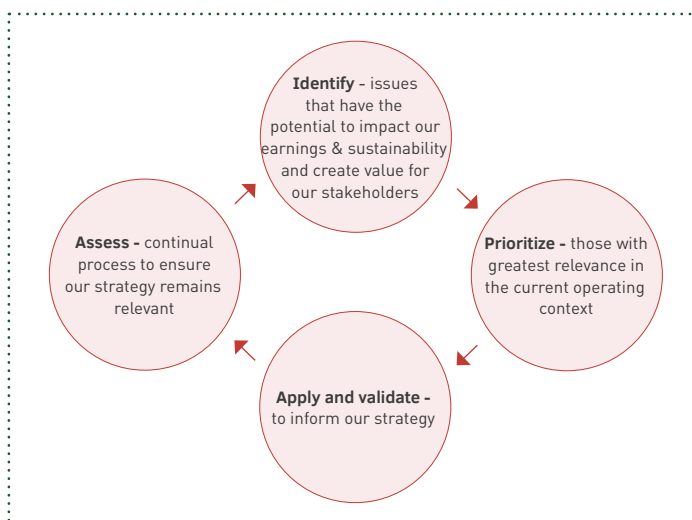
Summary of Opportunities and Risks

| | IMPACT ON HAYLEYS FABRIC PLC | LINK TO STRATEGY |
|---|--|---|
| Opportunities | | |
| Industry growth driven by Asia Pacific markets | Potential for an overall increase in business volumes as retail brands expand in these markets | Social and Relationship Capital Page 59 |
| Near-shoring to Asia Pacific markets | Sri Lanka's location benefits Hayleys Fabric PLC to attract new buyers/ increase volumes with existing buyers | Social and Relationship Capital Page 59 |
| Significant growth forecasts for Athleisure / comfort wear categories | Hayleys Fabric PLC's strong presence in the category augurs well for growth | Social and Relationship Capital Page 59 |
| Niche market for performance enhanced synthetic fabrics | Potential for the Company to leverage its 'Inno' brand and R&D capabilities to create innovative fabrics that attract premium prices | Social and Relationship Capital Page 59/ Intellectual capital Page 76 |

STRATEGIC FOCUS

| | IMPACT ON HAYLEYS FABRIC PLC | LINK TO STRATEGY |
|--|---|---|
| Lower USD interest rates | Supports debt financing | Finance Capital Page 54 |
| Diversifying of supply chains away from China | Potential to attract new buyers | Social and Relationship Capital Page 59 |
| Consumer / brand shift towards higher consciousness over environmental sustainability and ethical practices | Hayleys Fabric PLC's accreditations and certifications reflect a strong track record | Natural Capital Page 71 / Certifications / Accolades Page 8 |
| Digital adoption | Investments towards driving cost efficiency, sustainability and customer/supplier engagement | Finance Capital Page 54/ Manufactured Capital Page 78 |
| GSP+ schemes | Competitive pricing for buyers who source fabric from Hayleys Fabric PLC and manufacture within the country | Social and Relationship Capital Page 59 |
| Proposed establishment of a fabrics processing park in Eravur - Batticaloa District | Growth of the textile industry. Greater lobbying power | Social and Relationship Capital Page 59 |
| Risks | | |
| Economic fallout from the pandemic – particularly in Sri Lanka / Hayleys Fabric PLC's key markets USA and EU | Impacts consumer demand, business sentiment | Finance Capital Page 54 / Social and Relationship Capital Page 59 |
| Rebound of commodity prices including cotton, polyester, yarn and fuel | Rising costs squeeze margins | Finance Capital Page 54 / Social and Relationship Capital Page 59 |
| Weakening of USD against other currencies | Potential for supplier to increase pricing, squeezing margins | Social and Relationship Capital Page 59 |
| Higher consciousness over environmental sustainability and ethical practices | Increased pressure for greater accountability and visibility | Natural Capital Page 71 |
| Cost consciousness by consumers | Potential to drive lower prices and squeeze margins | Social and Relationship Capital Page 59 |
| Proposed establishment of a fabrics processing park in Eravur- Batticaloa District | Increased competition | Social and Relationship Capital Page 59 |

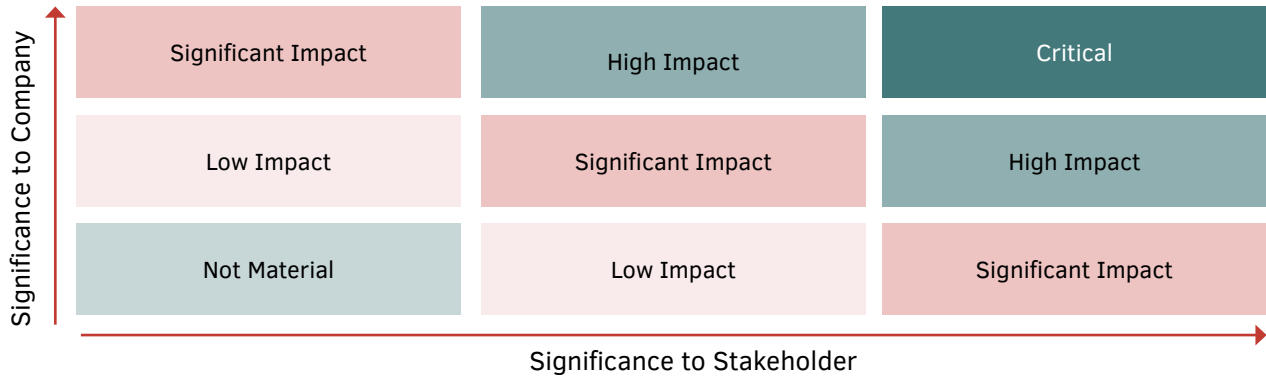
Determining Material Issues



- Our material issues are those that matter most to our stakeholders and impact our ability to create value.
- We assess our material issues annually to fully understand how to manage the risks and opportunities they present and that our strategy remains relevant in an evolving operating environment. The process for determining materiality is presented alongside.



We believe the issues identified below are the most relevant and have been 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 |
|------------------------------|----------------------------|-----------------------|
| Service Excellence | Government Policy | Grievance Mechanisms |
| Compliance | Supply Chain Management | Product Labelling |
| Occupational Health & Safety | Labour Relations | Child & Forced Labour |
| Cost Efficiency | Customer Health and Safety | Anti -Corruption |
| Sustainable Production | Training & Development | Bio Diversity |
| Ethical Practices | Emissions | |
| Innovation | Effluent & Waste | |
| | Product Responsibility | |
| | Local Community Relations | |

Reflecting Changes in 2020/21

The heat map was reviewed to reflect the Company's current business operations and the impact from industry trends discussed under Operating Environment - Page 46

| Factor | Shifted from | Shifted to | Reason |
|-------------------------|--------------------|-------------|---|
| Service excellence | High Impact | Critical | Post pandemic, brands seek deep, strategic partnerships with reliable supply chain partners |
| Compliance | High Impact | Critical | Increased pressure from consumers for greater accountability and visibility |
| Supply Chain Management | Significant Impact | High Impact | Strengthening supply chain to avoid disruptions to operations from events arising out of pandemic |
| Labour relations | Significant Impact | High Impact | Maintaining health and safety of employees, during pandemic, is a primary concern |
| Effluents & Waste | Critical | High Impact | Wastewater has since inception been treated to levels that support aquatic life |

STRATEGIC FOCUS

Strategy

Hayleys Fabric PLC has over the past five years, pursued a long-term strategy of developing its own branded portfolio of innovative, fashion forward synthetic fabrics for active wear and lingerie to supply Tier-1 customers, from broad based geographic markets.

The Company focused on driving a customer centric strategy to build confidence with selected high- end brand owners, by delivering on quality fabrics and service excellence that met their distinctive needs. Integrating functionality into aesthetics, the Company's dedicated team of fabric engineers designed and developed over 100 new products during the period, of which more than 60% were successfully commercialized.

Having firmly established strategic partnerships, this year, Hayleys Fabric PLC focused on increasing penetration of the Tier-1 customer base, leveraging the product portfolio to support the brands grow market share in the athleisure product category, as they competed to realise opportunities arising out of the pandemic. Maintaining high service levels, ensuring a seamlessly integrated supply chain, driving cost efficiency, aspiring to high standards of social ethics and environment sustainability, and engaging an inspired team, continue to remain key areas of focus in Hayleys Fabric PLC's pursuit of operational excellence.

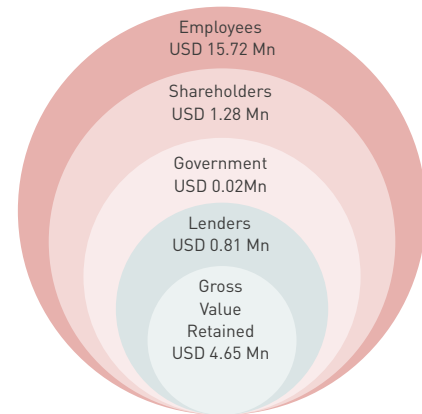
| 2020/21 Strategy – Grow Tier-1 Clientele Business Volumes | | | | | | | | | | |
|---|---|--------------------|--|--------|--|------------------------------|--|------------|---|--------------|
| Goals | Maintain high service levels | | Craft a seamlessly integrated supply chain | | Ensure sustainable and ethical manufacture | | Drive cost efficiency | | Inspire and empower employees | |
| Strategic drivers | <ul style="list-style-type: none"> Increase production capacity New product developments / innovation Sharpen customer value proposition - quality, speed, flexibility | | <ul style="list-style-type: none"> Develop alternate suppliers Conduct supplier audits Supplier collaborations Regular supplier engagement Optimum inventory levels | | <ul style="list-style-type: none"> Improve environmental impact Increase accreditations/ certifications Compliance with CEA | | <ul style="list-style-type: none"> Invest in training to reduce waste Upgrade to new technology i.e. energy efficient machinery Streamline operations to drive efficiency | | <ul style="list-style-type: none"> Fair remuneration Employee engagement Invest in training and development Career progression Health and safety | |
| Key Performance Indicators (KPIs) achieved | RFT | 94% | Shortest lead time | 3 days | Accredita-tions | + 2 New 37 Cumulative | Training | USD 2,897 | Remuner-ation | 10% increase |
| | Inno & development sales | 63% of total sales | Average supplier rating | >95% | Recycled water | 14 % | Capex | USD 5.6 Mn | Retention rates | 92% |
| | Capacity utilization | >90% | New product collabora-tions | 83 Nos | Renewable energy | 64% of total energy consumed | | | Covid relat-ed health and safety expenditure | USD 41,426 |
| Enablers | Finance Capital Page 54 | | Intellectual Capital Page 76 | | Human Capital Page 65 | | Manufactured Capital Page 78 | | Natural Capital Page 71 | |
| | Social and Relationship Capital Page 59 | | | | Risk Management Page 82 | | Corporate Governance Page 84 | | | |

ECONOMIC VALUE ADDED - SUPPORTING ECONOMIC GROWTH

Statement of Value Added

Total value added by Hayleys Fabric PLC increased 11% driven by growth in business volumes and richer revenue product mix. The highest amount of wealth generated was distributed amongst its employees accounting for 57% of total, this reported amount has been reduced due to significant depreciation of LKR against USD.

| | 2019/20 | | 2020/21 | |
|---|---------|--------|---------|--------|
| | USD Mn | % | USD Mn | % |
| Revenue | 67.12 | 100.0 | 77.28 | 100.0 |
| Cost of production and other OH | (52.96) | (79.0) | (61.56) | (79.7) |
| Value added by operating activities | 14.16 | 21.00 | 15.72 | 20.30 |
| Distributed as follows to; | | | | |
| Employees: Salaries, wages & other benefits | 9.10 | 64.30 | 8.97 | 57.00 |
| Government: Taxes | 0.37 | 2.60 | 0.02 | 0.06 |
| Lenders of capital: Interest | 0.81 | 5.70 | 0.81 | 5.10 |
| Shareholders: Dividends | 0.68 | 4.80 | 1.28 | 8.10 |
| Gross value retained | 3.20 | 22.6 | 4.64 | 29.74 |
| Total Distribution | 14.16 | | 15.72 | |



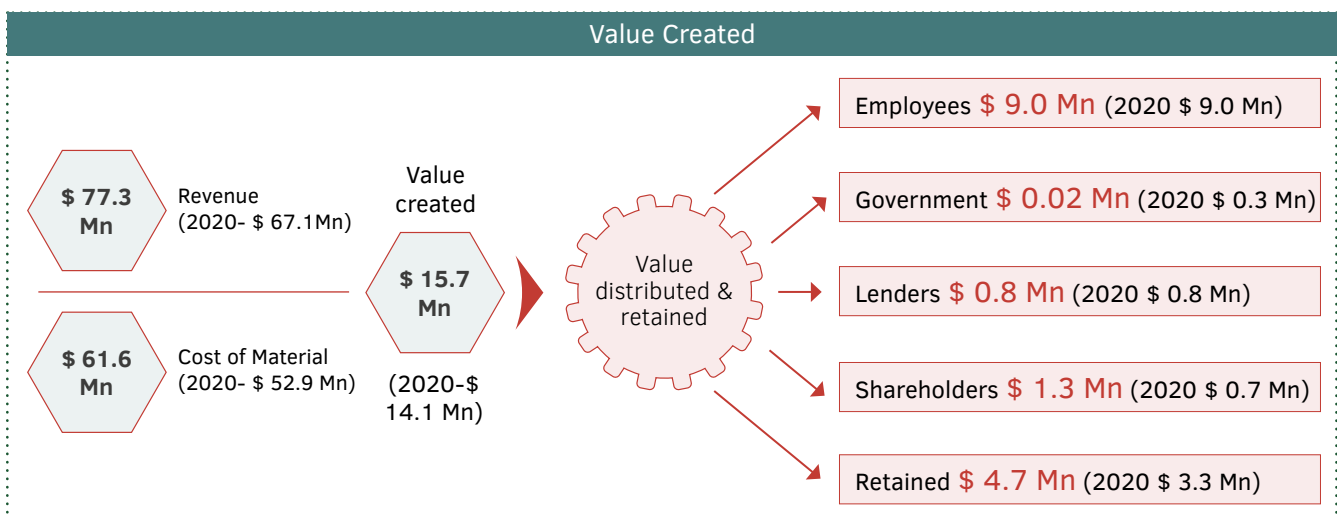
Foreign Exchange Generation to the Country, Import substitute

As an exporter of fabrics, Hayleys Fabric PLC contributed USD 77.3 Mn to the national foreign reserves during the year, accounting for approximately 30.0% (2020/21 -23.6%) of the country's textile exports. Hayleys Fabric PLC's role in the economy amidst the crisis of the pandemic is even more poignant this year, given;

1. It was the first factory in the textile and apparel industry to re-commence operations on 17th April 2020 under strict health guidelines. Quickly adapting production facilities to meet the current needs, Hayleys Fabric PLC commenced the manufacture of medical fabric required for face masks and protective clothing, kick starting the industry and setting an example to other factories.
2. Contrary to the performance of the Textile and Apparel industry which recorded a dip in exports during the year, Company recorded a substantial growth in revenue, directly contributing to increasing foreign exchange reserves at a time the Country's exchange reserves are severely strained and exerting significant pressure on the Rupee.
3. As an import substitute, saved any further depletion of foreign exchange reserves on import of fabric by apparel manufacturers.

Socio Economic Upliftment of Local Communities

Hayleys Fabric PLC contributes economically with a number of positive social impacts as well. As the main employer within a 15 km radius the Company, provides employment directly and indirectly to over 2500 persons. When recruiting, Hayleys Fabric PLC gives preference to persons from the local community. Currently 67% of employees are from within the area. Hayleys Fabric PLC also contracts with local suppliers whenever possible in sourcing materials and services, contributing to the empowerment of Small and Medium Enterprises (SME). All local suppliers are SME's to whom payment was made for USD 18.5 Mn, during the year.



THE CAPITALS REPORT

FINANCE CAPITAL

2020/21 was an exceptional year for Hayleys Fabric PLC. The Company recorded its historical best performance following significant growth in business volumes during the year. Turnover grew 15% to USD 77.3Mn while PBT surpassed USD 3.8Mn to support a strong financial position and healthy cashflows. In contrast, the local textile and apparel industry recorded damped results, with total exports falling 21% by year end impacted by a global fashion industry yet grappling the pandemic. The outstanding performance is a testament to the Company's differentiation strategy adopted over the past four years.

| Value Created | |
|---------------|---------|
| 18% | ROE |
| Growth in PBT | 129% |
| 44% | Gearing |
| GP Margin | +14% |

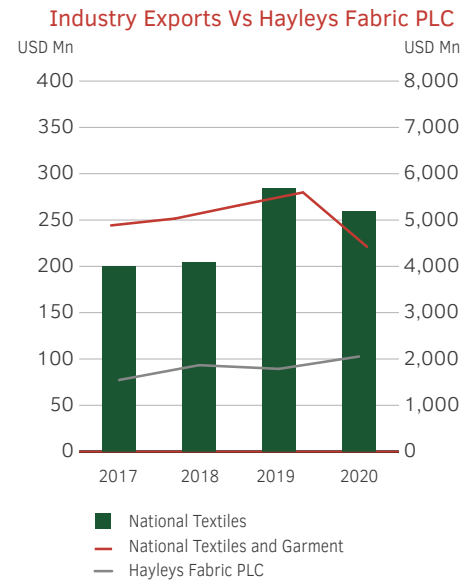
| Strategic Priorities |
|---|
| Enhance shareholder returns |
| Optimize working capital & cash management |
| Drive lean manufacturing across the value chain |
| Optimize capital funding |

Management Approach

How we manage and utilize our Financial Capital is fundamental to our ability to create sustained value for our shareholders. Maintenance of sound financial metrics is key to our ability to access funding for the growth of business, either through debt or equity.

In contrast to Hayleys Fabric PLC, national textile and garment exports fell 21% to USD 4.423 Bn while, textile exports alone fell 9% to USD 260 Mn for the calendar year 2020.

(Source: Central Bank of Sri Lanka-External sector performance)





| How we created value | |
|----------------------|--|
| | Enhanced shareholder value creation and sustainable returns |
| | Higher profitability on a rich sales- product mix |
| | Tight cost management |
| | Prudent management of working capital |
| | Optimising capital structure |
| | Local community enrichment |

129% growth in PBT

Driven by a successful business strategy and exploiting opportunities arising from COVID-19

Wipe out of retained losses after 10 years

Strengthened balance sheet structure through higher retained earnings

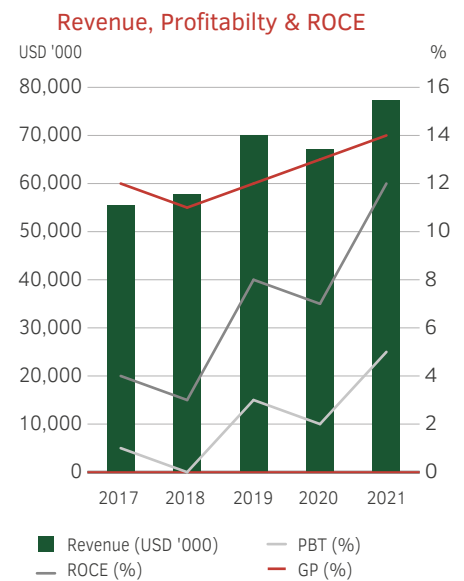
Enhanced shareholder value creation and returns

Higher dividend payout and share split to boost investor earnings

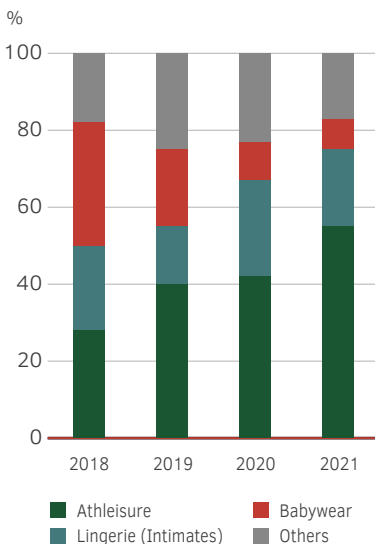
Prudent working capital management

By optimum inventory holding, stringent debt control and smart renegotiation of supplier settlement terms

- Hayleys Fabric PLC's business strategy was repositioned in 2017, (as described under Strategy - page 52) to create a niche by focusing on producing new and innovative synthetic, high-end sports and leisure performance fabrics, under its own fabric brand Inno, for leading global fashion brands. The strategy was distinct from that of other textile manufacturers in Sri Lanka, who focused on producing largely cotton blended fabrics.
- The onset of the pandemic in March 2020 resulted in the collapse of the global fashion industry and the cancellation / delay of orders. Refer Operating Environment – Textile and Apparel Industry page 46.
- The shift in global consumer demand towards sports and leisurewear when working from home during the pandemic, presented a significant opportunity for the Company, whose key product category was athleisure.
- Valuing the trusted strategic partnership underpinned by a customer centric business model and proven track record, Tier-1 global fashion brands returned to the Company by June 2020 with fresh orders to fill factory capacity. Consequently, Hayleys Fabric PLC's business volumes grew 30% during the year.



Revenue Mix



Sales from Inno and product developments rose to 63% of total sales – as Tier-1 customers sought out high-performance value-added fabrics of superior aesthetics and functionality, within the athleisure and lingerie range

Hayleys Fabric PLC's athleisure sales grew by 13% to account for 55% of total sales (2019/20 - 42%)

THE CAPITALS REPORT

FINANCE CAPITAL

63%
Sales

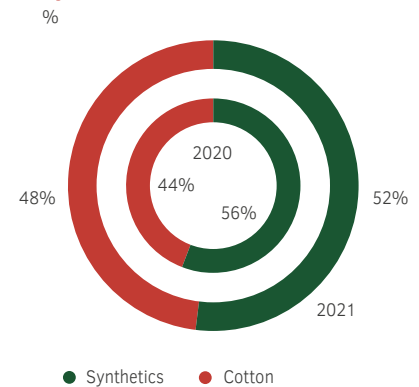
Inno and product developments

72%
Sales

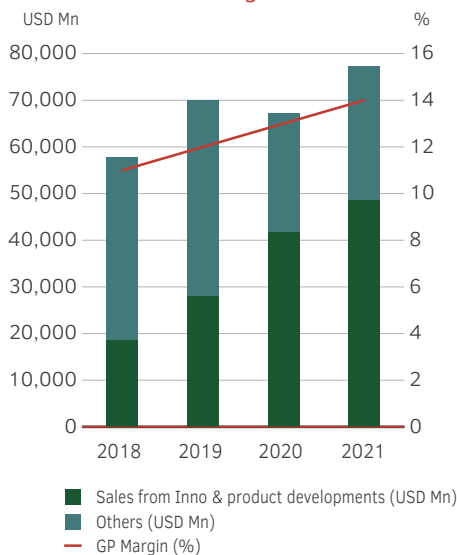
Tier-1 customers

As the pandemic reshaped consumer demands, the Company swiftly adapted its production facilities to produce specialised fabrics – including fabrics with anti-viral and anti-bacterial chemical finishes – for face masks and related Personal Protective Equipment (PPE). These orders supported to sustain the business during the initial months of lockdown. Medical fabrics accounted for 9% of total sales and is included in other categories.

Synthetics Vs Cotton



Inno Sales Vs GP Margin



Gross profit grew 21% to USD 10.57 Mn upheld by a richer revenue product mix driven by increased sales of high yielding Inno and product developments. Growth in gross profit contributed to the increase in bottom line.

Gross Profit

13.7%₂₀₂₁ 13.0%₂₀₂₀

Profit Before Tax

4.9%₂₀₂₁ 2.5%₂₀₂₀

Profit After Tax

5%₂₀₂₁ 1.9%₂₀₂₀

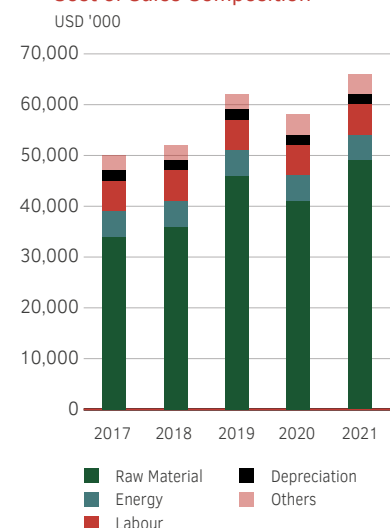
The Company's tax expense in 2020/21 shows 107% decline mainly due to Economic Service Charge (ESC) paid and considered as irrevocable in 2018/19, USD 318,314 has been reversed in the current year to set off current income tax liability and also a claim of accelerated capital allowance of 100% for part of the 4.6MWp solar project completed during the year.

Cost Management

Hayleys Fabric PLC exercises high levels of cost consciousness and proactively manages costs across the value chain.

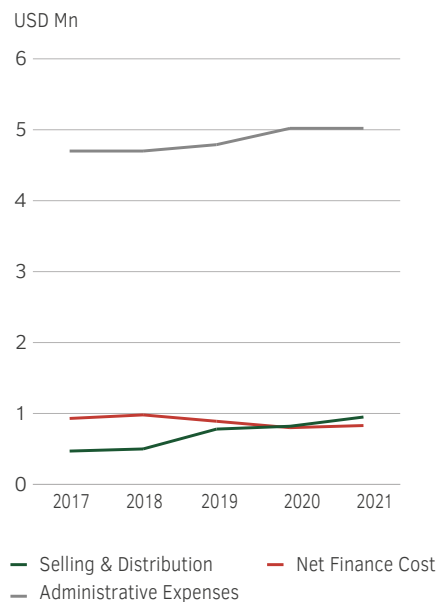
- During the year, cost of sales per kg decreased 4% compared to the previous year. Key drivers in managing costs include;
 - o forex gains on conversion of USD to LKR to settle local payments including energy and labour
 - o investment in high efficacy machinery and technology (i.e low liqueur dyeing plants)
 - o lean manufacturing initiatives driving tight cost management, waste reduction and productivity improvements

Cost of Sales Composition



- Raw material - is the largest production cost component accounting for 74% of cost of sales. Consisting of yarn, greige, chemicals and dyes, these are critically managed as follows:
 - o Monitoring yarn global price movements and placing forward bookings, when required
 - o Collaborating with suppliers to develop effectiveness of dyes without compromising quality
 - o Engaging in research and development with suppliers to find cost effective substitutes
 - o Competitive pricing from wider supplier portfolio (broad-based during lockdown to minimize any potential interruptions to supply chain)
- Overhead costs - remained relatively unchanged since last year. All salaries and wages were paid in full during the year, including a salary rise and performance bonus in July 2020.

Operating Expenses



Cashflows and Liquidity

Following the closure of the factory in March 2020, Hayleys Fabric PLC took immediate measures to manage cashflows by rationalizing costs, freezing capital expenditure and availing itself of the debt moratorium announced by the Government and cashflows were handled in a prudent manner.

Current Ratio

1.02 Times 2021 0.94 Times 2020

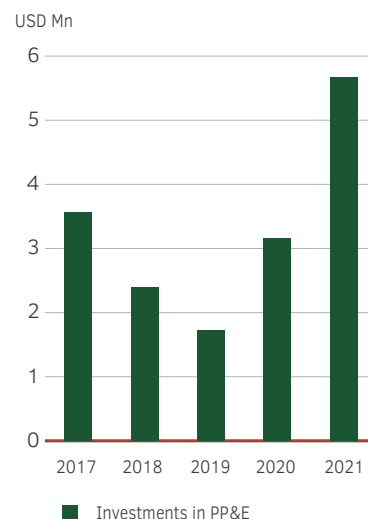
Quick Assets Ratio

0.43 Times 2021 0.33 Times 2020

Net cash flows from operating activities

USD 9.2 Mn 2021 USD 2.2 Mn 2020

Investments in PP&E



Operating cash flows - grew significantly 316% YoY following profit increase as a result of growth in the order pipeline. These were utilized to settle debt, invest in capital expenditure and pay dividends.

Working Capital Management – Hayleys Fabric PLC continues to maintain tight control of its working capital amidst the challenges of the pandemic. Optimum inventory holding to avoid any disruption to operations, close follow up on debt collection and negotiating smart longer settlement terms with new and existing suppliers benefited healthy operational cashflows.

Capital Expenditure - Hayleys Fabric PLC regularly invests in plant and machinery to expand capacity and/ or upgrade technology, funded through a mix of equity and debt.

“Key investments during the year include”

- The roof top solar power project of 4.6MWp with the total investment of USD 3 Mn.
- Expansion of knitting capacity in Wagawatte- Horana BOI industrial Zone as disclosed under Highlights – Manufactured Capital Page 78.

THE CAPITALS REPORT

FINANCE CAPITAL

Acquisition of South Asia Textiles Limited - On 22nd April 2021, Hayleys Fabric PLC acquired a 98.84% stake in South Asia Textiles Limited from Ambeon Holdings PLC, for a consideration of Rs.3.95 Bn, funded through long term debt. The acquisition is part of Hayleys Fabric PLC 's capacity expansion strategy as the Company aligns the business with the growth strategies of Tier-1 customers.

Capital Structure

Capital structure strengthened and ROCE rose to a record high of 12% at year end from 7% the previous year. Gearing stood at 44% (2020 – 48%), with sufficient leeway to increase borrowings.

Accumulated Losses

Brought forward accumulated losses over the past 10 years were finally wiped out during the year, strengthening the balance sheet further.

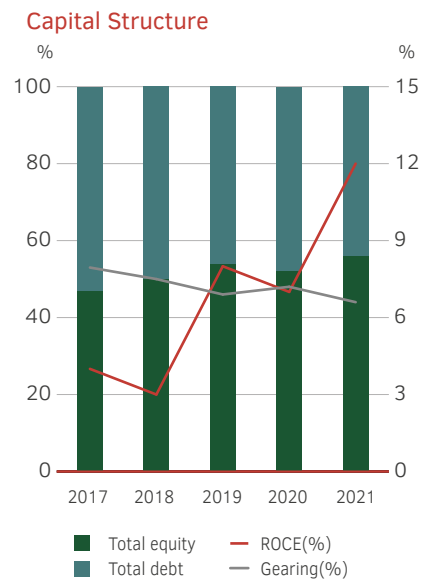
Investor Returns

Earnings Per Share - We continued to generate sustainable shareholder returns with earnings per share increasing to USD 0.009 from USD 0.003 a year ago.

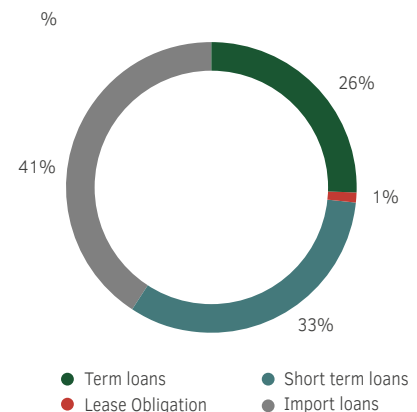
Dividends - Returns in the form of dividends also increased during the year. Three interim dividends for Rs 0.25 per share, Rs 0.45 per share and Rs 0.25 per share were paid during the year in September 2020, November 2020 and March 2021 respectively. Total interim dividends of Rs.0.60 per share was paid and proposed a final dividend of Rs.0.10 per share in 2020/21.

Share Split - Further, the Company subdivided its shares on the basis of 1 into 2, in February 2021, to increase affordability for smaller investors and boost liquidity of the share.

Share Price – It was higher at year end, from a year ago, while reflective of the renewed investor confidence in the share, the increased includes an element of undue volatility in the Colombo bourse.



Debt Structure - 2021



| | 2019/20 | 2020/21 |
|--------------------------------|---------|---------|
| Earnings per share - USD | 0.003 | 0.009 |
| Return on equity - % | 7% | 18% |
| Return on capital employed % | 7% | 12% |
| Net assets per share – USD | 0.05 | 0.09 |
| Market price per share- LKR | 8.70 | 27.80 |
| P/E Ratio | 15.62 | 15.69 |
| Total dividend per share - LKR | 0.30 | 0.60 |
| Dividend yield | 3% | 2% |
| Dividend payout | 54% | 35% |
| Dividend cover (times) | 0.53 | 0.33 |

Du Pont analysis

$$\text{ROE} = \text{Net profit margin} \times \text{Asset turnover} \times \text{Financial Leverage}$$

$$= \text{NP/ sales} \times \text{sales/assets} \times \text{assets/equity}$$

$$2019/20 : \text{ROE} = 2\% \times 1.4 \times 2.7 = 7\%$$

$$2020/21 : \text{ROE} = 5\% \times 1.3 \times 2.8 = 18\%$$

Du Pont analysis reflects profit margin to contribute the most to the increase in ROE over the past year, reflecting potential for sustainable growth.

Way Forward

- Seek viable business opportunities that align to Hayleys Fabric PLC's growth strategy
- Drive cost efficiencies through smart sourcing strategies and operational excellence
- Optimize working capital & cash management
- Optimize capital funding

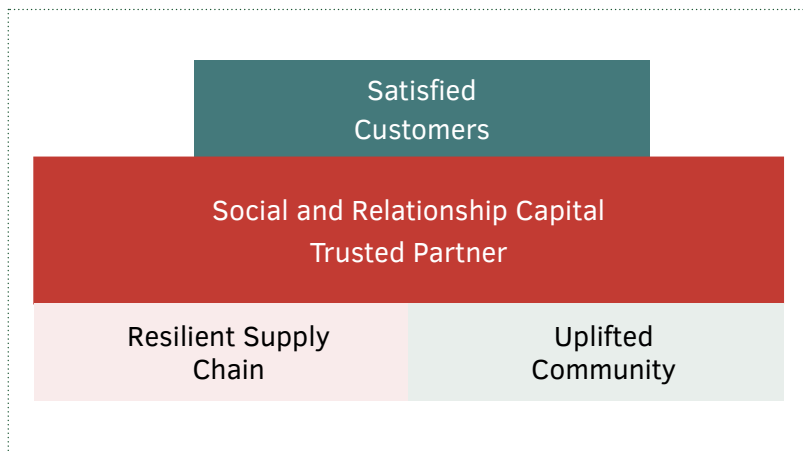


SOCIAL AND RELATIONSHIP CAPITAL

Creating Value for Social Network Capital

We continue to nurture trust in our relationships with customers, suppliers, and our communities through consistent delivery of our value proposition, adapted to satisfy each stakeholder’s needs in an evolving and volatile environment.

| Value Created | | Strategic Priorities | |
|------------------------------------|---|---|--|
| 72% | Revenue generated from Tier-1 customers | Increase Tier-1 customer penetration | |
| Products developed collaboratively | 83 | Align product with customer strategy | |
| 18.5 Mn USD | Directed to local SME’s | Ensure seamless transition to digital channels for continuous customer engagement | |
| Employees from local communities | 67% | Build supply chain resilience | |
| | | Drive raw material sourcing strategies to minimise impact of escalating cost | |



Management Approach

We invest in deepening our strategic partnerships that foster mutual value creation by ensuring high customer satisfaction, efficient supply chains and empowered communities.






Relevance to Capitals



Social Network Capital

THE CAPITALS REPORT

SOCIAL AND RELATIONSHIP CAPITAL

| How we created value | | Local Manufacturer Collaborations | Growth in Tier-1 |
|--|--|--|--|
|  | Customer strategy and engagement <ul style="list-style-type: none"> 72% volumes from our Tier-1 customers 52% synthetic fabric production | Leveraged R&D investments in health related fabrics to produce PPE. Collaborated with local manufactures to be the first to export PPE | Leveraged our Inno portfolio of athlesuire/ active wear fabrics to drive Tier-1 customer volumes |
|  | Adapting through innovation <ul style="list-style-type: none"> 48.6 Mn USD sales of Inno & development 13% increase in Athleisure sales | | |
|  | Strategic supply chain <ul style="list-style-type: none"> 3% new suppliers, from varied geographical regions for each type of raw material Advance forecasting and raw material booking | Invested in digital platforms and continued to drive our customer-centric business model | Expanded supplier portfolio, broad based sourcing markets to drive supply chain resilience |
|  | Supporting local communities <ul style="list-style-type: none"> 67% of our employees are from local communities 18.5 Mn USD worth goods and services purchased from local SME's | | |
|  | Local community enrichment <ul style="list-style-type: none"> USD 10,986 spent on community engagement and development programs 400 trees planted during 2020/21 | | |
| | | Digital Transitioning | Supply Chain Resilience |

Satisfied Customers

Customer Value Proposition

| Innovative Products | Consistent Quality | Reliable Supply | Responsible Practices | Transparency & Traceability | Reasonable cost |
|--|---|---|--|---|--|
| <ul style="list-style-type: none"> We offer high end synthetic value-added fabrics under our own Inno brand Over 600 product portfolio | <ul style="list-style-type: none"> State-of-the-art machinery and deep technical experience of our employees underpin our robust quality assurance system <1.7% customer returns (industry average 2%) 94% Right First Time | <ul style="list-style-type: none"> Flexibility, speed and on time delivery have been key pillars of Hayleys Fabric PLC's competitive supply chain 3 day turnaround for speed orders | <ul style="list-style-type: none"> Sustainability is a strategic imperative for Hayleys Fabric PLC . We are committed to driving excellence in Environmental, Social and Governance (ESG) matters, 37 Accreditations | <ul style="list-style-type: none"> We ensure increased transparency over ESG practices and traceability of products through digitisation of our systems and integration of customer networks with those of the Company | <ul style="list-style-type: none"> Hayleys Fabric PLC is conscious of its cost of production, critically managing costs through mechanisms including bulk purchases, process engineering, contract forward bookings |



Collaborating with local manufacturing partners to manufacture Personnel Protective Equipment (PPE)

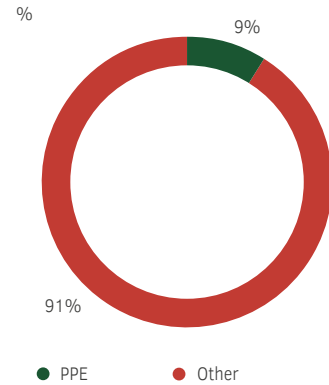
As the COVID-19 created upheaval in the fashion industry, our dynamic management team looked for options to recommence operations. Initial product development activity with anti-viral chemical trials had been carried out and the team sought opportunities in PPE to meet the evolving needs of customers. Health related fabric were quickly developed in collaboration with local manufacturers who had trust and confidence in our innovative competencies and flexible production capabilities. Mobilizing our production facilities and supply chains, Hayleys Fabric PLC quickly shifted production to manufacture fabric required for face masks and protective clothing for medical use. Hayleys Fabric PLC secured sufficient orders and was the first mill to re-commence operations in April 2020 under extremely strict COVID-19 health & safety regulations and protocols. Growth in orders of PPE continued and the factory reached full capacity by month end. Growth in athleisure orders by June 2020, as explained below required Hayleys Fabric PLC to outsource production of PPE to fabric mills in the region and taper off production. It is worthwhile to note that Hayleys Fabric PLC kick started the local apparel and textile industry by leveraging its product developments and played a pivotal role in nurturing the PPE global supply chain in SL.

Growth in Tier-1 business volumes

As lifestyles changed and consumers began working from home, athleisure and active wear product categories marked a boom in global sales. This gave Hayleys Fabric PLC a particular advantage, as the company had shifted focus 5 years ago to grow its athleisure portfolio by catering to a Tier-1 customer base.

Having established strategic partnerships with the Company, and given Hayleys Fabric PLC's proven track record, buyers sought Hayleys Fabric PLC out to recommence the order book and capacity was filled quickly. Premiumization continued to be an opportunity for Hayleys Fabric PLC as high-end consumers sought performance-boosting technical features. Hayleys Fabric PLC capitalised on its Inno portfolio of innovative products. During the year, sales from Tier-1 customers grew to 72% of total sales from 56% the year before. Athleisure grew 13% to account for 55% of total sales.

Personnel Protective Equipment

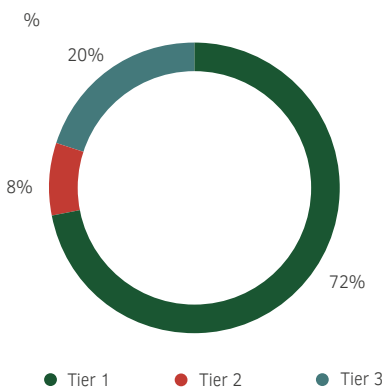


PPE fabric accounted for 9% of total production in 2020/21

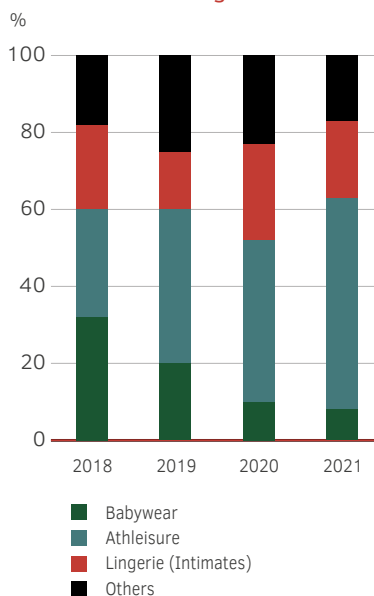
Trusted Partnerships

We have worked hard to drive our value proposition and build strong Tier-1 customer relationships that created shared success. Our customer relationships have taken time to mature, due to stringent assessments of innovation, production capabilities, reliability- in quality and speed and environmental, social and governance practices. Our customer accreditations listed on Page 6 – About Us, speak for our success.

Customer Portfolio



Sales Product Categories



THE CAPITALS REPORT

SOCIAL AND RELATIONSHIP CAPITAL

Recognized as one of the best innovators in fabric in Sri Lanka by international clothing brands.

Ranked as one of the top vendors in the global supply chain by a top clothing brand.

Customers and engagement

Tier-1 customers include Nike, Victoria's Secret, Intimissimi, Decathlon. We engage with the brand owners through visits to offices/ factories, dedicated account teams, joint business planning, joint product development initiatives and customer satisfaction surveys. Following travel restrictions on account of the pandemic, we have adopted digital tools and online platforms to support engagement with customers, as explained below.

Our customers trust us to provide fabrics of the highest quality. We have developed a stringent quality assurance process from point of raw material input, during production processes and final quality check at end of production to ensure high quality product output.



Digitizing our business

- Digital integration of customer requirements
- Launching products online
- Facilitating product discussions online

Resilient Supply Chain

We consider our suppliers to be critical partners to the ongoing success of our business.

We monitor the performance of critical suppliers through supply base assessments, audits of compliance and engage regularly through online platforms. In 2020/21, over 67 of our critical suppliers were assessed, a 3% increase compared with 2019/20. 95% of suppliers obtained the highest rating of 1, an increase from 5% in 2019/20.

Strategic Supply Chain Management

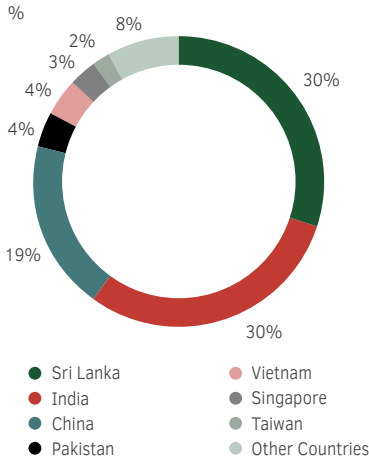
| Supplier Development | Supplier Integration | Expanding the supply base | Managing Supply Chain through COVID- 19 |
|--|--|---|--|
| <ul style="list-style-type: none"> • We conduct supplier audits and train selected suppliers in raw material product development • Higher quality materials • These initiatives have helped reap considerable economic gains from • Improved product development • Greater supplier supports • Shared risk taking • Usual supplier audits and assessments were carried out online this year | <ul style="list-style-type: none"> • We have integrated the supply chain into our business model. Therefore select suppliers with developmental capabilities • Purchasing innovative products developed by supplier and further developing to add value • In 2020/21, 83 new products developed in collaboration with suppliers | <ul style="list-style-type: none"> • We follow a stringent protocol for supply evaluation prior to engaging with suppliers for all areas of compliance • Approaching suppliers from new regions through our protocol • Near shore sourcing • No significant issues were identified during the year • 3% of our purchases is from new suppliers | <ol style="list-style-type: none"> 1. We did not experience any disruptions to supply chain and was able to adapt to the new normal, as there were vetted suppliers available from a range of geographical locations for each type of raw material. 2. Whenever there was a gap in sourcing, we followed our comprehensive sourcing protocol to identify new suppliers 3. All raw materials were sanitized before being placed in warehouses for issuing to production 4. Stocks were built up to ensure continuous production despite expected disruption to shipping and scarcity of raw materials 5. Forward contracts were used to hedge against forecast increase in price |



Digitizing our business

- Online audits and assessment
- Digital communication
- Video conferences on discussing product quality

Supply Chain by Country



We select suppliers with developmental capabilities. We collaborated on 83 product developments with our suppliers in 2020/21.

Our local suppliers are encouraged to increase their capacity.

To further our resilience, we approached new suppliers in new regions during this year. This allows us to expand our supplier base and strengthen our ability to adapt to changes.

| HIGHLIGHTS 2020/21 | |
|---|------|
| Key Raw Material Suppliers | 55 |
| Small & Medium Scale (SME) Suppliers | > 80 |
| Other Suppliers | 600 |
| Total Payments made to suppliers USD Mn | 62.5 |

Uplifting Community

We contribute towards positive economic and social change and invest in communities 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.

Building communities around us

Supporting local Small to Medium Enterprises (SME's) as reflected below.

Engagement with local schools and religious institutions.

We uplift the area we live in by hiring locally. 67% of our employees live within a 15 km radius.

| | |
|--|--|
| | We encourage the community to purchase excess scrap materials |
| | We use the local transport services |
| | We purchase from local saw dust suppliers |
| | Catering at our facility is outsourced to local catering service |

Way Forward

- Continue to drive our business model while adapting to economic and consumer shifts and responding to customer needs
- Continue to strengthen the supply chain, integrating suppliers to Hayleys Fabric PLC business model

THE CAPITALS REPORT

SOCIAL AND RELATIONSHIP CAPITAL

We established the following projects to support our communities:



August 2020

Recognizing our employee Subashini Jayawardane's daughter obtaining 9 A's for GCE O/L examination



January 2021

Construction of house for young, widowed mother with two children at Rathmalgahawewa Anuradhapura



January 2021

Fourth annual schoolbooks donation to 500 children at Rathmalgahawewa Anuradhapura



October 2020

Gift of provision for families of best performers in the Knitting Department



February 2021

Gift of provision for families of best performers of Finishing Department



CREATING VALUE FOR HUMAN CAPITAL

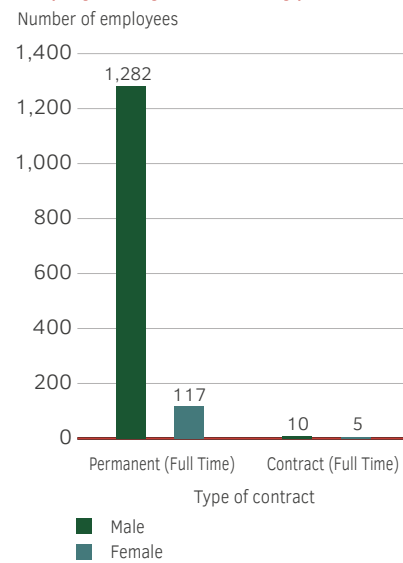
In a period of uncertainty and change, our strength was our ability to trust our people to do the right thing, in ensuring the continuity and growth of our business. In supporting our people through the pandemic, we in-turn sought to re-confirm their trust in our Company.

| | |
|------------------------------------|----------------------------------|
| 92% | Employee retention |
| Training hours | 1,548 |
| 67% | Employees from local communities |
| COVID -19 exposure within premises | 3 |

| Strategic Priorities |
|--|
| Obtaining the involvement at all levels for future improvement of work environment and cost saving initiatives |
| Fostering close relationship with Trade Unions to address common requirements |
| Open Door Policy for employees to freely access the staff in the HR Department |
| Recognition and rewarding mechanism on a monthly basis for employees with high productivity achievements |
| Providing transport for all employees |

| Employee grade | Executive and above | Manual grade | Clerical, Supervisory & Allied | Casual | Total |
|--------------------|---------------------|--------------|--------------------------------|--------|-------|
| Total | 236 | 542 | 242 | 394 | 1414 |
| Distance from work | | | | | |
| < 15 Km | 48 | 435 | 201 | 267 | 951 |
| > 15 km | 188 | 107 | 41 | 127 | 463 |
| Gender | | | | | |
| Male | 190 | 475 | 234 | 393 | 1292 |
| Female | 46 | 67 | 8 | 1 | 122 |
| Age | | | | | |
| 18 - 30 | 50 | 150 | 26 | 362 | 588 |
| 30 - 50 | 159 | 375 | 191 | 32 | 757 |
| > 50 | 27 | 17 | 25 | - | 69 |

Employees by Contract Type and Gender



| | Recruitment | | Turnover | |
|-------------|-------------|------|----------|------|
| | 2021 | 2020 | 2021 | 2020 |
| Male | 158 | 146 | 112 | 43 |
| Female | 76 | 7 | 8 | 3 |
| <30 years | 197 | 130 | 72 | 16 |
| 30-50 years | 34 | 20 | 36 | 24 |
| >50 years | 3 | 3 | 12 | 6 |

| Management Approach |
|--|
| We are committed to providing a safe, healthy and non-discriminatory work environment for all employees and ensuring our operations are adequately resourced with skilled, engaged and motivated employees |

THE CAPITALS REPORT

CREATING VALUE FOR HUMAN CAPITAL

How we created value

| | |
|--|---|
| | <p>Governance</p> <ul style="list-style-type: none"> Comprehensive policy framework to create a working environment of equity, integrity, ethics and compliance |
| | <p>Occupational health and safety</p> <ul style="list-style-type: none"> Stringent strategy in response to COVID-19 pandemic to protect our people Reduction in lost time - 7 days |
| | <p>Fair remuneration</p> <ul style="list-style-type: none"> Industry competitive remuneration Increase in salaries and wages 10% |
| | <p>Responsible work practices</p> <ul style="list-style-type: none"> Adherence to local and global labour regulations Zero tolerance for child labour |
| | <p>Employee engagement</p> <ul style="list-style-type: none"> New recruits 234 Employees in Trade unions 491 |
| | <p>Strengthening capabilities</p> <ul style="list-style-type: none"> 2,897 USD investment in training 1,548 training hours |

Beating the pandemic

Our dynamic and skilled team of employees, has been both responsive and cooperative and has demonstrated great flexibility and adaptability in working with management to overcome the challenges faced. This positive culture enabled Hayleys Fabric PLC to swiftly adapt to the evolving operating environment, shifting to producing PPE at the beginning of the pandemic and then reverting to production of garments during the year.

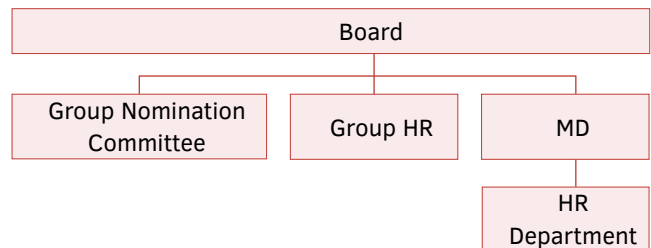
To facilitate commencement of operations, Hayleys Fabric PLC set up a stringent, and highly effective health regulation and workplace safety system to safeguard our employees. Hayleys Fabric PLC was one of the first companies to open its gates after the lockdown period in 2020. We are proud to say, we have not had a single case of COVID during this period and there were no work stoppages or factory shutdowns.

As the order book quickly grew, we were able to provide full time employment for our team. Profits increased and were shared in part with employees, through production incentives and payment of an attractive annual bonus in August 2020.

Appreciative of the care and concern extended during these difficult economic times, our employees remain highly motivated and inspired to continue to drive Hayleys Fabric PLC's success. In turn, the Company strives to create an engaging workplace, where employees feel heard, valued and supported in their safety, wellbeing and personal and professional growth.

Governance

HR Governance Framework promotes inclusive and productive employment in an environment conducive to dignity, mutual respect, wellbeing and safety.






The Board, the Group Nomination Committee and the MD regularly assess the progress and the effectiveness of HR functions and HR department is responsible for implementing HR strategy with business strategy.

| Recruitment | Engagement | General |
|---|---|---|
| <ul style="list-style-type: none"> No Child Labour Policy No Forced Labour Policy Job Description Policy No Discrimination Policy | <ul style="list-style-type: none"> Remuneration Policy Performance Management System Policy Internal Mobility Policy Employee Relations | <ul style="list-style-type: none"> Grievance Handling Policy Industrial Relations Policy Health and Safety Policy Disciplinary Policy Communication Policy Human Rights Policy Bribery & Corruption Codes of Ethics and Conduct |



Occupational Health and Safety

During this year health and safety has been the highest priority due to the global COVID-19 pandemic. After the countrywide shutdown, Hayleys Fabric PLC was one of the first factories to open on 17th April armed with a stringent COVID-19 management strategy to protect staff. Mandatory PCR testing contributed to significant expenditure of USD 20,810 during the year, while lost man days amounted to 5,820 hours on account of an average of 150 employees being placed in self isolation. There were no shutdowns after operations commenced. Health and safety practices adopted include the following.

| Management strategy | Screening process | Awareness and training |
|--|--|---|
| <ul style="list-style-type: none"> Health and safety practices beyond Government guidelines Shift basis workforce Database of staff by location to identify potential cases Close communication with PHI and MOH of relevant areas  | <ul style="list-style-type: none"> Random PCR tests Committee with representation from each department Requested employees with possible exposure to stay home and provided PCR tests  | <ul style="list-style-type: none"> Regular COVID awareness sessions for staff by MOH and PHI representatives  |

While we undertook many new measures to ensure the safety and continued health of our people in the extraordinary environment of 2020, our workplaces have become increasingly safe over the past few years and we aim for continual improvement. Workplace rate of injury has reduced while no incidents of non-compliance with health and safety regulations were reported.

| Safety mechanisms in place include the following: | |
|---|---|
| ✓ | Safety drive across the organization to drive attitudinal changes, build awareness and nurture a culture of safety |
| ✓ | Chemical safety measures including use of personal protective equipment (PPE), storage measures (e.g. fume boxes) and engineering controls (e.g. exhaust fans, respirators) |
| ✓ | Periodic safety audits |
| ✓ | Conduct of compulsory safety workshops and staff training at all levels. Health & safety and on the job training, included in induction programme |
| ✓ | On site first aid support and emergency vehicle in place 24x7 |
| ✓ | All projects to be sanctioned by EHS team to ensure safety aspects adhered to |
| ✓ | Twice weekly visit by retired doctor. Free medical checkups available weekly |
| ✓ | Conduct of dengue prevention awareness programmes. Each department head assigned an area of the factory to supervise, keep clean and ensure no breeding |



Occupational Health and Safety

| Year | Rate of Injury | Occupational Diseases | Lost Days | Work Related Fatalities |
|---------|----------------|-----------------------|-----------|-------------------------|
| 2016/17 | 6.64 | Nil | 43 | Nil |
| 2017/18 | 4.08 | Nil | 100 | Nil |
| 2018/19 | 3.48 | Nil | 83 | Nil |
| 2019/20 | 1.63 | Nil | 77 | Nil |
| 2020/21 | 1.82 | Nil | 100 | Nil |

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

THE CAPITALS REPORT



CREATING VALUE FOR HUMAN CAPITAL

Fair Remuneration

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

We were able to ensure our employees received full benefits and remuneration regardless of the impacts of COVID-19 pandemic.

Executive and Clerical staff variable remuneration

| | |
|---|--|
|  | Performance is assessed through an annual appraisal conducted for all employees, following a formal and transparent process. |
|  | High performing employees are recognized with rewards linked to salary increments, annual bonuses and promotions, incentivizing productivity and growth. |

Annual Leave Allocation

| Employee Category | Legal Requirement | | Hayleys Fabric PLC | | |
|---------------------------------------|-------------------|--------|--------------------|--------|---------|
| | Annual | Casual | Annual | Casual | Medical |
| Executives & above | 14 | 7 | 16 | 7 | 0 |
| Clerical, Supervisory & Allied Grades | 14 | 7 | 14 | 7 | 21 |
| Manual Grade | 14 | - | 14 | 7 | 7 |

Promoting fair work practices

1. Employment is freely chosen.
2. Freedom of association and the right to collective bargaining are respected.
3. Working conditions are safe and hygienic.
4. Child labour shall not be used.
5. Living wages are paid.
6. Working hours are not excessive.
7. No discrimination is practiced.
8. Regular employment is provided.
9. No harsh or inhumane treatment is allowed.

UN GLOBAL COMPACT

We are one of 40 Sri Lankan direct signatories to the UN Global Compact and follow Ten Guiding Principles covering human rights, labour, environment and anti-corruption.

Brand Accreditation

We are an accredited supplier to reputed retail brands and are subject to annual audits that confirm compliance with minimum social and environmental requirements.

We are committed to ensuring that our business adheres to local and international labour regulations. Our stringent policies and ethical work practices ensure a safe and healthy work environment and promotes a culture of diversity, inclusivity, and equal opportunity.

There were no reported incidents of human rights violations, child labour, forced labour or discrimination during the year. In a global industry rife with labour violations, our international accreditations enhance transparency in our value chain and accountability for our practices, fostering the trust of all stakeholders.

| | Female Representation |
|--|-----------------------|
| Board of Directors | Nil |
| Management | 7% |
| Executives | 24% |
| Ratio of basic salary and remuneration of women to men 1:1 | |

The female representation in the organization edged up by 4% in 2020, to 9%, largely due to the conscious decision to recruit only women to the Wagawatte knitting factory. At the end of 2021, women made up 7% of our management team.

Due to the nature of manual labour involved, the workforce is largely young and male.



A culture of sharing, learning and adaptation

One of our greatest strengths is our values-based culture. It was a source of resilience as our common beliefs helped us adapt with speed and flexibility to the opportunities that the pandemic presented.

| | |
|--|---|
| | <p>Grievance management</p> <ul style="list-style-type: none"> • Open Door Policy • Fostering close relationship with trade unions |
| | <p>Connectivity</p> <ul style="list-style-type: none"> • Regular staff and team meetings • Annual performance reviews |

Due to prevailing pandemic control measures our general employee engagement events were cancelled.

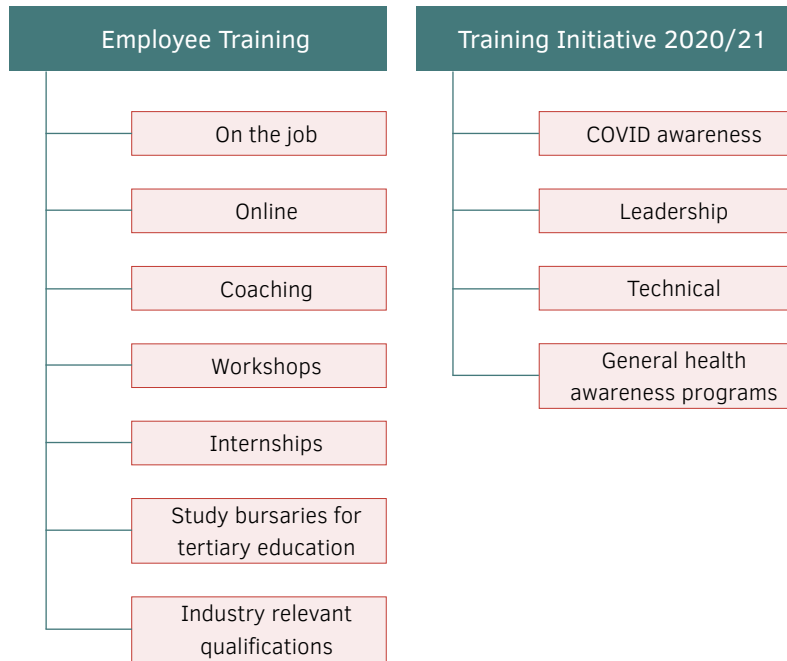
| Recruitment Policy | Diversity and gender parity | Industrial relations | Employee grievance |
|--|--|--|--|
| <ul style="list-style-type: none"> • We are an equal opportunity employer and do not discriminate on gender, age, religion or race. • 234 new recruits. • New recruits are briefed on the Company, Code of Conduct, Health and Safety procedures and trained in handling specific equipment. • Employment preference is given to candidates from the vicinity to nurture community relationships and drive economic empowerment. | <ul style="list-style-type: none"> • We endorse diversity at all level of the organisation as it spurs innovative thinking and continuous improvement • Policies to drive equal opportunity and safe workplace all employees. • Gender balance through increasing female recruits in administrative and operational departments. • Our policies on parental leave are compliant with local regulatory requirement. | <ul style="list-style-type: none"> • We recognize and respect our employees' right to freedom of association and collective bargaining. The three trade unions represent 35% of our employees. • Open and effective dialogue is sustained through monthly meetings between the management and the unions. • The first collective agreement was negotiated and signed in April 2017, for a period of three years. The agreement stipulates salary increments, industrial dispute resolution, health and safety obligations, minimum notice periods regarding operational changes and other worker conditions. • There were no industrial disputes during the year under review. | <ul style="list-style-type: none"> • Employees are free to discuss any grievances with their line managers. They may also report any incidents to the HR department or the Managing Director. • Open Door Policy for reporting grievances to HR Department or management. • During the year, there were no grievances reported. |

THE CAPITALS REPORT

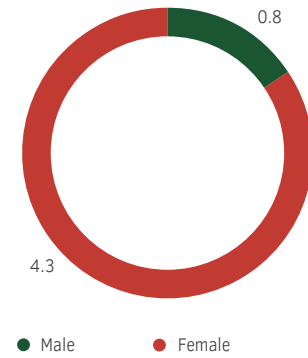
CREATING VALUE FOR HUMAN CAPITAL

Strengthening Capabilities

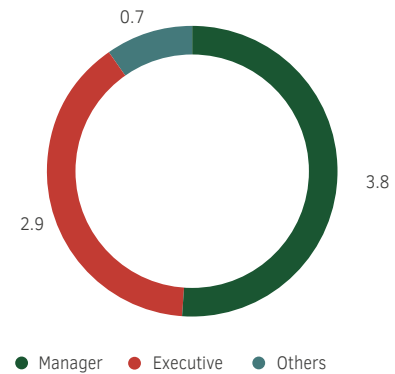
As a Company, we are focused on developing organizational capabilities that support our success and long-term growth.



Average Training Hours - Gender



Average Training Hours/ Employee Category



Way Forward

- Reassure employees of the Company's commitment to their safety and wellbeing by implementing appropriate health and safety measures at the factory
- Engage support of trade unions in responding to the COVID-19 crisis
- Maintain communication and inspire team to deliver corporate goals

NATURAL CAPITAL

Sustainability is a key focus area for us. As a textile manufacturer we are committed to reducing our impact on the environment.

| Value Created | | Strategic Priorities | |
|----------------------|----------------|--|--|
| 4.1% | RECYCLED YARN | Establishment of a Sustainability Department to lead initiatives across the organization | |
| RENEWABLE ENERGY | 64% | Complete investment in solar energy project. Confirm commitment to climate action | |
| 14% | RECYCLED WATER | Explore water efficiency projects to reduce water consumption | |
| SOLAR POWER PRODUCED | 966 Mwh | Improve waste management efforts | |

| Environmental Policy |
|---|
| <ul style="list-style-type: none"> Identify and comply with all legislation, standards and codes of practice which are relevant to our business activities. Committed to protection of environment including prevention of pollution and other specific commitments. Effective conservation of energy and natural resources. |

| Sustainability Governance |
|---|
| <ul style="list-style-type: none"> Annual environmental goal setting. Establishment of a sustainability team during the year, to drive initiatives as well as in individual departments. Compliance team to ensure compliance to customer requirements and legal standards. Regular data monitoring through SAP and monthly reports for management review. Monthly updates to the Hayleys Group sustainability portal for Board review. Clear standard operating procedure for business as usual. Eco- Friends team building program for driving a sustainability culture across the organization. |

| Creating value for Natural Capital | |
|---|---|
|  | Raw material Responsible sourcing Promoting recycled materials |
|  | Energy Maximising the energy efficiency of our machinery Purchasing energy efficient machinery |
|  | Water Identification of solutions to recycle water Effective management of wastewater |
|  | Carbon footprint Committed to climate action Providing solar power to the national grid |
|  | Waste Maximising waste reduction Responsible waste disposal |
|  | Environmental conservation Fully compliant to national regulatory standards Planted over 400 trees |

THE CAPITALS REPORT

NATURAL CAPITAL

Highlights - 2020/21

Renewable Energy

Installed the largest rooftop solar system of a 4.6 MW in Sri Lanka. Total investment 3 Mn USD

Targetted to replace 20% of the Hayleys Fabric PLC energy usage from the National Grid with renewable energy

Science-Based Targets Initiative (SBTI)

First textile manufacturer in Sri Lanka to commit to SBTI

Hayleys Fabric PLC is in the process of developing GHG emissions reduction target in line with net zero target for limiting climate temperature rise to 1.5° C

Biological Effluent Treatment

Installed a screw press sludge management system to process the biological waste

Reduced chemical processing

Drove circularity by disposing botton-ash waste by-product for compost manufacture

Water Conservation

Replacement of old dyeing machines with new machines of lower liquor ratio

Recycling cooling water from all dye machines back into the cooling process

Responsible Raw Material Consumption

Main raw materials used by Hayleys Fabric PLC are yarn (cotton/ polyester/ nylon), dyes and chemicals. As a synthetic fabric manufacturer, we promote the use of recycled polyester yarn. However, flexibility in sourcing is limited given selection of suppliers are most often at the discretion of buyers.

| Raw material | 2019/20 | 2020/21 |
|--------------------------------------|-------------|-------------|
| Non-renewable materials (MT) | 10,944 | 11,700 |
| Renewable materials (MT) / % | 4,301 / 28% | 5,600 / 32% |
| Total material consumption (MT) | 15,245 | 17,300 |
| Percentage of recycled material used | 2.9% | 4.1% |

(Refer Accreditation - Page 8)

Recycled polyester fabric

In our effort to promote recycled polyester fabric, we developed a smart phone app to trace source of polyester yarn produced from recycled ocean waste collected from Sri Lankan shores.

Refer Intellectual Capital - Page 76 for more details.

Majority of recycled materials are GRS certified

All chemicals and dyes are ZDHC level 1 certified

Over 60% of all chemicals and dyes are level 3 ZDHC compliant

Cotton is purchased from BCI, GOTS, OCS, GRS, CMiA & Oeko Tex 100 certified sources

Recycled material promotion

Polythene used for packaging is sent to a recycler and returned for usage within the factory. 4.2% of such polyethene consumed was recycled.

Ethical and responsible sourcing

Despite constraints due to COVID-19 pandemic, periodic supplier audits were continued and conducted online.



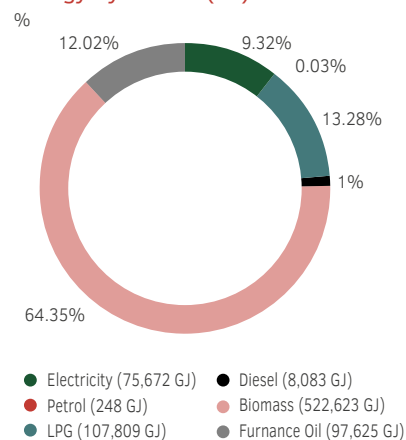
Energy Management

Increasing production and automation has escalated the energy demand making it vital to manage the energy footprint which is 8% cost of production. Our energy intensity has increased reflecting the growth in synthetic value-added products and complexity of fabric produced.

Hayleys Fabric PLC installed the largest single rooftop solar installation of 4.6MW under the Net plus scheme by Ceylon Electricity Board (CEB). Currently 25% is connected to the National Grid and completion is expected in April 2021. The project is expected to replace 20% of annual energy consumption by Hayleys Fabric PLC with renewable energy provided to the national grid.

| Type of energy | 2019/20 | 2020/21 |
|--|---------------|---------------|
| Non-renewable energy (GJ) | 274,594 | 289,400 |
| Renewable energy (GJ) / % | 475,127 / 63% | 522,600 / 64% |
| Total energy consumption (GJ) | 749,722 | 812,000 |
| Energy intensity ratio (GJ/MT of production) | 90.40 | 93.5 |

Energy by source (GJ)



| Energy Efficiency Initiatives |
|---|
| <ul style="list-style-type: none"> Regular efficiency calibration for thermic fluid heaters – 0.5% reduction in furnace oil usage. Purchasing energy efficient machinery – Saved 360,000 MJ |

Water Conscious

We are conscious of its excessive water footprint and responsibilities towards the sustainability of freshwater resources. The Company sources water solely from the adjacent river “Kalu Ganga” which is the country’s second largest river basin and abundant in supply of water.

We are committed to increasing our water efficiency while ensuring the quality of water treated and discharged back to the river is maintained at the highest standard.

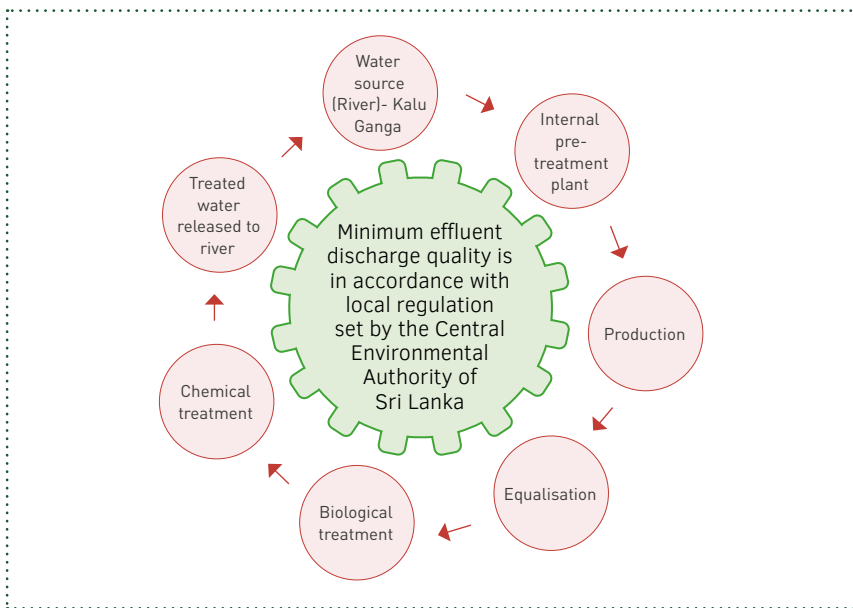


100% compliant since 2017

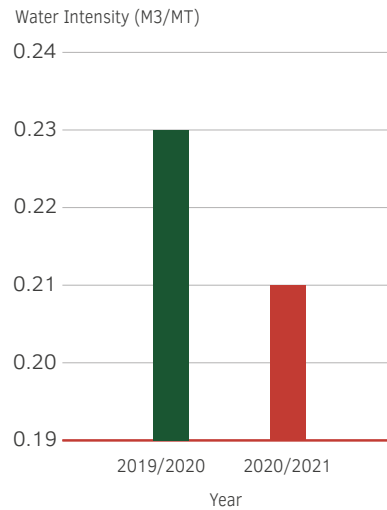
| Water (M3) | Location | 2019/20 | 2020/21 | Source Classification | Measurement |
|------------|------------|-----------|------------|-----------------------------|-------------|
| Withdrawal | Kalu Ganga | 1,898,977 | 1,841,000 | Surface water – fresh water | Daily |
| Withdrawal | Tube well | 905 | 935 | Ground water – fresh water | Daily |
| Grey water | Recycled | 301,667 | 254,800 | Recycled | Calculated |
| Discharge | Kalu Ganga | 1,578,129 | 1,545, 800 | Surface water – fresh water | Calculated |

THE CAPITALS REPORT

NATURAL CAPITAL



Water Intensity (M3/MT)



Recycling water

A project for using recycled water for the purposes of dye plant machine cooling was launched last year. The project has been expanded during this year to include all the dyeing machines. Contributes to 25% water recovery.

Water discharged from the treatment plant is recycled to produce steam in the boiler.

Carbon Footprint

According to United Nations Environment Programme (UNEP) fashion industry is responsible for 10% of annual global Greenhouse Gas (GHG) emissions. Hayleys Fabric PLC has voluntarily committed to set Science Based Target (SBTI) towards limiting global temperature rise to 1.5°C. The Company is the first in the textile and apparel industry in Sri Lanka to do so and is in the process of finalizing its targets.

| GHG Calculation | GHG Reduction | Renewable Projects |
|---|---|---|
| <ul style="list-style-type: none"> Computed according to ISO 14064-1: 2018 Gasses included are CO₂, CH₄, N₂O and HFC's | <ul style="list-style-type: none"> Science based emissions reduction method is currently in development with a base year of 2020 | <ul style="list-style-type: none"> Increase in our renewable component from 63% in 2019/20 to 64% in 2020/21 reduced total GHG |

| Type of emissions | 2019/20 | 2020/21 |
|---|---------|---------|
| Direct GHG emissions (tCO ₂ e) | 15,256 | 15,795 |
| Direct Biogenic GHG emissions (tCO ₂ e) | 53,975 | 59,398 |
| Indirect GHG emissions (tCO ₂ e) | 16,622 | 12,246 |
| GHG emissions intensity (tCO ₂ e/MT of production) | 3.8 | 3.2 |



Waste

Hayleys Fabric PLC adheres to the national regulatory requirements for hazardous waste disposal. All non-hazardous wastes are reused or recycled to reduce the impact on the environment and all waste collectors maintain current CEA approval for waste management.

| Waste type | 2019/20 | 2020/21 | Disposal method |
|--|---------|---------|-----------------|
| Hazardous waste | | | |
| Sludge (MT) | 1,397 | 1,587 | Incineration |
| Non hazardous waste | | | |
| Fluff (MT) | 24 | 45 | Reuse |
| Fabrics strips, fabric end roll, off cuts (MT) | 530 | 618 | Reuse |
| Cardboard, yarn cones (fully used), damaged cardboard boxes (MT) | 286 | 389 | Reuse |
| Polythene (MT) | 109 | 142 | Recycle |
| Other (MT) | 175 | 132 | Reuse |
| Total non hazardous waste | 1,123 | 1,326 | |
| Total waste | 2,520 | 2,913 | |

Hazardous waste

Annual cost of sending hazardous waste to INSEE for incineration with material recovery is 288,000 USD.

PET bottle collection

Bins have been installed to collect PET bottles which are sent to Eco Spindles to produce recycled yarn which is used as a raw material.

Nature Conservation

- We are committed to nurturing and sustaining the environment and have reserved 20 acres and 9 acres of lands adjoining the factory as a Green Belt and Wetland Biodiversity Zone respectively.
- During the year, completed Biodiversity survey by 3 specialists to identify endemic species, with the guidance of Central Environment Authority (CEA).

Way Forward

We will continue to drive responsible production practices and minimize environmental impacts through clean technology.

- Finalize development of the Energy Policy. Implement ISO 50001 energy management system.
- Complete SBTi target setting and drive reduction in emissions.
- Finalize development of a waste management system and a waste calculator.
- Finalize and launch results of the endangered species study.

THE CAPITALS REPORT

INTELLECTUAL CAPITAL

Our Intellectual Capital consisting of brand recognition, innovative ability, and organizational and tacit knowledge, underpins our ability to craft our niche and sets us apart from competition.

| Value Created | | Strategic Priorities | |
|--|--|--|--|
| 63% | % sales from Inno & development USD Mn | Drive brand development | |
| Increase in sales from Inno & development USD Mn | 17% | Design and develop new concepts and products | |
| 37 | Accreditation and certifications | Drive process improvements and service excellence | |
| Cumulative innovations & product developments | 609 | Management Approach | |
| | | Intellectual Capital underpins the sustainability of our business. We continue to invest in our innovative capabilities, systems and processes to develop new products and fine-tune services in satisfying our customers. | |

| Our Pioneering Efforts | |
|---|---|
|  | Only mill to have launched own fabric brand "Inno" in 2014 |
|  | Sri Lanka's leading synthetic fabric mill |
|  | First fabric mill offering end to end comprehensive solutions in both synthetics and natural fibres |
|  | First apparel sector company to be listed in the Colombo Stock Exchange in 2003 |
|  | Pioneer in weft knit fabric manufacturing in Sri Lanka, having begun operations in 1993 |

Highlights - 2020/21

| | |
|--|---|
| <p>Fabric for medical use</p> <p>On-going research into anti-bacterial fabrics. First to produce medical PPE fabric.</p> | <p>SustainabiliTea</p> <p>Development of natural dye using tea extracts from tea waste. Ongoing trials to assess commercial viability.</p> |
| <p>Polyester from recycled ocean waste</p> <p>Developed in-house app in 2019/20, to provide line of sight to location where the plastic was collected. Actively sought after by other buyers.</p> | <p>Digitisation</p> <p>Seamlessly translated into a digital platform, for customer engagement.</p> |

Brand Recognition

Established as a pioneer in the textile industry, both the company name "Hayleys Fabric PLC" and our fabric brand Inno reflects our capabilities and have gained recognition amongst global fashion retailers for innovation and service excellence.

Recognized as one of the best innovators in fabric in Sri Lanka by international retail brands.

Our accreditations listed on page 08, bears testimony to our commitment to excellence.



Innovation Capabilities

- Hayleys Fabric PLC's Innovation Centre is reputed for creating innovative and technologically advanced, fashion forward fabrics since its launch in 2014. The Company is the first fabric mill in Sri Lanka to own a brand – 'Inno'.
- Research and development have largely focused on replacing performance and sports inspired, expensive nylon based synthetic fabrics with less expensive polyester based synthetics, that offered the same aesthetics and functionality as their superior counterparts.
- This year, collaborations with customers on new innovations and product developments was less, given careful spending by retail brands, reeling from the pandemic. Focus remained primarily on customizing existing concepts to suit buyer needs. The global consumer growth in Athleisure and active wear product categories augured well for the Company. Inno & development based fabric solutions accounted for 63% of total sales (2019/20 – 62%).

> 60 %

Commercialization by premium retail brands

250 +

Inno product innovations and developments

Innovations during the year

Fabric for medical use - Ongoing research and development into anti-bacterial fabrics prior to the COVID- 19 outbreak, saw the Company swiftly pivot into the design and manufacture of fabric required for medical Personal Protective Equipment (PPE), in the wake of the global pandemic. Hayleys Fabric PLC was the first fabric mill in the country to commence operations in April 2020, to fulfil PPE orders.

Polyester from recycled ocean waste - in an effort to promote recycled polyester fabrics, an app was developed in-house in 2019/20, for smart phones, where the QR code on the garment (produced from polyester fabric created from recycled PET bottles) provides a line of sight to the exact beach location where the plastic was collected. Processing of plastic waste into polyester yarn is handled by Eco-Spindles (Pvt) Ltd. The app was retained exclusively by a top retail brand for 1 year, which is drawing to an end, and is now being actively pursued by other buyers.

SustainabiliTea - Hayleys Fabric PLC's has engaged in developing natural dye using tea extracts from tea waste. Tea waste is sourced through the Hayleys Group tea plantation companies. Despite a limited colour palette of tan shades, buyers have shown keen interest. Ongoing trials to assess commercial viability.

Inno Design Center

Our creative centre of excellence is led by an experienced and inspired team of technical and design personnel, supported by state-of-the-art technology. The team has the industry insights and technical expertise to bring cutting-edge design to market. Fabric concepts are centred around

deep consumer insights and strong market intelligence and are developed further in close collaboration with fashion brands to suit their specific fashion palates.

Digitisation - despite the limitation of restricted travel, the team translated their traditional methods of working and engagement to a digital platform, utilizing tools such as virtual sampling, digital material libraries and 3D rendering of collections for sales.

Organizational Capital and Tacit Knowledge

We have continuously improved, innovated and optimized our operations, strengthening internal systems and processes, to create a leaner, flexible and cost-efficient business. Combined with the skills, expertise and industry insights of employees and strategic leadership of the management team, we have nurtured an invaluable base of organizational capital, in driving competitive advantage.

Group Linkages

As a member of the Hayleys Group, Hayleys Fabric PLC taps into high standards of corporate governance, highly evolved systems of management and expertise of leading professionals in the country.

Way Forward:

- We will continue to strengthen our research and development capabilities through ongoing investments in developing skills and infrastructure.
- Product development will continue to be a key area of focus as we leverage materials science technology to design and develop fabrics that supports current needs and priorities.

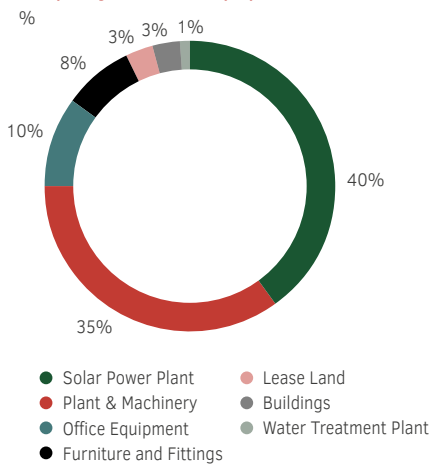
THE CAPITALS REPORT

MANUFACTURED CAPITAL

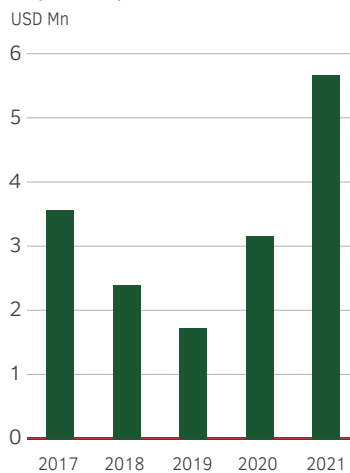
Our manufacturing capabilities are a critical element of our value creation process, vital in ensuring product quality, process efficiency, driving innovation and achieving environmental sustainability. The state-of-the-art factory, enables us to achieve the operational excellence expected by our Tier-1 customers.

| Value Created | | Strategic Priorities | |
|---------------------------|---------------------------------|---|--|
| USD 3 Mn | Investment in solar power plant | Set up new factory and enhance capacity | |
| Investment in new factory | USD Mn 1.01 | Enhance capabilities to sharpen customer value offering | |
| USD Mn 1.9 | Plant and machinery additions | Drive operational efficiencies | |
| Increase in capacity | 4% | Drive improvements in environmental footprint | |

Property Plant & Equipment



Capital Expenditure on PP&E



Management Approach

We continue to invest in our technical capabilities to deliver superior fabric solutions, drive operational efficiencies and improve our environmental footprint.

Highlights in 2020/21

New knitting plant in Wagawatte

- Purchased factory building in July 2020 in Wagawatte, in the Horana Industrial Zone, for the purpose of enhancing knitting capacity to produce synthetic fabrics, catering to Tier-1 customers.
- Factory was repurposed to fit Company’s requirements and commissioned in July 2020 with latest knitting machines.
- Full operation is expected by end of April, increasing total knitting capacity by 30%.

Expansion of plant in Narthupana

- Ongoing expansion from base, covering end-to-end solutions from water extraction to dyeing capacity and discharge of effluents.
- Supports increased knitting capacity at Wagawatte and ensure seamless production at an expanded, fully-fledged factory.








Rooftop solar power project

- Installed 234,000 square feet of solar panels on the factory roof top, with a capacity to generate 4.6MWp of solar power. The project is considered the largest single roof top solar panel project in the country.
- Total estimated project cost was USD 3 Mn.
- Refer - Natural Capital - Page 71 for further details.

Investment in new technology, machine upgrades

- Invested USD 1.5 Mn in additions to plant and machinery during the year.
- We are conscious of our environmental footprint and consider impact to the environment has a critical selection criterion.

| How we add value | |
|---|---|
|  | Comprehensive manufacturing solutions. Wide product portfolio <ul style="list-style-type: none"> • Cotton: Synthetic- 48:52 • Current capacity - 800MT |
|  | Guaranteed quality <ul style="list-style-type: none"> • Buyer accredited labs • <2% rejection ratio |
|  | On time delivery. Shorter lead times <ul style="list-style-type: none"> • Colour accuracy – 100% • Fast React Production tool (SAP/ERP) |
|  | Flexibility. Customization. Sampling <ul style="list-style-type: none"> • Shortest lead time of 3 days • 20 kg sample dyeing machines/ 1 kg baby dyeing machines |
|  | Eco friendly manufacture <ul style="list-style-type: none"> • 11 low liquor dyeing machine • Effective effluent treatment plant |



THE CAPITALS REPORT

MANUFACTURED CAPITAL



All inhouse labs are accredited by top apparel brands



Printing section includes latest CAD system from AVA CAD/CAM and latest 12-colour rotary printing machines



SAP- ERP system supported by 'Fast React' planning tool and 'File Maker', seamlessly integrates all operation



Artificial Intelligence (AI) is used to minimize inventory and better forecast raw material requirements



State-of-the-art innovation center has produced over 350 concepts under the Inno brand



Modern effluent treatment plant ZDHC compliant since 2017



250+ knitting machines



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



Largest roof top solar power project

Way Forward

- Complete factory expansions at Wagawatte and Narthupana.
- Drive investments in advanced machinery to enhance production capabilities and capacities, particularly in more specialized fabrics that cater to Tier-1 customers.



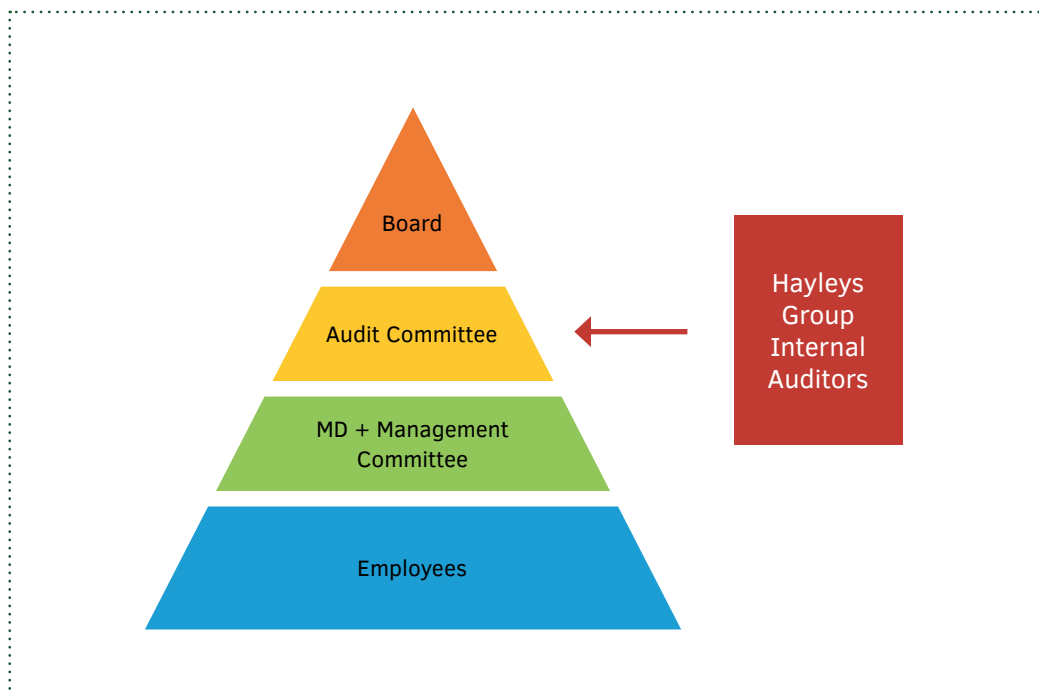
RISK GOVERNANCE

To continue operating as a sustainable business, we believe we must anticipate and adapt to the evolving environment. Managing the associated risks rigorously and systematically is key for us to create and protect value, for all our stakeholders.

Growing complexity and uncertainty arising out of the pandemic has increased the associated risks and the difficulties in risk identification and management. Hayleys Fabric PLC's effective risk management process has enabled the Board to gain access to required insights for strategic and informed decision-making. The Company understands the risks associated with the business and manages them proactively and effectively, in driving strategy.

Risk Governance

- Managing risk is a key aspect of the Board's stewardship obligations. The Board is assisted in the discharge of duties by the Audit Committee. The Hayleys Group Internal Audit Division supports the Audit Committee in performing its assurance role through regular reviews and recommendations on the robustness of the internal control systems in place.
- Responsibility for effective execution of risk management lies with the Management Team lead by the Managing Director. They play a key role identifying, monitoring, and managing risk.
- Risk identification is the responsibility of all employees who form the first line of defence.



RISK MANAGEMENT

| Risk factor | Potential impact | Mitigating actions | Link to strategy | | | | | | |
|---|------------------|--------------------|------------------|--------|------------|---|--|---|---|
| <p>1. Economic fallout from the pandemic in Sri Lanka</p> <table border="1"> <tr> <td>Impact</td> <td>High</td> </tr> <tr> <td>Likelihood</td> <td>High</td> </tr> <tr> <td>Assessment</td> <td>■</td> </tr> </table> | Impact | High | Likelihood | High | Assessment | ■ | Impacts business sentiment | <ul style="list-style-type: none"> Forecast economic recovery following successful inoculation in the country supported by Government policy in restoring economic activity However, the country's heavy debt burden may limit policy options while renewed waves and new variants of the virus may prolong economic recovery Moratoria and other relief measures for industries impacted by the pandemic | Financial Capital Page 54 |
| Impact | High | | | | | | | | |
| Likelihood | High | | | | | | | | |
| Assessment | ■ | | | | | | | | |
| <p>2. Economic fallout from the pandemic in key Export markets</p> <table border="1"> <tr> <td>Impact</td> <td>High</td> </tr> <tr> <td>Likelihood</td> <td>High</td> </tr> <tr> <td>Assessment</td> <td>■</td> </tr> </table> | Impact | High | Likelihood | High | Assessment | ■ | <ul style="list-style-type: none"> Frugal consumer mindset Discretionary spending on apparel | <ul style="list-style-type: none"> Shift in focus to apparel categories that are relevant and reflect growth trends ie athleisure Production of innovative performance-boosting fabrics that are top end of the category, securing higher prices and better margins Supplying global brand owners that work across markets including growth markets such as Asia Pacific Investment in analytical and forecasting software technology to understand fashion trends better and develop fabrics that appeal to consumers. | Social and Relationship Capital Page 59 |
| Impact | High | | | | | | | | |
| Likelihood | High | | | | | | | | |
| Assessment | ■ | | | | | | | | |
| <p>3. Inability to maintain high levels of client servicing and loss of customer satisfaction</p> <table border="1"> <tr> <td>Impact</td> <td>High</td> </tr> <tr> <td>Likelihood</td> <td>Low</td> </tr> <tr> <td>Assessment</td> <td>■</td> </tr> </table> | Impact | High | Likelihood | Low | Assessment | ■ | <ul style="list-style-type: none"> Loss of business volumes Loss of confidence in the Company Negative impact to reputation in industry | <ul style="list-style-type: none"> System integration with key customers to enhance ease of doing business Customer centric, structured relationship management strategy Regular customer audits and feedback Stringent monitoring of KPIs by management i.e. RFT, lead time, quality rejects etc to ensure requirements are met | Social and Relationship Capital Page 59 |
| Impact | High | | | | | | | | |
| Likelihood | Low | | | | | | | | |
| Assessment | ■ | | | | | | | | |
| <p>4. Disruption to Supply Chain</p> <table border="1"> <tr> <td>Impact</td> <td>High</td> </tr> <tr> <td>Likelihood</td> <td>Medium</td> </tr> <tr> <td>Assessment</td> <td>■</td> </tr> </table> | Impact | High | Likelihood | Medium | Assessment | ■ | Lockdowns, border closures or factory shutdowns due to new variants, waves of pandemic etc could cause interruptions to supply chain affecting continuity of operations | <ul style="list-style-type: none"> Diversifying suppliers to limit exposure to a single party, country Supplier assessment against predetermined criteria prior to recruitment Regular engagement with and development of strategic partnerships with suppliers to secure preferential access Periodic supplier audits Effective material planning | Social and Relationship Capital Page 59 |
| Impact | High | | | | | | | | |
| Likelihood | Medium | | | | | | | | |
| Assessment | ■ | | | | | | | | |
| <p>5. Employee Health and Safety</p> <table border="1"> <tr> <td>Impact</td> <td>Medium</td> </tr> <tr> <td>Likelihood</td> <td>Low</td> </tr> <tr> <td>Assessment</td> <td>■</td> </tr> </table> | Impact | Medium | Likelihood | Low | Assessment | ■ | Risk of spread of COVID-19 in the factory could interrupt business operations | <ul style="list-style-type: none"> Implementation of stringent Covid -19 health and safety guidelines across the organisation, exceeding regulatory requirements Establishment of protocols as per the Business Continuity Plans (BCP) on action to be taken in the event of an active case Establishment of worker management health and safety committee to ensure their views are understood and addressed Good industrial relations with trade unions | Human Capital Page 65 |
| Impact | Medium | | | | | | | | |
| Likelihood | Low | | | | | | | | |
| Assessment | ■ | | | | | | | | |

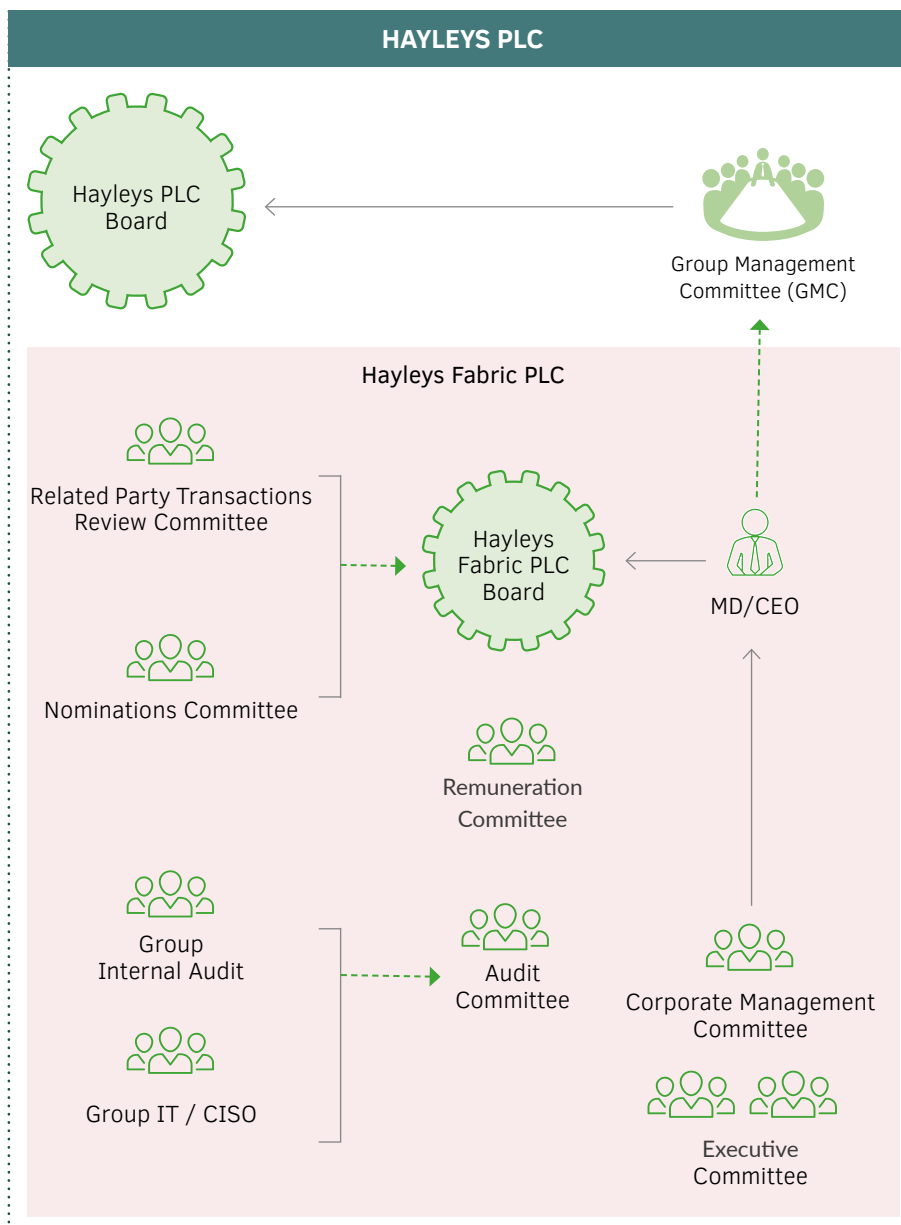


| Risk factor | Potential impact | Mitigating actions | Link to strategy | | | | | | |
|---|------------------|--------------------|------------------|--------|------------|---|--|---|--|
| <p>6. Technology and Data Risks</p> <p>From the failure of its cyber security and information technology systems. All significant processes are supported by one or many internet driven services and cloud services.</p> <table border="1"> <tr> <td>Impact</td> <td>Medium</td> </tr> <tr> <td>Likelihood</td> <td>Low</td> </tr> <tr> <td>Assessment</td> <td>■</td> </tr> </table> | Impact | Medium | Likelihood | Low | Assessment | ■ | <p>Risk of financial loss and disruption to business from</p> <ul style="list-style-type: none"> • Loss of data • Interruption to operational systems • Breach of data, protection laws | <ul style="list-style-type: none"> • Well-defined cyber security incident response process in place • Training employees and creating awareness on the importance of maintaining information security and handling of sensitive information • Implementation and regular testing and verification of network protection technology • Alternate internet connections, mobile hotspots and dongles BCPs in place • Disaster Recovery (DR) system installation is in progress | Manufactured Capital Page 78 |
| Impact | Medium | | | | | | | | |
| Likelihood | Low | | | | | | | | |
| Assessment | ■ | | | | | | | | |
| <p>7. Innovation and product development capabilities</p> <p>Our ability to innovate to appeal to emerging consumer trends is key to growth and profitability.</p> <table border="1"> <tr> <td>Impact</td> <td>High</td> </tr> <tr> <td>Likelihood</td> <td>Medium</td> </tr> <tr> <td>Assessment</td> <td>■</td> </tr> </table> | Impact | High | Likelihood | Medium | Assessment | ■ | <p>Loss of appeal from buyers will impact business volumes and profitability</p> | <ul style="list-style-type: none"> • Investment in analytical and forecasting software technology to understand fashion trends better • Continued investment in “Inno” Design Centre with state-of-the-art equipment • Ability to attract and retain highly qualified and experienced talent to operate the Design Centre | Intellectual Capital Page 76 |
| Impact | High | | | | | | | | |
| Likelihood | Medium | | | | | | | | |
| Assessment | ■ | | | | | | | | |
| <p>8. Sustainable Production</p> <p>Maintaining high standards of environmental sustainability and social ethics.</p> <table border="1"> <tr> <td>Impact</td> <td>Medium</td> </tr> <tr> <td>Likelihood</td> <td>Low</td> </tr> <tr> <td>Assessment</td> <td>■</td> </tr> </table> | Impact | Medium | Likelihood | Low | Assessment | ■ | <p>Loss of buyer confidence will impact business volumes and profitability</p> | <ul style="list-style-type: none"> • Persistent monitoring of environmental performance and related parameters • Compliance with regulatory and certification requirements • Investment in clean technology • Supplier screening for financial, social and environmental criteria | Intellectual Capital Page 76/ Natural Capital Page 71 |
| Impact | Medium | | | | | | | | |
| Likelihood | Low | | | | | | | | |
| Assessment | ■ | | | | | | | | |
| <p>9. Cost Efficiency</p> <table border="1"> <tr> <td>Impact</td> <td>Medium</td> </tr> <tr> <td>Likelihood</td> <td>Medium</td> </tr> <tr> <td>Assessment</td> <td>■</td> </tr> </table> | Impact | Medium | Likelihood | Medium | Assessment | ■ | <p>Increase in the country's productions costs squeezes margins</p> | <ul style="list-style-type: none"> • Process improvements • Lean processes • Sourcing strategies • Sufficient margin from premium priced synthetic product portfolio to absorb a price increase | Finance Capital Page 54 |
| Impact | Medium | | | | | | | | |
| Likelihood | Medium | | | | | | | | |
| Assessment | ■ | | | | | | | | |
| <p>10. Rebounding of commodity prices</p> <table border="1"> <tr> <td>Impact</td> <td>Medium</td> </tr> <tr> <td>Likelihood</td> <td>High</td> </tr> <tr> <td>Assessment</td> <td>■</td> </tr> </table> | Impact | Medium | Likelihood | High | Assessment | ■ | <p>Increase in the input costs squeezes margins</p> | <ul style="list-style-type: none"> • Effective material planning • Broad-basing supplier base • Niche market player with strategic partnerships. Has ability to negotiate prices | Social and Relationship Capital Page 59 |
| Impact | Medium | | | | | | | | |
| Likelihood | High | | | | | | | | |
| Assessment | ■ | | | | | | | | |

CORPORATE GOVERNANCE

1 Corporate Governance

Hayleys Fabric PLC is committed to the highest standards of governance, integrity and professionalism. The Company believes good governance is fundamental to growth and strengthens the trust and confidence of stakeholders. The Board leads by example, setting the tone from the top.



GOVERNANCE HIGHLIGHTS 2021

Continue to regularly review the impact and risks to the Company arising from the COVID-19 pandemic.

Approved capital investment of USD 3.75 Mn including USD 3 Mn solar power project.

Approved the purchase of 98.84% stake in South Asia Textiles Ltd for Rs. 3.95 Bn in April 2021, in support of the company's capacity expansion strategy.

Appointment of Mr.K.P.C.P.K. Pathirana, as an Executive Director, w.e.f August 10, 2020

Retirement by Rotation of Mr. R. N. Somaratne and Mr. I. B. R. R. Bandara the Directors at the Annual General Meeting to be held on 28th June 2021. They have offered themselves for re-election.

Re-appointment of Mr. A. M. Pandithage and Mr. A. S. Jayatilleka who retire, having attained the age of seventy years in compliance with Section 211 of the Companies Act No. 07 of 2007.

COMPLIANCE SUMMARY

| Regulation / Code | Adoption | Adherence | Page Reference |
|--|-----------|-----------------|----------------|
| The Companies Act No.7 of 2007 and regulations | Mandatory | Fully Compliant | 116 - 117 |
| Listing Rules of the Colombo Stock Exchange (CSE) | Mandatory | Fully Compliant | 96 - 97 |
| Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987, including directives and circulars | Mandatory | Fully Compliant | 118 - 121 |
| Code of Best Practice on Corporate Governance (2017) issued by Institute of Chartered Accountants of Sri Lanka | Voluntary | Fully Compliant | 98 - 101 |



1.1 Our Approach to Governance

As the custodians of Corporate Governance, the Board has established world-class governance practices and robust frameworks that underpin the business. These are aligned to our core values and drive a culture of enhanced accountability, strong risk and performance management, transparency and effective and ethical leadership. We regularly review the practices, to adapt to the evolving internal and external business environments and international best practice, ensuring we act in the best interests of Hayleys Fabric PLC and stakeholders. The Board is satisfied that the Company is well positioned to successfully drive performance and growth in an increasingly volatile and competitive business landscape.

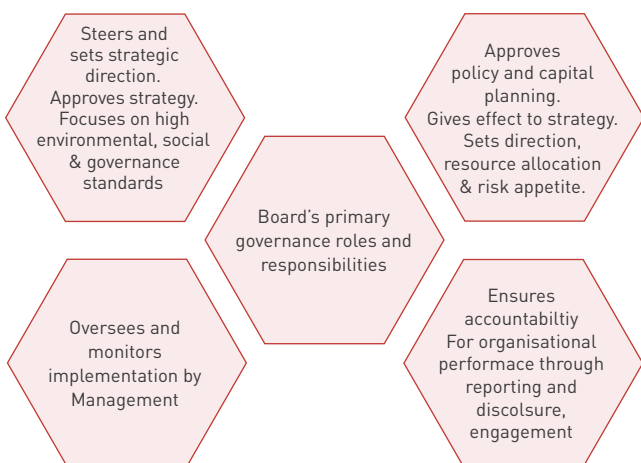
1.2 Delivering Stakeholder Value

Hayleys Fabric PLC is committed to understanding and being responsive to the interests and expectations of all stakeholders in delivering shared value. The Board follows an integrated approach, incorporating Environmental, Social and Governance (ESG) factors into strategy formulation and ensuring the organization's growth is responsible and sustainable. Feedback from stakeholder engagement mechanisms forms a key input in strategy formulation.

1.3 Governance Framework

The Board is responsible to set in place a robust Governance Framework that is fit for purpose. In building an agile organization, the Board has set in place a governance framework that is underpinned by robust structures and adequate, effective and appropriate systems and controls to provide clear direction for quick and responsive decision-making and to promote responsible behaviour. The Governance Framework supports achievement of Hayleys Fabric PLC's strategic objectives in accordance with sound corporate governance principles while safeguarding its reputation, values and assets.

1.4 Governance Structure



The Hayleys Fabric PLC Board provides direction and leadership and assumes collective responsibility for the overall governance, performance, strategy and affairs of the Company.

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 PLC, the Hayleys Fabric PLC Board is assisted by the Nominations Committee, Related Party Transactions Review Committee and Finance & Investment Committee of Hayleys PLC as well as Group Internal Audit, Group IT/CISO, Corporate Secretarial, Group Legal, Strategic Business Development Unit (SBDU) in the discharge of responsibilities. The MD/CEO is a member of the Hayleys

Group Management Committee (GMC) and is responsible to the Hayleys Board for delivering agreed strategic goals for his business sector. He leads the corporate management team in the design and implementation of the Company's strategic plan. Regular reporting on key matters enables effective oversight by the Hayleys Group.

Key Management Personnels (KMPs) are competent and have the requisite skills, knowledge and experience to carry out their duties. Strategically aligned Key Performance Indicators (KPIs) drive performance and the achievement of objectives.

NAVIGATING THE REPORT

This report has been structured as follows, highlighting the ethical and effective governance practices adopted by Hayleys Fabric PLC.

1. Our Approach to Governance
2. Delivering Stakeholder Value
3. Governance Framework
4. Governance Structure
5. An Effective Board
6. Responsible and Fair Remuneration
7. Gender Parity
8. Board Accountability
9. Relations with Shareholders

Details of Compliance with respective statues and codes as described in the Compliance Summary on page 96 tabled at the end of the report.

Committee composition and roles are summarized on page 88.

CORPORATE GOVERNANCE

1.5 An Effective Board

The Board of Directors continues to provide ethical and effective leadership, to safeguard stakeholder value creation within a framework of robust and effective controls.

In discharging its fiduciary and statutory duties, the Board remains guided by the Company's values, and a strong commitment to purpose.

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

INDEPENDENCE

Non-Executive Directors

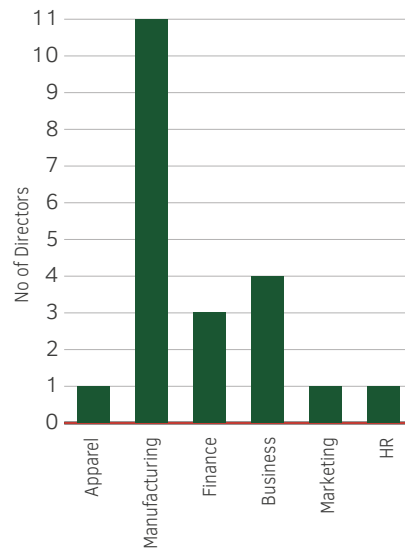
6/11

Senior Independent Non-Executive Director

1/11

Experienced Board with an appropriate balance of knowledge and skills in areas relevant to the Company.

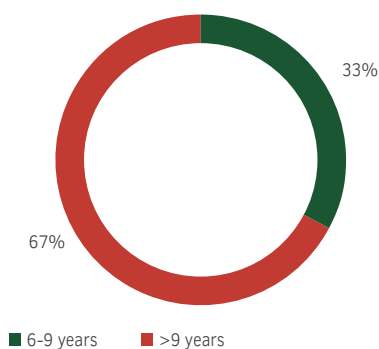
Board Expertise



Sound balance between continuity, new expertise and insights.

Non-Executive Tenure

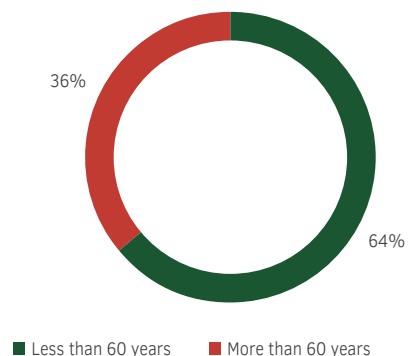
%



Experienced Board with an appropriate balance of knowledge and skills in areas relevant to the Company.

AGE DIVERSITY

%





| BOARD COMPOSITION | |
|--|--|
| Chairman (Executive) | |
| Executive Directors | |
| Senior Independent Non-Executive Director | |
| Independent Non-Executive Directors | |
| Non-Executive Directors | |

The Board comprises 11 members, 4 of whom are independent. Sufficient balance of power minimizes the tendency for one or few members of the Board to dominate the Board processes or decision making. Appointment of Mr Ananda Sunil Jayatilleka in 2019 as Senior Independent Non-Executive Director in line with good governance practices, strengthens the independence of the Board further.

The collective background of the Board of Directors provides a balanced mix of skills, experience and tenures to enable the Board to objectively and effectively fulfill its governance roles and responsibilities. Non-Executive Directors are eminent professionals in their respective fields, who bring varied perspectives to Board deliberations and constructively challenge management. The Board, through the Board Nomination Committee reviews the composition on an ongoing basis.

Three directors including the Chairman of the Audit Committee, are finance professionals ensuring sufficient financial acumen within the Board.

1.5.2 Board Refreshment

Board refreshment allows for the introduction of members with new skills, insights and perspectives, while retaining valuable industry knowledge and maintaining continuity. The Board is refreshed periodically through new appointments, retirement, resignation, and Re-election /Re-appointment of Directors.

| | | |
|---|---|---|
| <p style="text-align: center;">Appointment</p> <ul style="list-style-type: none"> Mr.K.P.C.P.K. Pathirana, Head of Human Resource and Administration was appointed an Executive Director w.e.f 10th August, 2020 | <p style="text-align: center;">Re-election /Re-appointment</p> <ul style="list-style-type: none"> Retirement by Rotation of Mr. R. N. Somaratne and Mr. I. B. R. R. Bandara the Directors at the Annual General Meeting to be held on 28th June 2021. They have offered themselves for re-election. Re-appointment of Mr. A. M. Pandithage and Mr. A. S. Jayatilleka, who retire, having attained the age of seventy years in compliance with Section 211 of the Companies Act No. 07 of 2007. | |
| <p style="text-align: center;">Appointment</p> <ul style="list-style-type: none"> 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. Appointments are communicated to the CSE and shareholders through disclosures and include a brief resume of the Director. | <p style="text-align: center;">Re-election/Re-appointment</p> <ul style="list-style-type: none"> In compliance with the Companies Act, 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, 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 AGM. | <p style="text-align: center;">Retirement/ Resignation & Director Tenure</p> <ul style="list-style-type: none"> Resignations or removal, if any, of Directors and the reasons are promptly informed to the CSE. |

CORPORATE GOVERNANCE

1.5.3 Board Sub-Committees

| Board Committee | Areas of Oversight | Composition | Further Information |
|---|--|---|---|
| Audit Committee | <ul style="list-style-type: none"> Financial Reporting Internal Controls Internal Audit External Audit | Comprises three 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"> Appointment of Key Management Personnel/ Directors Succession planning Effectiveness of the Board and its Committees | <p>Hayleys PLC's (Parent Company) Nominations Committee assists the Company.</p> <p>Comprises Chairman, one Independent Non-Executive Director and one Non-Executive Director of Hayleys PLC</p> | |
| Remuneration Committee | <ul style="list-style-type: none"> Remuneration Policy for Key Management Personnel Goals and targets for Key Management Personnel Performance evaluation | Comprises two Independent Non-Executive Directors including the Chairman of the Committee | Report of the Remuneration Committee on page 112 |
| Related Party Transactions Review Committee | Review of related party transactions | <p>Hayleys PLC's (Parent Company) Related Party Transactions Review Committee assists Hayleys Fabric PLC</p> <p>Comprises two Independent Non-Executive Directors and one Executive Director of Hayleys PLC</p> | Report of the Related Party Transactions Review Committee on page 113 |

1.5.4 Meetings and Minutes

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



Board Meeting Planning

Meeting agendas and papers are made available to the Directors generally seven days before the meeting. This allows members sufficient time to review the papers, make their observations and be prepared for the forthcoming meeting.



Chairman sets the Board agenda, assisted by the Company Secretary and MD/CEO.



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

Board Minutes

- All Board minutes are circulated to members of the Board meeting being held, and 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 via electronic means

Resolutions by Circulation

- 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 not by circulation, the Chairman shall put the resolution to be decided in a meeting.

Provision of Information

- In the effective discharge of duties, Directors are provided accurate, relevant and timely information on which they base their decisions.
- Executive Directors and the Key Management Personnel (KMP) attend Board meetings, increasing contact between the Board and management. Management is open and transparent with the Board and brings to attention any matters of concern in a timely manner.

ATTENDANCE AT MEETINGS

| Directors | Date of Appointment | | | |
|--|---------------------|-------|-------|--------------|
| | | Board | Audit | Remuneration |
| A.M. Pandithage (Chairman – EXE D) | July 1, 2007 | 4/4 | - | - |
| E.R.P.Goonetilleke (MD/CEO- EXE D) | March 1, 2013 | 4/4 | - | - |
| K.D.D.Perera * (NED) | September 24, 2009 | - | - | - |
| S.C. Ganegoda (NED) | November 1, 2009 | 4/4 | - | - |
| H. Somashantha (INED) | February 2, 2012 | 4/4 | 4/4 | - |
| R.N. Somaratne (INED) | February 2, 2012 | 4/4 | - | - |
| Dr. S.J. Nawaratne (INED) | April 25, 2014 | 4/4 | 4/4 | - |
| A.S. Jayatilleke (SID) | March 30, 2015 | 4/4 | 4/4 | - |
| R.R. Bandara (EXE D) | May 15, 2018 | 4/4 | - | - |
| M.H. Jayasinghe (EXE D) | April 1, 2019 | 4/4 | - | - |
| K.P.C.P.K Pathirana (Appointed wef 10.08.2020) (EXE D) | August 10, 2020 | 4/4 | - | - |
| *Ms. Y. Bhaskaran (Alternate Director to Mr. K.D.D. Perera)- (NED) | June 1, 2015 | 4/4 | - | - |
| Total No. of meetings | | 4 | 4 | - |

EXE D – Executive Director

NED- Non-Executive Director

INED – Independent NED

SID- Senior Independent Director

CORPORATE GOVERNANCE

1.5.5 Balance of Power

Arrangements for delegation to Board sub-committees and a clear division of roles and responsibilities ensures that none of the Directors have unfettered powers in the Board decision-making process. Key roles of Chairman and MD/CEO are separate strengthening the Board's effectiveness and ensuring objective decision making in the discharge of duties.

The Chairman of Hayleys PLC (Parent company) serves as Chairman of Hayleys Fabric PLC.

| Chairman's | MD/CEO |
|--|--|
| Role | Role |
| Leads the Board, preserving good corporate governance and ensuring that the Board works ethically and effectively. | Is accountable for implementation of Hayleys Fabric PLC's strategic plan and driving performance. |
| Responsibilities | Responsibilities |
| <ul style="list-style-type: none"> Setting the ethical tone for the Board and Company; Setting the Board's annual work plan and the agendas, in consultation with the Company secretary and the MD/CEO; Building and maintaining stakeholder trust and confidence; Ensuring effective participation of all Board members during Board meetings. 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). Monitoring the effectiveness of the Board. | <p>Appointing and ensuring proper succession planning of the corporate management team, and assessing their performance;</p> <ul style="list-style-type: none"> Developing the Company's strategy for consideration and approval by the Board; Developing and recommending to the Board budgets supporting the Company's long-term strategy. Monitoring and reporting to the Board on the performance of the Company and its compliance with applicable laws and Corporate Governance principles. Establishing an organizational structure for the Company which is appropriate for the execution of strategy; Ensuring a culture that is based on the Company's values; Ensuring that the Company operates within the approved risk appetite. |

1.5.6 Company Secretary

The office of the Company Secretary is integral to the effective functioning of the Board. Secretarial services to the Board are provided by Hayleys Group Services (Pvt) Ltd. The Company Secretary guides the Board on discharging its duties and responsibilities, promoting best practices in Corporate Governance. Responsibilities include;

- Ensuring the conduct of Board and General Meetings in accordance with the Articles of Association and relevant legislation.
- Maintaining statutory registers and the minutes of Board Meetings.
- Prompt communication to regulators and shareholders.
- Filing statutory returns and facilitating access to legal advice in consultation with the Board, where necessary.

All Directors have access to the advice and services of this group function as necessary. Appointment and removal of the Company Secretary is a matter for the Board.



1.5.7 Directors' Independence

Directors are experienced leaders in their respective fields and exercise independent judgement, promoting constructive Board deliberations and objective evaluation of matters set before them.

| DEFINITION | ASSESSMENT | OUTCOME |
|---|--|--|
| <ul style="list-style-type: none"> Independence is determined against criteria as set out in the Listing Rules of the Colombo Stock Exchange and in compliance with Schedule K of the Code | <ul style="list-style-type: none"> Independent assessment of Directors is conducted annually by the Board, based on annual declaration and other information submitted by Non-Executive Directors | <ul style="list-style-type: none"> The Board is satisfied there are no relationships or circumstances likely to affect or appear to affect, Directors' judgement during the period under review 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, a subsidiary of the Parent Company considering his experience and knowledge particularly in the manufacturing field Messrs H Somashantha and R N Somaratne served as Independent Non-executive Director for more than 9 years. The Board is of the opinion that the above Directors conduct themselves impartial and independent manner on matters deliberated by the Board and that independence will not be affected by being on the Board for more than 9 years. |

1.5.8 Directors Interests and Related Party Transactions

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. Directors have no direct or indirect interest in a contract or a proposed contract with the Company other than those disclosed on Note 26 to the Financial Statements on Page 157.

The Hayleys Group 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, ensuring transactions are fair and in the best interest of the Company. Related party transactions are disclosed in Note 26 to the Financial Statements on page 157.

1.5.9 Conflict of Interest

A Director or KMP is prohibited from using his or her position, or confidential or price-sensitive information, for personal benefit or benefit of any third party, whether financially or otherwise. Directors notify the Board promptly of any conflicts of interest they may have in relation to particular items of business or other Directorships. Directors do not participate in and excuse themselves from the Meeting when the Board considers matters in which a conflict may arise.

1.5.10 Informed Decision Making

Good decision-making requires possessing the right knowledge. Hayleys Fabric PLC's reporting and information systems ensures the Board receives relevant and objective information, in a timely manner.

1.5.10.1 Supply of Information

The Board pack, generally circulated seven (7) days in advance of a Board Meeting, provides comprehensive qualitative and quantitative information on matters to be raised at the Board Meeting. This includes reports on the Company's performance against strategic value drivers and reports on key focus areas such as sales order book, capacity utilisation, working capital management, risk assessment and impact of Covid 19 on Company's operations. Further, Corporate Management and external experts make regular presentations regarding the business environment, strategy and operations of the Company and ensure that the Board is apprised of developments impacting the Company.

1.5.10.2 Access to Information

Directors have unrestricted access to management, organisation information, and resources to facilitate discharge of their duties. Directors are entitled to seek independent professional advice, co-ordinated through the Company Secretary, at the Company's expense. Copies of such advice obtained are circulated to Directors who request for it.

CORPORATE GOVERNANCE

1.5.10.3 Knowledge Development

On appointment, Directors are provided with an orientation pack with all relevant external and internal regulation documents and a tour of the factory premises. Directors are kept abreast of applicable legislation and regulation, relevant sector developments and changes in the risk and general business environment on an on- going basis. Directors undertake training and professional development as they

consider necessary, which requirements are coordinated through the Company Secretary. They are Members of the Sri Lanka Institute of Directors and attend sessions from time to time. Directors also undertake other Continuous Professional Development (CPD) programmes in their personal capacity to update their knowledge on relevant and emerging topics.

1.5.11 Corporate Management



The MD/CEO is accountable for the implementation of strategy and performance and is supported by the Corporate Management Team.

Lead by the MD/CEO, Corporate Management develops and implements corporate strategy and is responsible for the daily management of the Company. All functional departments are headed by competent individuals and are adequately resourced. Management is open and transparent with the Board and escalates concerns to its attention in the appropriate forums and in a timely manner.

These committees include the HR, Finance, Planning and Production, Compliance, Environmental, Health and Safety, and Sustainability which are responsible for delivering strategic goals. The Committees meet monthly and make portfolio decisions including risk management and allocation of capital, technical and human resources in managing the business. These cross functional teams are managed through delegation and reporting obligations and are key in enhancing employee engagement and empowerment.

1.5.11.1 Appraisal of 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.

1.6 Responsible and Fair Remuneration

The Board strives to ensure that remuneration is fair, responsible and transparent.

1.6.1 Remuneration Policy

Remuneration of KMP and Executive Directors is linked to sustainable value creation objectives in line with the Company's strategy and is based on clear performance targets that have adequate stretch and benchmarked to local market rates.

The Remuneration Committee (RC) consisting of 2 NED's is responsible for making recommendations to the Board regarding the remuneration of the Executive Directors. Please refer page 112 for the Report of the Remuneration Committee and Terms of Reference.

The Board as a whole determines the remuneration of the NED's 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. They do not receive any performance related / incentive payments. Services of HR professionals are sought when required, by the Board and Remuneration Committee in discharging their responsibilities.



1.6.2 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 155 for the total Directors' remuneration.

1.7 Gender Parity

| | Female Representation |
|------------|-----------------------|
| Board | Nil |
| Management | 7% |
| Workforce | 9% |

The Board appreciates the positive impact on productivity and competitiveness in engaging a gender diverse workforce. However, given the manual nature of work involved, the workforce is largely male. The organization strives to redress the gender balance by increasing the number of females recruited to administrative and operational departments. Hayleys Fabric PLC has in place policies that ensure equal opportunity and a safe workplace for all employees, as disclosed on page 68, HR Capital that support female employees to fulfill their career aspirations.

1.8 Board Accountability

1.8.1 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.

1.8.2 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 Board increased the rigor of oversight functions in managing risks as the environment continued to be uncertain and challenging. 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. The Board is satisfied with the integrity of financial information and the soundness of the internal controls and systems of the Company.

1.8.3 Accountability and 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 Review pages 20 to 23
- Managing Director's Review pages 24 to 29
- Management Discussion & Analysis on pages 42 to 80
- Managing Risk on pages 82 to 83

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 pages 116 to 121 (including the declaration that the Company is a going concern)
- The Statement of Directors' Responsibility on page 124
- Report of the Auditors on page 126

1.8.4 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.

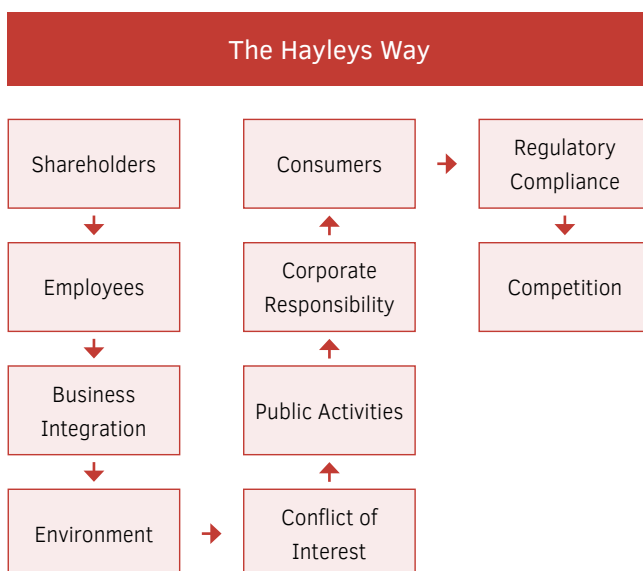
CORPORATE GOVERNANCE

In 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.

2. The Auditors, Messrs Ernst & Young (Chartered Accountants) who are deemed to have been re-appointed as Auditors for the year 2021/22 submit a statement annually confirming their independence.

1.8.5 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 and Directors, and is reinforced at all levels through structured communication. The Code fosters an ethical culture and promotes compliance with relevant laws and legislation, an imperative to retaining the trust of stakeholders. The Board is not aware of any material violations of any of the provisions of the Code by any Director or employee of the Hayleys Fabric PLC.



1.8.6 Whistle Blowing /Grievance Mechanism

Mechanisms are in place for employees and other stakeholders to seek advice or report concerns about unethical or unlawful behaviour. Hayleys Fabric PLC’s Whistle-blower policy enables anonymous reporting of matters of concern regarding possible inappropriate financial reporting, internal controls or other issues that may require internal investigation. 3. Independent Non-Executive Directors was appointed by the Board to handle whistle blowing matters. Information on accessibility, anonymity, processes and the policy relating to the whistle-blowing service is communicated to all employees.

1.8.7 Innovation Governance

Hayleys Fabric PLC’s ability to continually innovate is critical to remaining relevant to the changing needs of customers. The Board and Management are aware of their role in innovation governance and to this end, encourages the creativity and flexibility that promotes innovative thinking, while managing risk within the agreed appetite.

1.8.8 Information Technology and Cyber Security Governance

The Board recognises of the benefits of agility, scalability, and innovation that digital platforms provide and ensures implementation of an effective and properly resourced technology strategy that delivers exceptional client and employee experiences. The Board is equally committed to safeguarding the Company’s information assets and operational systems and invests extensively in cyber risk management systems.

Hayleys Group IT Department is responsible for implementing the Groups digital strategy including adopting IT policies and safeguarding against cyber threats. The Group Head of IT functions as the CISO. Coverage and scope of related Group policies and guidelines are given below.

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 Company’s annual statutory audit of Financial Statements.



| Group IT Policy | DEFINITION | DEFINITION | DEFINITION |
|--|---|--|--|
| <ul style="list-style-type: none"> Group connectivity Access requirements/ Resource utilisation Individual sector networks/system management Backup & recovery/ software modification IT equipment & software & third party involvement IT assets & media disposal and procurement Responsibility for adherence | <ul style="list-style-type: none"> Protection of information from unauthorised access Confirmation of information Confidentiality, availability and integrity of information Regulatory requirements Business continuity plans Information security training Reporting breaches of information security IT Policy embedded in to employee induction programme | <ul style="list-style-type: none"> Acceptable IT use Password protection standards Email usage Internet usage Monitoring Enforcement | <ul style="list-style-type: none"> Guidelines for web hosting Guidelines for secure web development Enforcement |

1.8.9 Sustainability Governance

The Board places significant emphasis on sustainable development ensuring Hayleys Fabric PLC creates value, both for the organisation and its key stakeholders. The Board satisfies itself that Environmental, Social and Governance (ESG) metrics are incorporated into the

business model and the creation of value as disclosed in the following sections of the Annual Report. Feedback obtained from our stakeholder engagement mechanisms continues to form a key input in strategy formulation. The Annual Report is approved by the Board, prior to publication.

| | | |
|--|---------------------------------|---------|
| Economic Sustainability | Financial Capital | page 54 |
| Environment | Natural Capital | page 71 |
| Labour Practices | Human Capital | page 65 |
| Society | Social and Relationship Capital | page 59 |
| Product Responsibility | Social and Relationship Capital | page 59 |
| Shareholder Identification, Engagement and Effective Communication | Investor Relations | page 44 |

1.9 Relations with Shareholders

The Board is conscious of its responsibility towards shareholders 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.

1.9.1 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 Hayleys Fabric PLC's financial position, performance and prospects combining narrative and visual elements to facilitate readability and comprehension. 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.

CORPORATE GOVERNANCE

Hayleys Fabric PLC posts on its website (www.hayleysfabric.com) and CSE website 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, circular to shareholders etc.

Shareholders also have the opportunity to ask questions, comment or make suggestions to the Board through the Company Secretaries. All significant issues and concerns of Shareholders are referred to the Board with the views of the Management.

1.9.2 Constructive Use of Annual General Meeting (AGM)

The Board ensures that proactive engagement with shareholders is encouraged by the Group, including engagement at Company AGMs. Board Sub-Committee Chairman, Directors and key members of management, are available at the AGM to interact with and respond to questions raised by the shareholders. The External Auditors also attend to address any queries raised.

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 days prior to the AGM allowing for all the Shareholders to review the documentation and 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.

All shareholders are encouraged to exercise their voting rights. The Company has an effective mechanism to record and count all proxy votes lodged for each resolution. 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. The outcome of the vote on each resolution is informed to the CSE, soon after conclusion of the AGM.

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

| Rule No. | Subject | Requirement | Complied | Reference within the Report | Page |
|-----------|----------------------------------|---|----------|-----------------------------|-------|
| 7.10.1(a) | Non-Executive Directors (NED) | At least 2 or 1/3 of the total number of Directors on the Board whichever is higher should be NEDs | Yes | Board Composition | 87 |
| 7.10.2(a) | Independent Directors (ID) | 2 or 1/3 of NEDs, whichever is higher, should be independent | Yes | Board Composition | 87 |
| 7.10.2(b) | Independent Directors (ID) | Each NED should submit a signed and dated declaration of his/her independence or non-independence | Yes | Directors Independence | 91 |
| 7.10.3(a) | Disclosure relating to Directors | The Board shall annually determine the independence or otherwise of the NEDs, and | Yes | Directors Independence | 91 |
| | | Names of each Independent Directors should be disclosed in the Annual Report | Yes | Board Profiles | 32-35 |
| 7.10.3(b) | Disclosure relating to Directors | The basis for the Board's determination of Independent Director, if criteria specified for independence is not met | Yes | Not Applicable. | - |
| 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 | Yes | Board Profiles | 32-35 |



| Rule No. | Subject | Requirement | Complied | Reference within the Report | Page |
|--------------|--|--|----------|-------------------------------------|-------|
| 7.10.3(d) | Disclosure relating to Directors | Provide a brief resume of new Directors appointed to the Board with details specified in 7.10.3(a), (b) and (c) to the CSE | Yes | Board Profiles | 32-35 |
| 7.10.4 (a-h) | Criteria for defining Independence | Requirements for meeting criteria to be an Independent Director | Yes | Directors' Independence | 91 |
| 7.10.5 | Remuneration Committee (RC) | A listed company shall have a Remuneration Committee | Yes | Remuneration Committee Report | 112 |
| 7.10.5(a) | Composition of Remuneration Committee | Remuneration Committee shall comprise of NEDs, a majority of whom will be independent | Yes | Remuneration Committee Report | 112 |
| | | One NED shall be appointed as Chairman of the committee by the Board of Directors | Yes | | |
| 7.10.5.(b) | Functions of Remuneration Committee | The Remuneration Committee shall recommend the remuneration of Executive Directors | Yes | Remuneration Committee Report | 112 |
| 7.10.5.(c) | Disclosure in the Annual Report relating to Remuneration Committee | Names of Directors comprising the Remuneration Committee | Yes | Remuneration Committee Report | 112 |
| | | Statement of Remuneration Policy | Yes | Remuneration Committee Report | 112 |
| | | Aggregated remuneration paid to Executive and Non-Executive Directors Should be included in the Annual Report | Yes | Note 23 to the Financial Statements | 155 |
| 7.10.6 | Audit Committee (AC) | The Company shall have an Audit Committee | Yes | Audit Committee Report | 110 |
| 7.10.6(a) | Composition of Audit Committee | Shall comprise of Non-Executive Directors, a majority of whom are Independent | Yes | Audit Committee Report | 110 |
| | | Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings | Yes | Audit Committee Report | 110 |
| | | The Chairman of the Audit Committee or one member should be a member of a professional accounting body | Yes | Audit Committee Report | 110 |

CORPORATE GOVERNANCE

| Rule No. | Subject | Requirement | Complied | Reference within the Report | Page |
|-----------|---|--|----------|---|------|
| 7.10.6(b) | Audit Committee Functions | Should be as outlined in the Section 7.10 of the Listing Rules | Yes | Audit Committee Report | 110 |
| 7.10.6(c) | Disclosure in Annual Report relating to Audit Committee | a). Names of the Directors comprising the Audit Committee | Yes | Audit Committee Report | 110 |
| | | b). The Audit Committee shall decide of the independence of the Auditors and disclose the basis for such determination | Yes | Audit Committee Report | 110 |
| | | c). The Annual Report shall contain a Report off the Audit Committee in the prescribed manner | Yes | Audit Committee Report | 110 |
| 9.2.1 | Related Party Transactions Review Committee | All related party transactions should be reviewed by the Committee | Yes | Report of the Related Party Transactions Review Committee | 113 |
| 9.2.2 | Related Party Transactions Review Committee | Composition | Yes | Report of the Related Party Transactions Review Committee | 113 |
| 9.2.3 | Related Party Transactions Review Committee | Parent Company's Committee | Yes | Report of the Related Party Transactions Review Committee | 113 |
| 9.2.4 | Related Party Transactions Review Committee | Committee Meetings | Yes | Report of the Related Party Transactions Review Committee | 113 |
| 9.3.1 | Related Party Transactions Review Committee | Immediate disclosure (if any) | Yes | Report of the Related Party Transactions Review Committee | 113 |
| 9.3.2 | Related Party Transactions Review Committee | a). Details pertaining to Non-Recurrent Related Party Transactions | Yes | Note 26 to the Financial Statements | 157 |
| | | b). Details pertaining to Recurrent Related Party Transactions | Yes | Note 26 to the Financial Statements | 157 |
| | | c). Report of the Related Party Transactions Review Committee | Yes | Report of the Related Party Transactions Review Committee | 113 |
| | | 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 | Yes | Annual Report of the Board of Directors | 116 |



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

As requirements of the Code have been discussed in the Corporate Governance Report, we have provided the relevant references to the report.

| Code Ref. | Requirement | Complied | Reference within the Report | Page |
|---------------|--|----------|--|------|
| A | Directors | | | |
| A.1 | An effective Board should direct, lead and control the Company | Yes | Board Profiles | 32 |
| A.1.1 | Regular Board meetings, provide information to the Board on a structured and regular basis | Yes | Meetings and Minutes | 89 |
| A.1.2 | Role and Responsibilities of the Board | Yes | Governance Structure | 86 |
| A.1.3 | Act in accordance with laws of the country | Yes | Compliance | 93 |
| | Independent professional advice | Yes | Informed Decision Making | 91 |
| A.1.4 | Access to advise and services of the Company Secretary | Yes | Company Secretary | 90 |
| A.1.5 | Independent judgement | Yes | Directors' Independence | 91 |
| A.1.6 | Dedicate adequate time and effort to matters of the Board and the Company | Yes | Directors' Interests and Related Party Transactions | 91 |
| A.1.7 | Calls for resolutions by at least 1/3 rd of Directors | Yes | Meetings and Minutes | 89 |
| A.1.8 | Board induction and Training | Yes | Informed Decision Making | 91 |
| A.2 | Chairman and CEO | Yes | Balance of Power | 90 |
| A.3 | Chairman's role in preserving good corporate governance | Yes | Balance of Power | 90 |
| A.4 | Availability of financial acumen | Yes | Board Composition | 87 |
| A.5 | Board balance | Yes | Board Composition | 87 |
| A.5.1 | The Board should include sufficient number of NEDs | Yes | Board Composition | 87 |
| A.5.2 | If the Board includes only 3 NEDs, they should be independent | N/A | | - |
| A.5.3 | Independence of Directors | Yes | Director Independence | 91 |
| A.5.4 | Annual declaration of independence by Directors | Yes | Director Independence | 91 |
| A.5.5 | Annual determination of independence of NEDs | Yes | Director Independence | 91 |
| A.5.6 | Alternate Directors | Yes | Board Profiles | 32 |
| A.5.7 & A.5.8 | Senior Independent Directors | Yes | Board Composition | 87 |
| A.5.9 | Annual meeting with Non-Executive Directors | Yes | Chairman and SID respectively, meet with NEDs informally | 87 |
| A.5.10 | Recording of dissent in minutes | Yes | Meetings and minutes | 89 |
| A.6 | Supply of information | Yes | Informed Decision Making | 91 |



CORPORATE GOVERNANCE

| Code Ref. | Requirement | Complied | Reference within the Report | Page |
|-----------|--|----------|---|------|
| A.7 | Appointments to the Board and Re-election | Yes | Board Refreshment | 87 |
| A.7.1 | Establishing a Nomination Committee, Chairman and Terms of Reference | Yes | Hayleys PLC's Nomination Committee acts on behalf of Hayleys Fabric PLC | |
| A.7.2 | Annual assessment of Board composition | Yes | Board composition is assessed when recommending Directors for Re-election. | 87 |
| A.7.3 | Disclosures on appointment of new Directors | Yes | Board Refreshment | 87 |
| A.8 | Directors to submit themselves for re-election | Yes | Board Refreshment | 87 |
| A.9 | Appraisal of Board and sub-committee performances | No | | - |
| A.10 | Annual Report to disclose specified information regarding Directors | Yes | Board Profiles | 32 |
| | | Yes | Meetings Attendance | 99 |
| | | Yes | Directorships in Other Companies | 32 |
| | | Yes | Membership in Committees | 32 |
| A.11 | Appraisal of the CEO | Yes | Appraisal of MD/CEO | 92 |
| B. | Directors Remuneration | | | |
| B.1 | Establish process for developing policy on Executive and Director Remuneration | Yes | Responsible and Fair Remuneration | 92 |
| B.2 | Level and Make Up of Remuneration | Yes | Responsible and Fair Remuneration | 92 |
| B.3 | Disclosures related to remuneration in Annual Report | Yes | Responsible and Fair Remuneration | 92 |
| | - Remuneration Policy Statement | Yes | Remuneration Committee Report | 112 |
| | - Aggregate Board remuneration paid | Yes | Note 23 to Financial Statements | 155 |
| C | Relations with shareholders | | | |
| C.1. | Constructive use of the AGM and Other General Meetings | Yes | Constructive use of the Annual General Meeting (AGM) | 96 |
| C.2. | Communication with shareholders | Yes | Communication with shareholders | 95 |
| C.3 | Disclosure of major and material transactions | Yes | 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 Company | - |



| Code Ref. | Requirement | Complied | Reference within the Report | Page |
|-----------|---|----------|---|-------|
| D. | Accountability and Audit | | | |
| D. 1 | Present a balanced and understandable assessment of the Company's financial position, performance and prospects | Yes | Communication with Shareholders | 95 |
| D1.1 | Balanced Annual Report | Yes | Communication with Shareholders | 95 |
| D.1.2 | Balanced and understandable communication | Yes | Relations with Shareholders | 95 |
| D.1.3 | Chief Executive Officer/ Chief Financial Officer declaration | Yes | Chief Executive Officer's and Chief Financial Officer's Responsibility Statement | 114 |
| D.1.4 | Directors Report declarations | Yes | Annual Report of the Board of Directors on the Affairs of the Company | 116 |
| D.1.5 | Financial Reporting - Statement on Board Responsibilities | Yes | Directors' Responsibility for Financial Reporting | 124 |
| | Statement on Internal Control | Yes | Directors' Statement on Internal Control | 122 |
| D.1.6 | Management Discussion & Analysis | Yes | Capital Reports | 54-80 |
| D.1.7 | Net Assets < 50% | Yes | 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 | - |
| D.1.8 | Related Party Transactions Report | Yes | Directors' Interest in Contracts with the Company | 91 |
| D.2 | Process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets | Yes | Risk Management and Internal Control | 91 |
| | | Yes | Report of the Audit Committee | 110 |
| | | Yes | Directors' Statement of Internal Control | 122 |
| D.3 | Audit Committee | Yes | Audit Committee Report | 110 |
| D.4 | Related Party Transactions Review Committee | Yes | Related Party Transactions Review Committee report | 113 |
| D.5 | Code of Business Conduct and Ethics | Yes | Code of Conduct & Ethics | 94 |
| D.6 | Corporate Governance Disclosures | Yes | Corporate Governance Report | 84 |
| E/F | Institutional and other investors | | | |
| | Institutional and other investors | Yes | Relations with Shareholders | 95 |
| G. | Internet of Things & Cybersecurity | Yes | Information Technology and Cyber Security | 94-95 |
| H | Principles of Sustainability Reporting | Yes | Sustainability Governance | 95 |

GRI INDEX

GRI Index

| GRI Standards | Disclosures | Reference | Page no | Remarks |
|------------------------------------|--|--|----------------|--|
| General Disclosures | | | | |
| GRI 102 : General Disclosures 2016 | 102-1 | Name of the organization | 6 | |
| | 102-2 | Activities, brands, products, and services | 9, 42 & 43 | |
| | 102-3 | Location of headquarters | IBC | |
| | 102-4 | Location of operations | | Operates only in Sri Lanka |
| | 102-5 | Ownership and legal form | 6 & IBC | |
| | 102-6 | Markets served | 6, 61 & 62 | |
| | 102-7 | Scale of the organization | 11 - 13 | |
| | 102-8 | Information on employees and other workers | 65 | We will not present a regional-wise classification |
| | 102-9 | Supply chain | 62 & 63 | |
| | 102-10 | Significant changes to the organization and its supply chain | | No significant changes |
| | 102-11 | Precautionary Principle or approach | 82 & 83 | |
| | 102-12 | External initiatives | 5 | |
| | 102-13 | Membership of associations | 8 | |
| | 102-14 | Statement from senior decision-maker | 20 - 23 | |
| | 102-16 | Values, principles, standards, and norms of behaviour | 7, 66, 93 & 94 | |
| | 102-18 | Governance structure | 84 | Sustainability comes under the purview of the Director Finance |
| | 102-40 | List of stakeholder groups | 44 & 45 | |
| | 102-41 | Collective bargaining agreements | 69 | |
| | 102-42 | Identifying and selecting stakeholders | 44 & 45 | |
| | 102-43 | Approach to stakeholder engagement | 44 & 45 | |
| | 102-44 | Key topics and concerns raised | 44 & 45 | |
| | 102-45 | Entities included in the consolidated financial statements | | Hayleys Fabric PLC |
| | 102-46 | Defining report content and topic Boundaries | 5 & 106 | |
| | 102-47 | List of material topics | 50 & 51, 106 | |
| | 102-48 | Restatements of information | | No Restatements |
| | 102-49 | Changes in reporting | 51 | |
| | 102-50 | Reporting period | 5 | |
| | 102-51 | Date of most recent report | 5 | |
| 102-52 | Reporting cycle | 5 | | |
| 102-53 | Contact point for questions regarding the report | 5 | | |
| 102-54 | Claims of reporting in accordance with the GRI Standards | 5 | | |
| 102-55 | GRI content index | 102 - 106 | | |
| 102-56 | External assurance | 5, 107 & 108 | | |



| GRI Standards | Disclosures | Reference | Page no | Remarks |
|---|-------------|--|-----------------------------------|---|
| Management Approach | | | | |
| GRI 103 : Management Approach 2016 | 103-1 | Explanation of the material topic and its Boundary | 106 | |
| | 103-2 | The management approach and its components | 106 | |
| | 103-3 | Evaluation of the management approach | 106 | |
| Economic | | | | |
| GRI 201: Economic Performance 2016 | 201-1 | Direct economic value generated and distributed | 53 | |
| | 201-3 | Defined benefit plan obligations and other retirement plans | 151 & 155 | |
| GRI 204: Procurement practices 2016 | 204-1 | Proportion of spending on local suppliers | 12 & 59 | |
| GRI 207: Tax 2019 | 207-1 | Approach to tax | 142-145, 155 & 156 | |
| | 207-2 | Tax governance, control, and risk management | 142-145, 155 & 156 | |
| | 207-3 | Stakeholder engagement and management of concerns related to tax | 44 & 45, 142-145, 155 & 156 | |
| | 207-4 | Country-by-country reporting | 142-145, 155 & 156 | |
| Environmental | | | | |
| GRI 301: Materials 2016 | 301-1 | Materials used by weight or volume | 12 & 72 | |
| | 301-2 | Recycled input materials used | 12 & 72 | |
| GRI 302: Energy 2016 | 302-1 | Energy consumption within the organization | 12 & 73 | |
| | 302-3 | Energy intensity | 12 & 73 | |
| | 302-4 | Reduction of energy consumption | 73 | Energy has increased due to the growth of the value added fabric production |
| GRI 303: Water 2016 | 303-1 | Water withdrawal by source | 12 & 73 | |
| | 303-2 | Water sources significantly affected by withdrawal of water | | No significant impact |
| | 303-3 | Water recycled and reused | 12, 73 & 74 | |
| GRI 305 Emissions 2016: | 305-1 | Direct (Scope 1) GHG emissions | 12 & 74 | |
| | 305-2 | Energy indirect (Scope 2) GHG emissions | 12 & 74 | |
| | 305-3 | Other indirect (Scope 3) GHG emissions | 12 & 74 | |
| | 305-4 | GHG emissions intensity | 12 & 74 | |
| | 305-5 | Reduction of GHG emissions | 74 | |

GRI INDEX

| GRI Standards | Disclosures | Reference | Page no | Remarks |
|---|-------------|---|-------------|--|
| GRI 306: Effluents and Waste 2016 | 306-1 | Water discharge by quality and destination | 12, 73 & 74 | |
| | 306-2 | Waste by type and disposal method | 12 & 75 | |
| GRI 307: Environmental Compliance 2016 | 307-1 | Non-compliance with environmental laws and regulations | 12 & 120 | |
| GRI 308: Supplier Environmental Assessment 2016 | 308-1 | New suppliers that were screened using environmental criteria | 62 | |
| | 308-2 | Negative environmental impacts in the supply chain and actions taken | 62 | |
| Social | | | | |
| GRI 401: Employment 2016 | 401-1 | New employee hires and employee turnover | 65 & 66 | we will not present a regional-wise classification |
| | 401-2 | Benefits provided to full-time employees that are not provided to temporary or part-time employees | 68 | |
| GRI 403: Occupational Health And Safety 2018 | 403-1 | Occupational health and safety management system | 67 & 82 | |
| | 403-2 | Hazard identification, risk assessment, and incident investigation | 67 | |
| | 403-3 | Occupational health services | 66 & 67 | |
| | 403-4 | Worker participation, consultation, and communication on occupational health and safety | 67, 69 & 82 | |
| | 403-5 | Worker training on occupational health and safety | 67 & 70 | |
| | 403-6 | Promotion of worker health | 67 | |
| | 403-7 | Prevention and mitigation of occupational health and safety impacts directly linked by business relationships | 67 | |
| | 403-9 | Work-related injuries | 67 | |
| GRI 404: Training and Education 2016 | 404-1 | Average hours of training per year per employee | 13 & 70 | |
| | 404-2 | Programs for upgrading employee skills and transition assistance programs | 70 | |
| | 404-3 | Percentage of employees receiving regular performance and career development reviews | 13 & 68 | |
| GRI 405: Diversity and Equal Opportunity 2016 | 405-1 | Diversity of governance bodies and employees | 65 & 68 | |



| GRI Standards | Disclosures | Reference | Page no | Remarks |
|---|-------------|---|-------------|---------|
| GRI 408: Child Labor 2016 | 408-1 | Operations and suppliers at significant risk for incidents of child labor | 13, 66 & 68 | |
| GRI 409: Forced or Compulsory Labour 2016 | 409-1 | Operations and suppliers at significant risk for incidents of forced or compulsory labour | 13, 66 & 68 | |
| GRI 413: Local communities 2016 | 413-1 | Operations with local community engagement, impact assessments, and development programmes | 63 & 64 | |
| GRI 414: Supplier Social Assessment 2016 | 414-1 | New suppliers that were screened using social criteria | 62 | |
| | 414-2 | Negative social impacts in the supply chain and actions taken | 62 | |
| 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 labelling | | 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: Socio economic Compliance 2016 | 419-1 | Non-compliance with laws and regulations in the social and economic area | | Nil |



GRI INDEX

| Topic Boundary (102-46) | | | | | | | | |
|--|--|-----------------------|--------------------------------------|-----------|-----------|-----------|------------|-----------|
| Material Topic | Management Approach (103-1, 103-2 and 103-3) | Internal Stakeholders | External Stakeholders | | | | | |
| | | The Company | Brand Owners & Apparel Manufacturers | Investors | Employees | Suppliers | Regulators | Community |
| Economic Performance (201) | 54 - 58 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Procurement Practices (204) | 59 - 63 | ✓ | ✓ | ✓ | | ✓ | | |
| Tax (207) | 155 & 156 | ✓ | | ✓ | | | ✓ | |
| Materials (301) | 71 & 72 | ✓ | ✓ | | | | ✓ | |
| Energy (302) | 71 - 73 | ✓ | | | | | ✓ | ✓ |
| Water (303) | 71 - 74 | ✓ | ✓ | | | | ✓ | ✓ |
| Emissions (305) | 71 & 72, 74 | ✓ | ✓ | | | | ✓ | ✓ |
| Effluents and Waste (306) | 71 & 72, 75 | ✓ | ✓ | | | | ✓ | ✓ |
| Environmental Compliance (307) and Socioeconomic Compliance (419) | 71 - 75, 93 - 94, 120 | ✓ | ✓ | ✓ | | | ✓ | ✓ |
| Supplier Environmental Assessment (308) and Supplier Social Assessment (414) | 59 - 63 | ✓ | ✓ | | | ✓ | | |
| Employment (401) | 65 - 70 | ✓ | | | ✓ | | ✓ | ✓ |
| Occupational Health and Safety (403) | 65 - 67 | ✓ | ✓ | | ✓ | | ✓ | ✓ |
| Training and Education (404) | 65 & 66, 70 | ✓ | | | ✓ | | | |
| Diversity and Equal Opportunity (405) | 65 & 66, 68 & 69, 93 | ✓ | ✓ | | ✓ | | ✓ | ✓ |
| Child Labour (408) and Forced or Compulsory Labour (409) | 65 & 66, 68 | ✓ | ✓ | | | ✓ | ✓ | |
| Local Communities (413) | 59 & 60, 63 & 64 | ✓ | | ✓ | | | | ✓ |
| Customer Health and Safety (416) and Marketing and Labelling (417) | 59 - 63, 81 - 83 | ✓ | ✓ | | | | | |
| Customer Privacy (418) | 59 - 62, 76 & 77 | ✓ | ✓ | | | | | |



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- 2020/21

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- 2020/21 (“the Report”).

Reasonable assurance on the information on financial performance as specified on page 53 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 (“CASL”).

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 3rd May 2021. 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 CASL.

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 relevant the 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 2021.
- 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.



INDEPENDENT ASSURANCE REPORT

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 53 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 March 2021.
- 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.

Ernst & Young
11th May 2021
Colombo

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA 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 A A J R Perera ACA ACMA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Expanding our Potential

At Hayleys Fabric this year saw us at our most innovative—realigning our strategies, processes and our business model to deliver sustainable growth. Today our commitment to serve our people against all odds has enabled us to perform well and yield the fruit of our labour.

Trees produce fruit that sustain life and enrich our existence. They are symbolic of abundance and prosperity.

FINANCIAL &
STATUTORY REPORTS



REPORT OF THE AUDIT COMMITTEE

As Chairman of Hayleys Fabric PLC's Audit Committee, I am pleased to present the report of the Audit Committee for the year ended 31st March 2021 which has been prepared by the Committee. The purpose of this report is to describe how the Committee has carried out its responsibilities during the year.

In discharging its duties, the Audit Committee seeks to balance independent oversight of the matters within its remit with providing support and guidance to the management. I remain confident that the Committee, supported by the members of senior management and the external auditors, has carried out its duties in the year under review, effectively and to a high standard.

PURPOSE OF THE COMMITTEE

The Audit Committee was established to assist to 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 performance of External Auditors, 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, 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).

COMMITTEE STRUCTURE

The composition of the Committee, which remained unchanged during the financial year is constituted of two Independent Non- Executive Directors and one Senior Independent Non- Executive Director.

MEMBERS AND MEETINGS

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 32 to 35 of this report.

The Audit Committee of Hayleys Fabric PLC is 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 (Independent Non-Executive Director-Chartered Accountant) |
| Members | Dr. N.S.J. Nawartne (Independent Non-Executive Director) Mr. A.S.J. Jayatilleka (Senior 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 |

DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

- Financial Reporting
- Internal Audit
- Risk Management
- Reporting & Assurance
- External Audit
- Compliance



FINANCIAL REPORTING

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 & judgments made by the management
- Compliance with relevant Accounting Standards (SLFRSs/ 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 to be included 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;

- Adequacy of the Internal Audit Annual plan & coverage
- The effectiveness of Internal Audit functions
- Follow up the actions taken by the Company recommended by the Internal Audit

RISK MANAGEMENT AND INTERNAL CONTROLS

The Committee reviewed and assessed the Company's risk management process including the adequacy of the overall control environment and controls in areas of significant risk. Key risks that exceeded the Company's risk appetite are presented from page 82 to 83.

The Committee is satisfied that an effective system of internal controls is in place to provide reasonable assurance on safeguarding the Company's assets and reliability of Financial Statements.

Effectiveness of the Company's system of internal controls is evaluated through reports provided by the management, internal auditors and independent external auditors.

EXTERNAL AUDIT

The Committee has 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 observation made by them.

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

The Committee has reviewed the non-audit services provided by the external auditors to safeguard their independence and objectivity.

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 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 auditors take place at periodic intervals and last rotation took place in the year 2018/19.

The Committee has recommended to the Board that Messrs Ernst & Young be continued as the independent External Auditor.

COMPLIANCE WITH FINANCIAL REPORTING AND STATUTORY REQUIREMENTS

The Audit Committee receives statutory declaration from Director –Finance/ 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.

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 89.

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.

The Committee is also satisfied that the Company is able to continue as a going concern.

H. Somashantha
Chairman-Audit Committee

Colombo
11th May 2021

REPORT OF THE REMUNERATION COMMITTEE

COMPOSITION OF THE COMMITTEE

The Committee is currently composed of Senior Independent Non-Executive Director (SINED) and Independent Non-Executive Director (INED) 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
Senior Independent Non -Executive Director
- Mr. H. Somashantha
Independent Non -Executive Director

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 23 on page 155.



A.S. Jayatilleka

Chairman - Remuneration Committee

11th May 2021



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

Committee comprises two Independent Non-Executive Directors and one Executive Director.

Composition of the Committee

The Related Party Transactions Review

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 2020/21

| Name | 15th June 2020 | 11th Aug 2020 | 6th Nov 2020 | 10th Feb 2021 | Total |
|------------------------|----------------|---------------|--------------|---------------|-------|
| Dr. Harsha Cabral, PC. | ✓ | ✓ | ✓ | ✓ | 4/4 |
| Mr. M.Y.A. Perera | ✓ | ✓ | ✓ | ✓ | 4/4 |
| Mr. S.C. Ganegoda | ✓ | ✓ | ✓ | ✓ | 4/4 |

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

17th May 2021

RESPONSIBILITY STATEMENT OF MANAGING DIRECTOR/ CEO AND CHIEF FINANCIAL OFFICER

The Section D 1.3 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 should, before its approves the Financial Statements for the financial year, obtain a declaration in their opinion on Financial Statements and system of risk management and internal control from its Chief Executive Officer and Chief Financial Officer.

We confirm that 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

We also followed the guidance given in the Code of Best Practice on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka on financial and business reporting when preparing these Financial Statements.

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.

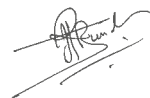
Conclusion

We confirm that we have discharged our responsibilities on maintaining proper financial records and preparing Financial Statements in accordance with LKASs/SLFRSs and complied with all applicable laws and regulations and guidelines. To the best of our knowledge, we also confirm that

the system of risk management and internal control was operating effectively during the year.



E. R. P. Goonetilleke
Managing Director/CEO



R. Rohitha Bandara
Director – Finance

11th May 2021



SENIOR INDEPENDENT DIRECTOR'S STATEMENT

The Code of Best Practice on Corporate Governance 2017 (The Code) issued by The Institute of Chartered Accountants of Sri Lanka recommends that a Senior Independent Director (SID) be appointed in the event of the Chairman and CEO is the same person or the Chairman is not an independent Director. At Hayleys Fabric PLC, though the Chairman and CEO are two different, the Chairman is the Executive Director (ED).

The presence of a Senior Independent Director (SID) provides a workable mechanism to review the role played by the Chairman. While the role of the Chairman entails providing leadership in observing best practices of Corporate Governance, my role as the SID calls for a review of the effectiveness of the Board. The role of the SID also provides emphasis to transparency on matters relating to governance.

Hayleys Fabric PLC is committed to principles of good governance and always strives to live by the Best Practices of good Corporate Governance. The conformance culture of the Company is strongly embraced by the Board of Directors. The Company follows a policy of strict compliance with mandatory requirements while embracing voluntary adherence, in order to enhance stakeholder acceptance and making a positive impact on value creation.

As the Senior Independent Director of the Hayleys Fabric PLC, I am consulted by the Chairman on governance issues, if there are any. Further, I make myself available to any Director or any employee to have any confidential discussion on the affairs of the Company, should the need arise.

A.S. Jayatilleka

Senior Independent Director

11th May 2021

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 2021, 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 11th May 2021.

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.

MANDATORY PROVISIONS - FULLY COMPLIANT

| Reference | Requirement | Complied | Reference (within the Report) | Page |
|---------------------|--|----------|--|-------------------------------|
| Section 168 (1) (a) | The nature of the business of the Company | Yes | About Us | 6 |
| Section 168 (1) (b) | Financial Statements for the accounting period completed and signed in accordance with section 152 | Yes | The Financial Statements of the Company for the year ended 31st March 2021 | 130 to 161 Signed on page 130 |
| Section 168 (1) (c) | Auditor's report on the Financial Statements of the Company | Yes | Independent Auditors' Report. | 126 |
| Section 168 (1) (d) | Any change in accounting policies made during the accounting period | Yes | Note 4.5 to the Financial Statements - Changes in Accounting Policies | 144 |
| Section 168 (1) (e) | Particulars of entries in the Interests Register made during the accounting period | Yes | Directors' Interest in Contracts with the Company Details of the Directors' shareholdings. - Investor Information | 158 168 |
| Section 168 (1) (f) | Remuneration and other benefits of Directors during the accounting period | Yes | Note 23 to the Financial Statements - Profit Before Tax | 155 |
| Section 168 (1) (g) | Total amount of donations made by the Company during the accounting period | Yes | Note 23 to the Financial Statements - Profit Before Tax | 155 |



| Reference | Requirement | Complied | Reference (within the Report) | Page |
|---------------------|--|----------|--|----------|
| Section 168 (1) (h) | 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 | Yes | Board Profiles In terms of the Article 29 of the Articles of Association of the Company, Mr. R. N. Somaratne and Mr. I. B. R. R. Bandara retire by rotation and being eligible offer themselves for re-election Mr. A M Pandithage and Mr. A. S. Jayatilleka who retire having reached age of seventy years will be proposed to appoint for another one year in terms of Section 211 of the Companies Act 7 of 2007 | 32 to 35 |
| Section 168 (1) (i) | 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 | Yes | Note 23 to the Financial Statements - Profit Before Tax | 155 |
| Section 168 (1) (j) | 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 | Yes | The Company's auditors during the period under review were Messrs. Ernst & Young, Chartered Accountants. The Auditors do not have any relationship or interest with the Company other than that of an Auditor. 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. | 93 to 94 |
| Section 168 (1) (k) | Signed on behalf of the Board by two Directors and the Company Secretary | Yes | Annual Report of the Board of Directors | 121 |

Section 7.6 of the Listing Rules of the Colombo Stock Exchange (CSE) requires the following information to be published in the Annual Report prepared for the year under review.

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

MANDATORY PROVISIONS - FULLY COMPLIANT

| Reference | Requirement | Complied | Reference (within the Report) | Page |
|-----------|--|----------|--|------------|
| (i) | Names of persons who were Directors of the Entity | Yes | Board Profiles | 32 to 35 |
| (ii) | Principal activities of the entity during the year, and any changes therein | Yes | About Us | 6 |
| (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 | Investor Information | 168 |
| (iv) | The float adjusted market capitalisation, public holding percentage (%), number of public shareholders and under which option the listed entity complies with the Minimum Public Holding requirement | Yes | | 168 |
| (v) | A statement of each Director's holding in shares of the Entity at the beginning and end of each financial year | Yes | | 168 |
| (vi) | Information pertaining to material foreseeable risk factors of the Entity | Yes | Risk Management | 82 to 83 |
| (vii) | Details of material issues pertaining to employees and industrial relations of the Entity | Yes | Human Capital | 67 |
| (viii) | Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties | Yes | Note 06 - Property plant and Equipment to the Financial Statements | 146 |
| (ix) | Number of shares representing the Entity's stated capital | Yes | Investor Information | 168 |
| (x) | A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings | Yes | | 167 to 168 |
| (xi) | Financial ratios and market price information | Yes | Investor Information & 10 year summary | 164 & 167 |
| (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 06 - Property plant and Equipment to the Financial Statements | 146 |
| (xiii) | Details of funds raised through a public issue, rights issue and a private placement during the year | N/A | | |
| (xiv) | Information in respect of Employee Share Ownership or Stock Option Schemes | N/A | | |
| (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 Report | 86 |
| (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 | Note 26 - Related Party Transactions, to the Financial Statements | 157 to 158 |



In addition to the above, the following information is disclosed. 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 | 6 |
| 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. | 7 94 |
| Review of business performance | Chairman's Message Managing Director's Review Managing Our Capitals & Impacts Measures taken to manage risks are given in the Risk Management Report | 21 to 23 25 to 29 54 to 80 82 to 83 |
| 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. | 130 to 161 |
| Directors' Responsibility for Financial Reporting | The Statement of Directors' Responsibility for Financial Reporting | 124 |
| Auditors' Report | Independent Auditors' Report | 126 to 129 |
| Significant Accounting Policies | Note 3 to the Financial Statements - Significant Accounting Policies | 134 to 143 |
| Going Concern | Note 5.1 to the Financial Statements – Going Concern | 144 |
| Revenue | Note 19 to the Financial Statements – Revenue from Contract with Customers | 153 to 154 |
| Financial Results and Appropriations | Statement of Profit or Loss and other Comprehensive Income Statement of Changes in Equity | 131 132 |
| Taxation | Note 24 to the Financial Statements - Taxation | 155 to 156 |
| Corporate Donations | Note 23 to the Financial Statements - Profit Before Tax | 155 |
| Stated Capital and Reserves | Statement of Changes in Equity | 132 |
| Property, Plant and Equipment | Note 06 to the Financial Statements - Property, Plant and Equipment | 146 |
| Intangible assets | Note 08 to the Financial Statements – Intangible Assets | 148 |
| Capital Expenditure | The total capital expenditure on acquisition of property, plant and equipment and intangible assets of the Company amounted to USD 5,485,280/- and USD 3,851/- respectively. Details are given in Note 06 and 08 to the Financial Statements. Capital expenditure approved and contracted for, and not contracted for, as at Reporting date are given in Note 27 to the Financial Statements - Commitments and Contingencies. | 146 & 148 158 |
| Market Value of Freehold Properties | Note 6 to the Financial Statements - Property, Plant and Equipment | 147 |
| Contingent Liabilities and Commitments | Note 27 to the Financial Statements - Commitments and Contingencies | 158 |
| Events after the Reporting Date | Note 29- to the Financial Statements - Events After the Reporting Period | 159 |

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

| Disclosure | Note Reference | Page |
|--|---|----------------|
| Risk Management | Disclosure of the different types of risks the Company activities were exposed to are given in Note 30- to the Financial Statements. The Company's risk management process is described on pages 81 to 83, of the Annual Report. | 159 to 161 |
| 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. | 124 |
| 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 | 111 |
| 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 2017 issued by the Institute of Chartered Accountants of Sri Lanka (ICASL). | 87 to 90 |
| 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. | 75 71 to 75 |
| 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. | 65 to 70 |
| Stated Capital | Note 14 to the Financial Statements – Stated Capital The ordinary shares of the Company were subdivided by splitting each issued ordinary share into 02 ordinary shares from 10th February 2021. Consequently, the total number of existing issued Ordinary Shares was increased from 207,740,888 to 415,481,776 without changing the Stated Capital of the Company which will remain at Rs. 1,968,192,915/- | 150 |
| Share Information and Shareholdings | Investor Information | 167 to 168 |
| Board of Directors | Board Profiles Board Composition- Corporate Governance Report | 32 to 35 84 |
| Board Committees | Board Sub-Committees - Corporate Governance Report | 88 |
| Board and Committee meeting attendance | Meetings & Minutes- Corporate Governance Report | 89 |
| Directors' shareholdings | Investor Information | 168 |
| 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 2021 did not exceed 10% of equity or 5% of the total assets of the Company. Related party transactions are disclosed in Note 26 to the Financial Statements. | 157 |
| Directors' Remuneration | Note 23 to the Financial Statements - Directors' emoluments | 155 |
| Human Resources | Human Capital Report | 66 to 70 |
| Insurance and Indemnity | 5.The Company has obtained a Directors and Officers Liability insurance from a reputed insurance company in Sri Lanka providing worldwide cover to indemnify all past, present and future Directors and Officers of the Group | |



| Disclosure | Note Reference | Page |
|---|---|----------|
| Material Foreseeable Risk Factors (As per Rule No. 7.6 (VI) of the Listing Rules of the Colombo Stock Exchange) | Risk Management Review | 82 to 83 |
| 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 | 10 |

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.

Following Interim Dividends were paid for the financial year 2020/21

1st Interim Dividend - Rs.0.25 per share paid on 21.10.2020

2nd Interim Dividend - Rs.0.45 per share paid on 21.12.2020

3rd Interim Dividend - Rs.0.25 per share paid on 24.03.2021

At the Board Meeting held on 11th May 2021, the Directors have recommended the Final Dividend of Rs.0.10 (Cents Ten) per share subject to the approval by the shareholders at the Annual General Meeting to be held on 28th June 2021 to be paid to the shareholders on 09th July 2021.

Notice of Annual General Meeting

The Annual General Meeting of the Company is convened on 28th June, 2021. Shareholders will be requested to participate on Online Meeting Platform. The Notice of the Annual General Meeting appears on page 170.

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

Colombo

11th May 2021

E.R.P. Goonetilleke
Managing Director/CEO

Hayleys Group Services (Pvt) Ltd
Secretaries

BOARD OF DIRECTORS' STATEMENT ON INTERNAL CONTROL

The Section D1.5 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 Control in the Annual Report.

Responsibility

The Board of Directors ("Board") has the overall responsibility of maintaining a sound system of internal controls and for periodically reviewing its effectiveness and integrity, in order to ensure that the Company's risks are within the acceptable risk profile. Accordingly, the Board can provide reasonable assurance against misstatement of management and financial information and records. The Board has established an organisation structure, which clearly defines lines of accountability and delegated authority.

The Board has instituted an ongoing process for identifying, evaluating and mitigating significant risks faced by the Company, this process entails enhancing the internal control system as and when there are changes to the business environment and regulatory guidelines.

Board Committee

The Board has delegated specific responsibilities to the following four subcommittees:

- Audit Committee
- Nomination Committee- Parent Company Nomination Committee
- Remuneration Committee
- Related Party Transactions Review Committee – Parent Company

These committees are chaired by Independent Non-Executive Directors and have the authority to examine particular issues and report back to the Board with their recommendations.

The Board is confident that the internal controls are adequate to provide reasonable assurance regarding the reliability of financial reporting which

are in accordance with acceptable accounting principles and the applicable regulatory requirements.

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 111.

Review Adequacy and Effectiveness

The Board and the Audit Committee, have taken steps to ensure adequacy and effectiveness of the internal controls of both financial and operational processes, remedial steps are taken where necessary

The Board and the Audit Committee concluded that an effective system of risk management and internal controls are in place to safeguard the shareholders' investment and the Company's assets.

Policies, Procedures and Budgets

Company has set the Policies and procedure to ensure the compliance with internal controls and relevant laws and regulations are set out in operations manuals, which are updated from time to time.

Annual budget is approved by the Board and the performance is assessed against the approved budgets and explanations are provided for significant variances periodically to the respective Boards.

Code of Business Conduct and Ethics

The Company Code of ethics which includes a strong set of corporate values and conduct, is circulated to Directors and all employees. The Board ensures that Directors and all employees strictly comply with the

Company code of ethics in exercising their duties, communications, role modelling and in any other circumstances, so as to uphold the Company's image. Strict disciplinary actions are initiated for any violation of the Company code of ethics.

Insurance and Physical Safeguards

Adequate insurance and physical safeguards on major assets are in place to ensure Company assets are sufficiently covered to minimize material loss against any mishap.

Risk Management

An overview of the Company's risk management framework, is set out on pages 82 to 83.

Cyber Security

Company uses several world renewed software systems for entire operations and thus increasing the Company's reliance on technology. In this era, securing and protecting the Company's information assets becomes a key priority. The Board and Hayleys Group level have taken necessary precautions to minimise the risk of a security breach. During the year under review, necessary steps have been rolled out to curtail the exposure to cyber-attacks by reducing the threat surface and any potentially exploitable vulnerabilities.

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 2021 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
11th May 2021

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 126 to 129 as required by the Companies Act No.7 of 2007.

The Directors are responsible under Sections 150 (1), 151 of the Companies Act No. 07 of 2007, to ensure compliance with the requirements set out therein to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit and loss of the Company for the financial year.

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.

The Directors confirm that the Financial Statements and other statutory reports of the Company for the year ended 31st March 2021 incorporated in this report have been prepared in accordance with the Companies Act No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Listing Rules of the Colombo Stock Exchange.

The Directors have taken appropriate steps to ensure that the Company maintains adequate and accurate records which reflect the true financial position of Hayleys Fabric PLC. The

Directors have taken appropriate and reasonable steps to safeguard the assets of the Company. The Directors have instituted appropriate systems of internal control in order to minimise and detect fraud, errors and other irregularities. The Directors in maintaining a sound system of internal control and in protecting the assets of the Company, have further adopted risk management strategies to identify and evaluate the risks which the Company could be exposed to and its impact to the Company.

The Directors, having reviewed the financial budget and cash flows for the year to 31st March 2022 and the bank facilities, consider that the Company has adequate resources to continue in operation, and have continued to adopt the going concern basis in preparing these Financial Statements

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

The Board of Directors confirm that the Company's Statements of Financial Position as at 31st March 2021 and the Comprehensive Income Statements for the Company for the financial year ended 31st March 2021 reflect a true and fair view of the Company.

The Directors have provided the Auditors with every opportunity to carry out any reviews and tests that they consider appropriate and necessary for the performance of their duties. The responsibility of the Independent Auditors in relation to the Financial Statements is set out in the Independent Auditors Report.

As required by Section 56 (2) of the Companies Act No. 7 of 2007, the Board of Directors have confirmed that the Company, based on the information

available, satisfies the solvency test immediately after the distribution, in accordance with Section 57 of the Companies Act No. 7 of 2007, and have obtained a certificate from the auditors, prior to declaring all dividend. At the Board Meeting held on 11th May 2021, the Directors have recommended the Final Dividend of Rs.0.10 (Cents Ten) per share subject to the approval by the shareholders at the Annual General Meeting to be held on 28th June 2021 to be paid to the shareholders on 09th July 2021.

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 27.2 to the Financial Statements covering contingent liabilities.

The Directors further confirm that to the best of their knowledge, 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.

By Order of the Board,

Hayleys Group Services (Pvt) Ltd
Secretaries

Colombo
11th May 2021



FINANCIAL CALENDAR 2020/21

| | |
|-----------------------------|--------------------|
| 1st Quarter Report | 10th August 2020 |
| 2nd Quarter Report | 02nd November 2020 |
| 3rd Quarter Report | 02nd February 2021 |
| 4th Quarter Report | 11th May 2021 |
| Annual Report 2020/21 | 1st June 2021 |
| 29th Annual General Meeting | 28th June 2021 |

INDEPENDENT AUDITORS' REPORT



Ernst & Young
Chartered Accountants
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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 2021, 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 2021, 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 Matter | How our audit addressed the Key Audit Matter |
|---|--|
| <p>As of the reporting date, the company recorded inventories amounting to USD 16,569,882, carried at the lower of cost or net realizable value.</p> <p>The valuation of inventories was a key audit matter due to:</p> <ul style="list-style-type: none"> • The magnitude of the balance (represented 29% of the Company's total assets); and • The significance of judgments and estimates applied by the management in determining the valuation of inventories. <p>Judgments applied by management relate to the determination of inventories that are second grade and slow moving, considering factors such as quality assessments performed and age of inventories whereas estimates relate to the determination of net realizable values of inventories.</p> | <p>To validate the valuation of inventories, we;</p> <ul style="list-style-type: none"> - Performed walkthroughs to understand the process followed in identifying second grade inventories and making provisions; - checked inventory ageing reports and production quality reports to determine whether management has appropriately identified second grade and slow-moving inventories; - checked the reasonableness of assumptions applied by management in relation to expectations of customer orders as well as the usability of inventories maintained by the Company; and - checked the reasonableness of estimates made by management towards the determination of net realizable value for second grade inventories, comparing such against sales prices secured for similar products and offers obtained subsequent to the reporting date. <p>We also assessed the adequacy of disclosures made in relation to the valuation of inventories in Notes 5.3 and 9 to the financial statements.</p> |



INDEPENDENT AUDITORS' REPORT

Other Information included in the 2021 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the Company's 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 4107.

Chartered Accountants

11 May 2021

Colombo

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA 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 A A J R Perera ACA ACMA Ms. P V K N Sajewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

STATEMENT OF FINANCIAL POSITION

| As at 31 March | Notes | 2021 USD | 2020 USD |
|---------------------------------------|-------|-------------------|-------------------|
| ASSETS | | | |
| Non-Current Assets | | | |
| Property, plant and equipment | 6 | 28,716,822 | 25,406,917 |
| Right of use assets | 7 | 190,336 | - |
| Intangible assets | 8 | 74,446 | 120,110 |
| | | 28,981,604 | 25,527,027 |
| Current Assets | | | |
| Inventories | 9 | 16,569,882 | 15,263,060 |
| Trade receivables | 10 | 7,871,611 | 6,301,050 |
| Other receivables | 11 | 559,972 | 549,719 |
| Advances and prepayments | 12 | 762,955 | 763,128 |
| Cash and cash equivalents | 13 | 3,199,138 | 533,469 |
| | | 28,963,558 | 23,410,426 |
| Total Assets | | 57,945,162 | 48,937,453 |
| EQUITY AND LIABILITIES | | | |
| Capital and Reserves | | | |
| Stated capital | 14 | 17,561,761 | 17,561,761 |
| Revaluation reserve | | 1,415,280 | 1,415,280 |
| Retained earnings/(losses) | | 1,948,841 | (570,995) |
| Total Equity | | 20,925,882 | 18,406,046 |
| Non-Current Liabilities | | | |
| Interest bearing loans and borrowings | 15 | 3,400,544 | 700,670 |
| Deferred tax liabilities | 24.2 | 2,079,267 | 2,159,088 |
| Retirement benefit obligations | 16 | 3,020,473 | 2,745,877 |
| | | 8,500,284 | 5,605,635 |
| Current Liabilities | | | |
| Trade and other payables | 17 | 13,851,517 | 7,424,741 |
| Interest bearing loans and borrowings | 15 | 13,167,928 | 16,070,954 |
| Amounts due to Hayleys PLC | | 71,869 | 119,034 |
| Other non financial liabilities | 18 | 1,427,682 | 1,311,043 |
| | | 28,518,996 | 24,925,772 |
| Total Equity and Liabilities | | 57,945,162 | 48,937,453 |

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
11th May 2021



E.R.P.Goonetilleke
Managing Director/CEO

The accounting policies and notes on pages 134 through 161 form an integral part of these financial statements.



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| Year ended 31 March | Notes | 2021 USD | 2020 USD |
|--|-------|-------------------|------------------|
| Revenue from contracts with customers | 19 | 77,280,698 | 67,115,723 |
| Cost of sales | | (66,713,703) | (58,416,125) |
| Gross Profit | | 10,566,995 | 8,699,598 |
| Other operating income | 20 | 65,328 | 60,336 |
| Administrative expenses | | (5,021,468) | (5,021,481) |
| Distribution expenses | | (954,379) | (826,097) |
| Other expenses | 21 | - | (443,026) |
| Net financing costs | 22 | (833,673) | (800,428) |
| Profit before tax | | 3,822,803 | 1,668,902 |
| Income tax (expense)/reversal | 24 | 29,636 | (398,291) |
| Profit for the year | | 3,852,439 | 1,270,611 |
| Other Comprehensive Income not to be reclassified to profit or loss | | | |
| - Actuarial loss on defined benefit plans | 16 | (57,280) | (51,476) |
| - Income tax effect on actuarial loss on defined benefit plans | 24.2 | 8,019 | 7,207 |
| Total Comprehensive Income, Net of Tax | | 3,803,178 | 1,226,342 |
| * Basic / Diluted Earnings per Share | 25 | 0.009 | 0.003 |

*Earnings Per Share (EPS) has been adjusted based on post sub-division weighted average number of shares of 2 shares for every 1 share.

The accounting policies and notes on pages 134 through 161 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

| Year ended 31st March 2021 | Stated capital | Revaluation reserve | Retained earnings/ (losses) | Total |
|--|-------------------|------------------------|-----------------------------------|-------------------|
| | USD | USD | USD | USD |
| Balance as at 1st April 2019 | 17,561,761 | 1,415,280 | (1,117,816) | 17,859,225 |
| Profit for the year | - | - | 1,270,611 | 1,270,611 |
| Other comprehensive income | | | | |
| Actuarial loss on defined benefit plans | - | - | (51,476) | (51,476) |
| Income tax effect on actuarial loss on defined benefit plans | - | - | 7,207 | 7,207 |
| Total other comprehensive income | - | - | (44,269) | (44,269) |
| Total comprehensive income | - | - | 1,226,342 | 1,226,342 |
| Dividends to equity holders | | | (679,521) | (679,521) |
| Balance as at 31st March 2020 | 17,561,761 | 1,415,280 | (570,995) | 18,406,046 |
| Profit for the year | - | - | 3,852,439 | 3,852,439 |
| Other comprehensive income | | | | |
| Actuarial loss on defined benefit plans | - | - | (57,280) | (57,280) |
| Income tax effect on actuarial loss on defined benefit plans | - | - | 8,019 | 8,019 |
| Total other comprehensive income | - | - | (49,261) | (49,261) |
| Total comprehensive income | - | - | 3,803,178 | 3,803,178 |
| Dividends to equity holders | | | (1,283,342) | (1,283,342) |
| Balance as at 31st March 2021 | 17,561,761 | 1,415,280 | 1,948,841 | 20,925,882 |

The accounting policies and notes on pages 134 through 161 form an integral part of these financial statements.



STATEMENT OF CASH FLOWS

| Year ended 31st March | Notes | 2021 USD | 2020 USD |
|---|-------|-------------|-------------|
| Cash flows from / (used in) operating activities | | | |
| Profit before income tax expense | | 3,822,803 | 1,668,902 |
| Adjustments for | | | |
| Depreciation on property, plant and equipment | 6 | 2,171,989 | 2,126,025 |
| Depreciation on right of use asset | 7 | 4,880 | - |
| Amortization of intangible assets | 8 | 49,515 | 57,816 |
| Provision for retiring gratuity | 16 | 450,275 | 430,405 |
| Net unrealised gain on translation of foreign currency | | (132,110) | (186,964) |
| Finance costs | 22 | 741,790 | 805,619 |
| (Profit)/loss on disposal of property, plant and equipment | 20 | (28,874) | (35,792) |
| Loss on impairment of idle property, plant and equipment | 21 | - | 443,026 |
| Creditors write back | 20 | (24) | (24,544) |
| Impairment reversal for bad and doubtful debts | 23 | (28,977) | (2,363) |
| Impairment /(reversal) for slow moving inventories | 23 | (13,485) | 335,299 |
| Operating profit before working capital changes | | 7,037,783 | 5,617,429 |
| (Increase)/decrease in trade and other receivables | | (1,593,977) | 1,944,277 |
| (Increase)/decrease in advances and prepayments | | 173 | (389,629) |
| Increase in inventories | | (1,293,337) | (2,298,839) |
| Increase/(decrease) in trade and other payables and other non financial liabilities | | 5,933,844 | (1,440,597) |
| Cash generated from operations | | 10,084,486 | 3,432,641 |
| Retiring gratuity paid | 16 | (108,915) | (83,484) |
| Interest paid | | (809,553) | (774,945) |
| Economic service charge paid | | - | (369,012) |
| Net cash flows from operating activities | | 9,166,018 | 2,205,200 |
| Cash flows from / (used in) investing activities | | | |
| Purchase and construction of property, plant and equipment | | (4,922,873) | (2,788,702) |
| Proceeds from disposal of property, plant and equipment | | 32,260 | 38,883 |
| Purchase of intangible assets | 8 | (3,851) | (113,809) |
| Payment for right of use assets | | (85,890) | - |
| Interest received | | 73,093 | - |
| Net cash flows used in investing activities | | (4,907,262) | (2,863,628) |
| Cash flows from /(used in) financing activities | | | |
| Proceeds from new term loans | 15 | 3,761,801 | 1,194,670 |
| Repayment of term loans | 15 | (1,621,399) | (2,587,833) |
| Net movement of import & short term loans | | (1,550,724) | 2,920,591 |
| Dividend paid to equity holders | | (1,283,342) | (679,521) |
| Net cash flows from/(used in) financing activities | | (693,664) | 847,907 |
| Net increase in cash and cash equivalents | | 3,565,092 | 189,479 |
| Cash and cash equivalents at the beginning of the year | 13 | (365,954) | (555,433) |
| Cash and cash equivalents at the end of the year | 13 | 3,199,138 | (365,954) |

The accounting policies and notes on pages 134 through 161 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate Information

1.1 Reporting Entity

Hayleys Fabric PLC is a 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 Nature of Operations and Principal Activities of the Company

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 11th May 2021.

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

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 (CA Sri Lanka), and with the requirements of the Companies Act No. 07 of 2007.

2.2 Basis of Measurement

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.

No adjustments have been made for inflationary factors in the Financial Statements.

2.3 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.

2.4 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.

2.5 Comparative information

Comparative information including quantitative, narrative and descriptive information as relevant is disclosed in respect of previous period in the Financial Statements.

2.6 Offsetting

Assets and liabilities or income and expenses, are not offset unless

required or permitted by Sri Lanka Accounting Standards.

3. Summary of Significant Accounting Policies

3.1 Foreign Currency

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

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 recognised in Statement of Profit or Loss. Tax charges and credit attributable to exchange differences on those monetary items are also recognized in other comprehensive income. 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.

3.2 Current versus non-current classification

The Company presents assets and liabilities in the Statement of Financial Position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in a 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 equivalent 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 a 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.

3.3 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, maximizing 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 reassessing 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.

3.4 Property, plant & equipment

The Company applies the requirements of LKAS 16 on 'Property Plant and Equipment' in accounting

NOTES TO THE FINANCIAL STATEMENTS

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.

3.4.1 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.

3.4.2 Basis of measurement

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

The assets under construction in progress are recognized at actual cost incurred at the reporting date.

3.4.3 Owned assets

The cost of property, plant & equipment includes expenditure that is 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 includes 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.

When significant parts of plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives.

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 asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in the Statement of Profit or Loss, 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 asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

3.4.4 Subsequent costs

The cost of replacing a component of an item of property, plant & 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.

3.4.5 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.

3.4.6 Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

| | |
|---|-------------|
| Buildings | 40 years |
| Water Treatment Plant | 15 years |
| Plant & Machinery | 15-20 years |
| Furniture and Fittings & Office Equipment | 6 2/3 years |
| Solar Power Project | 20 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 asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year end and adjusted prospectively, if appropriate.

3.5 Leases

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

3.5.1 Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company



recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

3.5.2 Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

| | |
|--------------------------|----------|
| Right of Use Asset- Land | 30 years |
| in Wagawatta | |

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment as more fully described in Note 3.9 Impairment of non-financial assets.

3.5.3 Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments

that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company's lease liabilities are included in Interest-bearing loans and borrowings in Note 15 to the Financial Statements.

3.6 Intangible assets

3.6.1 Basis of recognition

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

3.6.2 Basis of measurement

Intangible assets acquired separately are measured on initial recognition at cost. 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.

3.6.3 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 finite useful lives are 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 considered to modify 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 that is consistent with the function of the intangible assets.

3.6.4 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

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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.

3.6.5. Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

3.6.6 Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of 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 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.

3.7.1 Financial assets

3.7.1.1 Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI) 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 as disclosed in Note 19- Revenue from contracts with customers.

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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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.

3.7.1.2 Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

All financial assets of the Company represent financial assets at amortised cost and include trade and other receivables, amounts due from related parties and cash and cash equivalents.

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.

3.7.1.3 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.

3.7.1.4 Impairment of financial assets

Further disclosures relating to impairment of Trade receivables is provided in the note 10.3 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.

3.7.2 Financial liabilities

3.7.2.1 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.

All financial liabilities of the Company represent loans and borrowings in the form of trade and other payables, bank overdrafts, loans and borrowings.

3.7.2.2 Subsequent measurement

Loans and borrowings

After initial recognition, loans and borrowings 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.

3.7.2.3 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.

NOTES TO THE FINANCIAL STATEMENTS

3.7.3 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

3.8 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 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 recognized 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.

3.10 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.

3.11 Employee benefits

3.11.1 Defined contribution plans

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.

3.11.2 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 16.3. Any changes in these assumptions will impact the carrying amount of defined benefit obligations. Actuarial gains 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 based on legal liability method or the following basis as applied by the respective entities.



| Length of each service (Years) | No. of month's salary for completed year of service |
|--------------------------------|---|
| Up to 20 | 1/2 |
| Over 20 up to 25 | 3/4 |
| Over 25 up to 30 | 1 |
| Over 30 up to 35 | 1 1/4 |
| Over 35 | 1 1/2 |

3.11.3 Short-term benefits

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

3.12 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.

3.13 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.

3.14 Revenue from Contracts 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.

3.14.1 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. 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).

3.14.1.1 Variable consideration

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.

3.14.2 Assets and liabilities arising from rights of return

3.14.2.1 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.

3.15 Other income

The income generating from solar power is recognized as "other income" in profit or loss

Other income is recognised on an accrual basis.

3.16 Expenses

Expenses are recognised 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.

3.16.1 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

NOTES TO THE FINANCIAL STATEMENTS

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.

3.16.2 Finance income and finance cost

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.

3.17 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.

3.17.1 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.

3.17.2 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 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.

Dividends paid are classified as financing cash flows.

4.4 Standards Issued but not yet effective

The new and amended 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 new and amended standards and interpretations, if applicable, when they become effective.

4.4.1 Amendments to LKAS 1: Classification of Liabilities as Current or Non-current

In March 2021, ICASL adopted amendments to paragraphs 69 to 76 of LKAS 1 which specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively.

4.4.2 Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 – Interest Rate Benchmark Reform (Phase 1 & 2)

The amendments to SLFRS 9 & LKAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments supports companies in applying SLFRS when changes are made to contractual cashflows or hedging relationships because of the reform.

These amendments to various standards are effective for the annual reporting periods beginning on or after 01 January 2021.

4.4.3 Amendments to SLFRS 16 – COVID – 19 Related Rent Concessions

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 Pandemic.

As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from Covid-19 related rent concession the same way it would account for the change under SLFRS16, if the change were not a lease modification.

NOTES TO THE FINANCIAL STATEMENTS

The amendment applies to annual reporting periods beginning on or after 01 June 2020.

4.4.4. Amendments to LKAS 16 - Property, Plant and Equipment: Proceeds before Intended Use

In March 2021, the ICASL adopted amendments to LKAS 16-Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

Since the Company's current practices are in line with above amendments, no significant impact on the Financial Statements of the Company.

4.5 Changes in Accounting Policies and Disclosures

There are no changes in Accounting policies during the year which require to be adjusted and disclosed

5. Critical Accounting Estimates and Judgements

The preparation of Financial Statements in conformity with SLFRS/LKAS's requires management to make judgements, estimates and assumptions that affect the

application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgements 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 judgements 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 is included in the following notes.

5.1 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern also taking into consideration the current and expected effects of COVID-19 on the Company. In response to the uncertainties identified, the Directors have considered a wide range of factors taking account of reasonably possible downsides.

The Company has taken actions which includes efficient ways to manage working capital, deferral of operating and capital expenditure, possible diversification of operations for alternate income sources (eg : face mask production), managing the reserves and negotiating with financial institution for the additional capital. The Company is expected to continue to operate, within available cash levels and the terms of its debt facilities

and the concessions given by the government for the repayments.

Based on these forecasts the Directors believe that Company has the ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

5.2 Taxation

Uncertainties exist with respect to the interpretation of complex tax regulation, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the companies.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on upon the likely timing and the level of future



taxable profits together as with future tax planning strategies.

5.3 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 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.

NOTES TO THE FINANCIAL STATEMENTS

6 PROPERTY, PLANT & EQUIPMENT**6.1 Gross Carrying Amounts**

| | As at 01.04.2020 USD | Additions/ Transfers USD | Disposals/ Transfers USD | As at 31.03.2021 USD |
|--|----------------------------|--------------------------------|--------------------------------|----------------------------|
| At valuation | | | | |
| Freehold Land | 2,977,194 | - | - | 2,977,194 |
| At cost | | | | |
| Buildings | 7,421,974 | 701,943 | - | 8,123,917 |
| Water Treatment Plant | 2,221,729 | 116,229 | - | 2,337,958 |
| Plant and Machinery | 33,578,676 | 1,889,109 | (1,339,166) | 34,128,619 |
| Furniture and Fittings | 2,047,827 | 450,772 | (46,902) | 2,451,697 |
| Office Equipment | 276,534 | - | - | 276,534 |
| Computers | 525,565 | 124,582 | - | 650,147 |
| Factory Equipment | 4,053,544 | 288,431 | (63,721) | 4,278,254 |
| Safety and Medical Equipment | 180,123 | 731 | - | 180,854 |
| Bungalow Equipment | 7,853 | - | - | 7,853 |
| Solar Power Plant | - | 671,562 | - | 671,562 |
| Total Value of Depreciable Assets | 53,291,019 | 4,243,359 | (1,449,789) | 56,084,589 |

6.2 In the course of construction

| | As At 01.04.2020 USD | Incurred during the year USD | Transfers USD | As At 31.03.2021 USD |
|------------------------------------|----------------------------|------------------------------------|--------------------|----------------------------|
| Work in Progress | 658,850 | 1,900,636 | (658,715) | 1,900,771 |
| Total gross carrying amount | 53,949,869 | 6,143,995 | (2,108,504) | 57,985,360 |

6.3 Accumulated depreciation and impairment

| | Balance As at 01.04.2020 USD | Charge for the Year USD | Disposals/ Transfers USD | Balance As at 31.03.2021 USD |
|------------------------------|---------------------------------------|-------------------------------|--------------------------------|---------------------------------------|
| At Cost | | | | |
| Buildings | 2,682,625 | 185,561 | - | 2,868,186 |
| Water Treatment Plant | 1,618,759 | 71,431 | - | 1,690,190 |
| Plant and Machinery | 18,919,660 | 1,448,131 | (1,335,780) | 19,032,011 |
| Furniture and Fittings | 1,361,320 | 161,280 | (46,902) | 1,475,698 |
| Office Equipment | 254,451 | 6,038 | - | 260,489 |
| Computers | 336,940 | 52,228 | - | 389,168 |
| Factory Equipment | 3,233,974 | 233,821 | (63,721) | 3,404,074 |
| Safety and Medical Equipment | 127,370 | 10,701 | - | 138,071 |
| Bungalow Equipment | 7,853 | - | - | 7,853 |
| Solar Power Plant | - | 2,798 | - | 2,798 |
| Total Depreciation | 28,542,952 | 2,171,989 | (1,446,403) | 29,268,538 |



6.4 Net Book Values

| As at 31st March | 2021 USD | 2020 USD |
|---|-------------------|-------------------|
| At valuation | | |
| Freehold Land | 2,977,194 | 2,977,194 |
| At cost | | |
| Buildings | 5,255,731 | 4,739,349 |
| Water Treatment Plant | 647,768 | 602,970 |
| Plant and Machinery | 15,096,608 | 14,659,016 |
| Furniture and Fittings | 975,999 | 686,507 |
| Office Equipment | 16,045 | 22,083 |
| Computers | 260,979 | 188,625 |
| Factory Equipment | 874,180 | 819,570 |
| Safety and Medical Equipment | 42,783 | 52,753 |
| Bungalow Equipment | - | - |
| Solar Power Plant | 668,764 | - |
| | 26,816,051 | 24,748,067 |
| In the course of construction | | |
| Work in Progress | 1,900,771 | 658,850 |
| Total carrying amount of property, plant and equipment | 28,716,822 | 25,406,917 |

6.5 During the financial year, the Company acquired property, plant & equipment to the aggregate value of USD 5,485,280 (2020 - USD 3,159,426). Cash payments amounting to USD 4,922,873 (2020 - USD 2,788,702) 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 11,215,306 which are still in use. (2020 - USD 10,526,008).

6.7 25 permanent buildings are located in Narthupana Estate, Neboda where the principle place of the business is operated. 2 permanent buildings are located in Knitting plant II at Wagawatta, BOI Industrial Zone.

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.

Land extent of 20.2 acres of Land in Anguruwatota demarcated by survey plan - Rs. 18,750 a perch.

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 (2020 - USD 1,331,519)

NOTES TO THE FINANCIAL STATEMENTS

7 RIGHT OF USE ASSETS

| | 2021 USD | 2020 USD |
|--------------------------|-------------|-------------|
| Cost | | |
| At beginning of the year | - | - |
| Acquisitions | 195,216 | - |
| At end of the year | 195,216 | - |
| Depreciation | | |
| At beginning of the year | - | - |
| Charge for the year | (4,880) | - |
| At end of the year | (4,880) | - |
| Net Book Value | 190,336 | - |

8 INTANGIBLE ASSETS

| | 2021 USD | 2020 USD |
|--------------------------|-------------|-------------|
| Software | | |
| Cost | | |
| At beginning of the year | 1,416,943 | 1,303,134 |
| Acquisitions | 3,851 | 113,809 |
| At end of the year | 1,420,794 | 1,416,943 |
| Amortization | | |
| At beginning of the year | (1,296,833) | (1,239,017) |
| Amortization | (49,515) | (57,816) |
| At end of the year | (1,346,348) | (1,296,833) |
| Net Book Value | 74,446 | 120,110 |

9 INVENTORIES

| | 2021 USD | 2020 USD |
|--|-------------|-------------|
| Raw materials | 7,879,009 | 4,654,773 |
| Less : Provision for slow moving items | (402,935) | (339,676) |
| | 7,476,074 | 4,315,097 |
| Work-in-progress | 5,576,823 | 6,064,726 |
| Less : Provision for slow moving items | (187,875) | (138,967) |
| | 5,388,948 | 5,925,759 |
| Finished goods (9.1) | 1,572,043 | 3,057,553 |
| Less : Provision for slow moving items | (526,005) | (651,657) |
| | 1,046,038 | 2,405,896 |
| Stock consumables | 2,658,822 | 2,616,308 |
| | 2,658,822 | 2,616,308 |
| | 16,569,882 | 15,263,060 |

9.1 Second grade finished goods amounting to USD 80,810 (2020- USD 181,611) are carried at net realisable value.



10 TRADE RECEIVABLES

| | 2021 USD | 2020 USD |
|--|-------------|-------------|
| Related party (10.1) | 27,354 | - |
| Others | 7,962,001 | 6,447,771 |
| Less : Impairment loss recognised (10.3) | (117,744) | (146,721) |
| | 7,871,611 | 6,301,050 |

10.1 Receivable from related parties

| Name of the Company | Relationship | Nature of Transaction | 2021 USD | 2020 USD |
|---------------------|-------------------|-----------------------|-------------|-------------|
| Puritas (Pvt) Ltd | Fellow Subsidiary | Sale of fabric | 27,354 | - |

10.2 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 | |
| Related party | 17,246 | 10,108 | - | - | - | - | 27,354 |
| Others | 6,902,997 | 586,964 | 188,997 | 155,601 | 9,698 | - | 7,844,257 |
| Total as at 31/03/2021 | 6,920,243 | 597,072 | 188,997 | 155,601 | 9,698 | - | 7,871,611 |
| As at 31/03/2020 | 1,230,366 | 3,660,613 | 558,298 | 793,140 | 58,633 | - | 6,301,050 |

See note 30 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.

10.3 The impairment recognised in relation to Trade Receivables of the Company has been based on a collective impairment model and is as follows:

| | 2021 USD | 2020 USD |
|---|-------------|-------------|
| Balance as at the beginning of the year | 146,721 | 149,084 |
| Impairment loss/(reversal) recognized during the year | (28,977) | (2,363) |
| Balance as at the end of the year | 117,744 | 146,721 |

11 OTHER RECEIVABLES

| | 2021 USD | 2020 USD |
|------------------------|-------------|-------------|
| VAT recoverable | 66,377 | 168,271 |
| Claim receivable | 48,617 | 17,323 |
| WHT recoverable | - | 8,081 |
| ESC receivable | 185,329 | 258,147 |
| Staff loans & advances | 95,933 | 205 |
| Interest receivable | 16,981 | - |
| Deposits | 146,735 | 97,692 |
| | 559,972 | 549,719 |

12 ADVANCES AND PREPAYMENTS

| | 2021 USD | 2020 USD |
|-----------------------------------|-------------|-------------|
| Advances paid to suppliers (12.1) | 621,340 | 621,538 |
| Other prepayments (12.1) | 141,615 | 141,590 |
| | 762,955 | 763,128 |

12.1 No advance /prepayments have been made to the related parties

NOTES TO THE FINANCIAL STATEMENTS

13 CASH AND CASH EQUIVALENTS IN CASH FLOW STATEMENT

Components of Cash and Cash Equivalents

13.1 Favorable Cash and Cash Equivalent Balances

| | 2021 USD | 2020 USD |
|------------------------|-------------|-------------|
| Cash and Bank Balances | 3,199,138 | 533,469 |

13.2 Unfavorable Cash and Cash Equivalent Balances

| | 2021 USD | 2020 USD |
|---|-------------|-------------|
| Bank Overdraft | - | (899,423) |
| | - | (899,423) |
| Total cash and cash equivalent balance for the purpose of cash flow statement | 3,199,138 | (365,954) |

14 STATED CAPITAL

| | 2021 | | 2020 | |
|------------------------|-------------|------------|-------------|------------|
| | Number | USD | Number | USD |
| Ordinary shares (14.1) | 415,481,776 | 17,561,761 | 207,740,888 | 17,561,761 |

14.1 Fully Paid Ordinary Shares

| | 2021 | | 2020 | |
|----------------------------------|-------------|------------|-------------|------------|
| | Number | USD | Number | USD |
| Balance at beginning of the year | 207,740,888 | 17,561,761 | 207,740,888 | 17,561,761 |
| Sub-division * | 207,740,888 | - | - | - |
| Balance at the end of the year | 415,481,776 | 17,561,761 | 207,740,888 | 17,561,761 |

* As per the circular resolution passed on 20th January 2021, the issued and fully paid Ordinary Shares of the Company were sub-divided by splitting each ordinary share held into 02 shares, thus increasing the number of existing issued Ordinary Shares of the Company from 207,740,888 to 415,481,776 ordinary shares without affecting an increase in the Stated Capital of the Company.

14.2 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.

15 INTEREST BEARING LOANS AND BORROWINGS

| | 2021 | | | 2020 | | |
|---|---|--|--------------|---|--|--------------|
| | 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 15.1) | 1,024,929 | 3,294,358 | 4,319,287 | 1,486,278 | 700,670 |
| Lease Obligations relating to right of use assets (Note 15.3) | 8,470 | 106,186 | 114,656 | - | - | - |
| Short term loans | 5,406,088 | - | 5,406,088 | 4,087,738 | - | 4,087,738 |
| Import loans | 6,728,441 | - | 6,728,441 | 9,597,515 | - | 9,597,515 |
| Bank overdraft (13.2) | - | - | - | 899,423 | - | 899,423 |
| | 13,167,928 | 3,400,544 | 16,568,472 | 16,070,954 | 700,670 | 16,771,624 |



15.1 Term loans

| | 2021 USD | 2020 USD |
|--------------------------------------|-------------|-------------|
| Balance at the beginning of the year | 2,186,948 | 3,580,111 |
| New loans obtained | 3,761,801 | 1,194,670 |
| Effects of movement in exchange rate | (8,063) | - |
| Repayments | (1,621,399) | (2,587,833) |
| Balance at the end of the year | 4,319,287 | 2,186,948 |

15.2 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 31.03.2021 | 532,436 | 11,290,262 | 1,343,453 | 3,289,650 | 112,671 | 16,568,472 |
| Total Interest bearing borrowings - As at 31.03.2020 | 899,422 | 5,588,700 | 9,582,832 | 700,670 | - | 16,771,624 |

15.3 Lease Obligations relating to right of use assets

A right to operate lease agreement is with the Board of Investment (BOI) for the period of 30 years commencing from 10th July 2020 for two acre BOI land at the "Wagawatta" Industrial zone.

| | 2021 USD | 2020 USD |
|--------------------------------------|-------------|-------------|
| Balance at the beginning of the year | - | - |
| New leases obtained | 109,326 | - |
| Interest expense | 5,330 | - |
| Repayments | - | - |
| Balance at the end of the year | 114,656 | - |

15.4 Maturity Profile for Lease Obligations

| | 2021 USD | 2020 USD |
|---------------------------|-------------|-------------|
| Within the next 12 months | 8,470 | - |
| Between 1 to 5 years | 33,880 | - |
| Between 5 to 10 years | 42,350 | - |
| More than 10 years | 160,930 | - |
| | 245,630 | - |

15.5 The total amount recognized by the Company in the Statement of Profit or Loss and Other Comprehensive Income relating to lease arrangements in the form of interest on lease liability and Depreciation on right of use asset amounted to USD 10,210. (2020 – nil).

16 RETIREMENT BENEFIT OBLIGATIONS

| | 2021 USD | 2020 USD |
|--|-------------|-------------|
| Retirement Benefit Obligation - Gratuity | | |
| At beginning of the year | 2,745,877 | 2,534,443 |
| Effects of movement in exchange rate | (124,044) | (186,963) |
| Benefits paid by the plan | (108,915) | (83,484) |
| Current service cost | 192,810 | 176,522 |
| Interest cost | 257,465 | 253,883 |
| Actuarial loss recognized directly in Other Comprehensive Income | 57,280 | 51,476 |
| At end of the year | 3,020,473 | 2,745,877 |

NOTES TO THE FINANCIAL STATEMENTS

16.1 Expenses recognised in the Statement of Profit or Loss

| | 2021 USD | 2020 USD |
|----------------------|-------------|-------------|
| Current service cost | 192,810 | 176,522 |
| Interest cost | 257,465 | 253,883 |
| | 450,275 | 430,405 |

16.2 Legal Liability as at 31st March

| | 2021 USD | 2020 USD |
|--|-------------|-------------|
| | 2,238,804 | 2,084,357 |

16.3 The Gratuity liability as at 31st March 2021 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.

| | 2021 | 2020 |
|---|------------|------------|
| Rate of discount | 8% | 10% |
| Salary increase | 7% | 9% |
| Retirement age | 60 Years | 60 Years |
| Weighted average remaining working life | 6.89 Years | 6.92 Years |

Assumptions regarding mortality are based on a 1967/70 Mortality Table, issued by The Institute of Actuaries, London.

16.4 A quantitative sensitivity analysis for significant assumptions as at 31st March 2021 is as follows:

| | Salary increment rate | | Discount rate | |
|-----------------------|-----------------------|--------------------|--------------------|--------------------|
| | 1% increase USD | 1% decrease USD | 1% increase USD | 1% decrease USD |
| As at 31st March 2021 | 255,811 | (230,066) | (213,922) | 241,501 |
| As at 31st March 2020 | 232,899 | (209,301) | (194,961) | 220,197 |

16.5 Maturity Profile

| | 2021 USD | 2020 USD |
|---------------------------|-------------|-------------|
| Within the next 12 months | 247,931 | 237,634 |
| Between 1 to 5 years | 1,026,006 | 915,319 |
| Between 5 to 10 years | 835,321 | 713,846 |
| More than 10 years | 911,215 | 879,078 |
| | 3,020,473 | 2,745,877 |

17 TRADE AND OTHER PAYABLES

| | 2021 USD | 2020 USD |
|--------------------------|-------------|-------------|
| Trade Payables | | |
| - Related Parties (17.2) | 542,844 | 107,682 |
| - Others | 13,074,354 | 7,155,962 |
| Other Payables | 234,319 | 161,097 |
| | 13,851,517 | 7,424,741 |



17.1 Aging Analysis for Trade and Other Payables

| | On demand USD | Less than 3 months USD | 3 to 12 months USD | 1 to 5 years USD | >5 years USD | Total USD |
|--------------------------|------------------|------------------------------|--------------------------|---------------------|-----------------|--------------|
| 31.03.2021 Related party | 425,939 | 111,611 | 4,672 | 622 | - | 542,844 |
| Others | 1,874,946 | 9,686,413 | 1,570,603 | 56,482 | 120,229 | 13,308,673 |
| Total | 2,300,885 | 9,798,024 | 1,574,463 | 57,723 | 120,422 | 13,851,517 |
| 31.03.2020 Related party | 47,048 | 39,964 | 19,906 | 764 | - | 107,682 |
| Others | 1,186,594 | 5,705,801 | 138,585 | 172,510 | 113,569 | 7,317,059 |
| Total | 1,233,642 | 5,745,765 | 158,491 | 173,274 | 113,569 | 7,424,741 |

17.2 Payable to related parties

| Name of the Company | Relationship | Nature of Transaction | 2021 USD | 2020 USD |
|---|-------------------|---|-------------|-------------|
| Puritas (Pvt) Ltd | Fellow Subsidiary | Purchase of oxypura products | 1,411 | 1,691 |
| Hayleys Agriculture Holdings Limited | Fellow Subsidiary | Purchase of sanitizer/dividend payable (2020) | 469 | 505 |
| The Kingsbury Hotel PLC | Fellow Subsidiary | Entertainment facility | 242 | 554 |
| Hayleys Travels (Pvt) Ltd | Fellow Subsidiary | Reservations, ticketing and other travel related services | 1,057 | 13,485 |
| Hayleys Tours (Pvt) Ltd | Fellow Subsidiary | Reservations and travel related services | - | 15,418 |
| Hayleys Aventura (Pvt) Ltd | Fellow Subsidiary | Purchase spare parts and obtained technical support | 10,005 | 9,305 |
| Energynet (Pvt) Ltd | Fellow Subsidiary | Service charge of electrical equipments | - | 763 |
| MIT Cargo (Pvt) Ltd | Fellow Subsidiary | Logistic service | - | 25 |
| Hayleys Advantis Ltd | Fellow Subsidiary | Dividend payable | - | 733 |
| Logiwiz Limited | Fellow Subsidiary | Logistic service | 925 | 115 |
| Advantis Projects & Engineering (Pvt) Ltd | Fellow Subsidiary | Logistic service | 347 | - |
| Expelogix (Pvt) Ltd | Fellow Subsidiary | Logistic service | 51,276 | 3,320 |
| Agility Logistics (Pvt) Ltd | Fellow Subsidiary | Logistic service | - | 3,011 |
| Hayleys Business Solutions Int.(Pvt) Ltd | Fellow Subsidiary | Payroll charges | 3,596 | 6,059 |
| Ravi Industries Ltd | Fellow Subsidiary | Purchases of coir items | 35 | - |
| Fentons Ltd | Fellow Subsidiary | Purchases of solar energy items and fire extinguishers | 451,870 | 30,026 |
| Singer Sri Lanka PLC | Fellow Subsidiary | Purchases of electrical items | 6,058 | 6,822 |
| Advantis Freight (Pvt) Ltd | Fellow Subsidiary | Logistic service | 15,553 | 15,850 |
| | | | 542,844 | 107,682 |

18 OTHER CURRENT NON FINANCIAL LIABILITIES

| | 2021 USD | 2020 USD |
|---------------------|-------------|-------------|
| Accrued Expenditure | 738,512 | 758,594 |
| Advances Received | 689,170 | 552,449 |
| | 1,427,682 | 1,311,043 |

19 REVENUE FROM CONTRACTS WITH CUSTOMERS

19.1 Disaggregated revenue contracts

| | 2021 USD | 2020 USD |
|-----------------|-------------|-------------|
| Sales of Fabric | 76,960,835 | 66,820,704 |
| Sundry Sales | 319,863 | 295,019 |
| | 77,280,698 | 67,115,723 |

NOTES TO THE FINANCIAL STATEMENTS

19.2 Geographical Sales

| | 2021 USD | 2020 USD |
|------------------|-------------|-------------|
| Direct exports | 9,099,163 | 5,834,324 |
| Indirect exports | 67,104,542 | 60,104,867 |
| Local sales | 1,076,993 | 1,176,532 |
| | 77,280,698 | 67,115,723 |

19.3 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.

19.4 Payments for all revenue from contracts with customers is generally due within 30 to 45 days from delivery.

19.5 Contract assets from advances received amount to USD 689,170 (2020-USD 552,449) and are reflected in Note 18

20 OTHER OPERATING INCOME

| | 2021 USD | 2020 USD |
|---|-------------|-------------|
| Profit on disposal of property, plant and equipment | 28,874 | 35,792 |
| Income from solar power generation | 36,430 | - |
| Creditors write back | 24 | 24,544 |
| | 65,328 | 60,336 |

21 OTHER EXPENSES

| | 2021 USD | 2020 USD |
|--|-------------|-------------|
| Impairment of idle property, plant and equipment | - | 443,026 |
| | - | 443,026 |

22 NET FINANCING COST**22.1 Finance income**

| | 2021 USD | 2020 USD |
|---|-------------|-------------|
| Interest income | (73,093) | - |
| Gain on translation of foreign currency | - | (5,191) |
| | (73,093) | (5,191) |

22.2 Finance cost

| | 2021 USD | 2020 USD |
|---|-------------|-------------|
| Interest on short term borrowings | 699,275 | 649,649 |
| Interest on long term loans | 110,278 | 155,970 |
| Interest on lease liabilities | 5,330 | - |
| Loss on translation of foreign currency | 91,883 | - |
| Finance cost | 906,766 | 805,619 |
| Net Finance cost | 833,673 | 800,428 |



23 PROFIT BEFORE TAX

Profit before tax is stated after charging all expenses including the following :

| | 2021 USD | 2020 USD |
|--|-------------|-------------|
| Staff cost (Note 23.1) | 7,868,183 | 7,771,528 |
| Directors' fees | 17,137 | 16,976 |
| Directors' emoluments | 278,557 | 277,730 |
| Depreciation of property, plant and equipment | 2,171,989 | 2,126,025 |
| Impairment of idle property, plant and equipment | - | 443,024 |
| Amortization of intangible assets | 49,515 | 57,816 |
| Legal fees | 9,138 | 20,276 |
| Audit fees | 14,092 | 13,468 |
| Non-audit professional services | 6,149 | 7,712 |
| Donations | 6,680 | 8,815 |
| Impairment charge/(reversal) for slow moving inventories | (13,485) | 335,299 |
| Impairment reversal for receivables | (28,977) | (2,363) |
| Research & Development | 17,632 | 19,579 |

23.1 Staff cost

| | 2021 USD | 2020 USD |
|--|-------------|-------------|
| Salaries and other personnel cost | 6,741,895 | 6,675,559 |
| Defined contribution plan cost- EPF and ETF | 676,013 | 665,564 |
| Defined benefit plan cost- Retiring gratuity | 450,275 | 430,405 |
| | 7,868,183 | 7,771,528 |

24 INCOME TAX

The major components of income tax expense for the years ended 31st March are as follows:

| | 2021 USD | 2020 USD |
|---|-------------|-------------|
| Income tax on profit for the year (Note 24.1) | 357,514 | - |
| (Over)/under provision in respect of previous year | 2,964 | - |
| Reversal of irrecoverable economic service charge (ESC) (Note 24.3) | (318,314) | - |
| Provision for deferred tax (Note 24.2) | (71,800) | 398,291 |
| Income tax expense reported in the statement of profit or loss | (29,636) | 398,291 |

NOTES TO THE FINANCIAL STATEMENTS

24.1 Reconciliation of Current Tax Expenses and product of Accounting Profit

| | 2021 USD | 2020 USD |
|--|-------------|-------------|
| Profit before tax | 3,822,803 | 1,668,902 |
| Disallowable expenses | 2,854,958 | 3,497,295 |
| Tax deductible expenses | (2,912,747) | (1,302,053) |
| Tax loss set-off | (1,233,254) | (3,864,144) |
| Taxable income | 2,531,759 | - |
| Income tax @ 14% | 346,639 | - |
| Income tax @ 18% | 7,528 | - |
| Income tax @ 24% | 3,347 | - |
| Tax expense | 357,514 | - |
| Details of Tax Losses carried forward | | |
| Tax loss brought forward | 1,217,398 | 5,233,769 |
| Less: Set off against the current income tax liability | (1,233,254) | (3,864,144) |
| Effects of movement in exchange rate | 15,856 | (152,227) |
| Tax loss carried forward | - | 1,217,398 |

Company's profit from exports is taxed at 14%, profit from local sale is taxed at 18% under manufacturing rate and income from solar power generation is liable at the rate of 24%

24.2 Deferred Tax Assets, Liabilities and Income Tax relates to the following

| | Statement of Financial Position | | Statement of Profit or Loss and Other Comprehensive Income | |
|---|---------------------------------|-------------|--|-------------|
| | 2021 USD | 2020 USD | 2021 USD | 2020 USD |
| Deferred Tax Liabilities | | | | |
| Capital allowances for tax purposes | 2,455,173 | 2,662,335 | (207,162) | (94,996) |
| Tax on re-valuation of land | 230,395 | 230,395 | - | - |
| | 2,685,568 | 2,892,730 | (207,162) | (94,996) |
| Deferred Tax Assets | | | | |
| Tax effect of tax loss carried forward | - | 170,436 | 170,436 | 562,292 |
| Defined benefit plans | 422,866 | 384,423 | (38,443) | (29,601) |
| Impairment for slow moving inventories | 156,354 | 158,242 | 1,888 | (46,942) |
| Impairment for doubtful debts | 16,484 | 20,541 | 4,057 | 331 |
| Right of use assets | 10,595 | - | (10,595) | - |
| | 606,300 | 733,642 | 127,342 | 486,080 |
| Net Deferred Tax Liability | 2,079,267 | 2,159,088 | | |
| Deferred Income Tax Charged to Profit or Loss | | | | |
| | | | (71,800) | 398,291 |
| Deferred Income Tax Reversal to Other Comprehensive Income- Defined benefit plan | | | | |
| | | | (8,019) | (7,207) |
| Charge to Statement of Profit or Loss and Other Comprehensive Income | | | | |
| | | | (79,820) | 391,084 |

24.3 ESC paid and considered as irrecoverable in 2018/19 amounted to USD 318,314 has been reversed in current year in order to set off current income tax liability.

25 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 per share computations.



25.1 Amount Used as the Numerator:

| | 2021 USD | 2020 USD |
|--|-------------|-------------|
| Earnings attributable to Ordinary Shareholders of the Company for Earnings per Share | 3,757,873 | 1,270,611 |

25.2 Number of Ordinary Shares Used as the Denominator:

| | 2021 Number | 2020 Number |
|---|----------------|----------------|
| Weighted Average Number of Ordinary Shares in issue applicable to Basic Earnings per Share (25.3) | 415,481,776 | 415,481,776 |

25.3 Weighted average Number of Ordinary shares in 2020 has been adjusted based on post sub-division of 2 shares for every one ordinary share held

26 RELATED PARTY DISCLOSURES

26.1 Transactions with the parent and related entities during the year

a)

| Name of the Company | Relationship | Nature of Transaction | 2021 USD | 2020 USD |
|---|-------------------|--|-------------|-------------|
| Hayleys PLC | Parent | Providing finance, data processing, secretarial, personnel and administration services | 960,493 | 645,716 |
| Puritas (Pvt) Ltd | Fellow Subsidiary | Purchase oxypura products | 14,299 | 1,888 |
| Hayleys Agriculture Holding Ltd | Fellow Subsidiary | Purchases of chemicals | 2,282 | 98 |
| Quality Seed Company (Pvt) Ltd | Fellow Subsidiary | Landscaping charges | | 1,200 |
| Hayleys Electronics Ltd | Fellow Subsidiary | Purchase of electronic items | 905 | |
| The Kingsbury Hotel PLC | Fellow Subsidiary | Entertainment facility | 2,105 | 3,971 |
| Hayleys Travels (Pvt) Ltd | Fellow Subsidiary | Reservations, ticketing and other travel related services | 1,926 | 123,576 |
| Hayleys Tours (Pvt) Ltd | Fellow Subsidiary | Reservations and other travel related services | 259 | 38,193 |
| Hayleys Aventura (Pvt) Ltd | Fellow Subsidiary | Purchase spare part items and obtained technical support | 49,929 | 49,236 |
| Haycolour (Pvt) Limited | Fellow Subsidiary | Purchase of dyes & chemicals | 2,628 | 928 |
| MIT Cargo (Pvt) Ltd | Fellow Subsidiary | Logistic service | | 73,705 |
| Agility Logistics (Pvt) Ltd | Fellow Subsidiary | Logistic service | 13,796 | 23,712 |
| Advantis Freight (Pvt) Ltd | Fellow Subsidiary | Logistic service | 85,239 | 18,368 |
| Logiwiz Limited | Fellow Subsidiary | Logistic service | 1,496 | 760 |
| Advantis Projects & Engineering (Pvt) Ltd | Fellow Subsidiary | Logistic service | 666 | 19,788 |
| Expelogix (Pvt) Ltd | Fellow Subsidiary | Logistic service | 232,683 | 16,924 |
| Hayleys Business Solutions Int.(Pvt) Ltd | Fellow Subsidiary | Payroll charges | 41,193 | 39,709 |
| Royal Ceramics Lanka PLC | Affiliate Company | Purchase of tiles | 299 | 2,803 |
| Ravi Industries Ltd | Fellow Subsidiary | Purchase of sanitizer & coir items | 4,691 | - |
| Lanka Tiles PLC | Affiliate Company | Purchase of tiles | 8 | 337 |
| Fentons Ltd | Fellow Subsidiary | Purchase of fire extinguishers & solar energy system | 2,345,787 | 94,889 |
| Delmege Forsyth & Co.(Pvt) Ltd | Affiliate Company | Purchase of mechanical items | 2,355 | 7,688 |
| Energynet (Pvt) Ltd | Fellow Subsidiary | Service charge of electrical equipments | 8,838 | 2,995 |
| Mabroc Teas (Pvt) Ltd | Fellow Subsidiary | Purchase of tea | 93 | 282 |
| Hayleys Lifesciences (Pvt) Ltd | Fellow Subsidiary | Purchase of stationery | 652 | 377 |
| Singer Sri Lanka PLC | Fellow Subsidiary | Purchase of electrical equipment | 18,994 | 54,791 |
| Haymat Private Ltd | Fellow Subsidiary | Purchase of mats | - | 52 |
| Kandyan Resorts (Pvt) Ltd | Fellow Subsidiary | Entertainment facility | 2,002 | - |
| Mountain Hawk Express Pvt Ltd | Fellow Subsidiary | Logistic services | 403 | - |
| Hayleys Power Ltd | Fellow Subsidiary | Purchase of solar related items equipment | 443,454 | - |
| Martin Bauer Hayleys Pvt Ltd | Fellow Subsidiary | Purchase of tea dyes | 233 | - |

NOTES TO THE FINANCIAL STATEMENTS

- b) Transactions with all related parties have been carried out under relevant commercial terms and conditions. All transactions are settled in cash in the short term and are non-interest bearing.
- c) Amounts due from/to related parties are reflected in these Financial Statements within notes 10 & 17 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 | | 2021 | | | 2020 | | |
|---------------|--------------------|------------------------|---------------------------|--|------------------------|---------------------------|--|
| | | 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 | 2,675,695 | 86,475 | 3,000,000 | 2,415,075 | 97,804 |
| | Overdraft facility | 1,000,000 | (31,879) | 847 | - | (5,951) | - |

26.2 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**

| | 2021 USD | 2020 USD |
|--------------------------------|-------------|-------------|
| Short term employment benefits | 278,557 | 277,730 |

The amounts disclosed above are the amounts recognised as an expense during the reporting period related to key management personnel.

27 COMMITMENTS AND CONTINGENCIES

- 27.1** The amount of capital expenditure approved by the Directors but not contracted for was USD 2,300,000. (2020-USD 5,905,405)
- 27.2** Contingent liabilities as at 31 March 2021 was USD 122,995. (2020 - nil).



28 ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

| Nature of Assets | Nature of Liabilities | Carrying Amount Pledged | | Included under |
|--|--|-------------------------|-------------|-----------------------------|
| | | 2021 USD | 2020 USD | |
| Plant & Machinery, Water Treatment Plant | Primary Mortgage for Loans and Borrowings | 15,744,376 | 15,261,986 | Property, Plant & Equipment |
| Land & Buildings | Primary / Concurrent mortgage for Loans and Borrowings | 8,232,925 | 7,716,543 | Property, Plant & Equipment |
| Inventories | Primary / Concurrent mortgage for Loans and Borrowings | 13,911,060 | 12,646,752 | Inventories |
| Trade Receivables | Primary / Concurrent mortgage for Loans and Borrowings | 7,871,611 | 6,301,050 | Trade Receivables |

29 EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the Statement of Financial Position date, which would require adjustments to the Financial Statements except for the following:

- On 22nd April 2021, the Company acquired a 98.84% equity stake of South Asia Textiles Limited for a consideration of Rs. 3,953,361,887/-. South Asia Textiles Limited is a knitted fabric manufacture and has manufacturing facilities based in Pugoda, Sri Lanka. The Company is currently in the process of finalizing the accounting for this transaction and expect to complete our preliminary allocation of the purchase consideration to the assets acquired and liabilities within the ensuing financial year.
- The Directors have Proposed the payment of a final dividend of Rs. 0.10 per share on 11th May 2021, for the year ended 31st March 2021, which will be declared at the Annual General Meeting will be held on June 28th, 2021. In accordance with Sri Lanka Accounting Standard No. 10 on "Events after reporting period", the proposed final dividend has not been recognised as a liability as at the Reporting date.

30 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 receivables, other receivables and cash and cash equivalents 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 three 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 2021 and 2020. The following assumptions have been made in calculating the sensitivity analysis:

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 2021 and 2020.

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 % or less.

NOTES TO THE FINANCIAL STATEMENTS

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:

| 2021 | | 2020 | |
|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| Increase/Decrease in basis points | Effect on profit before tax -USD | Increase/Decrease in basis points | Effect on profit before tax -USD |
| 0.40 | (62,901) | 0.47 | (76,009) |
| -0.40 | 62,901 | -0.47 | 76,009 |

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.

| | 2021 | | 2020 | |
|-----------------------------|--------------------|----------------------------------|--------------------|----------------------------------|
| | 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% | 54,248 | 3% | 28,681 |
| | -3% | (57,603) | -3% | (30,455) |

| | 2021 | | 2020 | |
|------------------------------|---------------------|----------------------------------|---------------------|----------------------------------|
| | 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% | 4,285 | 3% | 3,115 |
| | -3% | (4,550) | -3% | (3,308) |

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)



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 all major clients.

The calculation is based on actual incurred historical data. 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.

There have been no defaults of trade receivables over the past who are impacted due to COVID - 19. However, the possible delay in getting past due receivables from the customers and request for extended credit periods as a result of COVID-19 are being managed through negotiations with customers on settlements and invoicing /Letter of Credit discounting arrangements with Banks.

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 79% of the Company's debt will mature in less than one year at 31 March 2021 (2020: 96%) 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 15.2 and 17.1 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 14 and 15 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 and 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 | 2021 LKR '000 | 2020 LKR '000 |
|---|-------------------|------------------|
| ASSETS | | |
| Non-Current Assets | | |
| Property, plant and equipment | 5,798,788 | 4,890,832 |
| Right of use assets | 38,435 | - |
| Intangible assets | 15,033 | 23,121 |
| | 5,852,255 | 4,913,953 |
| Current Assets | | |
| Inventories | 3,345,956 | 2,938,139 |
| Trade receivables | 1,589,514 | 1,212,952 |
| Other receivables | 113,075 | 105,821 |
| Advances and prepayments | 154,064 | 146,902 |
| Cash and cash equivalents | 646,002 | 102,693 |
| | 5,848,611 | 4,506,507 |
| Total Assets | 11,700,867 | 9,420,460 |
| EQUITY AND LIABILITIES | | |
| Capital and Reserves | | |
| Stated capital | 1,968,193 | 1,968,193 |
| Revaluation reserve | 285,787 | 272,441 |
| Retained earnings | 756,621 | 275,055 |
| Exchange fluctuation reserve | 1,214,961 | 1,027,475 |
| Total Equity | 4,225,562 | 3,543,165 |
| Non-Current Liabilities | | |
| Interest bearing loans and borrowings | 686,672 | 134,879 |
| Deferred tax liabilities | 419,866 | 415,624 |
| Retirement benefit obligations | 609,924 | 528,581 |
| | 1,716,462 | 1,079,084 |
| Current Liabilities | | |
| Trade and other payables | 2,797,037 | 1,429,263 |
| Interest bearing loans and borrowings | 2,659,000 | 3,093,659 |
| Amounts due to Hayleys PLC | 14,513 | 22,914 |
| Other current non financial liabilities | 288,292 | 252,376 |
| | 5,758,842 | 4,798,211 |
| Total Equity and Liabilities | 11,700,867 | 9,420,460 |

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 Sri Lanka Rupees (LKR) 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 LKR generally using the principles set out in Sri Lanka Accounting Standard (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 LKR value.

Followings exchange rates were used to convert the financials into LKR

| | 31.03.2021 | 31.03.2020 |
|--|------------|------------|
| Statement of Profit or Loss and Other Comprehensive Income | 191.11 | 182.15 |
| Statement of Financial Position | 201.93 | 192.50 |



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - TRANSLATED INTO LKR

| Year ended 31 March | 2021 LKR '000 | 2020 LKR '000 |
|---|------------------|------------------|
| Revenue from contracts with customers | 14,769,114 | 12,225,353 |
| Cost of sales | (12,749,656) | (10,640,692) |
| Gross Profit | 2,019,458 | 1,584,661 |
| Other operating income | 12,485 | 10,990 |
| Administrative expenses | (959,653) | (914,680) |
| Distribution expenses | (182,391) | (150,476) |
| Other expenses | - | (80,699) |
| Net financing costs | (159,323) | (145,801) |
| Profit before tax | 730,576 | 303,995 |
| Income tax (expense)/reversal | 5,664 | (72,550) |
| Profit for the year | 736,240 | 231,445 |
| Other Comprehensive Income not to be reclassified to profit or loss | | |
| - Actuarial loss on defined benefit plans | (10,947) | (9,377) |
| - Income tax effect on actuarial loss on defined benefit plans | 1,533 | 1,313 |
| Total Comprehensive Income, Net of Tax | 726,825 | 223,381 |
| Basic / Diluted Earnings per Share | 1.77 | 0.56 |

TEN YEAR SUMMARY

| Results | 10-year compound growth % | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---------------------------------|--------------|-------------|--------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|
| | | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| Net turnover | 5 | 77,280,698 | 67,115,723 | 69,940,639 | 57,686,803 | 55,537,401 | 59,924,103 | 65,031,509 | 61,252,088 | 44,193,490 | 45,936,097 |
| Profit after tax | (193) | 3,852,439 | 1,270,611 | 1,058,335 | (679,516) | 490,267 | 1,845,409 | 679,920 | (1,388,400) | (3,642,771) | (7,581,712) |
| Funds Employed | | | | | | | | | | | |
| Stated capital | 12 | 17,561,761 | 17,561,761 | 17,561,761 | 17,561,761 | 17,561,761 | 17,561,761 | 17,561,761 | 13,563,304 | 13,563,304 | 6,534,102 |
| Reserves | 6 | 3,364,121 | 844,285 | 297,464 | (524,791) | 23,706 | (434,262) | (2,052,032) | (2,875,191) | (1,508,395) | 2,012,633 |
| Shareholders' fund | 10 | 20,925,882 | 18,406,046 | 17,859,225 | 17,036,970 | 17,585,467 | 17,127,499 | 15,509,729 | 10,688,113 | 12,054,909 | 8,546,735 |
| Borrowings (both short & long term) | (2) | 16,568,472 | 16,771,624 | 15,184,841 | 16,706,671 | 19,686,731 | 16,818,660 | 18,951,491 | 16,866,448 | 12,655,851 | 19,996,108 |
| | | 37,494,354 | 35,177,670 | 33,044,066 | 33,743,641 | 37,272,198 | 33,946,159 | 34,461,220 | 27,554,561 | 24,710,760 | 28,542,843 |
| Assets Employed | | | | | | | | | | | |
| Non current assets | 1 | 28,981,604 | 25,527,027 | 24,883,748 | 25,167,948 | 24,833,016 | 23,096,764 | 22,610,098 | 22,622,634 | 24,304,984 | 25,750,288 |
| Current assets | 9 | 28,963,558 | 23,410,426 | 22,725,793 | 20,921,177 | 21,942,322 | 19,649,659 | 22,507,145 | 19,490,701 | 11,753,515 | 13,006,227 |
| Current liabilities net of borrowings | 8 | (15,351,068) | (8,854,818) | (10,263,029) | (8,952,285) | (6,112,839) | (5,575,020) | (7,535,519) | (11,615,635) | (8,632,504) | (7,453,474) |
| Provisions | 6 | (5,099,740) | (4,904,965) | (4,302,446) | (3,393,199) | (3,390,301) | (3,225,244) | (3,120,504) | (2,943,139) | (2,715,235) | (2,760,198) |
| Capital Employed | (1) | 37,494,354 | 35,177,670 | 33,044,066 | 33,743,641 | 37,272,198 | 33,946,159 | 34,461,220 | 27,554,561 | 24,710,760 | 28,542,843 |
| Cash Flow | | | | | | | | | | | |
| Net cash inflow/(outflow) from operating activities | | 9,166,018 | 2,205,200 | 2,927,550 | 4,235,513 | 1,916,117 | 2,606,119 | (1,392,458) | (3,763,827) | 589,410 | 5,660,679 |
| Net cash outflow from investing activities | | (4,907,262) | (2,863,628) | (1,466,816) | (2,375,774) | (4,521,131) | (2,734,731) | (1,712,927) | (401,501) | (507,460) | (1,339,693) |
| Net cash inflow/(outflow) from financing activities | | (693,664) | 847,907 | (1,767,129) | (2,572,428) | 2,939,367 | (2,420,540) | 10,185,800 | 1,291,588 | 5,654,647 | (1,827,919) |
| Increase / (decrease) in cash & cash equivalents | | 3,565,092 | 189,479 | (306,395) | (712,690) | 334,353 | (2,549,151) | 7,080,416 | (2,873,740) | 5,736,597 | 2,493,067 |
| Key Indicators | | | | | | | | | | | |
| Earnings/(Loss) per share (basic) USD* | | 0.009 | 0.003 | 0.005 | (0.003) | 0.002 | 0.009 | 0.004 | (0.008) | (0.025) | (0.120) |
| Net assets per share USD | | 0.050 | 0.089 | 0.086 | 0.082 | 0.085 | 0.082 | 0.075 | 0.07 | 0.08 | 0.13 |
| Dividend per share Rs. | | 0.60 | 0.30 | - | - | - | - | - | - | - | - |
| Gearing % | | 44 | 48 | 46 | 50 | 53 | 50 | 55 | 61 | 51 | 70 |
| Turnover to capital employed (times) | | 2.06 | 1.91 | 2.12 | 1.71 | 1.49 | 1.77 | 1.89 | 2.22 | 1.79 | 1.61 |

*Earnings Per Share (EPS) has been restated based on post sub-division weighted average number of shares of 2 shares for every 1 share.



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 Nunn-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 divided by 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.

GLOSSARY OF FINANCIAL TERMINOLOGY

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 31st March, 2021

| No. of shares held | Residents | | | Non-Residents | | | Total | | |
|---------------------|----------------------|---------------|--------|----------------------|---------------|-------|----------------------|---------------|---------|
| | No. of share-holders | No. of shares | % | No. of share-holders | No. of shares | % | No. of share-holders | No. of shares | % |
| 1 - 1,000 | 2,147 | 735,086 | 0.177 | 5 | 2,600 | 0.001 | 2,152 | 737,686 | 0.178 |
| 1,001 - 10,000 | 2,180 | 8,961,392 | 2.157 | 11 | 46,603 | 0.011 | 2,191 | 9,007,995 | 2.168 |
| 10,001 - 100,000 | 1,023 | 34,576,546 | 8.322 | 14 | 576,484 | 0.138 | 1,037 | 35,153,030 | 8.460 |
| 100,001 - 1,000,000 | 161 | 46,664,070 | 11.231 | 3 | 833,860 | 0.201 | 164 | 47,497,930 | 11.432 |
| Over 1,000,000 | 26 | 323,085,135 | 77.762 | - | - | - | 26 | 323,085,135 | 77.762 |
| | 5,537 | 414,022,229 | 99.649 | 33 | 1,459,547 | 0.351 | 5,570 | 415,481,776 | 100.000 |

| Categories of shareholders | Residents | | | Non-Residents | | | Total | | |
|----------------------------|----------------------|---------------|--------|----------------------|---------------|-------|----------------------|---------------|---------|
| | No. of share-holders | No. of shares | % | No. of share-holders | No. of shares | % | No. of share-holders | No. of shares | % |
| Individuals | 5,272 | 86,326,715 | 20.778 | 33 | 1,459,547 | 0.351 | 5,305 | 87,786,262 | 21.129 |
| Institutions | 265 | 327,695,514 | 78.871 | - | - | - | 265 | 327,695,514 | 78.871 |
| | 5,537 | 414,022,229 | 99.649 | 33 | 1,459,547 | 0.351 | 5,570 | 415,481,776 | 100.000 |

Market Value

The market value of an ordinary share of Hayleys Fabric PLC. was:

| Year ended 31 March | 2021 | 2020 |
|---------------------|--------------------------|---------------------------|
| | LKR | LKR |
| Highest | 42.90 (on 22nd Jan 2021) | 19.00 (on 05th Dec. 2019) |
| Lowest | 7.00 (on 12th May 2020) | 7.40 (on 14th May 2019) |
| Year end | 27.80 | 8.70 |

Share Trading

| | 2021 | 2020 |
|------------------------------|---------------|---------------|
| No. of transactions | 70,199 | 29,871 |
| No. of shares traded | 357,684,477 | 138,910,057 |
| Value of shares traded (LKR) | 8,195,809,943 | 2,024,251,747 |

INVESTOR INFORMATION

HAYLEYS FABRIC PLC

FIRST TWENTY SHAREHOLDERS AS AT 31/03/2021

| | No. of Shares As at 31/03/2021 | % | No. of Shares As at 31/03/2020 | % |
|---|--------------------------------------|-------|--------------------------------------|-------|
| 1 HAYLEYS PLC NO 3 SHARE INVESTMENT ACCOUNT | 244,974,046 | 58.96 | 122,487,023 | 58.96 |
| 2 EMPLOYEES PROVIDENT FUND | 11,081,454 | 2.67 | 5,540,727 | 2.67 |
| 3 HAYLEYS ADVANTIS LIMITED | 10,073,700 | 2.42 | 5,036,850 | 2.42 |
| 4 HAYLEYS AGRICULTURE HOLDINGS LIMITED | 6,944,514 | 1.67 | 3,472,257 | 1.67 |
| 5 DEUTSCHE BANK AG-NATIONAL EQUITY FUND | 5,991,586 | 1.44 | - | - |
| 6 MRS. SWYRIE BALENDRA | 4,000,200 | 0.96 | - | - |
| 7 MR. S.N.P. PALIHENA & MRS. A.S. PALIHENA | 4,000,000 | 0.96 | - | - |
| 8 PEOPLE'S LEASING & FINANCE PLC/HI LINE TRADING (PVT) LTD | 3,551,835 | 0.85 | 403,460 | 0.19 |
| 9 MR. K. BALENDRA & MRS.S.BALENDRA | 3,448,899 | 0.83 | - | - |
| 10 J.B. COCOSHELL (PVT) LTD | 2,583,762 | 0.62 | - | - |
| 11 INSITE HOLDINGS PRIVATE LIMITED | 2,504,116 | 0.60 | - | - |
| 12 PEOPLE'S LEASING & FINANCE PLC/MR.D.M.P.DISANAYAKE | 2,006,456 | 0.48 | 252,976 | 0.12 |
| 13 BANK OF CEYLON NO. 1 ACCOUNT | 2,000,000 | 0.48 | 1,056,398 | 0.51 |
| MR. T.S.B. RATNAYAKE | 2,000,000 | 0.48 | - | - |
| 14 MR. A.D. GUNewardene | 1,972,950 | 0.47 | - | - |
| 15 DR. T. Senthilverl | 1,920,570 | 0.46 | - | - |
| 16 DFCC BANK PLC A/C 1 | 1,823,701 | 0.44 | - | - |
| 17 SOFTLOGIC LIFE INSURANCE PLC-A/C NO. 05 (NON-PARTICIPATING FUND) | 1,768,026 | 0.43 | - | - |
| 18 DEUTSCHE BANK AG-NAMAL GROWTH FUND | 1,637,140 | 0.39 | - | - |
| 19 MR. A.M. WEERASINGHE | 1,500,000 | 0.36 | 1,850,000 | 0.89 |
| 20 SAM INNOVATORS (PVT) LTD | 1,394,628 | 0.34 | - | - |
| Total | 38,112,283 | 9.17 | 3,562,834 | 1.72 |

| The issued number of shares of the company | |
|--|-------------|
| Balance as at 01/04/2020 | 207,740,888 |
| Sub-division | 207,740,888 |
| Balance as at 31/03/2021 | 415,481,776 |

| | As at 31/03/2021 | As at 31/03/2020 |
|---|------------------|------------------|
| The issued number of shares of the company | 415,481,776 | 207,740,888 |
| Registered shareholders | 5,570 | 3,814 |
| The percentage of shares held by public | 36.78% | 36.88% |
| No. of shareholders representing Public Holding | 5,561 | 3,806 |
| Float adjusted market capitalization | Rs.2,154,680,181 | LKR 666,549,104 |

The Company complies with option 5 of the Listing Rules 7.13.1(a) which requires a minimum Public Holding of 20% for a Company having a Float Adjusted Market Capitalization of less than 2.5Bn.

DIRECTORS' SHAREHOLDING

| | No. of Shares As at 31/03/2021 | No. of Shares As at 31/03/2020 |
|---|-----------------------------------|-----------------------------------|
| Mr.A.M.Pandithage | Nil | Nil |
| Mr.K.D.D.Perera * | 8,180 | 4,090 |
| Mr.S.C.Ganegoda | 480,000 | 50,000 |
| Mr.H.Somashantha | 40,000 | 20,000 |
| Mr.R.N.Somaradne | 100,000 | 50,000 |
| Mr.E.R.P.Goonetilleke | Nil | Nil |
| Dr.N.S.J.Nawaratne | Nil | Nil |
| Mr.A.S.Jayatilleka | Nil | Nil |
| Mr.I.B.R.R.Bandara | 50,000 | 5,000 |
| Mr.M.H.Jayasinghe | Nil | Nil |
| Mr.K.P.C.P.K Pathirana | 2,000 | Nil |
| Mrs.Y.Bhaskaran | Nil | Nil |
| (alternate Director to Mr.K.D.D.Perera) | | |
| Total | 680,180 | 129,090 |

* Mr.K.D.D.Perera holds 51.01 % directly and indirectly of the total issued shares of Hayleys PLC which has 244,974,046 shares in Hayleys Fabric PLC.



NOTICE OF MEETING

HAYLEYS FABRIC PLC
Company No. PQ 37

NOTICE IS HEREBY GIVEN that the Twenty Ninth Annual General Meeting of Hayleys Fabric PLC, will be held on Monday 28th June , 2021 at 4.00 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, 2021 with the Report of the Auditors thereon.
2. To declare the final dividend as recommended by the Directors.
3. To elect Mr. K.P.C.P.K.Pathirana who has been appointed to the Board since the last Annual General Meeting, a Director
4. To re-elect Mr.R.N.Somararatne, who retires by rotation at the Annual General Meeting, a Director.
5. To re-elect Mr.I.B.R.R.Bandara, who retires by rotation at the Annual General Meeting, a Director.
6. To propose the following resolution as an ordinary resolution for the re-appointment of Mr. Ananda Sunil Jayatilleka who retires, having attained the age of Seventy years in compliance with Section 211 of the Companies Act No.07 of 2007.

Ordinary Resolution

“That Mr. Ananda Sunil Jayatilleka, who has attained the age of Seventy years be and is hereby re-appointed a Director for a further period of one year and it is hereby declared that the age limit of seventy years referred to in Section 210 of the Companies Act No.07 of 2007 shall not apply to the appointment of the said Director”.

7. To propose the following resolution as an ordinary resolution for the re-appointment of Mr. A.M. Pandithage who retires, having attained the age of Seventy years in compliance with Section 211 of the Companies Act No.07 of 2007.

Ordinary Resolution

“That Mr. Abeyakumar Mohan Pandithage, who has attained the age of Seventy years be and is hereby re-appointed a Director for a further period of one year and it is hereby declared that the age limit of seventy years referred to in Section 210 of the Companies Act No.07 of 2007 shall not apply to the appointment of the said Director”

8. To authorise the Directors to determine contributions to charities for the year 2021/22.
9. To authorize the Directors to determine the remuneration of the Auditors, Messrs. Ernst & Young, Chartered Accountants who are deemed to have been re-appointed as Auditors for the year 2021/22.
10. To consider any other business of which due notice has been given.

NOTE :

1. 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 4.00 p.m. on 26th June , 2021 or emailed to fabricagm@secretarial.hayleys.com not less than 48 hours before the time fixed for the Meeting.
2. Please refer the Circular to shareholders dated 11th May 2021 and follow the instructions to join the meeting virtually.
3. In accordance with the rules of the Colombo Stock Exchange, the shares of the Company will be quoted ex-dividend on 29th June 2021 with regard to the Final Dividend.

By Order of the Board
HAYLEYS FABRIC PLC
HAYLEYS GROUP SERVICES (PRIVATE) LIMITED
Secretaries

Colombo
28th May, 2021



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 Ninth Annual General Meeting of the Company to be held on Monday, 28th June, 2021 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, 2021, with the Report of the Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 | To declare the final dividend as recommended by the Directors | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 | To elect Mr.K.P.C.P.K.Pathirana, who has been appointed to the Board since the last Annual General Meeting, a Director | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 | To re-elect Mr.R.N.Somaratne, who retires by rotation at the Annual General Meeting, a Director | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 | To re-elect Mr.I.B.R.R.Bandara, who retires by rotation at the Annual General Meeting, a Director | <input type="checkbox"/> | <input type="checkbox"/> |
| 6 | To propose the ordinary resolution as set-out in the Notice for the re-appointment of Mr.A.S.Jayatilleka as a Director, who retires having attained the age of Seventy years. | <input type="checkbox"/> | <input type="checkbox"/> |
| 7 | To propose the ordinary resolution as set-out in the Notice for the re-appointment of Mr. A.M. Pandithage as a Director, who retires having attained the age of Seventy years. | <input type="checkbox"/> | <input type="checkbox"/> |
| 8 | To authorise the Directors to determine contributions to charities for the year 2021/22. | <input type="checkbox"/> | <input type="checkbox"/> |
| 9 | To authorize the Directors to determine the remuneration of the Auditors, Messrs. Ernst & Young, Chartered Accountants who are deemed to have been re-appointed as Auditors for the year 2021/22. | <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..... 2021.

.....
Signature of Shareholder

Witness (**);

Name

Signature

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 below.
- (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, the completed Form of Proxy must be deposited with the Company Secretaries, Hayleys Group Services (Pvt) Ltd at No.400, Deans Road, Colombo 10, Sri Lanka not less than 48 hours before the start of the Meeting.
2. In perfecting the Form of Proxy, please ensure that all requested details are filled in legibly including mandatory details. Kindly Sign and fill in the date of signing.
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. The proxy need not be a member of the Company.
4. Please indicate with an X in the space provided how your proxy is to vote on the resolutions. 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.

In the case of the individual shareholders, the signature of the shareholder should be witnessed by any person over 18 years of age.
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. N.S.J. Nawaratne

A.S.Jayatilleka

I.B.R.R. Bandara

M.H Jayasinghe

Mr. K.P.C.P.K.Pathirana (Appointed w.e.f. 10th August 2020)

Ms.Yogadinusha Bhaskaran (Alternate 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 PLC

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

DFCC Bank

AUDITORS

Ernst & Young

Chartered Accountants,

201, De Saram Place,

Colombo 10.

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