

BETTER BY

DESIGN



Hayleys Fabric PLC has grown and developed over the years and today, your company has a powerful impact on the fabric manufacturing industry in Sri Lanka. We have always believed that progressive values, a fresh perspective and innovative thinking are the secrets of real success.

Since inception, we have used the powerful synergies we have with our parent company and our own strengths in advanced technology, speed to market, and innovative manufacturing solutions to build a company that ranks second to none in its industry sector.

While reviewing the financial year just past, this report also looks to the future, as we plan to continue our expansion into new global markets and strengthen our commitment to research and development in new products, innovative technologies and environmentally friendly processes in all that we do.

Our business sector is a challenging one and our success is no accident. We plan to keep pushing the boundaries, moving out of our comfort zone and realising our peoples' potential in creativity, innovation and style to be quite simply...better by design.

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### Targets for 2019

- Reduce carbon footprint by 5%
- Reduce water consumption by 2%
- Innovate over 10 new products
- Increase employee productivity by 20%



### Employee Retention

95%



### Renewable Raw Materials

37%



### Investment in Training & Development

Rs. 8.3 Mn.



### Water Recycled & Reused

10%

### Our Partners





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# Introduction

Our ambition is to be an innovative textile manufacturer that creates value over volume.

# About the Report

Our fourth Integrated Annual Report for the financial year ending 31st March 2018 presents a balanced review of our financial, environmental and social performance, our governance framework and how we manage risk. It also seeks to give readers an overview of how we nurtured our capitals to deliver sustainable growth and deliver value to our stakeholders, carefully balancing their concerns through carefully formulated strategy.

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

Regulatory Requirements	Voluntary Frameworks
<ul style="list-style-type: none"> <li>Companies Act No.7 of 2007</li> <li>Continued Listing Requirement of the Colombo Stock Exchange</li> <li>Sri Lanka Accounting &amp; Auditing Standards Act No.15 of 1995</li> <li>Sri Lanka Accounting Standards</li> </ul>	<ul style="list-style-type: none"> <li>Code of Best Practice on Corporate Governance</li> <li>Integrated Reporting Framework</li> <li>GRI G4 Guidelines "In Accordance" Core</li> </ul>

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

Information	Source
Financial statements including accounting policies and notes to the accounts	Hayleys Fabric PLC
Operational and sustainability information	Hayleys Fabric PLC
Information on the Global economy and market trends	World Economic Outlook April 2018 published by International Monetary Fund Euromonitor reports
Information on the Sri Lankan economy, Apparel and textile subsector	Central Bank of Sri Lanka website, Joint Apparel Association Forum websites & Export Development Board

Our quest for excellence in corporate reporting continues to shape the structure and presentation of the report. Importantly, it drives changes in our internal systems as we enhance the quantity and quality of information available for decision making and facilitating optimum allocation of resources. Notable changes to this year's report include the following:

- Clear linking of strategy and KPIs strengthening the strategic focus of the report.
- Enhance connectivity of information by signposting to key areas through the value creation model and strategy.
- Presentation is more concise with a reduction of 16 pages in comparison to the previous year.
- We continue to provide comparable information throughout the report using external sources.

Reliability of information has been enhanced by assurance on both the financial statements and the sustainability information by the external auditors Messrs Ernst & Young.



SCAN to access full  
Integrated Annual Report

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# Awards During the Year



Won the Bronze Award for the 3rd consecutive year in the Manufacturing Sector above Rs.5Bn Revenue category at the Annual Report Awarding Ceremony -2017 organized by CA Sri Lanka and Colombo Stock Exchange.



Certificate of Merit Awarded by SAFA in 2017 (South Asian Federation of Accountants) for Excellence in Integrated Reporting Award Ceremony held in Kathmandu-Nepal



Certificate of Merit Awarded by the Central Environment Authority of Sri Lanka at the National Green Award Ceremony - 2017

# About Us

Hayleys Fabric PLC is Sri Lanka's pioneering fabric manufacturer providing high end fabric to global fashion brands. We continue to expand our own branded range of fabric "Inno" to meet the needs of quality conscious brands who have shown high levels of interest in our products. Our innovation capability honed over the years together with strong relationships throughout our supply chain and lean workflows within the factory enable us to compete effectively on quality and lead times. Part of the Hayleys Group, we adhere to high standards of social and environment responsibility, creating sustainable value for our stakeholders.

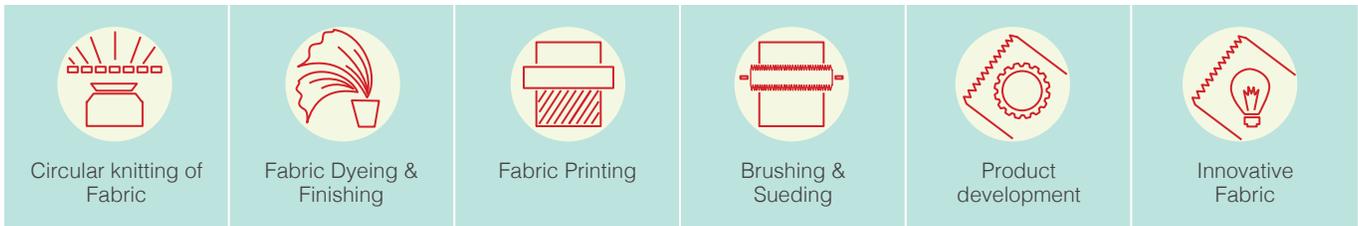
## A Passion for Innovation



## Key Numbers

Total Employees <b>1,106</b>	Total Assets <b>USD 46 Mn</b>	Property, Plant & Equipment <b>USD 25 Mn</b>	Carbon Footprint <b>26,207 tCO<sub>2</sub>e</b>	Water Footprint <b>2,537,545 m<sup>3</sup></b>
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## Finely Honed Capabilities



## Relevance to Economy



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## Our 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

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### Service

'customer decides' - putting our customer at the centre of all our activities

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### Quality

delivering excellent standards consistently

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### Innovation

invent in services and technologies to improve on what we do

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### People

to build our team to create value to stakeholders

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### Accountability

holding ourselves responsible to deliver what we promise

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### Good Citizenship

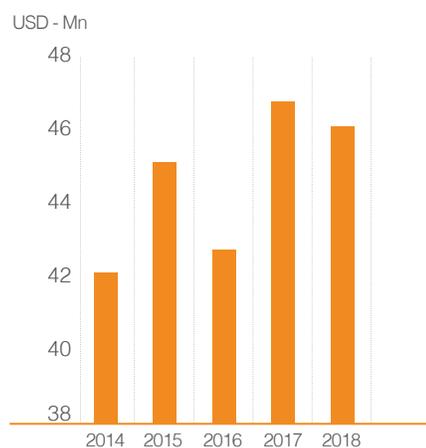
caring for the communities in which we work, and being environmentally responsible in all we do

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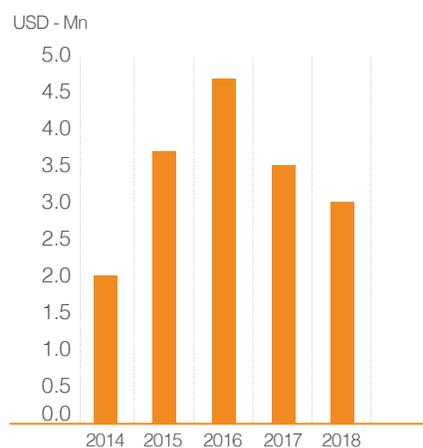
# Performance Highlights

		2018	2017
Revenue	USD '000'	57,686.80	55,537.40
Results from Operating Activities	USD '000'	864.07	1,315.10
Profit/(Loss) before tax	USD '000'	(49.05)	413.32
Profit/(Loss) after tax	USD '000'	(679.51)	490.26
Basic / Diluted earnings/(loss) per share	USD	(0.003)	0.002
Cash Profit	USD '000'	2,522	2,940
Interest cover	No. of times	1.12	1.79
Return on equity (ROE)	%	(4%)	3%
Pre-tax return on capital employed (ROCE)	%	2%	4%
<b>Balance Sheet Highlights and Ratios</b>			
Total assets	USD '000'	46,089.12	46,775.33
Total debt	USD '000'	16,706.67	19,686.73
Inventory holding Days		67 Days	68 Days
Debtors' days		51 Days	46 Days
Total shareholders' funds	USD '000'	17,036.97	17,585.46
No. of shares in issue		207,740,888	207,740,888
Net assets per share	USD	0.08	0.08
Debt /(Equity+Debt)	%	50%	53%
Total Debt / total assets	%	36%	42%
<b>Market / Shareholder Information</b>			
Market price of share as at 31st March	Rs.	12.50	13.60
Market capitalisation	Rs. Million	2,597	2,825

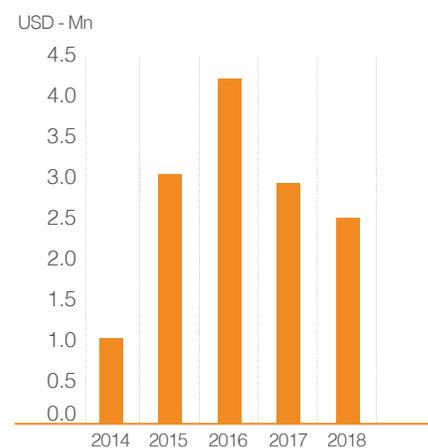
Total assets



EBITDA



Cash profit



### Financial Capital

Revenue

USD 57.68 Mn

2017: USD 55.53 Mn

Operating Profit

USD 0.86 Mn

2017 : USD 1.31Mn

Total Assets

USD 46.09 Mn

2017 : USD 46.77Mn

### Economic Impact

Foreign Exchange

USD 56.28 Mn

2017 : USD 54.34 Mn

Taxes Paid

USD 0.31 Mn

2017 : USD 0.33 Mn

### Intellectual Capital

% of Revenue from Inno and Product Proposals

36%

2017 : 20%

No. of Accreditations / Certifications and membership from Fashion Brands

41

2017 : 24

### Manufactured Capital

Investment in Plant & Machinery

USD 2.2 Mn

2017 : USD 1.4Mn

### Social & Relationship Capital

Employees from < 15 Km Radius

731

2017 : 695

No. of people benefited from Community engagement

Over 2,000

2017 : Over 2,000

### Human Capital

No. of Employees

1,106

2017 : 1,012

Employee Retention Rate

95%

2017 : 92%

### Environmental Impact

Direct Energy Consumption

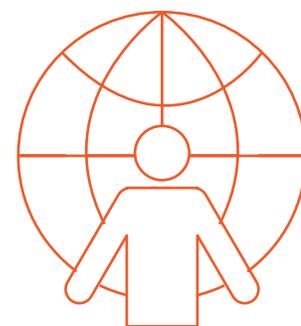
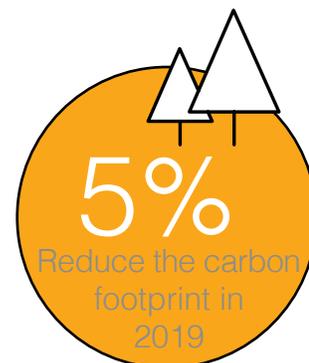
625,770 GJ

2017 : 655,194 GJ

Greenhouse Gas Emissions- Scope- 1 (tCO<sub>2</sub>e)

13,871

2017 : 11,554



Employees Receiving Performance Reviews

100%

# Performance Highlights

<b>Natural Capital</b>	2018	2017
Total extent of Land	54 Acres	54 Acres
Extent of land reserved as a green belt	20 Acres	20 Acres
Total Raw Material Consumption (MT)	13,160	12,718
Renewable Raw Material out of the total consumption (MT)	4,856	3,529
Recycled materials as a % of Raw Materials consumed	1.0%	1.4%
Direct energy consumption (GJ)	625,770	655,194
Direct energy (GJ/USD Mn. of Revenue)	10,848	11,797
Indirect energy consumption (GJ)	19,724	24,570
Indirect energy (GJ/USD Mn. Revenue)	342	442
Water withdrawal (M <sup>3</sup> )	1,850,871	1,765,755
Water withdrawal (M <sup>3</sup> / USD Mn. Revenue)	32,085	31,794
Water recycled (M <sup>3</sup> )	180,861	106,499

<b>Our Impact on the environment</b>	2018	2017
Direct greenhouse gas emissions - Scope 1 (tCO <sub>2</sub> e)	13,871	11,554
Energy indirect greenhouse gas emissions - Scope 2 (tCO <sub>2</sub> e)	9,949	9,206
Other indirect emissions - Scope 3 (tCO <sub>2</sub> e)	2,387	2,368
Total carbon footprint (tCO <sub>2</sub> e)	26,207	23,128
Total carbon footprint (tCO <sub>2</sub> e/USD Mn. of Revenue)	454	416
Water discharged to the river (M <sup>3</sup> )	1,602,648	1,525,679
Waste generated and disposed according to CEA requirements(M <sup>3</sup> )-Sludge and Non Hazard	1,951	2,072
Waste recycled/re-used through third party contractors	44%	46%
Significant environmental fines	Nil	Nil

<b>Relevance to Country's Economy</b>	2018	2017
Fabric produced (MT)	8,329	8,422
Proportion of purchases from suppliers within Sri Lanka (Local)	30%	28%

<b>Manufactured Capital</b>	2018	2017
Net Book Value - USD '000'		
- Buildings	3,585	3,694
- Plant & Machinery	15,122	14,361
Investments during the year USD '000'		
- Buildings	1,273	592
- Plant & Machinery	2,192	1,413
Capacity utilization	78%	78%

<b>Human Capital</b>	2018	2017
Total workforce (excluding casual)	1,106	1,012
% of employees from area (within 15 km radius)	66%	69%
Retention	95%	92%
Employee productivity (USD per man hour)	18	18
Training and development cost LKR	8,313,624	2,032,070
Average hours of training per employee	9	13
Training coverage of employees	6%	7%
Injury rate (number of injuries per 100 employees)	5.04	6.21
No. of employees receiving performance reviews (%)	100%	100%
Incidences of child labour (below 16 years) or young workers (between 16 – 18 years)	Nil	Nil
Incidents of forced labour during the year	Nil	Nil

<b>Intellectual Capital</b>	2018	2017
% of sales from Inno and product proposals	36%	20%
No. of Accreditations / Certifications and membership from Fashion Brands	41	24

<b>Intellectual Capital</b>	2018	2017
Community engagement (no. of persons impacted)	Over 2,000	Over 2,000
Proportion of businesses analysed for risk of corruption (%)	Nil	Nil
Significant fines for violation of laws / regulations	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 (Rs.)	Nil	Nil

# Chairman's Message

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Progress has been made towards achieving our long term goals as we reposition ourselves as set out in this Integrated Annual Report for the financial year 2017/18.

Dear Shareholder,

It is with pleasure I present the Annual report of Hayleys Fabric PLC for the financial year ending 31st March 2018.

The Company pursued its strategy of achieving a paradigm shift to market its own Inno brand high end fabric following positive interest from buyers. While significant progress was made with buyers booking capacity, orders took longer than anticipated to materialize resulting in lower capacity utilization which in turn led to lower revenues and a loss of US\$ 49,045 (Before Tax). However, in spite of the set back in the financial performance, progress have been made towards achieving our long term goals as we reposition ourselves as set out in this Integrated Annual Report for the financial year 2017/18.

This year highlighted the need to seek a better balance in managing short term and long term goals and we will continue to refine our strategy to drive performance in the new financial year 2018/19. We are optimistic about our future due to the changes implemented during the year. A positive turn in financial performance as witnessed in the 4th quarter, affirming the confidence placed by you in the Boards' ability to lead Hayleys Fabric PLC to deliver sustainable shareholder value.

### A Positive Landscape

A positive growth in principal markets in advanced economies supported growth of the global apparel market which continues to reflect healthy

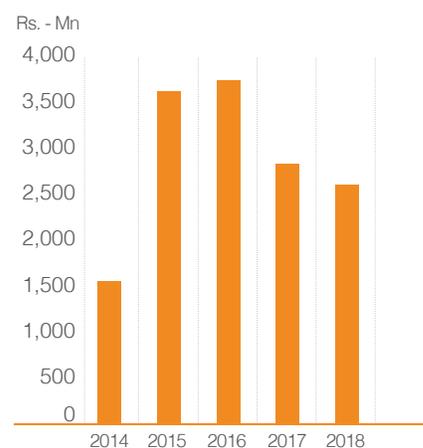
## Digitization and Artificial Intelligence will drive changes in the industry delivering customer insights, complex analytics, process and cost efficiencies supporting risk management and growth, serving to differentiate between industry players.

volume growth and marginal price growth. The McKinsey Global Fashion index forecasts healthy growth of 3.5 – 4.5% in 2018 following an estimated growth of 2.5 – 3.5% in 2017. Digitization and Artificial Intelligence will drive changes in the industry delivering customer insights, complex analytics, process and cost efficiencies supporting risk management and growth, serving to differentiate between industry players. Building agile supply chains and innovating using customer insights will be key to success.

Sri Lanka's apparel sector also reflected a healthy growth of 3% in 2017 exporting US\$ 4,818 Mn textiles

and apparel. GSP+ which was reinstated in May 2017 is expected to further support growth of the industry as products manufactured in Sri Lanka become more attractive to EU fashion brands. Sri Lanka's appeal as a sourcing destination based on the quality and capability of our world class manufacturing facilities and the country's positioning as an ethical sourcing destination founded on the "Garments without Guilt" value proposition. The industry continues to focus on moving to higher value adding products leveraging capability and relationships while

### Market capitalization



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### Corporate Governance

Read more about the Governance framework and policy statements.

We invested in upgrading technology and increased inventory and receivables in response to market imperatives while trimming fat in working capital management.

also enhancing the country's presence along the value chain. Encouragingly, the industry has been able to increase the sophistication of products and move to higher end products.

## An Aligned Strategy

Uncertainty and unpredictability is the new norm and we have adapted our supply chains and workflows to support the industry's need for continuous innovation, focus on quality and the need for speed. We have successfully repositioned ourselves as a supplier of high quality fabric with inhouse innovation capability and the ability to respond in record times on specific products. Our Inno range is a core component of this strategy as we selectively refine this portfolio to a carefully curated range catering to forecast trends for the industry with added benefits of shorter lead times. This enables us to sharpen our focus on what matters and doing it well in sharp contrast to our previous strategy of being a full spectrum provider.

## Performance & Outlook

Encouragingly, revenue growth was positive indicating positive customer interest in our range and provides a glimpse of the growth potential of our current strategy. The decline in profitability reflects the challenges faced during the year due to the transition which coincided with a period of unprecedented volatility in markets.

We invested in upgrading technology and increased inventory and receivables in response to market imperatives while trimming fat in working capital management. Cost leadership was a key business imperative which has supported curtailing losses in the reporting period while enhancing our competitiveness for the year that has commenced. I am optimistic that the learnings from the repositioning strategy implementation will strengthen our resolve to succeed and deliver revenue and profit growth in 2018/19, continuing the trend observed in the 4th quarter of 2017/18.

## Acknowledgements

I take this opportunity to thank the Board and the management team at Hayleys Fabric for their unwavering commitment in positioning your company as a leading fabric manufacturer in Sri Lanka. The Board joins me in expressing our appreciation to the staff at all the levels of the Company and our other stakeholders of the support extended by our customers, suppliers and





strategic partners who are key to successful execution of strategy. We look forward to the continued support of our shareholders in our transformation journey to deliver sustainable value to you and other stakeholders.

A.M. Pandithage  
Chairman

15th May 2018

# Managing Director's Review

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Over the last few years the Company has worked closely with all its customers, and presently, has the required flexibilities to suit the targeted customer requirements.

Dear Shareholder,

A year with challenges that compelled changes in the marketing strategy enabling the Company to face a harsh competitive environment....

It is my pleasure to report to you the performance of your company for the financial year 2017/18.

Although the results, at a glance, do not reflect a good year, mainly due to market conditions and other external cost increases, the Company has made extensive progress to regain profitability and unit cost reductions which was seen in the 4th quarter of 2017/18.

The strategies adopted by the Company for long term sustainability in having a broad based geographical market such as USA, UK & Europe, be selective with its customer base and to lead in innovation continued during the year under review. Additionally, the Company focused on cost reduction initiatives with external consultants and expatriate technical personnel. However, the market conditions during the year under review, unfortunately; behaved in a similar manner to that of last year with an added burden of a sharp increase in yarn prices. This impacted the profitability of the Company. The yarn price increase had a direct impact on the low margin businesses which are contracted for a longer period at a fixed price.

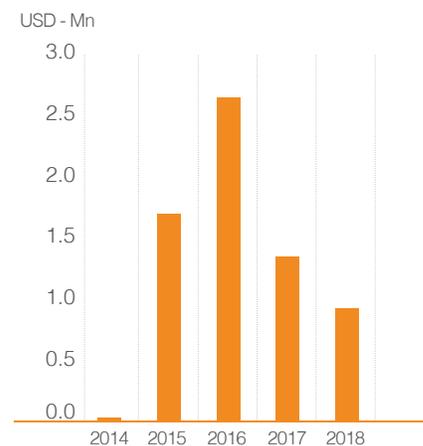
According to our research through the data published by Euromonitor, the global demand for apparel has increased by 1% year on year. Also the average unit price shows an increase of 1% year on year. This is a positive sign for the industry as a whole.

A closer look at the four quarters show that the largest impact on PBT came in the first quarter due to the above reasons where the Company suffered a loss of USD 162,648 before tax in Q 1 when compared to a PBT of USD 258, 926 in the previous year. The comparative drop in revenue and PBT is disproportionate. This is mainly due to the higher production costs in some of the synthetic products, higher wastage due to the learning curve of these new products and the increase in yarn prices. On the flip side, traditionally the Company has shown losses in the 4th quarter.

This year, the Company made a profit of USD 87,328 compared to a loss of USD 144,118 in the previous year. This was mainly due to the materialization of forecasts in the high end market, reductions in fabric waste and an increase in the lower market segment to fill capacity. This trend can be continued in the ensuing year.

Overall, the Company made a loss of USD 49,045 before tax and a loss of USD 679,516 after tax. The significant increase in loss after taxes is due to ESC paid in 2014/15, 2016/17 & 2017/18

Operating profit



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### Natural Capital

Read more on how we are committed to conducting our business in an environmentally responsible manner.

# Managing Director's Review

amounted to USD 685,269 (Rs. 107.8 Mn ) being charged to the current year's Income tax expense.

## Engaging the Customer

Over the last few years the Company has worked closely with all its customers, and presently, has the required flexibilities to suit the targeted customer requirements. These include small order quantities, ability to produce fashion colours in small quantities, flexibility in speed of delivery, high performance levels on quality standards and on-time delivery. The most significant attraction from the high end brands has been the Company's capability in innovation. These will show results in the coming future.

## Industry Outlook

According to our research through the data published by Euromonitor, the global demand for apparel has increased by 1% year on year. Also the average unit price shows an increase of 1% year on year. This is a positive sign for the industry as a whole. The main markets of the Company, being the UK/Europe and USA, have shown and year on year increase of 2% and 1.2% respectively.

In Sri Lanka too we have seen a marginal increase in the total exports, but when compared to Bangladesh, we lag by far. As per

the published figures by the WTO, Bangladesh has an annual turnover of USD 28 Billion (approx.) compared to Sri Lanka at USD 4.7Billion in 2017. This year witnessed a 3% increase in Sri Lanka's exports compared to the previous year. Also as per the EDB, 45% of Sri Lanka's exports are to the USA whilst 17% and 24% are exports to the UK and Europe respectively. With the re-gaining of the GSP+ for the EU market, an increase in demand is clearly seen from the supermarket chains. This is quite encouraging as it gives large order quantities with thin margins to fill capacity, improve productivity and profitability.

## A strong focus on Technology & Productivity

In addition to the re-arrangements made in the production flow to improve productivity and reduce

waste by using lean management concepts, the Company has also embarked on TPM (Total Productive Maintenance Management). An experienced consultant has begun a systematic approach to reduce costs by eliminating waste. All employees of the Company are involved in this activity and we expect to see results materializing from the beginning of the ensuing year.

The Company continued its focus on up-grading with new technology and machinery and also enhanced its printing technology by introducing a steamer and a washing range. With this now in operation, your company now has the flexibility to produce almost all requirements a Brand/ garment maker would need. The Company has also incurred capital



expenditure in upgrading its fire safety systems, IT systems, water treatment & laboratory equipment.

### A highly motivated team

Building a motivated team has been one of the key areas of focus for the past several years and the results are now clearly seen. The entire workforce is interested in the performance of the Company, reduction of waste, improving quality levels and improving output/productivity. The Trade Unions have considerably changed their traditional mindset and they work closely with the management and have given their co-operation to make changes as required by the management. The HR team has contributed immensely to make these changes and also to be closer to the village and obtain their cooperation.

### Systems, Processes & Controls

The Finance team has set in place tight controls in all areas of the Company from inventory management, fabric selling price controls, supply chain management, financial management, wastage management and many more. Similarly, all divisional managers have put in specific controls through SAP tools and Fast React planning tools. The production teams have controlled re-work and reduced wastage by analysing daily



the root causes for failures. Regular internal audits are carried out in each of the operational areas by the Group Internal audit team. It is noteworthy to mention that inventory management which comes under Finance has been recording 99.9% accuracy for the past three years. This is a creditable achievement when considering the range and the value of items in the inventory. As the entire company is system driven, the accuracy of information enables fast decision making too.

### Environment, Health, Safety & Compliance

The Company endeavours to maintain the highest health and safety standards. Special teams are engaged on a full-time basis to regularly check and correct violations and continuously making improvements by identifying possible risk areas. Additionally, all global Brands carry out regular

audits on environment, Health, safety and social compliance. Therefore, the Company, to a great extent has a third party eye on these areas every year.

Regular awareness programs on health and safety including fire drills are carried out. Awareness programs such as the harm caused by smoking tobacco, chewing beetle and the use of safety equipment are carried out. Other programs such as prevention from AIDS, identification of mental depression and stress management are carried out annually.

The protection of the environment is seriously considered in the daily operations of the Company. The employees are very careful and are concerned as most of them are from the village. The treatment of river water before discharging through our Effluent Treatment Plant is monitored

# Managing Director's Review

several times a day to ensure that all the required standards by the CEA, BOI and Water Board are met. The villagers who use the river for their daily needs are also an added responsibility for the Company to ensure proper treatment of water. Our journey with our Brand owners to reach a state of zero discharge of potentially hazardous chemicals by the year 2020 is on track. This will reduce the cost of water treatment and also improve the environment related risks.

The Company is constantly looking at ways of reducing its carbon footprint. Currently, the introduction of a second bio mass boiler is under discussion. This is to eliminate the use of furnace oil.

## Socially responsible

During the devastating floods that impacted in May 2017, the HR team in the Company was stationed within the premises for a week to assist the village people with cooked food, boat transportation, potable water and other basic needs. Immediately after the flood waters receded, the Company was involved in cleaning many drinking water wells and helped people with numerous daily requirements. All these activities were carried out with the prelates of the village temples and the Grama Niladari. The Company was well appreciated by all and they saw the Company as an asset to their village.

The Company continues its engagement with local transporters, catering services, and collectors of cardboard & packing material, collectors of fabric trims and waste fabric pieces and collectors of empty chemical barrels. The largest contribution is through the efforts made to recruit people from the village, especially the educated youth.

At a National level, the Company continues its CSR activity at Rathmalgahawewa, Kahatagasdigiya in Anuradhapura through the Puritas Sath Diyawara to provide clean potable water. This has shown clear results with a distinct reduction in CKD. The Company continued to provide education facilities for the children in the village numbering approximately 500 children.

## Outlook

It was encouraging to see that our marketing strategy started to work during the 4th quarter of 2017/18 where new orders started to flow-in and this is expected to continue with the addition of more high-end orders. Further, these orders can now be sustained due to the improved quality and on-time delivery performance through numerous improvements made with the combination of expatriate and local technical teams. Productivity improvements through TPM and other cost saving initiatives should also bring in additional results to the bottom line.

I wish to conclude that the Company now has a clear focus on the bottom-line and is poised to end with positive results in the ensuing year.





## Acknowledgements

I greatly appreciate the support given by the Chairman and the Board of Directors who have always been available at any time for support, advice, encouragement and for the trust placed in me.

My sincere appreciation and thanks to my Senior Management Team and staff at all levels, who believe in my leadership and who continue to support my leadership at all times. I appreciate the commitment and hard work put in to improve the KPIs of the Company.

E.R.P. Goonetilleke  
Managing Director/ CEO  
15th May 2018

# Board of Directors

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## 1) A. M. Pandithage Chairman & Chief Executive

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Joined Hayleys Group in 1969. Appointed to the Board in 1998. Chairman & Chief Executive of Hayleys PLC since July 2009. Fellow of the Chartered Institute of Logistics and Transport (UK). Honorary Consul of United Mexican States (Mexico) to Sri Lanka. Committee Member of the Ceylon Chamber of Commerce. Council Member of the Employers' Federation of Ceylon. Member of the Advisory Council of the Ceylon Association of Ships' Agents.

## 2) E. R. P. Goonetilleke Managing Director/ CEO

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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).

## 3) K. D. D. Perera \*

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Mr. Dammika Perera is the quintessential strategist and business specialist with interests in a variety of key industries including Manufacturing, Banking and Finance, Hospitality and Hydropower generation. He has nearly thirty years of experience in building formidable business through unmatched strategic foresight.

Mr. Perera is the Chairman of Vallibel One PLC, Royal Ceramics Lanka PLC, Lanka Ceramic PLC, Lanka Tiles PLC, Lanka Walltiles PLC, The Fortress Resorts PLC, Vallibel Power Erathna PLC, Delmege Limited, and LB Microfinance Myanmar Company Limited. He is the Co-Chairman of Hayleys PLC, The Kingsbury PLC, Singer (Sri Lanka) PLC, Executive Deputy Chairman of LB Finance PLC and Deputy Chairman of Horana Plantations PLC. He is also the Executive Director of Vallibel Finance PLC and serves on the Boards of Amaya Leisure PLC, Haycarb PLC, Dipped Products PLC, and Hayleys Global Beverages (Pvt) Limited.

## 4) S. C. Ganegoda \*

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Rejoined Hayleys in March 2007. Appointed to the Group Management Committee in 2007. Appointed to the Board of Hayleys Fabric in November 2009. Fellow Member of Institute of Chartered Accountants of Sri Lanka and Member of Institute of Certified Management Accountants of Australia. Holds an MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura. Worked for Hayleys Group between 1987 and 2002, ultimately as an Executive

Director. Subsequently, held several senior management positions in large private sector entities in Sri Lanka and overseas. Has responsibility for the Strategic Business Development Unit and the Fentons Group.

## 5) Haresh Somashantha \*\*

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Mr. Haresh Somashantha is a member of the Institute of Chartered Accountants of Sri Lanka and an Associate member of CPA Australia. He also holds a Bachelor's Degree in Mathematics from the University of Kelaniya. He counts over 18 years of experience in audit, financial management and reporting, including strategic and corporate planning across different industries.

He is currently the Head of Finance & Treasury of Royal Ceramics Lanka PLC. He serves as a Director/Audit Committee Chairman of Hayleys Fabric PLC. Also he serves as a Director of Vallibel Power Erathna PLC, Royal Porcelain (Pvt) Ltd., Unidil Packaging Limited and in several subsidiary companies in the Delmege Group. He is an Alternate Director of The Fortress Resorts PLC.

## 6) R. N. Somaratne \*\*

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Mr. Nandajith Somaratne was appointed to the Board of Hayleys Fabric PLC in February 2012. He also a Director of Royal Porcelain (Pvt) Ltd which is a fully owned subsidiary of Royal Ceramics Lanka PLC, Lanka Walltiles PLC. Mr. Somaratne is currently working in the capacity of General Manager (Manufacturing) for Royal Ceramics Group which includes Lanka Tiles PLC and Lanka Walltiles PLC. He has served in Ansell Lanka (Pvt) Ltd and

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in Central Engineering Consultancy Bureau (CECB) before joining Royal Ceramics Lanka PLC in 1993. Mr. Somaratne counts more than 25 years' experience in manufacturing field. He 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.

Mr. Somaratne has undergone several corporate leadership training programs including Corporate Leadership Management Program conducted by HIDA, Japan.

#### **7) Dr. S. J. Nawaratne \*\***

Dr. Sunil Jayantha Nawaratne is the Director General of Sri Lanka Samurdhi Development Department and previously served as Senior Advisor to the Minister – Ministry of Social Empowerment & Welfare and before that as the Secretary to the Ministry of Higher Education until January 15th of 2015 and he has vast experience in both public sector as well as in the private sector organisations during the last 20 years. Currently he is serving in several boards like Board of Management (BOM) of School of Accounting and Business of the Institute of Chartered Accountants of Sri Lanka. (CA Sri Lanka) and Sri Lanka Institute of Information Technology (SLIIT). He holds a B.Sc. (Business Administration) degree from the University of Sri Jayawardenepura (Top- of-the Batch in 1977), Post Graduate Diploma in Business Management (PIM), MA Economics from Kagawa University, Japan and a PhD in Management from prestigious Keio

University, Tokyo, Japan. He is a visiting faculty member on Strategic Management / Marketing / Japanese Management for under-graduate and MBA programs in University of Sri Jayawardenepura and University of Colombo.

#### **8) Ananda Sunil Jayatilleka \*\***

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

Mr. Jayatilleka has had a long career at Richard Pieris & Company spanning 29 years and was a senior member of the main board. He was instrumental in setting up of Richard Pieris Exports PLC and held the position of Managing Director from its inception. Mr. Jayatilleka also served in plantations boards of Kegalle & Maskeliya plantations at the very inception of privatization. He has also served as a Board member of Aviva Global Services Pvt Ltd. His vast experience also includes work in Zambia Consolidated Copper Mines and Piggott Maskew Ltd (Subsidiary of General Tire – South Africa). Presently he serves as a Non-Executive Director of Alufab PLC & Tea Small Holder Factories PLC, under 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.

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

Ms. Yogadinusha Bhaskaran is a Financial and 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.

\* Non-Executive Director

\*\* Independent Non-Executive Director

# Management Team

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# Management Team

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

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

## 2) **R. Rohitha Bandara** **GM / Chief Financial Officer**

Ruwan Rohitha Bandara is a Fellow of the Institute of Chartered Accountants of Sri Lanka (FCA) and holds a B.Sc. Management Special Degree from the University of Sri Jayawardenepura. He is also qualified in AAT, ACMA (SL), ACPM, AIPFM (UK), Affiliate-ACCA (UK) and in addition, he also completed an MBA in Finance from University of Colombo. He has over four years' experience with Ernst & Young in different industry segments in Sri Lanka and Singapore and over 12 years of manufacturing experience in Textiles as sector Head of Finance.

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

Saliya Pulasinghe holds a National Diploma in Engineering Sciences from Institute of Engineering Technology, an MBA from University of Wales, UK and a Member of the Certified Management Accountants of Australia. He had undergone extensive training in Lean Management (PIPF-Osaka), Operations Management (PPOM-Yokohama) and Cooperate Management (LKCM13-Chubu) from The Association of Overseas Technical Scholarship, Japan. He has over 24 years of experience in Manufacturing & Construction sectors.

## 4) **A. B. Senarathne** **General Manager - Quality Assurance, Product Development & Innovation**

Ajith Senarathne holds a B.Sc. Engineering Degree from the University of Moratuwa with First Class Honours' in Textile and Clothing Engineering. He has participated in PQM2 Certificate course in Japan for Total Quality Management (TQM). He has over 21 years' of experience in the Textile Industry.

## 5) **M. H. Jayasinghe** **General Manager - Sales & Marketing**

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

## 6) **M. L. Dayananda** **General Manager - Supply Chain**

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

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

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

## 8) **N. L. Hendawitharana** **Deputy General Manager - Commercial and IT**

Nalaka Hendawitharana is an Associate Member of the Chartered Institute of Management Accountants of the UK (ACMA), a Chartered Global Management Accountant (CGMA) and a Certified Practicing Accountant of Australia (CPA). He is also an Associate member of the British Computer Society (AMBCS) and a SAP Certified Solution Consultant for the Finance module with over a 10 years of experience in SAP.

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Nalaka possesses over 14 years of experience in the Textiles and Apparel industry. Prior to joining the Company he was the Financial Controller for the Knit Cluster of the Hirdaramani Group and was the Assistant Manager of Finance for Texture Jersey Lanka (Pvt.) Limited.

**9) T. N. Peiris**  
**Deputy General Manager -**  
**Brushing and Finishing**

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Nalin Peiris holds a National Diploma in Technology in Textile Technology from the University of Moratuwa. He has over 19 years working experience at Hayleys Fabric PLC.

**10) P. M. P. Perera**  
**Deputy General Manager -**  
**Engineering**

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

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

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

**12) K. D. C. R. Gunaratne**  
**Deputy General Manager -**  
**Knitting**

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

# Corporate Governance

The Board of Directors is committed to upholding high standards of good corporate governance which has underpinned the Company's growth and stability. Strongly supported by the Hayleys Group through the involvement of common directors and within the umbrella of its own group structures, our governance framework has proved to be a solid foundation facilitating oversight and accountability.

## Framework and Structure

The Governance framework drives fairness, integrity and accountability and is regularly reviewed to adapt to internal developments and reflect best practice. The Board of Directors bears responsibility for setting in place a governance structure together with a policy framework to guide the executive management in driving sustainable value creation.

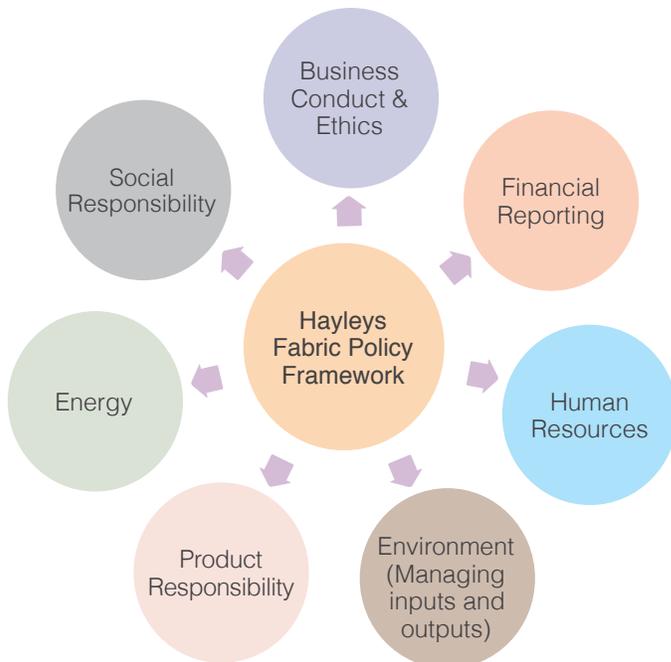
Industry Regulations and internal policies, underpin the framework. Accordingly, our corporate

governance framework complies fully with the following:

- Companies Act No. 7 of 2007
- Listing rules of the Colombo Stock Exchange (CSE)
- Code of Best Practice on Corporate Governance 2013 issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (Code)

We welcome the release of the revised Code of Best Practice on Corporate Governance 2017 by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in December 2017. We will review its impact on the Company's governance framework, policies and practices in 2018/19, and ensure to incorporate the latest developments.

A sufficiently robust governance structure ensures compliance with



## SDG Alignment



- Develop effective, accountable and transparent institutions at all levels
- Promote and enforce non-discriminatory laws and policies for sustainable development
- Substantially reduce corruption and bribery in all their forms

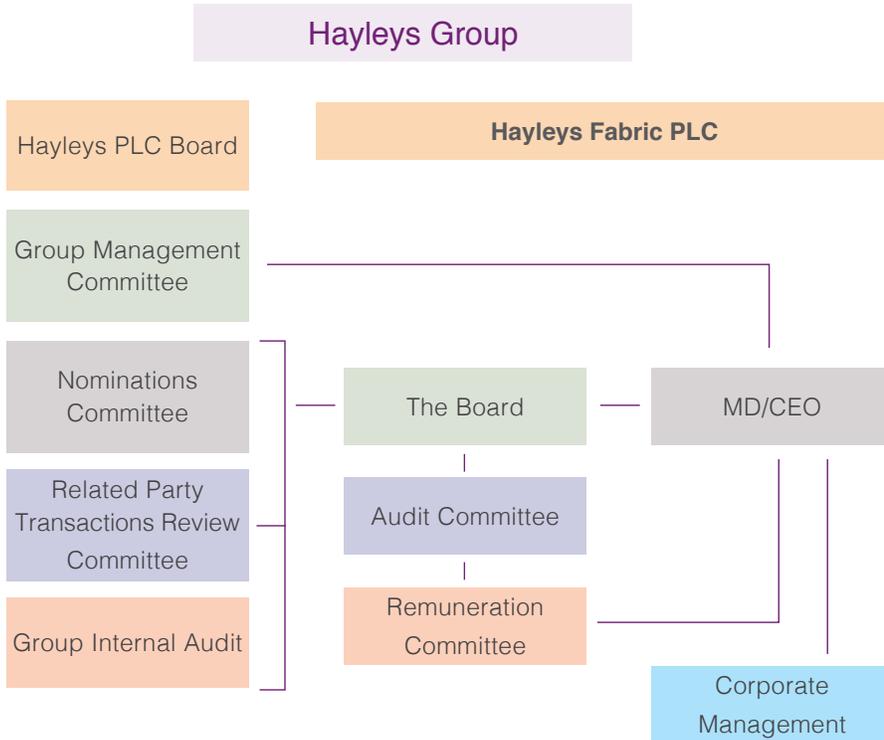
relevant regulatory requirements, maintains an appropriate balance between stakeholder interests and enables efficient functioning of the Company. As a subsidiary of the Hayleys Group, the Hayleys Fabric PLC's Board is assisted by the Nominations Committee and the Related Party Transactions Review Committee of Hayleys PLC in the discharge of their responsibilities as outlined in the structure in page 33.

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

## The Board

The Board comprises 8 members, whose profiles are given on page 26. Apart from the Chairman and MD/CEO, all members are non-executive. Consequently, there is a sufficient balance of power minimizing the

All Directors possess financial acumen and knowledge through the experience gained from leading large private and public enterprises coupled with their academic and professional background.



tendency for one or few members of the Board to dominate the Board processes or decision making.

The Board is diverse in its experience, expertise and age, contributing varied perspectives to boardroom deliberations and exercising independent judgment to bear on matters set before the Board. The Chairman and 2 Non-Executive Directors serve on the Board of the Parent Company - Hayleys PLC, creating a vital link with the extensive expertise, networks and tacit knowledge of a highly-reputed conglomerate.

## Appointment of Directors

Directors are appointed by the shareholders at the Annual General Meeting, following a formal and transparent process. The appointments are made 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.

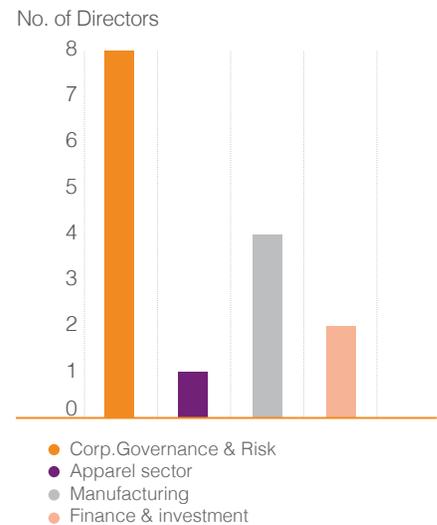
An Effective Board

Chairman (Executive Director)	
Independent Non-Executive Directors	
Non-Executive Directors	
MD/CEO (Executive Director)	

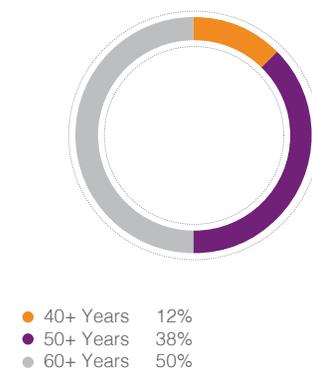
Balanced Board. Proportion of Independent NED is high.

Sound balance between continuity and fresh perspectives Board is diverse in experience.

## Board experience



## Age Diversity



Retiring Non- Executive Directors (NEDs) may be re-elected on a rotational basis, subject to the provisions in the Companies Act. 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.

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

Independence of Directors is determined by the Board, based on annual declarations submitted by the Non-Executive Directors in line with the Schedule H of the Code.

The Board believes the independency of Mr. A.S. Jayatilleka is not compromised by being a Board member in an independent capacity of Alufab PLC, a subsidiary of the Parent Company considering his experience and knowledge particularly in the manufacturing field.

## Other Business Commitments and Conflicts of Interests

In compliance with the Companies Act, directors declare their outside business interests at appointment and quarterly thereafter. The Company Secretary maintains a register of Directors' interests, which is tabled to the Board annually. The Register is available for inspection in terms of the Companies Act. Details of the business interests are submitted to the Finance department for statutory disclosure purpose. Key appointments of the Directors are included in their profiles on page 26 to 27.

## Powers and Responsibilities of the Board

The Board determines the overall strategy to enhance long term value of the Company and oversees implementation. Providing independent, informed and effective judgment and leadership to decision making, they ensure that strategy, risk, internal controls, performance and sustainable development considerations are effectively integrated and appropriately balanced. The Board also ensures all stakeholder rights and obligations are safeguarded whilst complying with laws, regulations and ethical standards. All Directors contribute meaningfully to leading the Company and commit sufficient time to fulfill their duties.

The Board may obtain independent professional advice as and when necessary at the Company's expense in accordance with the Board approved policy on independent professional advice and these functions are coordinated through the Company secretary.

Regular presentations by the MD/CEO and Corporate Management on matters including progress in implementation of the strategic goals, financial, social and environmental performance, changes and challenges presented by the operating environment ensure that the Board is apprised of developments impacting the Company.

## Board Committees

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

### Key Board Responsibilities

- Setting strategic direction
- Financial reporting
- Putting in place a competent management team
- Establishing an effective system to secure integrity of information, internal controls and risk management
- Selection of appropriate accounting policies
- Establishing the Company 's codes of conduct
- Regular review of company's performance against agreed goals and targets
- Appropriate delegation of authority

### Powers Reserved for the Board

- Approval of strategic plans
- Approval of remuneration policies and structures
- Approval of capital expenditure
- Appointment of the MD/ Chief Executive Officer

Board Committee	Areas of Oversight	Composition	Further Information
Audit Committee	<ul style="list-style-type: none"> <li>Financial Reporting</li> <li>Internal Controls</li> <li>Internal Audit</li> <li>External Audit</li> </ul>	Comprises 3 Independent Non-Executive Directors including the Chairman of the Committee.	Report of the Audit Committee on page 92
Nominations Committee	<ul style="list-style-type: none"> <li>Appointment of Key Management Personnel</li> <li>Succession Planning</li> <li>Effectiveness of the Board and its Committees</li> </ul>	Hayleys PLC (Parent company) Nominations Committee acts as the Company's Nomination Committee.	
Remuneration Committee	<ul style="list-style-type: none"> <li>Remuneration policy for Key Management Personnel</li> <li>Goals and targets for Key Management Personnel</li> <li>Performance evaluation</li> <li>HR Policy</li> <li>Organization structure</li> </ul>	Comprises 2 Independent Non-Executive Directors including the Chairman of the Committee.	Report of the Remuneration Committee on page 94
Related Party Transactions Review Committee	Review of related party transactions	Hayleys PLC (Parent company) Related Party Transactions Committee acts as Company's Related Party Transaction Review Committee.	Report of the Related Party Transaction Review Committee on page 95

### Meetings & Minutes

Details of Directors' meetings are given in page 36. Agenda and Board papers are sent 7 days before the meeting, allowing members sufficient time to review the same. The 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 and administrative matters.

Board meetings are held on a quarterly basis with the flexibility to arrange ad-hoc meetings to supplement these when required. The Board met 5 times during the year.

Minutes are circulated and formally approved at the subsequent Board meeting, Directors have access to the past Board papers and minutes in case of need via electronic means at all times.

### Roles of Chairman and CEO

The role of Chairman is separate from that of the MD/ CEO as detailed in the Board Charter, in line with best practices in Corporate Governance ensuring that no one Director has unfettered power and authority.

The Chairman is an Executive Director while the MD/CEO is also an Executive Director appointed by the Board.

# Corporate Governance

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

## Board Access to Information and Resources

Directors have unrestricted access to management and organisation information, as well as the resources required to carry out their duties and responsibilities, independently and effectively. Members of the Corporate Management make regular presentations with regard to the business environment and in relation to the operations of the Company. Access to independent professional advice, co-ordinated through the Company Secretary, is available to Directors at the Company's expense.

## Induction and On-going Training for Directors

On appointment, Directors are provided with an orientation pack with all relevant external and internal regulation documents and a tour of the factory premises. The Board of Directors recognize the need to keep abreast of current developments affecting the sector both globally and locally with particular reference to regulatory changes and the country's economy. They undertake training and professional development as they consider necessary in assisting them to carry out their duties as Directors. They are members of the Sri Lanka Institute of Directors and attend their sessions from time to time. Other training and continuous professional

Attendance at Meetings		
Directors	Board	Audit
Mr. A.M. Pandithage	5/5	
Mr. E.R.P.Goonetilleke	5/5	
Mr. K.D.D. Perera*	1/5	
Mr. S.C. Ganegoda*	5/5	
Mr. H. Somashantha**	5/5	4/4
Mr. R.N. Somaratne**	4/5	
Dr. N.S.J. Nawaratne**	5/5	4/4
Mr. A.Jayatilleke **	4/5	3/4
***Ms. Y. Bhaskaran (***Alternate Director to Mr. K.D.D. Perera)	4/5	
Total No. of Meetings	5	4

\* Non-Executive Director

\*\* Independent Non-Executive Director

Roles of Chairman & MD/CEO
<ul style="list-style-type: none"> <li>The Chairman is an Executive Director who leads the Board ensuring that it works effectively and acts in the best interest of the Company.</li> <li>MD/CEO is accountable to the Board for the exercise of authorities delegated by the Board and for the performance of the Company.</li> </ul>

development undertaken by Directors in 2017/18 includes attending seminars/workshops/conferences, participating as speakers at events, using web based learning resources and reading regulatory updates etc.

## Directors' and Executive Remuneration

Remuneration of the Chairman, Managing Director and the Executive Directors are determined by the HR & Remuneration Committee who also set

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guidelines for the remuneration of the management staff within the Group. The Chairman and Managing Director are not members of this Committee but may be invited to attend meetings. The Remuneration Committee comprises Independent Non-Executive Directors and the Chairman of this Committee is appointed by the Board.

Further information about the activities of this key committee are summarized in the Remuneration Committee Report on page 94.

### Remuneration Policy

The Hayleys Fabric PLC's remuneration policy supports the motivation and reward of performance of employees whilst meeting regulatory requirements and stakeholder expectations. Remuneration consists of two components - fixed remuneration (base pay + benefits) and variable remuneration comprising of an annual performance bonus. Remuneration policy is recommended by the Remuneration Committee to the Board for their approval.

Remuneration Committee is responsible for making recommendations to the Board regarding the remuneration of the Chairman and Managing Director/ CEO (Executive Directors) within agreed terms of reference and in accordance with the remuneration policies of the Company.

### Level and Make Up of Remuneration

The Remuneration Committee and the Board are mindful of the fact that the remuneration of Executive and the Non-Executive Directors should reflect market expectations and be sufficient to attract and retain eminent professionals as Directors. The remuneration package of the MD / CEO is structured to link rewards to corporate and individual performance

and takes into consideration performance and risk factors entailed in his job. The Board and the Remuneration Committee engages the services of HR professionals to assist in structuring remuneration packages and to benchmark against market.

Details of Directors' emoluments and other benefits paid in respect of the Company during the financial year 2017/18 are given in Note 22 to the Financial Statements on page 131. The Non-Executive Directors receive a fee in line with the market practices. Remuneration for Non-Executive Directors reflects the time commitment and responsibilities of their role, taking into consideration market practices.

### Relations with Shareholders

Engagement with shareholders and potential investors is a key element of good corporate governance.

### Constructive use of Annual General Meeting (AGM)

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

effective mechanism to count all proxies lodged on each resolution is in place including the balance for and against the resolution after it has been dealt with on a show of hands, except where a poll is called.

At the AGM, the Board provides an update to shareholders on the Company's performance and shareholders ask questions and vote on resolutions. It is the key forum for shareholders to engage in decision making matters reserved for the shareholders which typically include proposals to adopt the Annual Report and Accounts, appointment of Directors and auditors and other matters requiring special resolutions. The Board Chairman, Board members particularly Chairmen of the Audit, Remuneration and Nomination committees on the request of the Board Chairman, Key Management Persons (KMP) and external auditors, are present and available to answer questions. All Shareholders are encouraged to participate at the AGM and exercise their voting rights.

### Communication with Shareholders

Shareholders are engaged through multiple channels of communication, including the AGM, a dedicated investor relations page on the Company's website, press releases in the main newspapers and notification of key events through announcements in the CSE.

The primary modes of communication between Hayleys Fabric PLC and the shareholders are the Annual Report and Annual General Meeting (AGM) or other General Meetings. Information is provided to the shareholders prior to the AGM to give them an opportunity to exercise the prerogative to raise any issues relating to the business of the Company, either verbally or in writing prior to the AGM.

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

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

Additionally, quarterly financial statements are circulated on the due dates and uploaded on to the investor relations page of the Company's website <http://www.hayleysfabric.com/investor-relations/results-and-reporting/interim-reports> Every effort is made to provide a balanced review of our performance which is clearly evidenced by our press releases that accompany the release of interim results.

## Disclosure of Major Transactions including Related Party Transactions

During the year, there were no major transactions as defined by Section 185 of the Companies Act No. 07 of 2007 which materially affect the net asset base of the Company. Related party transactions are given in Note 25 to the Financial Statements of the Annual Report on page 134.

## Accountability & Audit

Every effort has been made to present a balanced and understandable assessment of the Company's financial position, performance and prospects in compliance with the various legal enactments applicable, the Sri Lanka Financial Reporting Standards, the G4 standard on Sustainability Reporting published by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council. The Company's position and prospects have been discussed in detail in the following sections of this annual report.

- Chairman's Message page 14 to 17
- Managing Director's Review page 18 to 23
- The Capitals Report on page 50 to 71
- A Positive Outlook on page 72 & 73
- Managing Risk on page 74 to 81

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 Monetary Board, and the Colombo Stock Exchange have been filed in a timely manner in compliance with specified requirements. The following reports set out further information required by the Code:

- The Directors' Report on page 99 (including the declaration that the Company is a going concern)
- The Statement of Directors' Responsibility on page 103
- Report of the Auditors on page 105 to 107

## Code of Business Conduct and Ethics and Corporate Governance Report

The Company has developed Code of Conduct for its employees including the Corporate and Senior Management. This Code addresses conflict of interest, bribery and corruption, entertainment and gifts, accurate accounting and record keeping, corporate opportunities, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behaviour, conduct of business in an ethical manner at all times by keeping with acceptable business practices.

## Sustainability Reporting

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

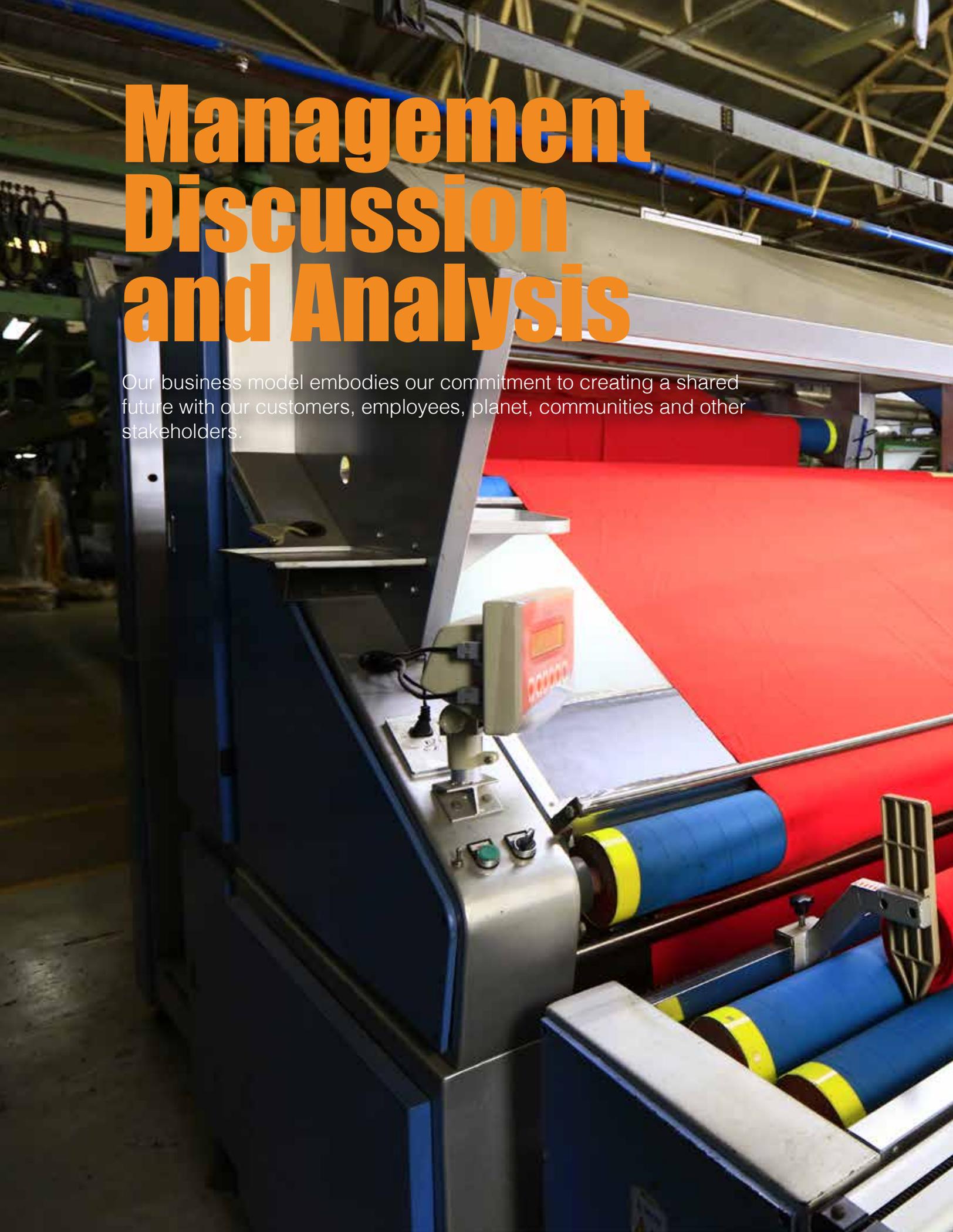
- Economic sustainability - page 48
- The Environment – Natural Capital on page 63
- Labour Practice – Human Capital on page 59
- Society – Social & Relationship Capital on page 55
- Product Responsibility - Social & Relationship Capital on page 55
- Shareholder identification, engagement and effective communication – Investor Relations on page 44.

## Statement of Compliance

Rule No.	Subject	Applicable requirement	Compliance Status / Applicable Section in the Annual Report
7.10.1(a)	Non-Executive Directors (NED)	As at the conclusion of the immediately preceding AGM 6 out of 8 Directors were Non-Executive Directors as at 31st March, 2018.	yes Corporate Governance
7.10.2(a)	Independent Directors	4 out of 6 Non-Executive Directors were independent as at 31st March, 2018.	yes Corporate Governance
7.10.2(b)	Independent Directors	All Non-Executive Directors have submitted their confirmations on independence as per the criteria set by the Company, which is in line with the regulatory requirements.	yes Corporate Governance
7.10.3(a)	Disclosure relating to Directors	The Board assessed the independence declared by the Directors and determined the Directors who are independent and disclosed same on page 26 which contains their profiles.	yes Corporate Governance
7.10.3(b)	Disclosure relating to Directors	The Board has determined that 4 Non-Executive Directors satisfy the criteria for "independence" set in the Listing Rules.	yes Corporate Governance
7.10.3(c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the Director's areas of expertise.	Yes Board of Directors (profile) section in the Annual Report
7.10.3(d)	Disclosure relating to Directors	Disclosed the appointments of new Directors to the Colombo Stock Exchange when it is disclosed to the public, brief resumes of the Directors appointed during the year have been provided to the Colombo Stock Exchange.	N/A No new directors were appointed in 2017/18.
7.10.5(a)	Composition of Remuneration Committee	The Remuneration Committee comprises 2 Independent Non-Executive Directors as disclosed in the Remuneration Committee Report on page 94.	Yes Corporate Governance
7.10.5(b)	Functions of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of the Managing Director	Yes Corporate Governance
7.10.5(c)	Disclosure in the Annual Report relating to Remuneration	Names of Remuneration Committee members are given on page 94. A statement on the Remuneration policy is disclosed on page 94 and Remuneration paid to Directors is given in Note 22 to the Financial Statements on page 131.	Yes Corporate Governance and the Board Committee Report
7.10.6(a)	Composition of Audit Committee	Comprises Non- Executive Directors (NEDs), all of whom are independent.	Yes Corporate Governance
7.10.6(b)	Audit Committee Functions	Refer Audit Committee Report on page 92	Yes Corporate Governance
7.10.6(c)	Disclosure in the Annual Report relating to Audit Committee	The names of the Audit Committee members given on page 92 (Meetings and Minutes). The basis of determination of the independence of the Auditor is also given in the Audit Committee Report.	Yes Corporate Governance
9.3.2	Related party Transactions Review Committee	This is mandatory if the Parent Company and the Subsidiary Company both are listed entities. The Related Party Transactions Review Committee of the Parent Company may be permitted to function as such Committee of the subsidiary. Committee Report is given on page 95.	Yes The Committee of the Parent Company which functions as the Committee of the Company.

# Management Discussion and Analysis

Our business model embodies our commitment to creating a shared future with our customers, employees, planet, communities and other stakeholders.





042 Focus on Strategy  
048 Operating Environment

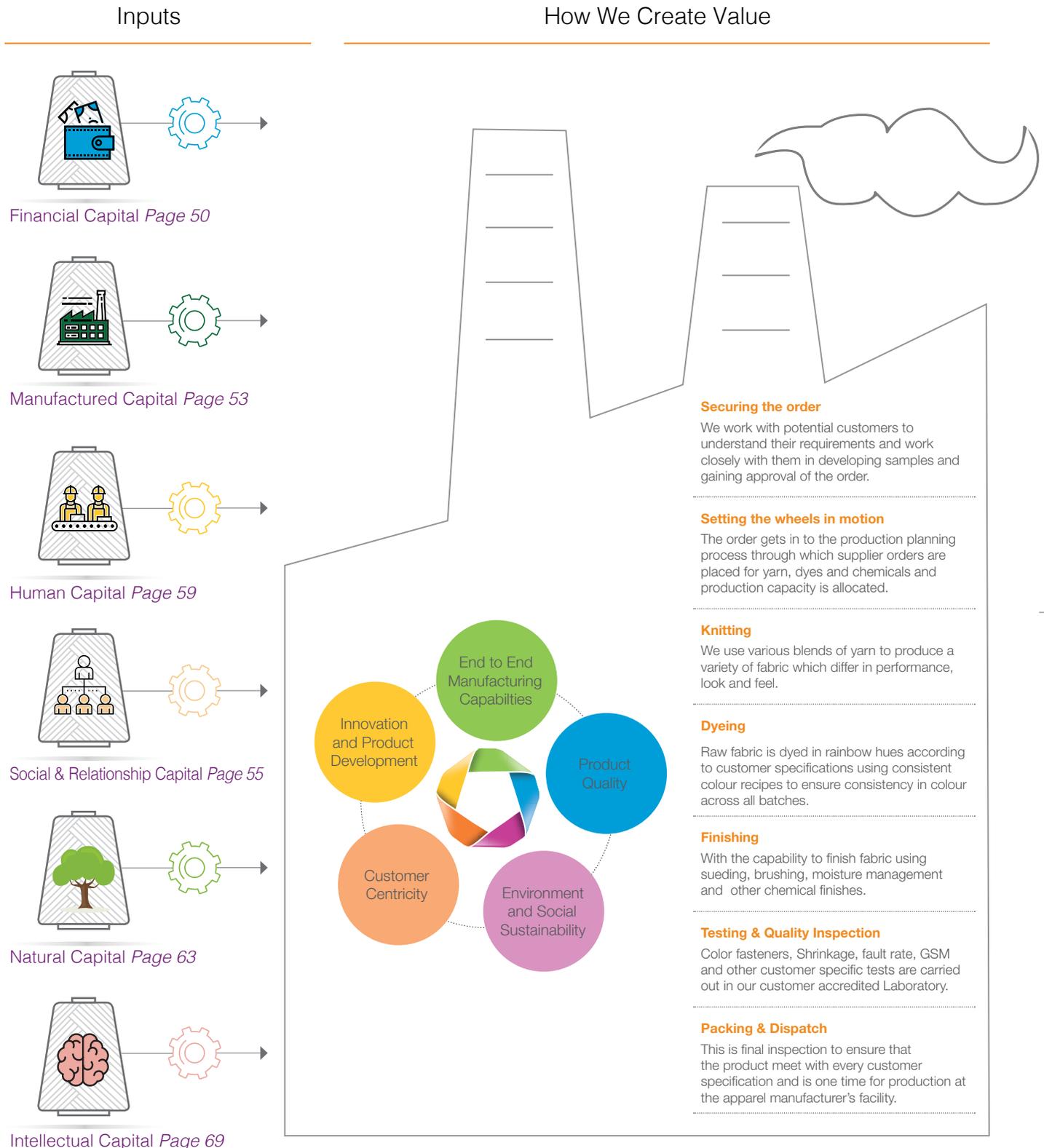
**The Capitals Report**

050 Financial Capital  
053 Manufactured Capital  
055 Social & Relationship Capital  
059 Human Capital  
063 Natural Capital  
069 Intellectual Capital

072 A Positive Outlook  
074 Managing Risk  
082 GRI Index  
088 Independent Assurance Report

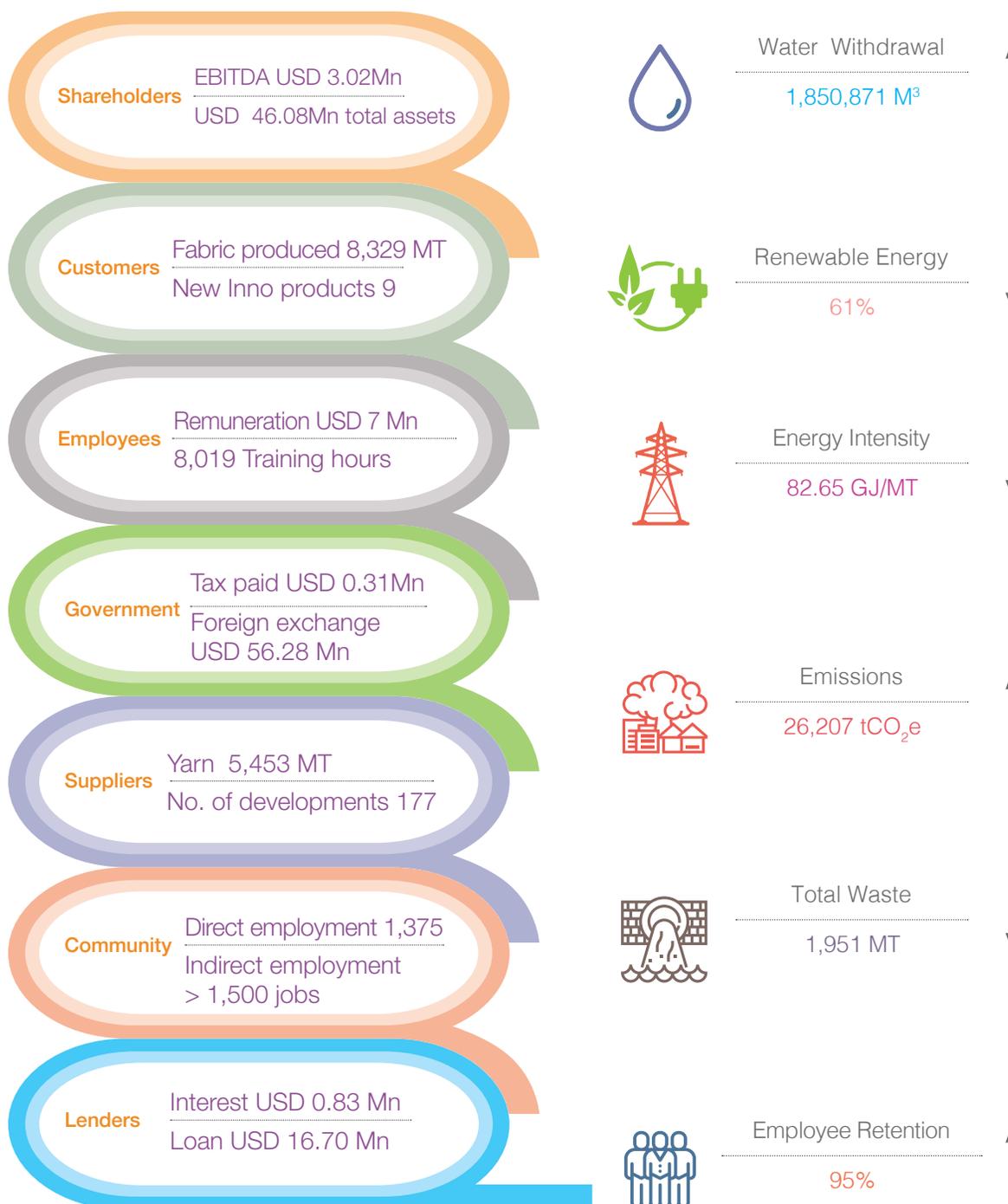
# Focus on Strategy

## Our Business Model



## Value Created for Stakeholders

## Impact



# Focus on Strategy

## Stakeholder Identification

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

## Creating Value for Stakeholders

Our business model focuses on generating shared value and embodies our commitment to creating a shared future with our customers, employees, planet, communities and other stakeholders. Accordingly, we have refined the model to be 'better by design', more responsive to the needs of our stakeholders by driving customer centricity, employee engagement, innovation, Governance and Risk and environment and social responsibility.

The manufacturing process covers end to end production capabilities for a broad offering of fabric of cotton, polyester and nylon and blends. It encompasses teams forecasting fashion trends and developing own branded fabric portfolios in consultation with customers, developing flexible sourcing strategies with suppliers and driving production of high quality fabric that meet exacting customer specifications in speed, on time.

## Responding to our Stakeholders

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

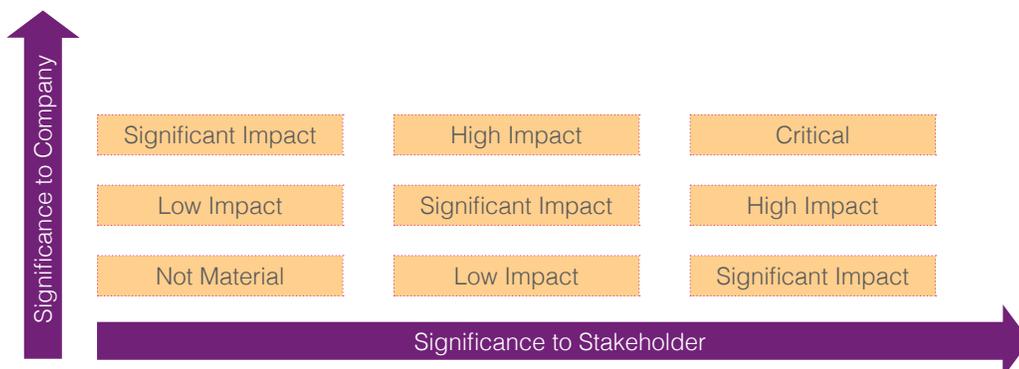
 Brand Owners & Apparel Manufacturers	 Investors	 Employees
Engagement with brand owners and apparel manufacturers drives innovation and supports our growth	Investor Relations is a structured process with sign off by the Board on written communications	Managing employee relationships is key to drive growth, innovation and productivity
Engagement Mechanisms: <ul style="list-style-type: none"> <li>• Multi layered relationship management</li> <li>• Regular visits</li> <li>• Through customized product developments</li> <li>• Trade Exhibitions &amp; Fairs</li> <li>• Annual Customer Survey</li> <li>• Quality &amp; Performance Review</li> </ul>	Engagement Mechanisms: <ul style="list-style-type: none"> <li>• Quarterly Financial Statements</li> <li>• Press Releases</li> <li>• Annual Report</li> <li>• Annual General Meeting</li> <li>• CSE Announcements</li> </ul>	Engagement Mechanisms <ul style="list-style-type: none"> <li>• Employee Survey conducted by external party</li> <li>• An open-door policy</li> <li>• Formal performance appraisals</li> <li>• Regular meetings with trade unions</li> <li>• Communication of company performance</li> <li>• Team building &amp; sports activities</li> </ul>
Concerns: <ul style="list-style-type: none"> <li>• Product quality and pricing</li> <li>• Lead times</li> <li>• Environmental management</li> <li>• Labour practices</li> </ul>	Concerns: <ul style="list-style-type: none"> <li>• Earnings &amp; Dividends</li> <li>• Growth prospects</li> <li>• Environment &amp; Social impact</li> <li>• Governance</li> <li>• Share price and liquidity</li> </ul>	Concerns: <ul style="list-style-type: none"> <li>• Remuneration</li> <li>• Employee benefits</li> <li>• Training &amp; Development</li> <li>• Career progression</li> </ul>
Addressed through; <ul style="list-style-type: none"> <li>• Innovation</li> <li>• Wide Capability</li> <li>• Agile supply chain</li> <li>• Responsible products</li> </ul>	Addressed through; <ul style="list-style-type: none"> <li>• Sustainable strategy</li> <li>• Strong leadership</li> <li>• Sound Corporate governance</li> </ul>	Addressed through; <ul style="list-style-type: none"> <li>• Strong human capital policies and initiatives</li> </ul>
Refer Social & Relationship Capital Report page 55, Natural Capital page 63, Human Capital page 59	Refer strategy page 44, Financial Capital page 50, Positive Outlook page 72, Investor Information page 144, Corporate Governance page 32	Refer Human Capital Report page 59

 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
<b>Engagement Mechanisms:</b> <ul style="list-style-type: none"> <li>Relationship management</li> <li>Quality &amp; Lead times</li> <li>Pricing</li> <li>Service levels</li> <li>Supplier evaluation and rating mechanism (Monthly)</li> <li>New developments</li> </ul>	<b>Engagement Mechanisms:</b> <ul style="list-style-type: none"> <li>Regular visits to premises</li> <li>Filing of returns and tax compliances</li> <li>Compliance with CEA regulations</li> <li>Compliance with BOI / CSE &amp; SEC regulations</li> </ul>	<b>Engagement Mechanisms</b> <ul style="list-style-type: none"> <li>Frequent engagement with religious leaders</li> <li>Workshops</li> <li>Village festivals</li> <li>Empowering the community</li> <li>Providing assistance at times of natural disasters</li> <li>Encouraging indirect employment</li> </ul>
<b>Concerns:</b> <ul style="list-style-type: none"> <li>Increased business</li> <li>Timely payments</li> <li>Constructive feedback</li> <li>Quality related claims</li> </ul>	<b>Concerns:</b> <ul style="list-style-type: none"> <li>Compliance with regulations</li> <li>Timely payments</li> </ul>	<b>Concerns:</b> <ul style="list-style-type: none"> <li>Employment</li> <li>Livelihoods</li> <li>Sponsorships</li> </ul>
<b>Addressed through;</b> <ul style="list-style-type: none"> <li>Supplier engagement and development</li> <li>Supplier assessments</li> <li>Supplier integration</li> </ul>	<b>Addressed through;</b> <ul style="list-style-type: none"> <li>Corporate governance</li> <li>Compliance</li> </ul>	<b>Addressed through;</b> <ul style="list-style-type: none"> <li>CSR activities</li> </ul>
Refer Social & Relationship Capital Report on page 55	Refer Corporate Governance on page 32	Refer Social & Relationship Capital Report on page 55

### Determining Material Issues

Material issues are those factors impacting achievement of strategic goals and objectives. These were identified, evaluated and prioritized as summarized in the heat map and table below, considering their significance to stakeholders and the Company .

Key Performance Indicators identified for material issues are monitored throughout the year, with responsibilities assigned to relevant Heads of Department, to facilitate progress towards achievement of the objectives.



# Focus on Strategy

Critical	High Impact	Significant Impact
Timely delivery	Speed of delivery	Compliance
Product responsibility	Innovation	Supplier Assessment
Cost efficiency	Flexible manufacturing	Product labelling
Water	State of the art technology	Anti-corruption
Energy	Local Community Relations	Grievance mechanisms
Labour Relations	Government Policy	Bio Diversity
Employee Health & Safety	Raw Material	Child labour
Effluents & Waste	Customer Health and Safety	Forced labour
Emissions	Training & Development	

## Strategy

Material issues identified as critical, having a high or significant impact on the operations of Hayleys Fabric PLC were taken into consideration in developing the corporate strategy.

Economic, environmental and social impacts to the Company are being monitored and analysed by a team under the direct supervision of the MD/CEO.

## Reflecting Changes in 2017/18

The heat map was reviewed to reflect emerging trends and shifts in the retail industry in 2017/18, and their impact on the Company's business model.

Factors shifted from 'High Impact' to 'Critical'

Reason	
Timely delivery	These are now the 'norm' -standard features of a successful fabric mill
Product Responsibility	
Cost efficiency	
Advanced technology	

New factors added to 'High Impact'

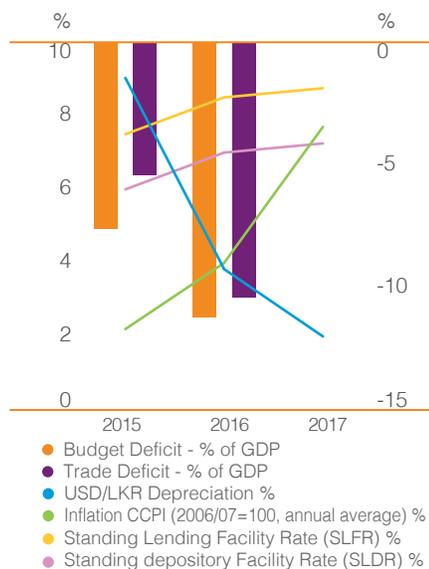
Reason	
Speed of delivery	E-commerce, Fast fashion
Innovation	Fast fashion, niche marketing
Flexible manufacturing	Speed delivery of small order quantities,
State of the art technology	Rapid technology advancement

Vision To be the most sought-after fabric manufacturer in South Asia					
					
Strategic Drivers	Innovation	Speed	Reliability	Quality	Service
Goals	Grow Inno brand	Increase agility of Supply chain	Improve Corporate Responsibility <ul style="list-style-type: none"> <li>• Environmental</li> <li>• Society</li> <li>• Labour practices</li> <li>• Product responsibility</li> </ul>	Drive Technological advancement	Focus on Customer centricity
Key Achievements	Product developments + 147 new 346 Cumulative	Lead time 4% Reduction	Accreditations/ Certifications/ Memberships + 17 new 41 Cumulative	State of the art machinery USD 2.2 Mn investment	Innovation 1.2% from Gross Profit 80% - 90% Alignment with customer strategy Cost efficiency -cycle time reductions up to 40% for certain qualities of fabric - Reduction of fabric wastage by 44%
		Employee Retention 95%			
	Upmarket Brands + 2 new 8 Cumulative		Renewable Energy 61% of total energy consumed	Training and development 8,019 training hours 6 % employee cover	
			Emissions 26,207 tCO2e		
			Employee injuries 65 (All are male employees) 2017 – 96 Indirect employment > 1,500 jobs		
Enablers	Inspired team	Investment in the business	Act Responsibly		
	Human Capital Page 59	Financial Capital Page 50 Manufactured Capital Page 53 Intellectual Capital Page 69 Social and Relationship Capital Page 55	Corporate Governance Page 32 Risk Management Page 74 Natural Capital Page 63		

# Operating Environment

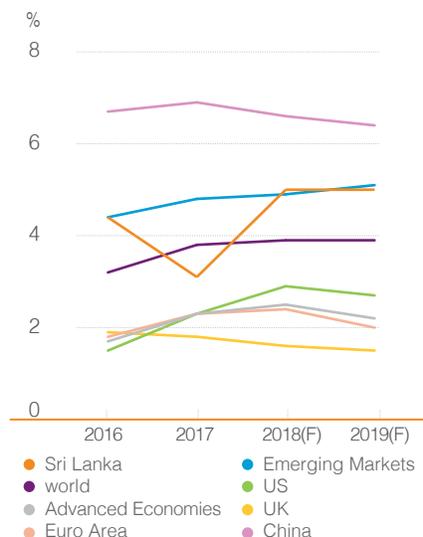
GDP growth in Sri Lanka's main apparel export markets - the Eurozone and US, gained momentum in 2017 stemming from fiscal stimulus while the UK, another key market, slowed down following rising inflation and weak investment sentiment in the wake of the 2016 Brexit vote. Sri Lanka's GDP growth moderated to 3.1% due to poor performance of the agricultural sector and knock on effects on industry stemming from climate change impacts.

Sri Lanka economic indicators



Source: Central Bank of Sri Lanka

GDP Growth



Source: IMF World Economic Outlook, April 2018

Domestic inflation and interest rates continued their upward trajectory during the year due to tightening of fiscal and monetary policy in response to a widening budget and trade deficit exacerbated by food supply disruptions due to climate change. The USD/LKR exchange rate depreciated marginally by 2% following the adoption of a flexible exchange rate policy.

Reinstatement of the GSP+ in May 2017 was a key development making Sri Lanka's products more competitive in the EU. As Sri Lanka's leading export destination, EU accounts for 31% of Sri Lanka's exports in 2015. Total imports grew 9.37% to USD 20.98Bn, of which textiles and textile articles grew 0.71% to USD 2.72Bn. Consequent to the expansion of the trade deficit, improved foreign exchange inflows from tourism and workers' remittances helped cushion the impact on the current account. Following these developments and increase in FDI, gross official reserves stood at US dollars 7.7 Bn at end January 2018.

## Apparel and Textile Industry

The apparel industry grew 3.5% to USD 1.3 Tn in 2017 supported by strong volume growth driven by fast fashion. An increase of 1% in global apparel prices to USD 12.55 for the first time in 5 years contributed to growth, reflecting the slow shift towards value added apparel as consumers displayed some willingness to pay more for unique and personalized products that embody their values. Major retail brands continue to expand in key growth markets such as Emerging Markets and North America, supporting growth of the industry. Global online sales of clothing and footwear increased significantly, accounting for 16% of total sales in 2017 driving brands to offer experiential shopping and personalization, apart from flexible return policies and better logistics services, to attract consumers' attention and remain competitive.

While women's wear remains the bedrock of apparel, children's wear outpaced industry growing by 6.2% supported by a mix of macroeconomic and social trends. Millennials contributed the highest growth rate of all generations at 4%. Sport wear, driven by Athleisure, continues to be the fastest growing trend at 8%, offering consumers a combination of both fashion and functionality. Sportswear is forecast to slowdown from 2018 having reached its peak in some mature markets.

These trends highlight critical areas of focus for industry players which include:

- Speed in concept-to-store is critical in this model and reliance on a flexible and agile supply chain capable of supplying small order quantities, in short replenishment times, at low cost

### Apparel Industry Growth

3-4%

### Online sales accounted for

16%  
of sales

### Athleisure growth

8%

### Apparel prices increase of

1%

- Retail brands will seek technologically savvy, performance fabric to stay ahead of competition, Hayleys Fabric PLC is well positioned to benefit from the current trends.
- Retail brands will increasingly look to supply chain partners to support their transition to E-commerce
- Supply chain partners will need to invest to remain relevant and add value to retail brands.

Source: Makinsey Global Fashion Index  
2017/Euro Monitor

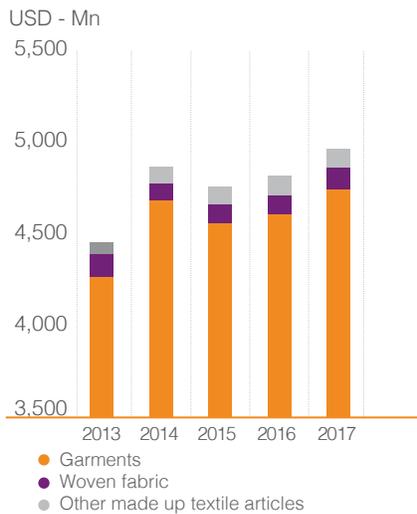
### The Sri Lankan Context

The Textile and Apparel sector comprises around 300 apparel manufacturers and 4 large scale fabric mills, of which Hayleys Fabric PLC was the pioneering mill. Fabric mills mainly supply local apparel manufacturers, partially substituting their textile imports. The Sri Lankan apparel and textile sector has nurtured

a reputation for being strategic supply chain partners to reputed global brands, providing value-addition rather than cheap production cost, with greater emphasis on innovation and design, product quality, delivery and ability to manufacture niche products. Positioned as “Garments without guilt”, attention to sound social and environmental policies and practices has been a key differentiator. This key sector is the largest export industry in the country, employing over 100,000 Sri Lankans.

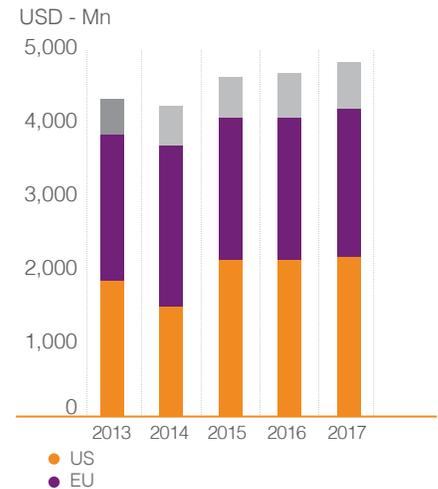
The Textiles and garment subsector grew at 3.03% to USD 5.03Bn , accounting for 44% of total exports. EU accounted for 42% of Sri Lanka’s total textile and apparel exports in 2017 amounting to US\$ 2,024 Mn while the US accounted for 45% amounting to US\$2,164Mn . Local apparel FOB improved for the second consecutive year, by 1%, from USD 5.24 to USD 5.32, reflecting the shift towards manufacture of value added products.

### Textile & garment exports



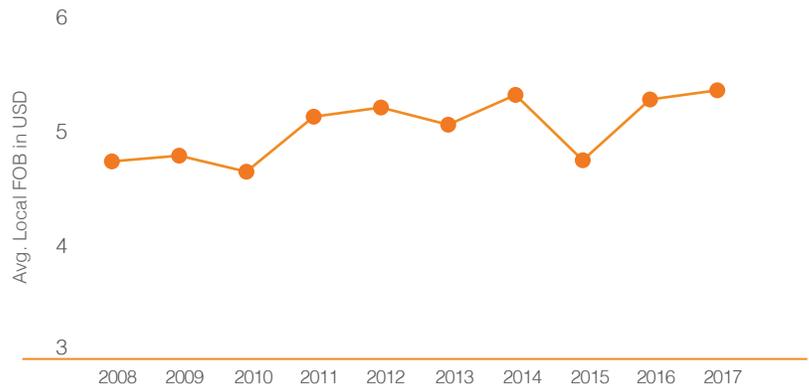
Source: Central Bank of Sri Lanka

### Apparel & textile exports by market



Source: Joint Apparel Association Forum

### Sri Lankan apparel export performance



Source: Export Development Board

# The Capitals Report - Financial Capital

The Company performed poorly in 2017/18. Orders placed by renowned global brands for our premium, new product Inno, continued to delay materializing resulting in open production capacity leading to financial losses. Increased business volumes contracted from low margin, cotton blends barely bridged the shortfall in recovering overheads. Despite the headwinds, continuous development of innovative synthetic fabric is the future and we are confident our investments in this strategic direction will realize in significant gains in the near term.

## Revenue, GP & PBT



Revenue increased by 4% to USD 57.69Mn, GP margin declined from 12% to 11% and the Company recorded a financial loss of USD 0.049 Mn following a profit of USD 0.41Mn (before tax) the previous year. The loss is largely attributed to the non-materialization of high margin, Inno orders and the consequent difficulty in filling open capacity at short notice. On placement of orders, our buyers

request sufficient capacity to be blocked, restricting existing business of Hayleys Fabric PLC. In the event of cancellation, the Company is compensated in part, for lost business, however insufficient to cover fixed overheads.

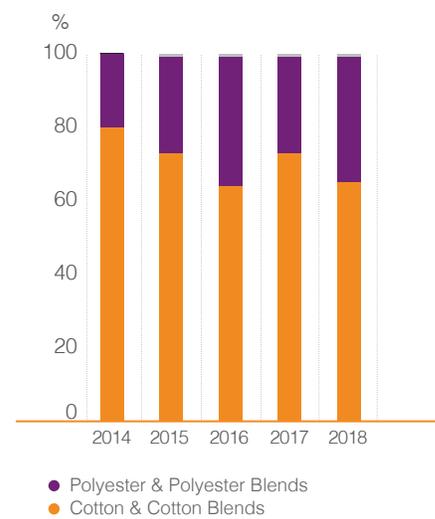
Despite the loss, the financial position remained stable. Gearing improved on settlement of debt and the liquidity and funding position of the Company was satisfactory.

## Revenue

Inno, our own brand of self-developed, synthetic fabric, was launched last year in the USA following the Company repositioning itself as a niche supplier of innovative, self-developed fabric to global brands. A growing order book and the traction of 3 new retail brands were key achievements during this year. Despite the increased buyer confidence and the potential to grow in a market buoyed by improved economic outlook, the materialization of orders has been slow following lackluster consumer interest, a trend observed since last year and which was expected to reverse this year. Reasons for the poor interest is not clear but could be attributed to consumer focus on shopping experience rather than fashion. Consequently, retail chains were compelled to cancel many sales orders placed with Hayleys Fabric PLC due to over forecasting.

Overall, Synthetic fabric business grew by 12% to account for 38% of revenue, driven by increased sales of Athleisure. Revenue from innovated and developed fabric alone accounted for 22% (17% - 2016/17) of total revenue of which Inno products accounted for 1%, (0.5% - 2016/17). Unlike in the previous year where fabric was designed based on forecast trends that would appeal to the fashion market in general, this year product offerings were customized further, following enhanced engagement with the brand owners and local manufacturers, to cater to the specific fashion trends of the brands.

## Sales mix & inno revenue



Lower margin, Cotton blended fabric exported to the EU and UK remained the mainstay of the Company contributing 62% to revenue. Babywear is the main product line.

## Net Assets

USD 17 Mn.

Baby wear manufactured from cotton/cotton blends remains the key product line. Athleisure is the fastest growing segment, forecast to take lead in 2018/19 with 35% revenue share.

Product Portfolio - 2018



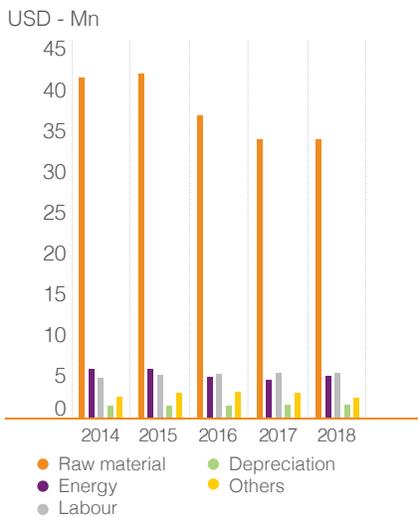
- Babywear 32%
- Athleisure 28%
- Lingerie 22%
- Others 18%

### Cost of sales and Gross Profit

Cost of sales was largely impacted by the insufficient contribution generated to recover overheads following the cancellation of Inno orders and the difficulty in contracting orders from existing business under short notice, to cover the open capacity. Volatility in cotton prices and increasing polyester yarn prices also affected cost of sales. In contrast, lean processes and high levels of cost consciousness

facilitated efficiencies in reducing costs. Wastage division established during the year, identified, monitored and controlled production related wastage in all departments whilst the TPM (Total Productive Maintenance) programme resulted in lower machine down time and productivity gains. Despite these gains, GP margin declined to 11% (2017 -12%)

### Cost of sales composition

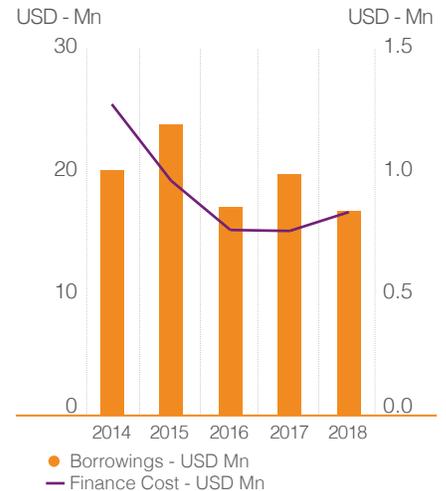


### Operating Expenses

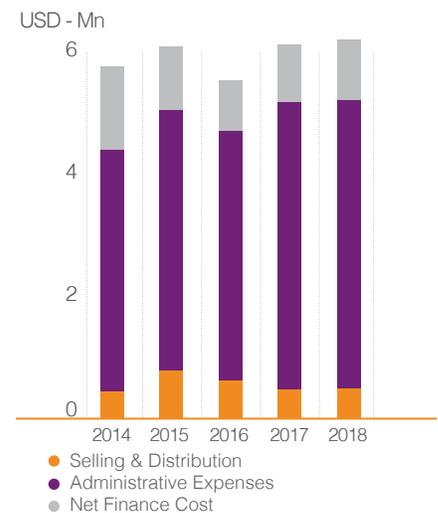
Operating costs were largely controlled during the year, remaining flat. Net finance costs increased by 4%, despite the settlement of debt, driven by the rise in market USD rates (LIBOR). Several initiatives were implemented during the year to reduce interest cost including rationalization of banks.

The Company slowed investment in Research and Development (R & D) following a spill over from last year. 147 (2016/17 - 162) new products were developed in consultation with buyers whilst a further 177 were developed in collaboration with suppliers.

### Borrowing Vs Finance cost



### Operating expenses



### Pre & Post Tax Profit

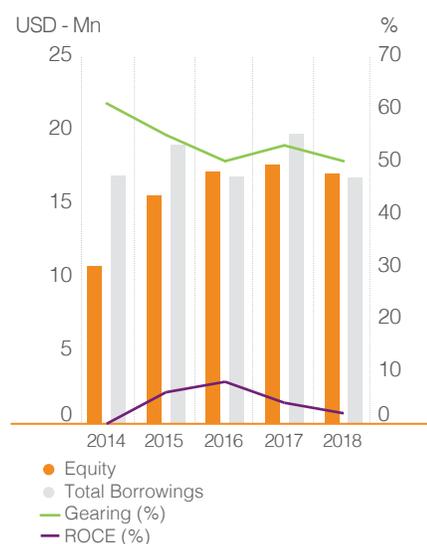
Profit before tax decreased to a loss of USD 0.049 (2017 – 0.41 Mn Profit) and Profit after tax also decreased to a loss of USD 0.68 (2017 – 0.49 Profit). This large increase in loss after tax in the current financial year was mainly due to charge of Economic Service Charge paid amounted to USD 0.68Mn in 2014/15, 2016/17 & 2017/18 due to restriction of its recoverable period up to 3 years by the national budget.

# The Capitals Report - Financial Capital

## Capital Structure

Capital structure improved following settlement of debt from operating cash flows. Gearing declined to 50%. Despite an improved denominator, Pre-tax ROCE dipped to 2% (2017 – 4%) given marginal loss to the Company

### Capital structure



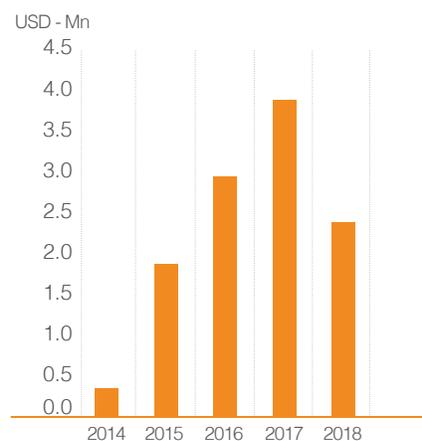
## Capital Expenditure

The Company continued to invest in upgrading their technology to state of the art, keeping abreast of modern manufacturing techniques whilst driving product quality flexibility, cost efficiency and environment sustainability. This year, investments were made in dyeing, printing and finishing machines for USD 2.19Mn. Construction of the new building at a cost of USD 2Mn was near to complete increasing floor area for knitting, streamlining production flows and enhancing inventory warehousing, which improvements contributed towards creating an agile supply chain and faster delivery.

With an increase in Asset turnover, these investments will support Hayleys Fabric PLC to remain relevant to customer needs

in a rapidly evolving industry, contributing towards enhanced and sustainable profits in the future.

## Capital expenditure



## Cash flow and Working Capital Management

Smart settlement terms negotiated from suppliers during the year, resulted in operating cash flow savings, which were utilized to fund capex and settle debt.

The current and quick assets ratios both declined following increased

inventory holding and debtor balances. Increased inventory holding subsequent to the completion of the new building facilitates faster response times in catering to high end, fast fashion and e-commerce. Attractive longer settlement terms were offered to new buyers in the marketing and sale of new products. These ratios are expected to streamline over the next year, as business volumes grow and relationships strengthen.

## Liquidity ratios



## Return to Shareholders

		2018	2017
ROE	%	(4%)	3%
Net Assets per Share	USD	0.082	0.085
Earnings per share	USD	(0.003)	0.002
Market Price per Share	LKR	12.50	13.60
No. of Shares in Issue	Nos	207,740,888	207,740,888
Market Capitalization	LKR Mn	2,597	2,825

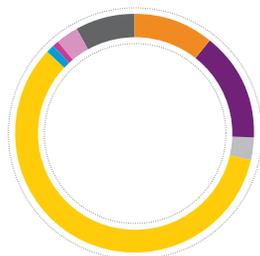
# The Capitals Report - Manufactured Capital

We upgrade our facilities to be 'better by design', utilizing best in class machinery and latest technology. Our investments have enabled us to offer our customers a comprehensive range of value added products and finishes, particularly of synthetic fabric, whilst ensuring enhanced quality, product flexibility, cost reductions through improvements in productivity and lower environmental impact.

Investments in 2017/18 include;

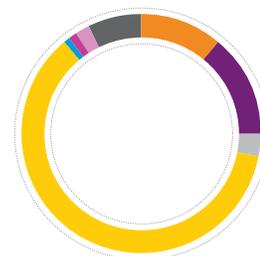
- augmenting the printing capability to include sublimation printing, in trend for synthetic fabric and our Inno range and introducing a steamer and washer for reactive printing.
- upgrading of dyeing machines to low liquor, dual purpose machines capable of dyeing cottons and synthetics.
- completion of 65000 sq. foot building used to relocate the knitting machines enabling leaner and cost-efficient workflow and to provide increased storage space for raw materials

Property, Plant & Equipment- 2016/17



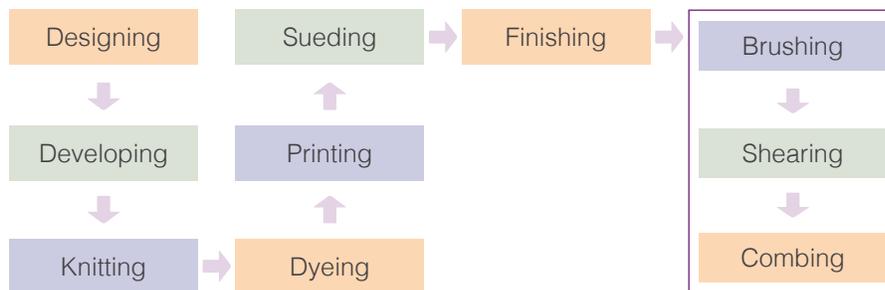
Freehold Land	11%
Buildings	15%
Water Treatment Plant	3%
Plant & Machinery	59%
Furniture and Fittings	1%
Office Equipment	0%
Computers	1%
Factory Equipment	3%
Safety and Medical Equipment	0%
Bungalow Equipment	0%
Capital WIP	8%

Property, Plant & Equipment- 2017/18



Freehold Land	11%
Buildings	14%
Water Treatment Plant	3%
Plant & Machinery	60%
Furniture and Fittings	1%
Office Equipment	0%
Computers	1%
Factory Equipment	2%
Safety and Medical Equipment	0%
Bungalow Equipment	0%
Capital WIP	7%

The diagram below provides a glimpse of our manufacturing facility.



Production planning tool Fast React is interfaced with ERP system Sap, to seamlessly integrate all business functions and ensure on time delivery.



# The Capitals Report - Manufactured Capital



Enhanced printing solutions - sublimation, reactive, emboss



Effluent treatment plant



State of the art, dual purpose - cotton and synthetic, dyeing machines



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



'Fast React' planning tool interfaced to 'SAP' ERP system



# The Capitals Report - Social & Relationship Capital

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

rationalizing their supplier base. Our key markets are the United Kingdom 36% of revenue, USA – 16% and European Union– 46%.

We are committed to high levels of product responsibility embodied across our value chain and affirmed through International certifications and accreditations.

### Innovation

Over 140 new products of varying features and functionality were developed during the year, following increased Research and Development collaboration and engagement with the brand owners and local manufacturers to drive a



### Satisfied Customers Customer Value Proposition

Innovation	Agile Supply Chain	Responsible Products	Capability
<ul style="list-style-type: none"> <li>• Research and development facilities</li> <li>• Own branded fabric portfolio</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced lead times</li> <li>• Reliable, on time delivery</li> </ul>	<ul style="list-style-type: none"> <li>• Product labelling and marketing communications</li> <li>• High level of social and environmental compliance</li> <li>• Dedicated compliance division</li> </ul>	<ul style="list-style-type: none"> <li>• End to end solutions</li> <li>• Complete portfolio - polyester, nylon, cotton</li> <li>• 30 MT(Gross Weight) Fabric per day</li> <li>• Enhanced printing solutions</li> </ul>

Following the repositioning in 2017, we focused on augmenting our synthetic business this year. Leveraging on our Customer Value Proposition, unique to the South Asian region, we developed our customer base, increased penetration and captured new markets. We attracted three more fashion brands in athleisure, intimates and formal wear to the portfolio increasing the buyer base to 41. This effort is commendable considering breaking into new markets has been particularly challenging at a time retail chains are

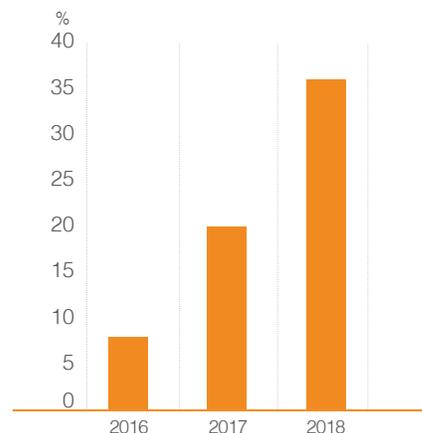
more customer centric approach to product innovations. Consequently, the Company is expecting an increase of 23% in the number of orders booked for the first quarter in the upcoming financial year, compared with the 2017/18 financial year.

Sale of Inno gained traction to USD 0.22Mn which accounted for 1.2% of the gross profit. The real gain of Inno to the Company was the recognition by leading brands as one of the most

For Our Customers

- Developed 147 products in 2017/18
- Expanded Inno range to 26 products
- Reduced turnaround times by 4%
- Dedicated Compliance Function
- Expanded range of raw materials stored
- Accreditations from 8 customers
- 95% Lab to bulk RFT

Revenue % from innovations & product proposals



innovative fabric mill in the country. This has augmented the strategies of leading brands towards a change in product ranges in fabric types. Receiving accreditation of new buyers and increase in the volume of orders booked is reflective of the confidence placed in Inno by the buyers too.

### Agile Supply Chain

This year, we focused on reducing lead times by developing the capability to deliver small order quantities in the shortest lead times of 3 days giving buyers greater flexibility in ordering and minimizing stockholding costs.

# The Capitals Report - Social & Relationship Capital

Investments in new technology, completion of a new building to drive the Company towards a lean process and re-engineering of process flows enabled a decrease in time taken to manufacture within our premises. Further, strategic partnerships carefully nurtured with our suppliers enabled us to reduce procurement lead times. The establishment of a procurement committee, Total Productivity Management Program (TPM), detailed on page 62, contributed further towards gaining improved cost efficiencies and faster lead times. Additionally, collaborations in product design with suppliers supported the consistent and timely delivery of innovative and sophisticated products. We are fully geared to provide high levels of transparency and flexibility in supply chain that brands demand and to meet the rising challenges of e-commerce and fast fashion. These developments enabled us to achieve superior ratings on regular assessments conducted by our customers and we are currently ranked 3rd globally, in the last quarterly survey conducted by a leading global apparel brand.

## Responsible Products

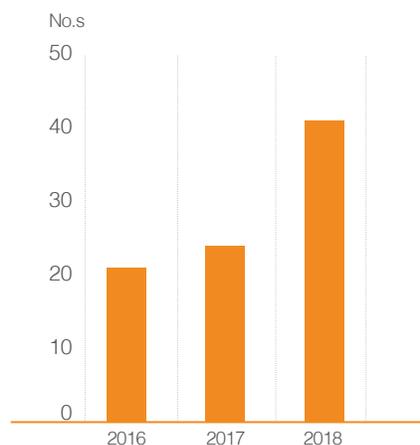
Our customer relationships take time to convert in to orders due to comprehensive assessments of innovation and production capabilities and environmental, social and governance practices. As we adhere to stringent guidelines issued by our customers, we implemented a separate compliance function dedicated to monitoring compliance with a growing panel of customers who have accredited our facilities for various aspects of production.

We are committed to high levels of product responsibility embodied across our value chain and affirmed through International certifications and accreditations.

## Capability

We are the pioneers in Sri Lanka in offering value added end to end solutions from design, development, printing, brushing and sueding whilst specializing in a wide range of cotton, polyester and nylon fabric and blends. We have continuously invested in upgrading machinery to the latest technology to serve our customers better offering enhanced product quality, flexibility, speed to market, environment sustainability and cost reductions through productivity gains.

## Certifications / Accreditations/ Audits & Memberships

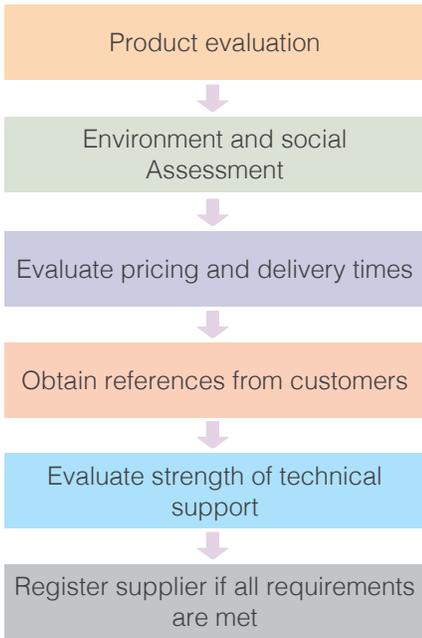


## Reliable Suppliers

We rely on our supply chain for key inputs to our business including raw materials, machinery and equipment, software and third party services (transport, manpower, etc.). Partnering with responsible, efficient and reliable suppliers allows our company to focus on what we do best – producing innovative, high quality fabric. Accordingly, supplier selection, development, and integration are vital elements of our business model.

During the year the Company carried out transactions with over 400 suppliers and paid LKR 7,270 Mn from which LKR 2,212 Mn was paid to local suppliers.

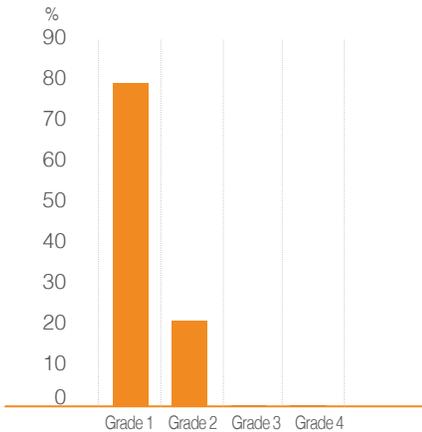
Certification & Systems	Held since
<b>Consumer Well being</b>	
OEKO Tex 100 (Cotton & Polyester)	Nov-2006
<b>Environment Sustainability</b>	
ISO 14001:2015 Environment Management System	Dec-2017
Carbon Conscious Certificate	Mar-2017
Water Conscious Certificate	Apr-2017
Global Organic Textile Standard (GOTS)	Jan-2014
Organic Content Standard (OCS)	Aug-2012
Better Cotton Initiative (BCI) Membership	May-2015
Zero Discharge of Hazardous Chemicals (ZDHC) Joint Road Map	Dec-2015
Higg FEM 3.0 Membership	Nov-2017
Nike Sustainable Water Program - Green Rating	Sep-2016
<b>Social Sustainability</b>	
OSHAS 18001:2007 Occupational Safety and Health Assessment Series	Dec-2017
SEDEX Membership	Mar-2016
Disney Facility & Merchandising Authorization (FAMA) Approvals	Sep-2016
George / Walmart Responsible Sourcing Program	Aug-2017



**Supplier Selection**

All new suppliers are evaluated through a rigorous and documented process which includes assessments on environmental and social criteria as graphically depicted alongside. No significant issues were identified during the year.

Supplier ratings for major suppliers 2017/18



**Supplier Development**

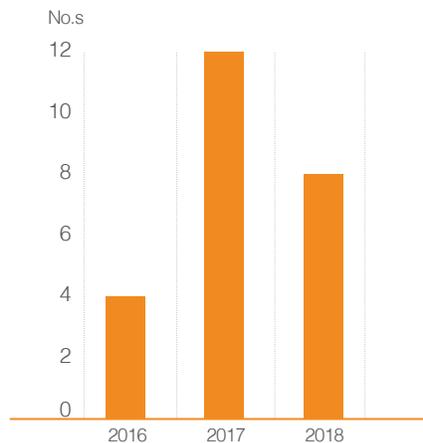
We proactively engage with our raw material suppliers, supporting improvement in their production

conditions and capabilities. We conduct supplier audits, visit supplier facilities and train selected suppliers in raw material product development. These initiatives have helped reap considerable economic gains from higher quality materials, improved product development, greater supplier support, shared risk taking and more favorable terms.

Supplier audits are conducted quarterly. Constructive feedback is provided on areas for improvement and followed up with each subsequent audit. In 2018, 100% of the major suppliers obtained a high rating of 1 or 2.

Factory visits facilitate a better understanding of the supplier's performance potential and capabilities, allowing effective identification of potential risks, prioritisation of actions and management of social and environmental compliances and fostering a greater working relationship. Similarly, suppliers are encouraged to visit the Hayleys Fabric PLC to obtain a better understanding of our business requirements, in an effort to increase their value addition.

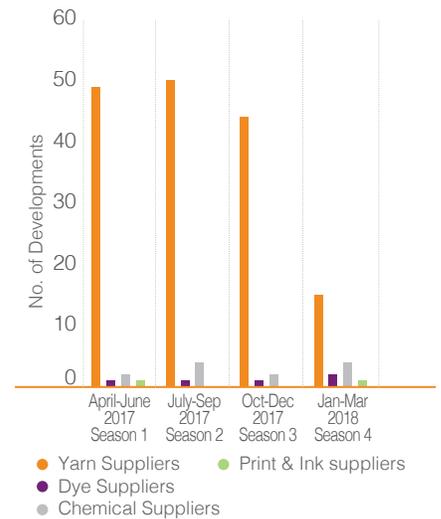
**Suppliers' factory visits**



**Supplier Integration**

We have integrated the supply chain into our business model. The supplier's involvement ranges from development of raw materials to suit fabric developments by collaborating with Hayleys Fabric PLC. During the year, 177 new products were developed with suppliers. Substantial benefits have been gained including shorter product development time, faster delivery to customers, improved product quality and reduction in cost of development and innovation which factors contribute towards maximizing customer service and creating a stronger, more sustainable differentiation from competitors.

Developments made with suppliers



# The Capitals Report - Social & Relationship Capital

## Uplifting Communities

We contribute towards positive 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 Company and village.

## Empowering People

As the main employer within a 15 km radius, we contribute significantly towards the socio-economic progress of the local community employing 66% of our employees from the area

We support livelihoods by providing 1,088 MT of waste for cottage industries in the village.

We source locally wherever possible to support growth of Micro and Small & Medium Enterprises. In 2017/18, we sourced sawdust, janitorial and gardening services, man power, transportation and canteen services.

## Engaging with the Community

The children at Apeksha Hospital, Maharagama, were given toys to suit different ages during Wesak week. A total of 150 children benefitted.

School books and accessories were distributed to over 500 children at Rathmalgahawewa, Kahatagasdigiliya in January 2018. This is the village where the Company supplies drinking water for the prevention of CKD.



Free Eye clinic was conducted for the Employees of the Company in October 2017. Most of the employees benefitted through this eye clinic.



Cleaning of nearly 50 drinking water wells in surrounding villages, benefitting over 150 families, immediately after the floods in May 2017



During the severe floods in May 2017, the Company helped surrounding villages provided meals on a daily basis for 5 days and thereafter provided dry rations.



Blood donation campaign was held at the Company premises in June this year. Over 150 Pints of blood were collected during this day.



Popular bathing spot Paravithota, Ingiriya was cleaned and proper garbage disposal system was implemented.



# The Capitals Report - Human Capital

Our employees make our company what it is and create value by growing our business responsibly and sustainably. By delivering an employee value proposition aligned to the needs of the organization, we have been successful in attracting and retaining talent with the correct skill sets, vital in the execution of our strategy. In an industry where retention of employees is a key challenge, an above average industry retention rate of 95%, is testimony of our strong employee value proposition.

Our most important enabler to growth is our employees. Their skills and expertise are critical in the design and execution of our corporate strategy as we focus on augmenting our synthetic fabric business with renowned global fashion brands by driving innovation, speed, reliability, quality and service.

Guided by a robust governance and policy structure, our key priorities are engaging with the employees; strengthening their capabilities and developing talent; and rewarding performance.

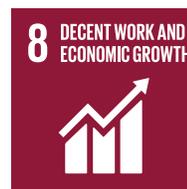
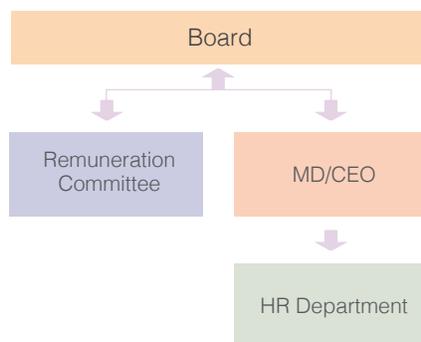
## Governance and Policies

Hayleys Fabric PLC is conscious of its responsibility in promoting inclusive and productive employment and decent work for all, in an environment conducive to dignity, health and safety. Our strong governance structure ensures that we balance the interests of our employees with the interests of other stakeholders.

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

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

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



**Livelihoods**

- Recruitment and Selection

**Remuneration**

- Engagement
- Rewards and recognition
- Health and Safety
- Work-life Balance
- Industrial Relations

**Career Progression**

- Training
- Career Development

**Enhanced Earnings**

- Streamlined processes
- Performance management

HR Policy Coverage		
Recruitment	Engagement	General
<ul style="list-style-type: none"> <li>• "No Child labour" policy</li> <li>• "No Forced labour" policy</li> <li>• Job description policy</li> <li>• "No Discrimination" policy</li> </ul>	<ul style="list-style-type: none"> <li>• Remuneration policy</li> <li>• Performance management system policy</li> <li>• Internal mobility policy</li> <li>• Employee Relations</li> </ul>	<ul style="list-style-type: none"> <li>• Grievance handling policy</li> <li>• Industrial relations policy</li> <li>• Health and Safety policy</li> <li>• Disciplinary policy</li> <li>• Communication policy</li> </ul>

# The Capitals Report - Human Capital

## Team Profile

	Total	<15 Kms	> 15 Kms	Male	Female	18-27	28-37	38-47	48-57	> 57
Executive & Above	202	38	164	171	31	23	74	76	25	4
Manual	491	396	95	488	3	27	277	157	30	0
Supervisors	244	195	49	230	14	13	83	103	44	1
NAITA (Contract)	169	102	67	169	0	161	8	0	0	0
Total	1106	731	375	1058	48	224	442	336	99	5
% of Total	100%	66%	34%	96%	4%	20%	40%	30%	9%	1%

Given the manual nature of work involved, the workforce is predominantly young and male. We strive to redress the gender balance by increasing the number of females recruited to administrative departments. To improve the Company's social relationships, we offer employment opportunity to villagers from the vicinity.

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

## Recruitment

Financial Year	Total	<15 Kms	> 15 Kms	Gender		Age Group				
				Male	Female	18-27	28-37	38-47	48-57	> 57
2016	344	167	177	320	24	291	39	13	1	0
2017	292	140	152	283	9	221	62	7	2	0
2018	357	163	194	350	7	312	43	1	1	0

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

## Attrition

	Turnover	Turnover Rate (%)	Gender		From Village	Age Group			
			Male	Female		18-27	28-37	38-47	Above 47
2016	35	4%	34	1	12	11	16	3	5
2017	70	8%	58	12	35	16	31	13	10
2018	46	5%	40	6	20	14	16	7	9

Attrition is mainly due to economic migration as younger employees seek opportunities overseas. Turnover in 2017 was relatively high due to the above reason.

## Employee Engagement

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

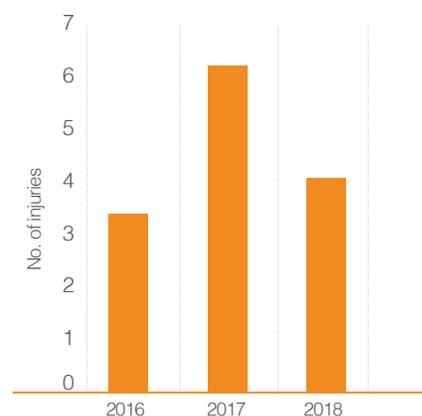
## Performance appraisal

We align corporate objectives with that of our employees through the performance management system, linking departmental KPIs with individual KPIs. Performance appraisals are carried out for all employees on an annual basis following a formal and transparent process. High performing employees are recognized with rewards linked to salary increments and promotions, spurring productivity and growth. In 2018, 45 employees were promoted.

## Health & Safety

We are committed to providing a safe work place and are guided by a comprehensive Health and Safety

Rate of injury  
(Injuries per 100 employees)



and safety awareness programmes conducted during the year.

## Annual Leave Allocation

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

families of employees, through initiatives such as the distribution of school stationery, providing special assistance to Grade 5 scholarship winners of our employees including high achievers at O/L s' and A/L s' has forged stronger relationships with the Company .

## Remuneration

Our attractive and equitable remuneration structure, is above minimum wage requirements. This includes gratuity and leave allocations above regulatory requirements, comprehensive medical benefits through Insurance schemes and reimbursement of OPD bills directly by the Company for staff and family members and benevolent benefits.

Year	Rate of Injury	Occupational Diseases	Lost Days	Work Related Fatalities
2016	3.39	Nil	20	Nil
2017	6.21	Nil	43	Nil
2018	4.08	Nil	100	Nil

policy. Continuous dialogue is maintained between employees and management on improving health and safety aspects with high levels of awareness carried out by external professionals and strict enforcement of safety procedures. Joint worker management committees on Health and Safety represent an average of 3% workforce participation and being operated under the direct supervision of Health and Safety manager. During 2017/18, we achieved a 32% reduction in employee accidents through provision of technical training

## Industrial Relations

We maintain cordial relations with three trade unions representing 37% of our employees. Open and effective dialogue is sustained through monthly meetings between the management and the unions. This year a collective bargaining agreement was signed for the first time with the main trade union the Sri Lanka Nidahas Sevaka Sangamaya (SLNSS), covering 100% of the employees, excluding NAITA and Executives, effective from 01 April 2017 for a period of 3 years, with

# The Capitals Report - Human Capital

the objective of promoting greater industrial harmony. The agreement stipulates salary increments for the next 3 years, industrial dispute resolution and other worker conditions. There were no industrial disputes during the year under review.

## Strengthening Capabilities

We invest in our employees to ensure they are equipped with the necessary capabilities, skills and competencies to successfully execute the Company's strategy. In a dynamic and demanding industry, where flexibility, speed of delivery and service are critical factors, employees need to respond effectively and quickly to changing conditions.

Our comprehensive training and development plan is aligned to the business plan, and covers multiple areas including technical skills, soft skills and leadership development skills. More emphasis is given to on the job training, particularly of training in machine technology provided to supervisors and operators.

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

A total of 8,019 training hours (Average training hours by Gender - Male 8 : Female 14) was dedicated to employees, averaging 9 hours

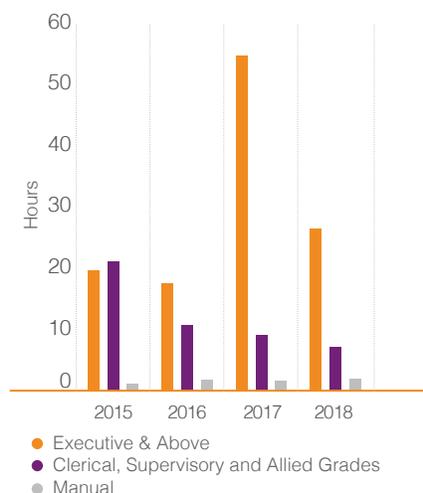


per employee for the year (2017-13,473 hours). Training coverage was 6%. However, this data does not capture on the job training, due to its inherent nature and therefore is largely limited. The data covers mostly classroom-based training and attendance of workshops, seminars etc, which programmes are popular with executives. In 2017, executives followed a 6-month English proficiency course conducted by the British Council, Colombo resulting in enhanced KPIs for the year.

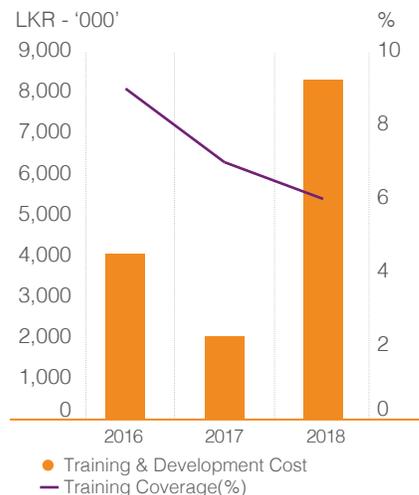
During 2017/18, the Company implemented Total Productive Maintenance (TPM) as a means of optimizing machine productivity by driving zero breakdowns, zero defects and zero accidents. Machine operators were provided on the job training in machine handling, basic repair etc. by technical resource personal from foreign machinery suppliers or local agents, to enhance their technical expertise.

We also facilitated employees to obtain relevant lifelong qualifications. This year 28 employees obtained qualifications from Sri Lanka Institute of Textile and Apparel (SLITA).

## Average training hours



## Training & development



## Spurring Innovation

We are focused on stimulating innovation and nurturing a culture of learning and growth. Training and development is provided to employees to learn new and modern concepts and technologies and facilitate application of their learning at the Company. They are empowered in their roles and responsibilities, encouraging out of the box thinking and innovation and are rewarded and recognized for their efforts.

As an extension of the TPM programme, all executives and managers were trained by the Institute of Lean Management, Colombo to think innovatively with their respective teams across the organization and propose process improvements and mechanisms to increase production efficiency and reduce costs. Consequently, 175 proposals are currently being evaluated and prioritized for implementation. These proposals expect to generate substantial cost savings over the short to medium term, driving sustainable growth.

# The Capitals Report - Natural Capital

We are conscious of the profound impact the textile industry has on the environment. Consequently, Hayleys Fabric constantly explores the use of innovative technologies and solutions to drive sustainability and cleaner production.

The textile industry, throughout the various production processes, uses large amounts of energy, water, and chemicals, while generating harmful greenhouse gas emissions and industrial wastes. We regularly monitor and measure our impacts to understand areas where we can improve our environmental footprint, taking action beyond regulatory compliance.

## Environmental Policy

- 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.



The Paravithota Project was chosen as one of the best CSR projects, recognized by the Chairman/CEO Mr. A. M. Pandithage



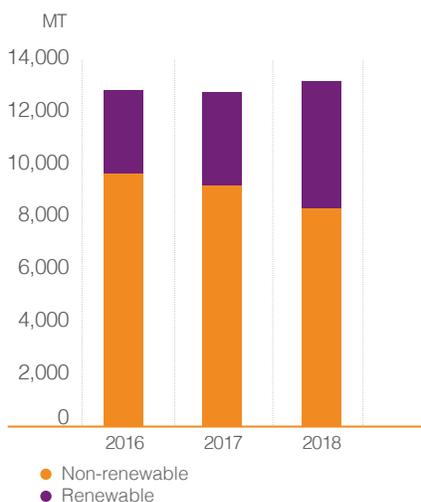
Planting of Kumbuk Trees along the Kalu Ganga to cover the distance of 4 kms.

## Raw Materials

Our key raw materials are yarn, dyes and chemicals. Renewable raw materials consist of cotton and natural dyes and accounted for 37% of total consumption (2016/17 – 28%). Given that selection of yarn suppliers is at the discretion of the buyers and we have limited flexibility in sourcing renewable raw materials of our choice. Total material consumption reduced during the year, largely due to the reduction in production volumes.

We are committed towards responsible consumption of raw materials and engage in several initiatives as detailed below.

## Raw material consumption



## Initiatives Implemented 2017/18

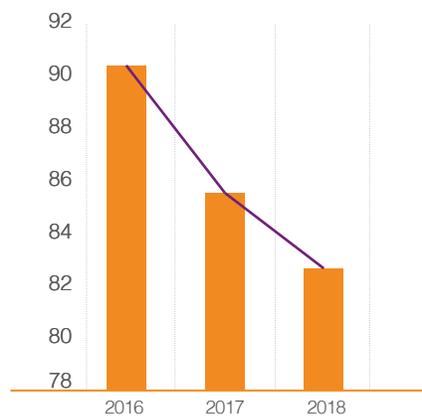
- Improving material efficiency
  - Investment in state of the art dyeing machines
  - Continuous product developments to improve dye and chemical recipes to reduce consumption
  - Sourcing of premium quality dyes to improve chemical consumption
  - Attraction of new suppliers for the procurement of dyes and chemicals at better quality and lower cost for existing dye recipes.
- Minimizing waste
  - Establishment of a Waste Management team to monitor and minimize waste
- Sourcing of raw materials from suppliers certified for their environmental and social management practices

# The Capitals Report - Natural Capital

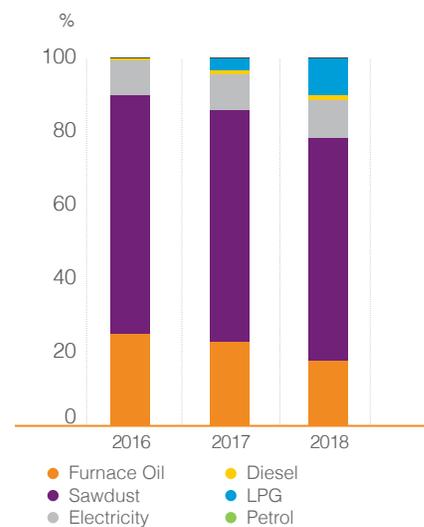
## Energy

Bio mass generated from sawdust, is the main source of energy followed by Furnace oil/LPG and electricity. Consequently, consumption of energy from renewable sources is high at 61%. The Company sources LPG as an alternative to furnace oil when it is cost effective to do so. During 2017/18, LPG purchases were limited given the higher market price of LPG over furnace oil, offsetting any cost savings from its superior combustion efficiency.

Energy intensity ratio (GJ/MT)



Energy mix

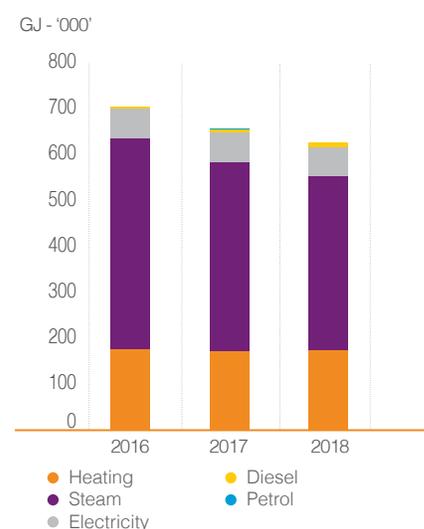


	2018	2017	Variance %
Renewable sources - Sawdust (GJ)	379,233	411,692	-7.9%
Non-renewable sources (GJ)	246,538	243,502	1.2%
Furnace Oil (GJ)	110,642	149,856	-26.2%
Electricity (GJ)	63,071	64,124	-1.6%
LPG (GJ)	62,552	21,496	191.0%
Petrol & Diesel (GJ)	10,273	8,025	28.0%
Direct Energy Consumption (GJ)	625,770	655,194	-4.5%

Energy intensity ratio has progressively declined over the past 3 years following conscious efforts to improve energy efficiency through investments in new technology and lean processes. Such initiatives engaged in during the year include the following;

Initiatives Implemented 2017/18	Savings per annum	
	kWh	LKR Mn
Fabrication of a new bio mass steam line for Printing and Brushing machines, instead of furnace oil boiler	Saving from Furnace oil	15.48
Replacement of CFL and other inefficient bulbs with LED Lights (95% completed)	88,020	1.06
Designed in-house condensation mechanism to recycle hot water recovered from cooling of dyeing machines	182,508	2.20
Replacement of old pumps with new ones at the River pump house	89,892	1.01
Completion of condensate recovery system with the installation of new energy efficient pumps	60,840	0.68

Uses of energy



## Water

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

Every effort is taken to increase our water efficiency whilst maintaining purity of the water discharged to the river. Details regarding the discharge of water to the river is provided in the Effluents segment of this report on page 67.

Investments in technology enhancements and process mechanisms have improved our water efficiency over the past 3 years, although these efforts have been overshadowed by the increase in 'water intensive' value due to added machinery such as the new Washing Range and increased orders for double dyeing.

### Initiatives Implemented 2017/18

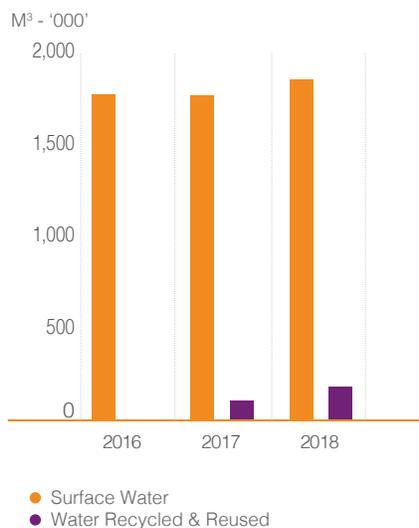
- Replacement of old dyeing machines with new machinery of advanced technology.
- Recycling cooling water from dye machines back into the cooling process
- Recycling of water from the water treatment plant by using it to produce steam in the boiler.

Engaging staff in conservation, through awareness building and training programmes. Display of sign boards at all user points as a reminder to consume water consciously.

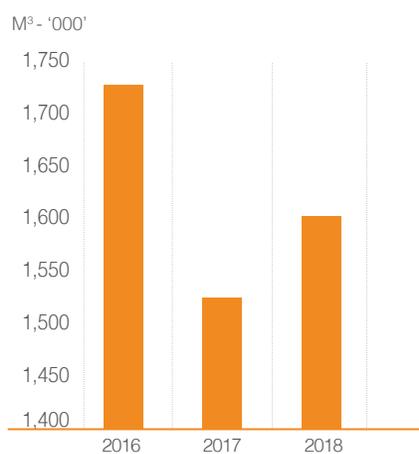
Water discharged to river as a % of intake has reduced given increased quantities used for steam generation as the Company shifts towards synthetic value added fabric/ printing solutions.



### Water consumption



### Water discharged to river



# The Capitals Report - Natural Capital

## Emissions

We focus on reducing our carbon footprint by reducing energy consumption and converting to more eco-friendly fuels such as bio-gas. Initiatives implemented to save energy are explained on page 64.

The carbon footprint intensity for 2017/18 was determined at 3.5 t CO<sub>2</sub> e / MT ( 2016/17 – 3.3 t CO<sub>2</sub> e / MT) by Climate Smart Initiatives (Pvt) Ltd, in accordance with ISO 14-064-1 and the World Business Council for Sustainable Development and World Resources Institute, Green House Gas Protocol.

The deterioration in carbon footprint is attributed to the change in mix of energy sources used. This year, an increased volume of LPG gas was utilized when compared against Furnace oil.

GHG emissions (tCO<sub>2</sub>e)



## Air and Noise Pollution

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



Carbon Conscious Certificate - 2018



Carbon Neutral Certificate - Annual Report 2018

## Effluents

Over the years, we have continuously made investments to upgrade our effluent treatment technology.

## Quality of Water

Our modern water treatment plant utilities enhanced purification methodology to ensure good quality

water is consistently discharged to the adjacent river.

All treated water is checked in house once in two hours and regular checks are carried out by external agencies such as the Central Environment Authority (CEA), the Water Board and the Board of Investment (BOI).



	2016	2017	2018	Standard
pH	7.90	7.89	7.71	6.5-8.5
Temperature °C	33.79	36.24	35.17	< 40
BOD (mg/L)	16.58	20.00	20.67	<30
COD (mg/L)	143.92	169.58	181.92	<250
Total Suspended Solids (mg/L)	16.75	18.75	23.08	<50



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

# The Capitals Report - Natural Capital

## Solid Waste

All solid waste is disposed in an environmentally responsible manner. The following are disposed through Geo Cycle, professionals in waste management.

- Waste from water treatment
- IT and electronic discards

Further, waste yarn and fabric are sold to local villagers encouraging self-employment and cottage industries and some of the fabric off-cuts are donated to the Psychiatric Rehabilitation Unit of the Nagoda Hospital, Kalutara to facilitate hand craft as occupational therapy.

	2016	2017	2018
<b>Hazardous Waste - Incineration</b>			
Sludge (MT)	1,225	944	863
<b>Non-hazardous Waste - Re-usable</b>			
Fluff (MT)	71	23	15
Fabric Strips, Off cuts, Etc. (MT)	623	599	481
Cardboards, Yarn Cones, Etc. (MT)	383	412	383
Polythene (MT)	112	95	95
Others (MT)	-	-	114
<b>Total Non-hazardous Waste</b>	<b>1,189</b>	<b>1,128</b>	<b>1,088</b>
<b>Total</b>	<b>2,414</b>	<b>2,073</b>	<b>1,951</b>



## Nurturing the Environment

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

### Initiatives Implemented 2017/18

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

## Compliance

Hayleys Fabric PLC complied with all relevant environmental regulations, during the year under review.

# The Capitals Report - Intellectual Capital

Our intellectual capital includes our brand recognition, innovative ability, tacit knowledge and skills of talented employees, strategic leadership and the unique processes and management systems that drive the business. As the industry evolves, we are conscious of the increasing significance of intellectual capital in maintaining competitive advantage and driving sustainable growth.

## Drivers of Intellectual capital

### Brand Recognition



Established as a pioneer in the textile industry, our brand reflects our capabilities and has gained recognition amongst global fashion brands

### Inno and Development



In-house developed branded range of polyester & cotton blended fabric which account for 36% of our revenue is testimony to our ability to innovate & development

### Talent Management



Recruitment, training and performance management systems provides for alignment of personal and corporate goals, innovation and high levels of performance. A low turnover of 5% is testimony to this.

### Leadership



Entrepreneurship and professionalism are combined within the leadership of the Company , ensuring that our strategic direction and resource allocation are harmonised

### Business processes & Management Systems



Our quality assurance processes honed over 2 decades is critical to customer satisfaction.

### Group Linkages



As part of the Hayleys PLC, we tap in to high standards of corporate governance, highly evolved systems of management and expertise of leading professionals in the country

# The Capitals Report - Intellectual Capital

## Brand Recognition

As we have positioned ourselves as a niche supplier of premium, innovative fabric to global fashion brands, we strive to understand our customer needs better, delivering on innovation, speed, reliability, quality, service and (social and environment) responsibility. Accordingly, we have gained 41 Certifications / Accreditations / Completed Audits & Memberships from global fashion brands as at year end ( 2016/17 – 24). Such endorsements, ratings and awards bears testimony to the success of our endeavors, enhancing brand value.

## Inno & Innovation

We continued our focus on innovation, innovating 9 new products and variations under Inno for 2017/18, a cumulative total of materialized 26 innovations since its launch in 2014. These products are primarily value added synthetic fabric used in performance and

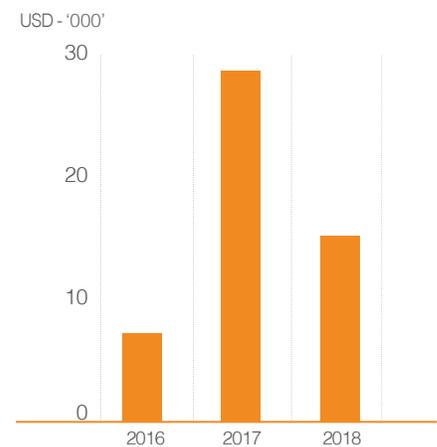
sports-inspired apparel particularly Athleisure. Although the number of innovations were less in 2017/18, their potential for commercialization is higher considering we followed a more customer centric approach to product innovations by closely engaging and collaborating with the brand owners in developing products that cater to their specific fashion needs. Sales of Inno and developments gained traction in 2017/18 accounting for 36% of revenue, up from 20% the previous year.

## Research and Development

We have a robust research and development facility. Our inspired fabric innovation team selects and designs fabric concepts having forecasted fashion trends following in-depth analysis of consumer requirements, latest fashion trends and customer brand values while being conscious about the environmental impact of the product.

Our dynamic product development team experiments with new fabric and finishes and researches new technology in textile manufacture. These teams are supported by state of the art technology. The teams also collaborate with the University of Moratuwa in fabric development and technology.

## Research and development



## Talent Management

Engaging a highly talented and skilled team has been critical in achieving success. Employees are recognized and rewarded for their contributions. They are provided training and development to learn new and modern concepts and technologies and are empowered in their roles, nurturing leadership and responsibility. Industry experienced expatriates are employed on short term basis to develop technical skills.





### Business Processes and Systems

We have continuously improved, innovated and optimized our operations to create a leaner and more efficient sustainable business. Initiatives developed by our resourceful engineers include energy saving mechanisms such as fabrication of a steam line from the Bio mass generator to heat a boiler and recycling hot water discharged from the water treatment plant to produce steam, thereby limiting the utilization of furnace oil.

The Total Productive Maintenance (TPM) initiative conducted during the year resulted in employees proposing 175 initiatives to improve efficiency. These proposals are currently being evaluated and are expected to generate substantial cost savings once implemented.

INNO  
Pioneering fabric brand  
launched in Sri Lanka

41  
Accreditations

9 Product  
Innovations in 2018

USD 15,153  
R&D investment

TPM  
175 proposals to improve  
efficiency and business

36% Revenue from Inno  
and product proposals

# A Positive Outlook

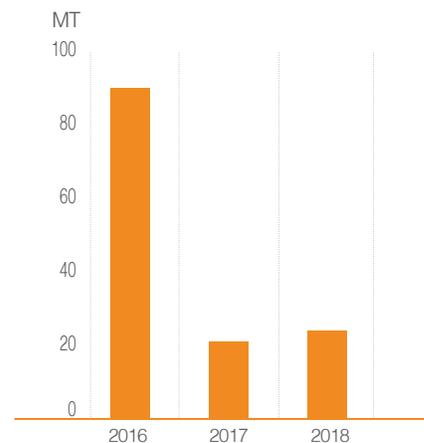
Global growth is forecasted to strengthen in the short term, picking up to 3.9% in 2018 and 2019, driven by strong momentum, favorable market sentiment, accommodative financial conditions, and repercussions to local and international markets from the expansionary fiscal policy of the United States. Advanced economies, which include our principal markets, are expected to continue to expand this year and next before decelerating, while growth in emerging market and developing economies will rise before leveling off. Following the economic shift, Retail brands will look towards emerging nations for new markets of growth.

Further, increased digital adoption by retail brands will continue. The rapid growth of e-commerce would require supply chains to be more responsive, pushing time limits from design to shelf and incorporating omnichannel integration. Delivery of new products, whilst increasing speed and flexibility at lower cost, would require supplier business models to adopt a customer-centric approach – with the retailer as the main driver of design and manufacture.

Hayleys Fabric is already in gear to meet evolving customer needs and challenges. Having adopted a customer centric business model last year, the Company is nurturing innovation, design and development capabilities in collaboration with retail chains, under the Inno brand while investing in e-commerce, digitization and advance technologies in molding an agile and flexible supply chain and driving responsible production. A growing pipeline of orders demonstrates the confidence of retailers in the Company. Restoration of US GSP+ from 2018 and projected growth of the Sri Lankan economy following the continued implementation of monetary and fiscal reforms is expected to support increased

business volumes. The following initiatives will be implemented by the Company in 2018.

Inno orders placed



We believe these initiatives will deliver the following goals:

Key Performance Indicators	Goal
Profitability growth	20% growth in GP
New products	Over 10
Lead time	3 days for fast orders
Employee productivity	20% increase
Reduced carbon footprint	5% reduction
Reduce water consumption	2% reduction



- Growth in earnings through high margin products and volume growth
- Drive cost leadership through smart sourcing strategies and operational excellence



**Financial Capital**

- Increase capacity through investments of USD 2.19 Mn
- Investment in responsible production using energy efficient and clean technology



**Manufactured Capital**

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



**Social & Relationship Capital**

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



**Human Capital**

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



**Natural Capital**

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



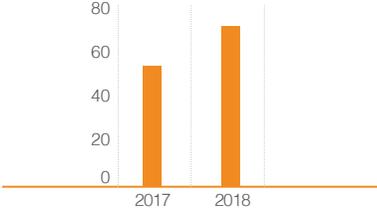
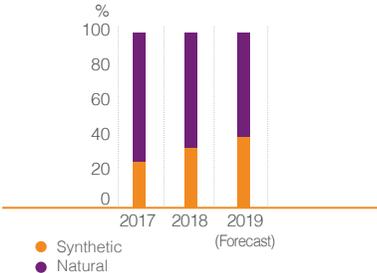
**Intellectual Capital**

# Managing Risk

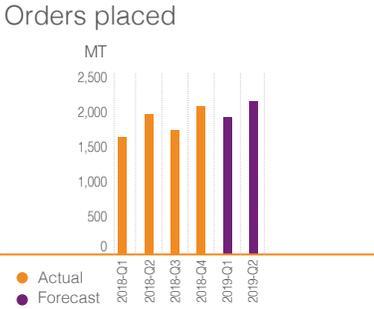
## Managing Risk & Opportunities

The Corporate Management Team work together to ensure that we identify the risks and opportunities that have the potential to provide us a significant competitive advantage or become impediments to achievement of corporate goals. Many of these are identified from the process of determining our material issues described on page 45 while other risks arising from the external environment have been added to form a comprehensive review of our key risks and opportunities.

Risk	Impact	Mitigating Factors/Activities	Expected Direction of Risk factor in 2018/19
<b>External Risks</b>			
Volatility in demand	Customers find it increasingly more difficult to predict orders even after booking capacity with us impacting our revenue and profitability	<ul style="list-style-type: none"> <li>• Agreements with key buyers in place enabling recovery of overheads</li> <li>• Implemented a "Capacity filling" strategy when anticipated orders for booked capacity fail to materialize to improve bottom line</li> </ul>	<p>Assessment: <b>High</b></p> <p>Reduction in open capacity already seen for Q1 2018/19</p>
Changing fashion trends	The fashion industry changes at a rapid pace with two key seasons each year. Understanding trends is key to be relevant in the apparel sector.	<ul style="list-style-type: none"> <li>• Close monitoring of fashion trends</li> <li>• Rapport with global fashion brands</li> </ul>	<p>Assessment: <b>Moderate</b></p> <p>The Inno range helps to influence fashion fabric qualities</p>
Government Policy	Government policies on taxes, energy cost, foreign relations/ Preferential Trade Agreements, interest rates, inflation, and wages has a direct impact on the profitability of the Company.	<ul style="list-style-type: none"> <li>• Introduction of productivity improvement initiatives, minimizing wastage, advancing in technology, negotiations on interest rates and other financial costs, and energy saving initiatives including renewable energy.</li> <li>• Joint industry representation to promote favourable terms of trade with other countries</li> </ul>	<p>Assessment: <b>High</b></p> <p>Based on assessment of foreign policy which may result in favourable terms of trade, declining energy costs adjusted for rising inflation, wages and interest rates.</p>

Opportunities																
Develop own branded portfolio	Having our own branded portfolio of fabric will enable us to differentiate ourselves from competitors and provide significant resource management opportunities	<ul style="list-style-type: none"> <li>We continue to develop and refine our Inno branded portfolio of synthetic fabric to meet current trends in fashion</li> <li>1.2% of Gross profit contributed from our Inno range, an increase of 33 % over 2016/17.</li> </ul>	<p>Potential: <b>High</b></p> <p>This is a long term strategy to differentiate the Company to compete at a higher price point. Deemed as high due to current stage in strategy implementation.</p>													
		<p>Inno profitability (GP) USD - '000'</p>  <table border="1"> <caption>Inno profitability (GP) - USD '000'</caption> <thead> <tr> <th>Year</th> <th>Profitability (USD '000)</th> </tr> </thead> <tbody> <tr> <td>2017</td> <td>55</td> </tr> <tr> <td>2018</td> <td>70</td> </tr> </tbody> </table>	Year	Profitability (USD '000)	2017	55	2018	70								
Year	Profitability (USD '000)															
2017	55															
2018	70															
Focus on synthetic fabric catering to the lingerie and athleisure trends	Synthetic fabric attract higher margins and raw material price stability which will enhance profitability of the Company	<ul style="list-style-type: none"> <li>Close monitoring of fashion trends to determine direction</li> </ul>	<p>Potential: <b>High</b></p> <p>We have significant experience in producing synthetic fabric mitigating the risk of this strategy</p>													
		<p>Revenue analysis by product category</p>  <table border="1"> <caption>Revenue analysis by product category (%)</caption> <thead> <tr> <th>Year</th> <th>Synthetic (%)</th> <th>Natural (%)</th> </tr> </thead> <tbody> <tr> <td>2017</td> <td>25</td> <td>75</td> </tr> <tr> <td>2018</td> <td>35</td> <td>65</td> </tr> <tr> <td>2019 (Forecast)</td> <td>40</td> <td>60</td> </tr> </tbody> </table>	Year	Synthetic (%)	Natural (%)	2017	25	75	2018	35	65	2019 (Forecast)	40	60		
Year	Synthetic (%)	Natural (%)														
2017	25	75														
2018	35	65														
2019 (Forecast)	40	60														
GSP ++	GSP+ enhances the competitiveness of Sri Lankan exports in the Euro Zone markets which has contributed to the increase in the country's exports in 2017	<ul style="list-style-type: none"> <li>We continue to nurture our relationships with customers in the EU to exploit potential opportunities</li> </ul>	<p>Potential: <b>Significant</b></p>													

# Managing Risk

Global growth & Trade	<p>Economic conditions in advanced economies such as USA, UK and EU have a direct impact on demand for apparel and fabric.</p> <p>The recent protectionist measures introduced by USA and China are being closely watched to identify any potential opportunities or risks to our operations</p>	<ul style="list-style-type: none"> <li>Positive growth in advanced economies with global GDP forecast at 3.7% for 2018</li> </ul>	Potential: <b>Significant</b>																					
Key Risks Arising from Our Business Model																								
Strategic Risk	<p>Hayleys Fabric PLC has pursued a long term strategy of developing its own branded portfolio of synthetic fabric which addresses a number of issues with the supply chain and holds the promise of enhanced gains for shareholders. Buyers have even contracted capacity in 2017/18 but orders failed to materialize due to unforeseeable factors.</p>	<ul style="list-style-type: none"> <li>Interest shown by buyers with contracts for capacity enabling recovery of overheads</li> <li>Order pipeline for Inno and synthetic fabric</li> </ul> <p>Orders placed</p>  <table border="1"> <caption>Orders placed (MT)</caption> <thead> <tr> <th>Period</th> <th>Actual (MT)</th> <th>Forecast (MT)</th> </tr> </thead> <tbody> <tr> <td>2018-Q1</td> <td>1,600</td> <td>-</td> </tr> <tr> <td>2018-Q2</td> <td>2,000</td> <td>-</td> </tr> <tr> <td>2018-Q3</td> <td>1,700</td> <td>-</td> </tr> <tr> <td>2018-Q4</td> <td>2,100</td> <td>-</td> </tr> <tr> <td>2019-Q1</td> <td>-</td> <td>1,900</td> </tr> <tr> <td>2019-Q2</td> <td>-</td> <td>2,200</td> </tr> </tbody> </table>	Period	Actual (MT)	Forecast (MT)	2018-Q1	1,600	-	2018-Q2	2,000	-	2018-Q3	1,700	-	2018-Q4	2,100	-	2019-Q1	-	1,900	2019-Q2	-	2,200	Assessment: <b>High</b>
Period	Actual (MT)	Forecast (MT)																						
2018-Q1	1,600	-																						
2018-Q2	2,000	-																						
2018-Q3	1,700	-																						
2018-Q4	2,100	-																						
2019-Q1	-	1,900																						
2019-Q2	-	2,200																						
Critical Aspects																								
Customer Satisfaction	<p>Customer satisfaction is key to our growth and we work together with them to gain deeper insights in to potential areas for improvement. We have used feedback received as an opportunity to implement changes addressing key concerns, enhancing our competitive edge.</p>	<p>Structured relationship management</p> <p>Regular visits to customers and vice versa</p> <p>Reduced our ability to turnaround orders on key products from 14 days to 3 days</p> <p>Refer Creating Value for Customers on page 55</p>	Assessment: <b>Moderate</b>																					

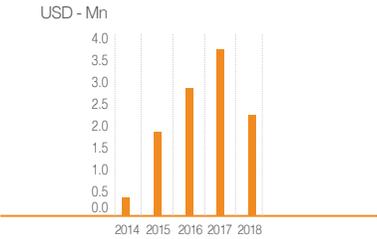
Innovation	Our ability to innovate is key to growth and profitability	<p>Monitoring of fashion trends to anticipate customer needs in developing own portfolio</p> <p>Investment in our own Design Centre with state of the art equipment</p> <p>Ability to attract and retain highly qualified and experienced talent to operate the Design Centre</p> <p>Continuous monitoring of performance to inspire and motivate these highly skilled employees</p>	<p>Assessment: <b>High</b></p> <p>Based on the rapid pace of innovation in the industry</p>
Timely Delivery	Timely delivery is key to profitability as late delivery comes with penalties and loss of customer satisfaction	<p>Increased inventory to facilitate shorter lead times</p> <p>Production scheduling to maximize capacity utilization and ensure timely delivery</p> <p>Quality control checks at each stage of the process to ensure compliance with specifications and timely delivery</p> <p>Monitoring delivery time compliance and penalties incurred, if any.</p> <p>Refer Creating Value for Customers on page 55</p>	<p>Assessment: <b>Moderate</b></p> <p>Based on customer requirements, processes in place and adjusted to recognize the complexity of production scheduling</p>
Product Responsibility	Product responsibility is critical to our reputation and growth	<p>Compliance with regulatory and certification requirements</p> <p>Monitoring of customer complaints</p> <p>Supplier screening for financial, social and environmental criteria</p> <p>Quality control processes</p> <p>Refer Creating Value for Customers on page 55</p>	<p>Assessment: <b>Low</b></p> <p>Based on quality assurance processes in place</p>
Cost Efficiency	As the country's productions costs increase, cost efficiency provides a competitive edge	<p>Sound cost management systems</p> <p>Lean processes</p> <p>Corporate level monitoring of cost leadership strategies</p> <p>TPM Initiatives</p>	<p>Assessment: <b>Moderate</b></p>

# Managing Risk

<p>Availability of Water</p>	<p>The prevailing drought has heightened awareness of the need to minimize consumption of water in all communities. As our processes require water at all stages, both production and community relations may be impacted by a prolonged drought.</p>	<p>Principal source of water is the river Kalu Ganga which has the highest discharge of water to the sea in the country estimated 4,000 million m<sup>3</sup> annually<sup>1</sup></p> <p>Monitor water levels of river and consumption continuously. It is noteworthy that the Kalu Ganga has the highest water levels in the country even at the close of the year (4.33 m<sup>2</sup>), well above flood alert levels for most other rivers in the country.</p> <p>Recycle water withdrawn from source for cooling and heating purposes</p> <p>Review operations to reduce water usage intensity</p> <p>Compliance with licensing requirements of the Central Environment Authority</p> <p>Refer page 63 of the Natural Capital segment for further information.</p>	<p>Assessment: <b>High</b></p> <p>Based on rainfall patterns, investments in reducing water footprint, employee engagement and community engagement activities</p>
<p>Raw Material</p>	<p>Raw materials directly impact the quality of the product including the consumer experience as our product directly touches the skin. The availability of raw materials impact our profitability as well.</p>	<p>Ensure that suppliers of raw material have certifications for their manufacturing processes</p> <p>Quality control processes from receiving point to ensure a match with specifications</p> <p>Monitoring market trends for yarn, Dyes &amp; chemicals etc to ensure we receive competitive pricing</p> <p>Refer page 57 on Creating Value for Suppliers for further information.</p>	<p>Assessment: <b>Low</b></p> <p>Based on supplier relationships, screening and quality control processes</p>

Energy	Energy is required at every stage of our manufacturing operations and has a direct impact on our carbon footprint and profitability	<p>Review energy mix and decrease dependency on main grid</p> <p>Increased investments in renewable energy sources</p> <p>Investing in energy efficient machinery and equipment</p> <p>Driving cost leadership through energy management</p> <p>Continuous monitoring of energy intensity ratio to drive required action</p> <p>Refer page 63 of the Natural Capital segment for further information</p>	<p>Assessment: <b>Low</b></p> <p>Based on continuous monitoring of energy intensity ratio and investments in renewable energy and upward trend in oil prices</p>
Employee Health & Safety	We value our employees and recognize our responsibility to provide a safe working environment. We also understand that specific aspects of our processes present higher levels of risk to employees' health and safety.	<p>Establishment of worker management health and safety committees to ensure their views are understood and addressed</p> <p>Establishing safety procedures for all operations that present risks to employees and ensuring implementation of the same</p> <p>Maintaining and monitoring employee health and safety statistics</p> <p>Refer page 59 of the Human Capital Report for further information.</p>	<p>Assessment: <b>Low</b></p> <p>Based on established structures, procedures, monitoring and review mechanisms</p>
Employee Relations	Employee relations are a key concern as 66% are employed from the vicinity and 37% are members of politically allied trade unions as Hayleys Fabric PLC recognizes the right to freedom of association	<p>Open door policy for employees to discuss areas of concern</p> <p>Regular structured dialogue with union representatives to identify areas of concern</p> <p>Balanced HR policies applied in a consistent manner building trust with employees</p> <p>Communicating how personal goals are aligned with organization goals through an organization wide performance management system</p> <p>Refer page 59 of the Human Capital Report for further information.</p>	<p>Assessment: <b>Low</b></p> <p>Based on established structures, procedures, monitoring and review mechanisms</p>

# Managing Risk

<p>Effluents &amp; Waste</p>	<p>Effluents from our processes contain chemicals and are discharged to the river after treatment which can affect the community and the bio diversity of the surrounding area.</p>	<p>Investing in effluent treatment and solid waste management</p> <p>Monitoring quality of effluents on an hourly basis to ensure conformity with CEA requirements</p> <p>Residual sludge is disposed in a certified manner through “Geo Cycle”.</p> <p>Refer Natural Capital Report on page 63</p>	<p>Assessment :<b>Low</b></p> <p>Based on investments and rigorous monitoring processes in place</p>												
<p>Emissions</p>	<p>Directly impacts our carbon footprint, compliance with CEA license and the quality of air in the community.</p>	<p>Investments in energy efficient technology</p> <p>Investments in switching to low carbon intensity energy sources</p> <p>Managing energy mix to reduce emissions</p> <p>Continuous monitoring of emissions to ensure compliance with CEA requirements and certifications</p> <p>Refer Natural Capital Report on page 63 for more information</p>	<p>Assessment :<b>Low</b></p> <p>Based on current requirements and plans in place for reducing the carbon footprint</p>												
<p>High Impact</p>															
<p>Speed of Delivery</p>	<p>Our ability to turn around an order within a few days is highly valued by customers</p>	<p>Hayleys Fabric PLC has increased the speed of delivery of products within the Inno portfolio to 3 days from 14 days for some specific programs.</p> <p>Supply chain geared to support the promise</p>	<p>Assessment: <b>Moderate</b></p>												
<p>State of the Art Technology</p>	<p>High end fabric require state of the art technology and a wide range of finishes which we have in place</p>	<p>Hayleys Fabric PLC has invested regularly in upgrading machinery</p> <p>Investments in PP&amp;E</p>  <table border="1" data-bbox="732 1493 1109 1732"> <caption>Investments in PP&amp;E (USD - Mn)</caption> <thead> <tr> <th>Year</th> <th>Investment (USD - Mn)</th> </tr> </thead> <tbody> <tr> <td>2014</td> <td>0.5</td> </tr> <tr> <td>2015</td> <td>1.8</td> </tr> <tr> <td>2016</td> <td>2.8</td> </tr> <tr> <td>2017</td> <td>3.8</td> </tr> <tr> <td>2018</td> <td>2.2</td> </tr> </tbody> </table>	Year	Investment (USD - Mn)	2014	0.5	2015	1.8	2016	2.8	2017	3.8	2018	2.2	<p>Assessment: <b>Moderate</b></p>
Year	Investment (USD - Mn)														
2014	0.5														
2015	1.8														
2016	2.8														
2017	3.8														
2018	2.2														

<p>Employment, Local Community Relations, Market Presence &amp; Indirect Economic Impacts</p>	<p>As the largest employer within a 15 km radius, the employment opportunities provided are critical for the socio economic progress of the community and an interdependency exists which requires continuous engagement with both employees and the local community</p>	<p>High levels of engagement with employees and community</p> <p>Robust employee and community value propositions to maintain an appropriate balance</p> <p>Building pride in the organization with employees and community</p> <p>Refer Human Capital Report and Creating Value for the Community on page 58.</p>	<p>Assessment: <b>Low</b></p> <p>Based on high levels of engagement with employees and community</p>
<p>Marketing Communications</p>	<p>Marketing communications are key to growth requiring a fine balance that does not over promise while conveying our capability to potential and existing customers</p>	<p>Marketing communications are reviewed at Corporate Management level to ensure accuracy, integrity and appeal</p>	<p>Assessment: <b>Low</b></p> <p>Based on high level team engaged in the process and zero fines.</p>
<p>Transport</p>	<p>The industry typically has a long supply chain spanning continents which is under constant scrutiny. Additionally, we provide transport to employees within a 15 km radius as rural transport infrastructure is insufficient to support Hayleys Fabric PLC requirements.</p>	<p>Distance is factored in to the supplier selection criteria for orders</p> <p>Transport of hazardous chemicals is done under stringent conditions contracted with a third party provider with specialized capability to ensure safe transportation</p> <p>Employee transport provided by a third party evaluated for safe driving</p> <p>Workmen compensation cover extended to cover travel to and from work</p>	<p>Assessment: <b>Low</b></p> <p>Based on a track record with zero incidents in transport hazards</p>

GENERAL STANDARD DISCLOSURES		Page
STRATEGY AND ANALYSIS		
G4-1	Statement from the most senior decision-maker of the organization	14 -17
ORGANIZATIONAL PROFILE		
G4-3	Name of the organization	IBC
G4-4	Primary brands, products, and services	08, 53 & 56
G4-5	Location of the organization's headquarters	IBC
G4-6	Number of Countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	Operates only in Sri Lanka
G4-7	Nature of ownership and legal form	32 & IBC
G4-8	Markets served	55
G4-9	Scale of the organization	08 & 10
G4-10	Workforce Profile	60
G4-11	Percentage of total employees covered by collective bargaining agreements	61
G4-12	Description of organization's supply chain	56 -57
G4-13	"Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	No significant changes
G4-14	Whether and how the precautionary approach or principle is addressed by the organization	70
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	06
G4-16	Memberships of associations (such as industry associations) and national or international advocacy organizations	56
G4-17	Entities included in the consolidated financial statements	Hayleys Fabric PLC
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
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G4-19	Material Aspects identified in the process for defining report content	46
G4-20	Aspect Boundary within the organization for identified material aspects	74 - 81
G4-21	Aspect Boundary outside the organization for identified material aspects	74 - 81
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	No restatements
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	No significant changes

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<b>STAKEHOLDER ENGAGEMENT</b>		
G4-24	List of stakeholder groups engaged by the organization	44 - 45
G4-25	Basis for identification and selection of stakeholders with whom to engage	44
G4-26	Organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group	44 - 45
G4-27	Key topics and concerns that have been raised through stakeholder engagement	44 - 45
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G4-28	Reporting period for information provided	06
G4-29	Date of most recent previous report	31 March 2017
G4-30	Reporting cycle	06
G4-31	Contact point for questions regarding the report or its contents	06
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G4-34	Governance structure of the organization, including committees of the highest governance body	33 & 46
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G4-56	Organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	09, 38 & 62
<b>SPECIFIC STANDARD DISCLOSURES</b>		
<b>CATEGORY: ECONOMIC</b>		
<b>ASPECT: ECONOMIC PERFORMANCE</b>		
G4-DMA	Generic Disclosures on Management Approach	Financial Capital
G4-EC3	Coverage of the organization's defined benefit plan obligations	117 - 118, 127 & 131
<b>ASPECT: INDIRECT ECONOMIC IMPACTS</b>		
G4-DMA	Generic Disclosures on Management Approach	Social & Relationship Capital
G4-EC8	Significant indirect economic impacts, including the extent of impacts	58
<b>ASPECT: PROCUREMENT PRACTICES</b>		
G4-DMA	Generic Disclosures on Management Approach	Reliable Suppliers
G4-EC9	Proportion of spending of local suppliers at significant locations of operation	12 & 56

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CATEGORY: ENVIRONMENTAL		
ASPECT: MATERIALS		
G4-DMA	Generic Disclosures on Management Approach	Raw Materials
G4-EN1	Materials used by weight or volume	12 & 63
ASPECT: ENERGY		
G4-DMA	Generic Disclosures on Management Approach	Energy
G4-EN3	Energy consumption within the organization	64
G4-EN5	Energy intensity	43 & 64
G4-EN6	Reduction of energy consumption	64
ASPECT: WATER		
G4-DMA	Generic Disclosures on Management Approach	Water
G4-EN8	Total water withdrawal by source	12 & 65
G4-EN9	Water sources significantly affected by withdrawal of water	No significant impact
G4-EN10	Percentage and total volume of water recycled and reused	03 & 12
ASPECT: BIODIVERSITY		
G4-DMA	Generic Disclosures on Management Approach	Natural Capital
G4-EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	None
ASPECT: EMISSIONS		
G4-DMA	Generic Disclosures on Management Approach	Emissions
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	12 & 66
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	12 & 66
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	12 & 66
G4-EN18	Greenhouse gas (GHG) emissions intensity	66
ASPECT: EFFLUENTS AND WASTE		
G4-DMA	Generic Disclosures on Management Approach	Solid Waste
G4-EN22	Total water discharge by quality and destination	12, 65 & 67
G4-EN23	Total weight of waste by type and disposal method	68
ASPECT: COMPLIANCE		
G4-DMA	Generic Disclosures on Management Approach	Natural capital
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	None

GENERAL STANDARD DISCLOSURES		Page
ASPECT: SUPPLIER ENVIRONMENTAL ASSESSMENT		
G4-DMA	Generic Disclosures on Management Approach	Supplier Selection
G4-EN32	Percentage of new suppliers that were screened using environmental criteria	57
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	57
CATEGORY: SOCIAL		
SUB-CATEGORY: LABOUR PRACTICES AND DECENT WORK		
ASPECT: EMPLOYMENT		
G4-DMA	Generic Disclosures on Management Approach	Human Capital
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	60
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	61
ASPECT: OCCUPATIONAL HEALTH AND SAFETY		
G4-DMA	Generic Disclosures on Management Approach	Health & Safety
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	61
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	47 & 61
ASPECT: TRAINING AND EDUCATION		
G4-DMA	Generic Disclosures on Management Approach	Strengthening Capabilities
G4-LA9	Average hours of training per year per employee by gender, and by employee category	13 & 62
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	62
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	61
ASPECT: DIVERSITY AND EQUAL OPPORTUNITY		
G4-DMA	Generic Disclosures on Management Approach	Human Capital
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	60

GENERAL STANDARD DISCLOSURES		Page
ASPECT: SUPPLIER ASSESSMENT FOR LABOUR PRACTICES		
G4-DMA	Generic Disclosures on Management Approach	Supplier Selection
G4-LA14	Percentage of new suppliers that were screened using labour practices criteria	57
G4-LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken	57
SUB-CATEGORY: HUMAN RIGHTS		
ASPECT: NON-DISCRIMINATION		
G4-DMA	Generic Disclosures on Management Approach	Human Capital
G4-HR3	Total number of incidents of discrimination and corrective actions taken	None
ASPECT: CHILD LABOUR		
G4-DMA	Generic Disclosures on Management Approach	Human Capital
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	None
ASPECT: FORCED OR COMPULSORY LABOUR		
G4-DMA	Generic Disclosures on Management Approach	Supplier Selection / Human capital
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	None
ASPECT: SUPPLIER HUMAN RIGHTS ASSESSMENT		
G4-DMA	Generic Disclosures on Management Approach	Supplier Selection
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	57
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	57
SUB-CATEGORY: SOCIETY		
ASPECT: LOCAL COMMUNITIES		
G4-DMA	Generic Disclosures on Management Approach	Social & Relationship Capital
G4-SO2	Operations with significant actual and potential negative impacts on local communities	None

GENERAL STANDARD DISCLOSURES		Page
ASPECT: ANTI-CORRUPTION		
G4-DMA	Generic Disclosures on Management Approach	Human Capital / Code of Business Conduct & Ethics & Corporate Governance Report
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	13
G4-SO4	Communication and training on anti-corruption policies and procedures	59
G4-SO5	Confirmed incidents of corruption and actions taken	None
ASPECT: COMPLIANCE		
G4-DMA	Generic Disclosures on Management Approach	Human Capital / Natural Capital
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	13
SUB-CATEGORY: PRODUCT RESPONSIBILITY		
ASPECT: CUSTOMER HEALTH AND SAFETY		
G4-DMA	Generic Disclosures on Management Approach	Social & Relationship Capital
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	100%
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	None
ASPECT: PRODUCT AND SERVICE LABELING		
G4-DMA	Generic Disclosures on Management Approach	Social & Relationship capital
G4-PR3	Type of product and service information required by the organization's procedure for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements	13
ASPECT: COMPLIANCE		
G4-DMA	Generic Disclosures on Management Approach	Natural Capital
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	None

# 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- 2017/18

### 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- 2017/18 (“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. 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 sustaining 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 19 March 2018. 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 2018.
- 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.

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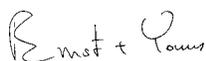
### Limitations and considerations

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;

- 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.



Chartered Accountants

15th May 2018

Colombo

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

Principal T P M Ruberu FCMA FCCA

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# Financial & Statutory Reports

An upward trajectory of our quarterly order pipeline holds the promise of a positive turn in financial performance

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# Audit Committee Report

The authority and responsibilities of the Audit Committee of Hayleys Fabric PLC are governed by the Audit Committee Charter which has been approved and adopted by the Board.

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).

The Audit Committee functions and scope are in compliance with the requirements of the Code of Best Practice on Audit Committee and conducts its affairs in compliance with the requirements of the Code of Best Practice on Audit Committees.

The Audit Committee of Hayleys Fabric PLC is consists of Independent Non-Executive Directors and formally constituted as a sub-committee of the Main Board. The members of the Audit Committee are as follows;

**Mr. H. Somashantha**

Chairman –Independent Non-Executive Director (Chartered Accountant)

**Dr. N.S.J. Nawaratne**

Independent Non-Executive Director

**Mr. A.S. Jayatileka**

Independent Non-Executive Director

Following also attend to the Audit Committee meeting 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.R. Bandara**

CFO-Hayleys Fabric PLC

**Mr. A. Mathangaweera**

Manager- (MA & SRD)-Hayleys PLC

**Mr. D. De. Silva**

Group CFO-Hayleys PLC

The Audit Committee comprises individuals with extensive experience in the fields of Accounting & Finance, Corporate Management, and Marketing & Strategic Management. The Chairman of the Audit Committee is a Chartered Accountant.

Hayleys Group Services (Pvt) Ltd functions as the Secretaries to the Audit Committee.

## Key Responsibilities

Audit Committee assesses the integrity of the Financial Statements of the Company and ensures that good financial reporting system is in place sound enough to give accurate appropriate and timely information that is in accordance with the Company's Act No. 7 of 2007 and other legislative reporting requirements and that adequate disclosures are made in the Financial Statements in accordance with Sri Lanka Accounting Standards (LKASs/SLFRSs).

Audit Committee ensures that the Internal Control and the risk assessment process are effective and adequate to meet the requirements of the Sri Lanka Auditing Standards and that the Company is in compliance with legal regulatory and ethical requirements.

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

The Committee evaluates the performance and the independence of the both Internal and External Auditors and make the recommendations to the Board regarding the re-appointment of the change of External Auditors, their remuneration and terms of engagement.

Audit Committee maintains free and open communication with Independent External Auditors and Internal Auditors -Hayleys Management Audit and

System Review Department (HMA and SRD) and the Management of the Company to ensure that all parties aware of their respective responsibilities.

The Audit Committee is empowered to do any investigations deemed necessary and to review all internal and external systems, procedures, controls etc.

The Committee is required to review the quarterly Financial Statements to ensure its compliance with regulatory requirements and make related recommendations to the Board.

The Committee is required to review and discuss with management and the External Auditors, the audited Financial Statements for the year ended 31st March 2018 as well as matters relating to the Company's internal control over financial reporting, key judgments and estimates in the preparation of Financial Statements and the processes that support certification of the Financial Statements by the Directors and the Chief financial officer of the Company.

## Meetings of the Audit Committee

Audit Committee has met 4 times during the year under review and their attendances are given on Page 36.

## Summary of the Activities during the year

### Oversight of Company Financial Statements

The Committee reviewed the truth & fairness of the Financial Statements and their conformity with Sri Lanka Accounting Standards (SLFRSs/ LKASs) with Independent External Auditors.

The Committee has also reviewed Accounting policies of the Company and such other matters to be discussed with External Auditors.

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Quarterly Financial Statements were also reviewed by the Committee and recommended their adoption to the Board.

The Audit Committee also reviewed the Process and assesses the effectiveness of internal controls that are on place to provide a reasonable assurance to the Board that the financial reporting system can be relied upon in preparation and presentation of the Financial Statements of the Company.

### **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 Company's Internal Auditors Hayleys Management Audit and System Review Department (HMA and SRD) directly submit their findings to the Audit Committee and relevant reports are available to External Auditors.

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

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

### **Risk & Control Review**

The Audit Committee has reviewed Risk Management Process & Procedures adopted by the Company. The key risks that

could impact the operations of the Company have been identified and appropriate actions have been taken to mitigate their impact to the minimum extent.

### **External Audit**

The External Auditors of the Company Messrs Ernst & Young, Chartered Accountants submitted a detailed audit plan for the year ended 31 March 2018 and Prior to the year-end financial review, the Committee had meeting with the External Auditors along with Management, reviewed the scope, timelines of the audit plan and approach for the audit.

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 Audit Committee reviewed the Audit fee of the External Auditors and recommended its adoption by the Board. It also reviewed other services provided by the Auditors to ensure that their independence as Auditors was not compromised.

The Audit Committee has reviewed the performance of the External Audit and recommended to the Board that Messrs Ernst & Young, Chartered Accountants be re-appointed as the External Auditors of the Company for the ensuring financial year.

### **Compliance with Financial Reporting and Statutory Requirements**

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

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

### **Support to the Committee**

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

### **Conclusion**

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



**H. Somashantha**  
Chairman-Audit Committee

15th May 2018

# Remuneration Committee Report

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## COMPOSITION OF THE COMMITTEE

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

The Members of the Remuneration Committee consist of as below;

Mr. A.S. Jayatilleka – Chairman  
Mr. H. Somashantha

## INDEPENDENCE OF THE COMMITTEE

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

## KEY OBJECTIVE

The Committee advises the Board on the policy to be followed on Executive remuneration packages for individual Directors and Senior Management.

## RESPONSIBILITIES

The Remuneration Committee is responsible to the Board for;

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

## REMUNERATION POLICY

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

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

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

### Directors' Emoluments

The Directors' emoluments are disclosed in Note 22 on page 131



A.S. Jayatilleka  
Chairman - Remuneration Committee

15th May 2018

# Related Party Transactions Review Committee Report

The Related Party Transaction Review Committee of Hayleys PLC, the parent Company functions as the Committee of the Company in terms of the Section 9 of the Listing Rules of the Colombo Stock Exchange.

## Composition of the Committee

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

The Committee comprises the following members.

Dr. H. Cabral\*\*, PC - Chairman  
Mr. M.Y.A. Perera\*\*  
Mr. S. C. Ganegoda \*

\*\* Independent Non-Executive  
\*Executive

## Attendance

Committee met – 04 times in the Financial Year 2017/2018

Meetings held on 17th May 2017/ 4th August 2017/ 2nd November 2017 and 7th February 2018.

	Meetings
Dr. H. Cabral, PC	4/4
Mr. M.Y.A. Perera	4/4
Mr. S. C. Ganegoda	1/4

## 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

16th May 2018

# Responsibility Statement of Managing Director/ CEO and Chief Financial Officer

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

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

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

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

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

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

The Internal Auditors Hayleys Management Audit and System Review Department (HMA and SRD) have conducted periodic audits to

provide reasonable assurance that the established policies, internal controls and procedures of the Company were consistently followed.

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

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



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



**Ruwan Rohitha Bandara**  
Chief Financial Officer

15th May 2018

# Annual Report of the Board of Directors

## Annual report of the Board of Directors on the Affairs of the Company

The Board of Directors of Hayleys Fabric PLC has pleasure in presenting its Annual Report to the shareholders for the financial year ended 31st March 2018, 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 on 19th July 2007. The re-registration number of the Company is PQ 37.

The issues 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 15th May 2018.

## Statutory disclosures

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

Disclosure requirements	Reference to the Companies Act No. 07 of 2007	Disclosure reference for compliance	Page
The nature of the business of the Company	Section 168 (1) (a)	About Us	08
Financial Statements for the accounting period completed and signed in accordance with section 152	Section 168 (1) (b)	The Financial Statements of the Company for the year ended 31 <sup>st</sup> March 2018	108 to 138 Signed on page 108
Auditor's report on the Financial Statements of the Company	Section 168 (1) (c)	Independent Auditors' Report.	105
Any change in accounting policies made During the accounting period	Section 168 (1) (d)	Note 3.1 to the Financial Statements - Changes in Accounting Policies	113
Particulars of entries in the interests register made during the accounting period	Section 168 (1) (e)	Directors' Interest in Contracts with the Company  Details of the Directors' shareholdings. Investor Information  There were no changes to the Directors' shareholding during the financial year.	145
Remuneration and other benefits of directors during the accounting period	Section 168 (1) (f)	Note 22 to the Financial Statements - Profit/ (Loss) Before Tax  Corporate governance report - Directors' and Executive Remuneration, provides details of the remuneration framework	131  37

# Annual Report of the Board of Directors

Disclosure requirements	Reference to the Companies Act No. 07 of 2007	Disclosure reference for compliance	Page
Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Note 22 to the Financial Statements - Profit/ (Loss) Before Tax	131
Names of the persons holding office as Directors of the Company as at the end of the accounting period and the names of any persons who ceased to hold office as directors of the Company during the accounting period	Section 168 (1) (h)	Board Profiles  In terms of the Article 29 of the Articles of Association of the Company, Messers A. S. Jayatilleka and R.N Somaratne retire by rotation and being eligible offer themselves for re-election	26
New Appointment	Section 168 (1) (h)	Mr. R. R. Bandara was appointed to the Board with effect from 15th May 2018. In terms of Article 27(2) of the Article of Association of the Company, shareholders will be requested to elect him at the Annual General Meeting, a Director.	
Amounts payable by the Company to the Person or firm holding office as auditor of the Company as audit fees and as a separate item, fees payable by the Company for other services provided By that person or firm ;	Section 168 (1) (i)	Note 22 to the Financial Statements - Profit/ (Loss) Before Tax	131
Particulars of any relationship (other than that of auditor) which the auditor has with or any interests which the auditor has in, the Company or any of its subsidiaries	Section 168 (1) (j)	The Company's auditors during the period under review were Messrs. Ernst & Young, Chartered Accountants.  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, messers Ernst & Young, Chartered Accountants who are deemed to be re-appointed for the year 2018/19 in terms of section 158 of the Companies Act No.7 of 2007, will be proposed at the Annual General Meeting.  Audit Committee report	92          93
Signed on behalf of the board by two directors and the Company Secretary	Section 168 (1) (k)		101

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

Disclosure	Note Reference	Page
Principal Activities	About us	08
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.	09
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	14 18 50 74
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.	108
Directors' Responsibility for Financial Reporting	The Statement of Directors' Responsibility for Financial Reporting	103
Auditors' Report	Independent Auditors' Report	105
Significant Accounting Policies	Notes 3 to the Financial Statements - Significant Accounting Policies	113
Going Concern	Note 3.2 to the Financial Statements – Going Concern	113
Revenue	Note 18 to the Financial Statements – Revenue	130
Financial Results and Appropriations	Statement of Profit or Loss and other Comprehensive Income Statement of Changes in Equity	109 110
Taxation	Notes 23 to the Financial Statements - Taxation	131
Corporate Donations	Note 22 to the Financial Statements - Profit/(Loss) Before Tax	131
Stated Capital and Reserves	Statement of Changes in Equity	110
Property, Plant and Equipment	Note 6 to the Financial Statements - Property, Plant and Equipment	122
Intangible assets	Note 7 to the Financial Statements – Intangible Assets	124
Capital Expenditure	The total capital expenditure on acquisition of property, property, plant and equipment and intangible assets of the Company amounted to USD 2,385,921 and USD 48,233 respectively. Details are given in Note 6 and 7 to the Financial Statements.  Capital expenditure approved and contracted for, and not contracted for, as at Reporting date are given in Note 26 to the Financial Statements under Commitments and Contingencies.	122 and 124  135
Market Value of Freehold Properties	Note 6 to the Financial Statements - Property, Plant and Equipment.	123
Contingent Liabilities and Commitments	Note 26 to the Financial Statements - Commitments and Contingencies	135
Events after the Reporting Date	Note 28- to the Financial Statements - Events After the Reporting Period	136

# Annual Report of the Board of Directors

Disclosure	Note Reference	Page
Risk Management	Disclosure of the different types of risks the Company activities were exposed to are given in Note 29 to the Financial Statements.	136
	The Company's risk management process.	74
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. The Statement of Directors' Responsibility	103
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	102
Corporate Governance	Corporate Governance Report The Company has complied with the Listing Rules of the Colombo Stock Exchange (CSE) and the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CASL) and the Securities Exchange Commission (SEC).	32
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.	68
Compliance	To the best of their knowledge, the Board believes that the Company has not engaged in any activity which contravenes laws and regulations. There have been no irregularities involving management or employees that could have any material financial or other effect.	
Stated Capital	Note 13 to the Financial Statements – Stated Capital.	126
Share Information and Shareholdings	Share Information Investor information	144
Register of Directors and Secretaries	As required under Section 223 (1) of the Companies Act No 7 of 2007, the Company maintains a Register of Directors and Secretaries which contains the name, surname, former name (if any), residential address, business, occupation, dates of appointment and dates of resignation (if applicable) of each Director and the Secretary.	
Board of Directors	Board Profiles	26
	Board Composition- The Board, Corporate Governance Report	33
Board Committees	Board Committees - Corporate Governance Report	35
Board and Committee meeting attendance	Attendance at meetings - Corporate Governance Report	36
Directors' shareholdings	Investor Information	144
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 2018 did not exceed 10% of equity or 5% of the total assets of the Company . Related party transactions are disclosed in Note 25 to the Financial Statements	

Disclosure	Note Reference	Page
Directors' Remuneration	Note 22 to the Financial Statements Directors' Emoluments	131
Human Resources	Human Capital	59
Insurance and Indemnity	A Corporate Guard has been taken from Orient Insurance Ltd for the Group by Hayleys PLC (Parent Company) to indemnify all past, present and future directors and officers liability of the Company	
	Policy No P/100/6020/2015/10	
	Limit of Liability USD 5,000,000	
	Policy premium USD 30,000	
	Coverage Worldwide	
	Period 01/06/2017 to 31/05/2018	
Material Foreseeable Risk Factors (As per Rule No. 7.6 (VI) of the Listing Rules of the Colombo Stock Exchange)	Risk Management Review	74 to 81
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 to 13

#### Related Party Transactions

The Board of Directors has given the following statement in respect of the related party transactions.

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

#### Notice of Annual General Meeting

The Annual General Meeting of the Company is convened on 26th June 2018, at 3.00 pm, at the Auditorium of the Registered Office of the Company, No 400, Deans Road, Colombo The Notice of the Annual General Meeting appears on page 146.

#### Acknowledgement of the Contents of the Report

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

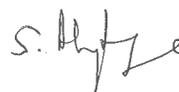
For and on behalf of the Board of Directors.



A.M. Pandithage  
Chairman



E.R.P. Goonetilleke  
Managing Director



Hayleys Group Services (Pvt) Ltd  
Secretaries

15th May 2018

# Board of Directors' Statement on Internal Controls

## Requirement

The Section D.1.3 of the Code of Best Practice on Corporate Governance (The Code) issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka recommends that the Board of Directors present a Statement of Internal Controls in the Annual Report.

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

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

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

## Board Committee

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

## Internal Audit

Company's Internal Audit function is performed by Hayleys Management

Audit and System Review Department (HMA and SRD) which is an independent function report directly to Audit Committee that provides assurance on the efficiency and effectiveness of the Internal Control System of the Company and more details are available in Audit Committee Report on page 92.

## Review adequacy and Effectiveness

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

## Code of Business Conduct and Ethics

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

## Confirmation

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

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

Registrar of Companies. The Company Financial Statements for the year ended 31st March 2018 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



Ruwan Rohitha Bandara  
Chief Financial Officer

Colombo

15th May 2018

# The Statement of Directors' Responsibility

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The responsibility of the Directors in relation to the Financial Statements is set out in the following statement. The responsibility of the Auditor, in relation to the Financial Statements prepared in accordance with the provisions of the Companies Act No.7 of 2007 is set out in the Independent Auditors Report on page 105 of the Annual Report.

The Financial Statements comprises the Income Statement and Statement of Comprehensive Income of the Company, a Statement of Financial Position and a Statement of Cash flow which presents a true and fair view of the profit and loss, the state of affairs and the cash flows of the Company as at the end of the financial year: and

The Directors are required to confirm that the Financial Statements have been prepared using appropriate accounting policies which have been selected and applied in a consistent manner, and material departures, if any, have been disclosed and explained; and

Presented in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs); and that reasonable and prudent judgments and estimates have been made so that the form and substance of transactions are properly reflected; and

Provides the information required by and otherwise comply with the Companies Act and the Listing Rules of the Colombo Stock Exchange.

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

Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with

reasonable accuracy the financial position of the Company.

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

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

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

## **Compliance Report**

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

By order of the Board

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

15th May 2018

# Financial Calendar 2017/18

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1st Quarter Report	1st August 2017
2nd Quarter Report	31st October 2017
3rd Quarter Report	6th February 2018
4th Quarter Report	15th May 2018
Annual Report 2017/18	31st May 2018
26th Annual General Meeting	26th June 2018

# Independent Auditor's Report



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

Tel : +94 11 2463500  
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Tax : +94 11 5578180  
eysl@lk.ey.com  
ey.com

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 2018, and the statement of 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 of the Company give a true and fair view of the financial position of the Company as at 31 March 2018, 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 our audit of the financial statements of the current period. These matters were addressed

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

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

## Key audit matters

Key Audit Matter	How our audit addressed the Key Audit Matter
<b>Valuation of Inventories</b>  Inventories amount to USD 11,524,663 as at the reporting date, being 25% of the Total Assets of the Company. The valuation of finished goods at cost has different components, which includes judgment in relation to the allocation of labour and overheads which are incurred in bringing the inventory to its present location and condition. Judgment has also been applied by management in determining the NRV of Finished Goods based on whether the stock items are 1st Grade or 2nd Grade.  The estimates and judgements applied by management are influenced by the amount of direct costs incurred historically, expectations of repeat orders to utilize the finished goods in stock and historically realized sales prices.  The significance of the balance coupled with the judgment involved has resulted in the Valuation of Inventories being identified as a Key Audit Matter.	  To validate the valuation of inventories, we assessed historical costs recorded in the inventory valuation; testing on a sample basis with purchase invoices. We tested the reasonability of assumptions applied by the management in allocating direct labour and direct overhead costs to inventories. We have reviewed the basis applied by the management for inventory provisions, the consistency of provisioning in line with policy and the rationale for the recording of specific provisions. We also assessed management's determination of 1st Grade and 2nd Grade inventories and the net realizable value of inventories thereon performing tests on the sales prices secured by the Company for similar or comparable items of inventories.

## Other Information included in the 2018 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

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

In preparing the financial statements, management is responsible for

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design

and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company.
- 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 ethical requirements in accordance with the Code of Ethics 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 1420.



Chartered Accountants

15th May 2018

Colombo

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

Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

# Statement of Financial Position

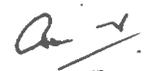
As at 31 March	Note	2018 USD	2017 USD
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	6	25,015,918	24,585,809
Intangible assets	7	152,030	247,207
		25,167,948	24,833,016
<b>Current Assets</b>			
Inventories	8	11,524,663	11,207,843
Trade receivables	9	7,896,734	6,928,230
Other receivables	10	664,891	1,117,430
Advances and prepayments	11	489,158	1,222,770
Cash and cash equivalents	12	345,731	1,466,049
		20,921,177	21,942,322
<b>Total Assets</b>		<b>46,089,125</b>	<b>46,775,338</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Stated capital	13	17,561,761	17,561,761
Revaluation reserve		1,240,369	1,442,289
Retained losses		(1,765,160)	(1,418,583)
<b>Total Equity</b>		<b>17,036,970</b>	<b>17,585,467</b>
<b>Non-Current Liabilities</b>			
Interest bearing loans and borrowings	14	3,286,112	6,213,954
Deferred tax liabilities	23.2	1,360,184	1,193,714
Retirement benefit obligations	15	2,033,015	2,196,587
		6,679,311	9,604,255
<b>Current Liabilities</b>			
Trade and other payables	16	8,212,686	5,292,100
Interest bearing loans and borrowings	14	13,420,559	13,472,777
Amounts due to Hayleys PLC		52,934	45,410
Income tax payable		-	31,657
Other non financial liabilities	17	686,665	743,672
		22,372,844	19,585,616
<b>Total Equity and Liabilities</b>		<b>46,089,125</b>	<b>46,775,338</b>

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



**Ruwan Rohitha Bandara**  
Chief Financial Officer

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



**A.M. Pandithage**  
Chairman

Colombo  
15th May 2018



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

The accounting policies and notes on pages 112 through 138 form an integral part of these financial statements.

# Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 March	Note	2018 USD	2017 USD
<b>Revenue</b>	18	57,686,803	55,537,401
Cost of Sales		(51,609,217)	(49,044,172)
<b>Gross Profit</b>		6,077,586	6,493,229
Other Operating Income	19	60,914	35,590
Administrative Expenses		(4,724,567)	(4,706,240)
Distribution Expenses		(488,944)	(471,881)
Other Expenses	20	-	(4,021)
Net Financing Costs	21	(974,034)	(933,354)
<b>Profit/(Loss) Before Tax</b>		(49,045)	413,323
Income Tax (Expense)/Reversal	23	(630,471)	76,944
<b>Profit/(Loss) for the Year</b>		(679,516)	490,267
<b>Other Comprehensive Income not to be reclassified to profit or loss</b>			
- Surplus on revaluation of land	6.8	-	40,952
- Income tax effect on revaluation of land	23.2	(201,920)	-
- Actuarial gain/(loss) on defined benefit plans	15	387,138	(83,240)
- Income tax effect on actuarial (gain)/loss on defined benefit plans	23.2	(54,199)	9,989
<b>Total Comprehensive Income, Net of Tax</b>		(548,497)	457,968
Basic / Diluted Earnings/(loss) per Share	24	(0.003)	0.002

The accounting policies and notes on pages 112 through 138 form an integral part of these financial statements.

# Statement of Changes in Equity

Year ended 31st March 2018	Stated capital USD	Revaluation reserve USD	Retained earnings/ (losses) USD	Total USD
<b>Balance as at 1st April 2016</b>	17,561,761	1,401,337	(1,835,599)	17,127,499
Profit for the year	-	-	490,267	490,267
<b>Other comprehensive income</b>				
Surplus on revaluation of land	-	40,952	-	40,952
Actuarial gain/(loss) on defined benefit plans	-	-	(83,240)	(83,240)
Income tax effect on Actuarial gain/(loss) on defined benefit plans	-	-	9,989	9,989
Total other comprehensive income	-	40,952	(73,251)	(32,299)
Total comprehensive income	-	40,952	417,016	457,968
<b>Balance as at 31st March 2017</b>	17,561,761	1,442,289	(1,418,583)	17,585,467
Loss for the year	-	-	(679,516)	(679,516)
<b>Other comprehensive income</b>				
Income tax effect on Surplus on revaluation of land	-	(201,920)	-	(201,920)
Actuarial gain/(loss) on defined benefit plans	-	-	387,138	387,138
Income tax effect on Actuarial gain/(loss) on defined benefit plans	-	-	(54,199)	(54,199)
Total other comprehensive income		(201,920)	332,939	131,019
Total comprehensive income		(201,920)	(346,577)	(548,497)
<b>Balance as at 31st March 2018</b>	17,561,761	1,240,369	(1,765,160)	17,036,970

The accounting policies and notes on pages 112 through 138 form an integral part of these financial statements.

# Statement of Cash Flows

Year ended 31st March		2018	2017
	Note	USD	USD
<b>Cash Flows From / (Used in) Operating Activities</b>			
Profit /(Loss) before tax		(49,045)	413,323
<b>Adjustments for</b>			
Depreciation on property, plant and equipment	6	1,955,485	1,923,910
Amortization of Intangible Assets	7	143,410	240,338
Provision for retiring gratuity	15	394,668	288,575
Net unrealised gain on translation of foreign currency		(47,507)	(41,030)
Net finance costs		827,555	753,257
(Profit)/loss on disposal of property, plant and equipment		(182)	4,021
Debtors / Creditors write back		(60,732)	(35,590)
Impairment charge/ (reversal) for bad and doubtful debts		65,566	(5,396)
Impairment charge for slow moving inventories		73,041	137,191
<b>Operating Profit before Working Capital Changes</b>		<b>3,302,259</b>	<b>3,678,598</b>
Increase in trade and other receivables		(1,272,576)	(17,498)
(Increase)/Decrease in advances and prepayments		733,612	(77,695)
Increase in inventories		(389,861)	(1,315,884)
Increase in trade and other payables and other non financial liabilities		2,992,095	705,551
<b>Cash Generated from Operations</b>		<b>5,365,529</b>	<b>2,973,072</b>
Retiring gratuity paid	15	(123,598)	(57,632)
Interest paid		(794,970)	(725,671)
Economic service charge paid		(211,448)	(273,653)
<b>Net Cash Flows From Operating Activities</b>		<b>4,235,513</b>	<b>1,916,116</b>
<b>Cash Flows From / (Used in) Investing Activities</b>			
Purchase and construction of property, plant and equipment		(2,329,077)	(4,532,477)
Proceeds from disposal of property, plant and equipment		509	11,346
Purchase of Intangible Assets	7	(48,233)	-
Interest received		1,027	-
<b>Net Cash Flows Used in Investing Activities</b>		<b>(2,375,774)</b>	<b>(4,521,131)</b>
<b>Cash Flows from / (Used in) Financing Activities</b>			
Proceeds from new term loans	14	-	8,000,000
Repayment of term loans	14	(2,572,428)	(5,060,633)
<b>Net Cash Flows From / (Used in) Financing Activities</b>		<b>(2,572,428)</b>	<b>2,939,367</b>
Net Increase / (Decrease) in Cash and Cash Equivalents		(712,690)	334,353
Cash and Cash Equivalents at the beginning of the year	12	(9,667,630)	(10,001,983)
<b>Cash and Cash Equivalents at the end of the year</b>	<b>12</b>	<b>(10,380,320)</b>	<b>(9,667,630)</b>

The accounting policies and notes on pages 112 through 138 form an integral part of these financial statements.

# Notes to the Financial Statements

## 1. REPORTING ENTITY

### 1.1 Domicile and Legal Form

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

### 1.2 Principal Activities and Nature of Operations

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

### 1.3 Parent Enterprise

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

### 1.4 Date of Authorization for Issue

The financial statements of Hayleys Fabric PLC were authorized for issue in accordance with a resolution of the Board of Directors on 15th May 2018.

## 2. BASIS OF PREPARATION

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

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

Each material class of similar items is presented separately in the financial statements.

## 2.1 Statement of Compliance

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

## 2.2 Use of Estimates and Judgments

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of income, expenses, assets, liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

In the process of applying the Company’s accounting policies, the key assumptions made relating to the future and the sources of estimation at the reporting date together with the related judgments that have a significant risk of causing a material adjustment to the carrying amounts

of assets and liabilities within the next financial year are discussed below.

## Depreciation of Property, Plant and Equipment

Management assigns useful lives and residual values to property, plant and equipment based on the intended use of assets and the economic lives of these assets. Subsequent changes in circumstances such as technological advances or utilization of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Management reviews annually the residual values and useful lives of major items of property, plant and equipment. Refer Note 3.6.1.5 for useful lives used in depreciating Property, Plant and Equipment in the Company.

## Retirement Benefit Obligations

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

## Valuation of Inventories

The Company manufactures and sells fabric based on customized specifications made by its customers. Valuation of Finished Goods at cost includes different components, which includes judgment in relation to the allocation of labour & overheads. The price of fabric manufactured by the Company varies based on the Company’s determination of whether

the stock items are 1st Grade or 2nd Grade Stocks. Judgement is required to assess whether finished goods can be resold as 1st or 2nd Grade stocks as well as to determine the appropriate level of impairment for items which may not be resold or which would be sold in the local market at a nominal price. Such judgements include management's expectations of repeat orders to utilize the finished goods in stock and historically realised sales prices.

### Deferred Tax

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year.

### 3.2 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern in the foreseeable future and they do not foresee a need for liquidation or cessation of trading.

### 3.3 Foreign Currency Transactions

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.

Transactions in foreign currencies are translated to USD at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to USD using the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the statement of profit or loss.

### 3.4 Current / Non-Current Classification

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

An asset is classified as current when it is:

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

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

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

### 3.5 Fair Value Measurement

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

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

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

The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

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

### **3.6 Assets and Bases of their Valuation**

#### **3.6.1 Property, Plant and Equipment**

##### **3.6.1.1 Owned Assets**

Items of property, plant and equipment are measured at cost (or at revaluation in the case of land) less accumulated depreciation and accumulated impairment losses, if any. Depreciation is provided for on the basis specified in paragraph 3.6.1.5.

The cost of property, plant and equipment includes expenditure that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour,

any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of that equipment.

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

Revaluation of land is carried out when there is a substantial difference between the fair value and the carrying amount of the land, and is undertaken by professionally qualified valuers.

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

##### **3.6.1.2 Leased Assets**

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

Finance leases that transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

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

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

##### **3.6.1.3 Subsequent expenditure**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the 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 day-to-day servicing of property, plant and equipment are recognised in the statement of profit or loss as incurred.

##### **3.6.1.4 Derecognition**

The carrying amount of an item of property, plant and equipment is derecognised on disposal; or when no future economic benefits are expected from its use. Gains and losses on

derecognition are recognized in the statement of profit or loss and gains are not classified as revenue. When revalued assets are sold, any related amount included in the Revaluation Reserve is transferred to Retained Earnings.

### 3.6.1.5 Depreciation

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

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

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

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

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

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

### 3.6.2 Intangible Assets

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 intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of profit or loss in the year in which the expenditure is incurred.

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

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

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.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement

of profit or loss when the asset is derecognised.

### 3.6.3 Current Assets

#### 3.6.3.1 Inventories

Inventories are measured at the lower of cost and Net Realisable Value. Net Realisable Value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated cost necessary to make the sale.

The general basis on which cost is determined is as follows:

- All inventory items except finished goods and work-in-progress are measured at weighted average cost.
- Finished goods 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.

#### 3.6.3.2 Cash and Cash Equivalents

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

### 3.6.4 Impairment of Non- Financial Assets

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. In assessing indicators of impairment, management assesses, (amongst others) the existence of assets which remain idle, assets which have been subject to wear and tear or technological obsolescence, and items

of inventories which have not been sold or used in the production process for a significant period of time. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell.

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

### 3.7 Financial Instruments – Financial Assets

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

#### 3.7.1 Financial Assets

##### Initial recognition and measurement

Financial assets are classified, at initial recognition, in the following categories

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial assets

Financial assets of the Company include cash and short-term deposits and trade and other receivables. Accordingly, the Company's financial assets do not include financial assets at fair value through profit or loss, held to maturity investments, available for sale financial assets and derivatives designated as hedging instruments in an effective hedge.

All financial assets are recognized initially at fair value plus transaction costs that are attributable to the acquisition of the financial asset.

##### Subsequent measurement Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. 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 amortization is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in distribution expenses. This category applies to trade and other receivables of the Company as disclosed in Notes 9 and 10.

##### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised 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 asset is recognised to the extent of the Company's continuing involvement in the asset. 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.

##### Impairment of financial assets

The Company assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables carried at amortised cost, the Company first assesses whether objective evidence

of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is reflected in the statement of profit or loss.

### 3.7.2 Financial liabilities

#### Initial recognition and measurement

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

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

The Company's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

#### Subsequent measurement

The measurement of financial liabilities depends on their classification. The Company's financial liabilities do not include financial liabilities at fair value through profit or loss and derivatives designated as hedging instruments in an effective hedge.

#### Loans and borrowings

After initial recognition, interest bearing 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.

#### Derecognition

A financial liability is derecognised when the obligation under the liability

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

### 3.8 Liabilities and Provisions

#### 3.8.1 Employee benefits

##### Defined contribution plan

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

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

##### Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The defined benefit is calculated by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability.

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis

using a number of assumptions. Key assumptions used in determining the defined retirement benefit obligations are given in Note 15.3. Any changes in these assumptions will impact the carrying amount of defined benefit obligations.

Actuarial gains and losses for the defined benefit obligation is recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to profit or loss in subsequent periods.

Provision has been made for retirement gratuities from the first year of service for all employees, in conformity with Sri Lanka Accounting Standards. 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. This liability is computed considering the following payouts;

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

### Short-term benefits

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

### 3.8.2 Provisions

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

## 3.9 Statement of Profit or Loss

### 3.9.1 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue from the sale of goods is recognized in the statement of profit or loss when significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of goods.

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

### 3.9.2 Expenses

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

### 3.9.3 Borrowing cost

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 respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of

interest and other costs that an entity incurs in connection with the borrowing of funds.

### 3.9.4 Financing Income and Expenses

Finance income comprises interest income on funds invested, and gains on translation of foreign currency. Interest income is recognised in the statement of profit or loss as it accrues.

Finance expenses comprise interest payable on borrowings and losses on translation of foreign currency. The interest expense component of finance lease payments is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### 3.9.5 Tax Expenses

Current income tax assets and liabilities for the current and prior periods 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 by the reporting date.

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the relevant tax legislations.

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 is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and 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 utilized.

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.

#### **4. General**

##### **4.1 Events occurring after the reporting date**

All material events occurring after the reporting date 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.

#### **5. STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

##### **SLFRS 9 Financial Instruments**

SLFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. SLFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory.

The Company plans to adopt the new standard on the required effective date. During the year, the Company has performed a high-level impact assessment of all three aspects of SLFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its Statement of Financial Position and equity.

##### **(a) Classification and measurement**

The Company does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of SLFRS 9. Trade receivables and amounts due from related parties are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Company expects that these will continue to be measured at amortised cost under SLFRS 9. The Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under SLFRS 9. Therefore, reclassification for these instruments is not required.

##### **(b) Impairment**

SLFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables.

##### **(c) Hedge accounting**

The Company does not carry hedge relationships that are currently designated in effective hedging relationships. Accordingly, the Company does not expect a significant impact as a result of applying SLFRS 9.

##### **SLFRS 15 Revenue from Contracts with Customers**

SLFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under SLFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be

entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under SLFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the full retrospective method.

The Company's primary businesses relates to the manufacture and sale of knitted fabric.

Contracts with customers within the Company where the sale of goods is generally expected to be the only performance obligation are not expected to have any impact on the Company's revenue and profit or loss. The Company expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

In preparing for SLFRS 15, the Company has reviewed its existing contracts for inclusions of variable considerations, loyalty points or warranty obligations and no such arrangements have been noted.

### **SLFRS 16 Leases**

SLFRS 16 was issued in January 2016 and it replaces LKAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires

lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under LKAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

SLFRS 16 also requires lessees and lessors to make more extensive disclosures than under LKAS 17. SLFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies SLFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018/19, the Company will continue to assess the potential effect of SLFRS 16 on its financial statements.

### **IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration**

The Interpretation clarifies that, 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 an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis.

Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation, or
- (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Company's current practice is in line with the

Interpretation, the Company does not expect any effect on its financial statements.

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### **IFRIC Interpretation 23 Uncertainty over Income Tax Treatment**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 and does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply interpretation from its effective date.

## Notes to the Financial Statements

### 6. PROPERTY, PLANT & EQUIPMENT

#### 6.1 Gross Carrying Amounts

	As at 01.04.2017 USD	Additions/ Transfers USD	Disposals/ Transfers/ USD	As at 31.03.2018 USD
<b>At valuation</b>				
Freehold Land	2,773,808	-	-	2,773,808
<b>At cost</b>				
Buildings	5,874,800	37,618	-	5,912,418
Water Treatment Plant	2,221,729	-	-	2,221,729
Plant and Machinery	30,550,829	2,192,217	-	32,743,046
Motor Vehicles	1,101	-	-	1,101
Furniture and Fittings	1,274,285	5,348	-	1,279,633
Office Equipment	276,339	5,440	-	281,779
Computers	428,283	25,386	(845)	452,824
Factory Equipment	3,329,692	120,224	-	3,449,916
Safety and Medical Equipment	197,314	1,426	-	198,740
Bungalow Equipment	8,263	-	-	8,263
<b>Total Value of Depreciable Assets</b>	<b>46,936,443</b>	<b>2,387,659</b>	<b>(845)</b>	<b>49,323,257</b>

#### 6.2 In the course of construction

	As at 01.04.2017 USD	Incurred during the year USD	Transfers USD	As At 31.03.2018 USD
Work in Progress	1,866,496	2,331,569	(2,333,307)	1,864,758
<b>Total Gross Carrying Amount</b>	<b>48,802,939</b>	<b>4,719,228</b>	<b>(2,334,152)</b>	<b>51,188,015</b>

#### 6.3 Depreciation

	Balance As at 01.04.2017 USD	Charge for the Year USD	Disposals/ Transfers USD	Balance As at 31.03.2018 USD
<b>At Cost</b>				
Buildings	2,180,757	146,948	-	2,327,705
Water Treatment Plant	1,403,264	78,590	-	1,481,854
Plant and Machinery	16,189,398	1,431,354	-	17,620,752
Motor Vehicles	1,101	-	-	1,101
Furniture and Fittings	1,061,967	62,820	-	1,124,787
Office Equipment	247,639	8,967	-	256,606
Computers	289,567	38,212	(518)	327,261
Factory Equipment	2,659,290	183,824	-	2,843,114
Safety and Medical Equipment	176,089	4,572	-	180,661
Bungalow Equipment	8,058	198	-	8,256
<b>Total Depreciation</b>	<b>24,217,130</b>	<b>1,955,485</b>	<b>(518)</b>	<b>26,172,097</b>

## 6.4 Net Book Values

	2018 USD	2017 USD
<b>At Cost</b>		
Freehold Land	2,773,808	2,773,808
Buildings	3,584,713	3,694,043
Water Treatment Plant	739,875	818,465
Plant and Machinery	15,122,294	14,361,431
Motor Vehicles	-	-
Furniture and Fittings	154,846	212,318
Office Equipment	25,173	28,700
Computers	125,563	138,716
Factory Equipment	606,802	670,402
Safety and Medical Equipment	18,079	21,225
Bungalow Equipment	7	205
	23,151,160	22,719,313
<b>In the course of construction</b>		
Work in Progress	1,864,758	1,866,496
<b>Total carrying amount of property, plant and equipment</b>	<b>25,015,918</b>	<b>24,585,809</b>

**6.5** During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of USD 2,385,921 (2017 - USD 3,874,916). Cash payments amounting to USD 2,329,077 (2017 - USD 4,532,477) 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 9,197,798 which are still in use. (2017 - USD 7,031,225).

**6.7** 24 permanent buildings are located in Narthupana Estate, Neboda where the principle place of the business is operated.

**6.8** The Company revalued its land (extent of 54.3 Acres) during the financial year 2016/17. 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 2017.

Being a level 3 valuation, 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. 70,000 a perch

Land extent of 20.2 acres of Land in Anguruwatota demarcated by survey plan - Rs 12,500 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 (2017 - USD 1,331,519)

**6.9** The Company commenced the construction of a building in 2016/17. The project is expected to be completed in 2018/19. The carrying amount of the costs incurred towards the project as at 31 March 2018 was USD 1,864,758. The amount of borrowing costs capitalised during the year ended 31 March 2018 was USD 75,955 (2017: USD 25,249). The rate used to determine the amount of borrowing costs eligible for capitalisation was 4.2%, which is the EIR of the specific borrowing.

## Notes to the Financial Statements

### 7. INTANGIBLE ASSETS

	2018 USD	2017 USD
<b>Software</b>		
<b>Cost</b>		
At beginning of the year	1,249,276	1,249,276
Acquisitions	48,233	-
At end of the year	1,297,509	1,249,276
<b>Amortization</b>		
At beginning of the year	(1,002,069)	(761,731)
Amortization	(143,410)	(240,338)
At end of the year	(1,145,479)	(1,002,069)
<b>Net Book Value</b>	<b>152,030</b>	<b>247,207</b>

### 8. INVENTORIES

	2018 USD	2017 USD
Raw materials	4,441,697	3,820,195
Less : Impairment for slow moving items	(287,416)	(235,697)
	4,154,281	3,584,498
Work-in-progress	3,551,151	4,324,321
Less : Impairment for slow moving items	(148,869)	(216,725)
	3,402,282	4,107,596
Finished goods (Note 8.1)	1,659,809	1,073,494
Less : Impairment for slow moving items	(274,434)	(185,256)
	1,385,375	888,238
Stock consumables	2,582,725	2,648,618
Less : Impairment for slow moving items	-	(21,107)
	2,582,725	2,627,511
	11,524,663	11,207,843

**8.1** Second grade finished goods amounting to USD 78,084 (2017 USD 99,622) are carried at fair value less cost to sell.

### 9. TRADE RECEIVABLES

	2018 USD	2017 USD
Trade receivables	8,102,588	7,068,518
Less : Impairment loss recognised (9.2)	(205,854)	(140,288)
	7,896,734	6,928,230

### 9.1 The aging analysis of trade receivables is as follows:

	Neither past due nor impaired	0 - 60 days	61-120 days	Past due 121-180 days	181-365 days	> 365 days	Total
As at 31/03/2018	3,859,773	3,492,323	427,882	104,758	78,387	139,465	8,102,588
As at 31/03/2017	3,584,354	2,925,160	358,039	62,753	-	138,212	7,068,518

See Note 29 on credit risk of trade receivables, which explains how the Company manages and measures credit quality of trade receivables.

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

	2018 USD	2017 USD
Balance as at the beginning of the year	140,288	145,684
Impairment loss recognized during the year	65,566	-
Reversal of previously recognized impairment loss	-	(5,396)
Balance as at the end of the year	205,854	140,288

### 10. OTHER RECEIVABLES

	2018 USD	2017 USD
VAT recoverable	386,756	496,383
Claims receivable	42,909	7,595
WHT recoverable	9,877	10,105
ESC recoverable	-	477,566
Staff loans & advances	98,796	6,628
Deposits	126,553	119,153
	664,891	1,117,430

### 11. ADVANCES AND PREPAYMENTS

	2018 USD	2017 USD
Advances paid to related parties - The Kingsbury Hotel PLC	1,111	-
Advances paid to suppliers	310,882	1,116,448
Other prepayments	177,165	106,322
	489,158	1,222,770

## Notes to the Financial Statements

### 12. CASH AND CASH EQUIVALENTS IN CASH FLOW STATEMENT

#### Components of Cash and Cash Equivalents

#### 12.1 Favourable Cash and Cash Equivalents

	2018 USD	2017 USD
Cash and Bank Balances	345,731	1,466,049
	345,731	1,466,049

#### 12.2 Unfavourable Cash and Cash Equivalents

	2018 USD	2017 USD
Bank Overdraft	(594,769)	(743,940)
Short term loans	(4,000,000)	(3,200,000)
Import loans	(6,131,282)	(7,189,739)
	(10,726,051)	(11,133,679)
Total cash and cash equivalents for the purpose of cash flow statement	(10,380,320)	(9,667,630)

### 13. STATED CAPITAL

	2018		2017	
	Number	USD	Number	USD
Ordinary shares (13.1)	207,740,888	17,561,761	207,740,888	17,561,761

#### 13.1 Fully Paid Ordinary Shares

	2018		2017	
	Number	USD	Number	USD
Balance at the beginning of the year	207,740,888	17,561,761	207,740,888	17,561,761
Balance at the end of the year	207,740,888	17,561,761	207,740,888	17,561,761

#### 13.2 Nature and Purpose of Reserve Revaluation Reserve

The Revaluation Reserve is maintained to record any surplus on revaluation of the Company's Land, net of the tax effect of such revaluation.

## 14. INTEREST BEARING LOANS AND BORROWINGS

	2018			2017		
	Amount Repayable Within 1 Year USD	Amount Repayable After 1 Year USD	Total USD	Amount Repayable Within 1 Year USD	Amount Repayable After 1 Year USD	Total USD
Term loans (Note 14.1)	2,694,508	3,286,112	5,980,620	2,339,098	6,213,954	8,553,052
Short term loans (Note 12.2)	4,000,000	-	4,000,000	3,200,000	-	3,200,000
Import loans (Note 12.2)	6,131,282	-	6,131,282	7,189,739	-	7,189,739
Bank overdraft (Note 12.2)	594,769	-	594,769	743,940	-	743,940
	13,420,559	3,286,112	16,706,671	13,472,777	6,213,954	19,686,731

### 14.1 Term loans

	2018 USD	2017 USD
Balance at the beginning of the year	8,553,052	5,613,648
New loans obtained	-	8,000,000
Repayments	(2,572,428)	(5,060,633)
Effect of movements in exchange rates	(4)	37
Balance at the end of the year	5,980,620	8,553,052

### 14.2 Aging Analysis for Interest bearing loans and borrowings

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
Total Interest bearing borrowings - As at 31.03.2018	933,620	10,122,379	2,364,560	3,286,112	-	16,706,671
Total Interest bearing borrowings - As at 31.03.2017	1,709,387	8,388,661	3,374,729	6,213,954	-	19,686,731

## 15. RETIREMENT BENEFIT LIABILITY

	2018 USD	2017 USD
Retirement Benefit Obligation - Gratuity		
At beginning of the year	2,196,587	1,923,472
Effects of movement in exchange rate	(47,503)	(41,068)
Benefits paid by the plan	(123,598)	(57,632)
Current service cost	144,255	83,390
Interest cost	250,413	205,185
Actuarial (gain)/loss recognized directly in Other Comprehensive Income	(387,138)	83,240
At end of the year	2,033,015	2,196,587

## Notes to the Financial Statements

### 15.1 Expenses recognised in the Statement of Profit or Loss

	2018 USD	2017 USD
Current service cost	144,255	83,390
Interest cost	250,413	205,185
	394,668	288,575

### 15.2 Legal Liability as at 31st March

	2018 USD	2017 USD
Legal Liability	1,831,064	1,604,040

**15.3** The Gratuity liability as at 31st March 2018 is based on an actuarial valuation carried out by Actuarial & Management Consultants (Pvt) Ltd, a firm of professional actuaries.

The following key assumptions were made in arriving at the above figure.

	2018 USD	2017 USD
Rate of discount	11%	12%
Salary increase	7%	11%
Retirement age	60 Years	60 Years
Weighted average remaining working life	6.5 Years	8.4 Years

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

**15.4** A quantitative sensitivity analysis for significant assumptions as at 31st March 2018 is as follows:

	Salary increment rate		Discount rate	
	1% Increase USD	1% decrease USD	1% Increase USD	1% decrease USD
As at 31st March 2018	162,313	(146,142)	(131,973)	148,376
As at 31st March 2017	205,972	(183,548)	(181,038)	206,650

### 15.5 Maturity Profile

	2018 USD	2017 USD
Within the next 12 months	225,865	136,953
Between 1 to 5 years	731,381	501,603
Between 5 to 10 years	499,869	571,589
More than 10 years	575,900	986,442
	2,033,015	2,196,587

## 16. TRADE AND OTHER PAYABLES

	2018 USD	2017 USD
Trade Payables		
- Related Parties (16.2)	90,296	76,056
- Others	7,906,197	5,033,165
Other Payables	216,193	182,879
	8,212,686	5,292,100

### 16.1 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
31.03.2018	Related party	49,909	36,080	4,307	-	-	90,296
	Others	1,317,881	6,439,720	67,952	105,727	191,110	8,122,390
	Total	1,367,790	6,475,800	72,259	105,727	191,110	8,212,686
31.03.2017	Related party	25,621	50,360	75	-	-	76,056
	Others	718,498	4,090,081	199,410	55,633	152,422	5,216,044
	Total	744,119	4,140,441	199,485	55,633	152,422	5,292,100

### 16.2 Payable to related parties

Name of the Company	Relationship	Nature of Transaction	2018 USD	2017 USD
Puritas (Pvt) Ltd	Fellow Subsidiary	Purchase of oxypura products	149	76
Hayleys Electronics Lighting (Pvt) Ltd	Fellow Subsidiary	Purchase of electronic items	60	1,445
The Kingsbury Hotel PLC	Fellow Subsidiary	Entertainment facility	66	-
Hayleys Travels (Pvt) Ltd	Fellow Subsidiary	Reservations, ticketing and other travel related services	3,452	10,365
Hayleys Tours (Pvt) Ltd	Fellow Subsidiary	Reservations and travel related services	1,359	1,460
Hayleys Aventura (Pvt) Ltd.	Fellow Subsidiary	Purchase of spare part and obtained technical support	15,582	18,313
MIT Cargo (Pvt) Ltd	Fellow Subsidiary	Logistic service	9,986	6,692
Hayleys Advantis Ltd	Fellow Subsidiary	Cost of intangible assets/Service	-	16,497
Logiwiz Limited	Fellow Subsidiary	Logistic service	77	321
Expelogix (Pvt) Ltd.	Fellow Subsidiary	Logistic service	5,157	5,109
Hayleys Business Solutions Int.(Pvt) Ltd	Fellow Subsidiary	Payroll charges	7,806	3,732
Volanka (Pvt) Ltd.	Fellow Subsidiary	Warehouse Facility	-	1,801
Delmege Forsyth & Co.(Pvt) Ltd	Affiliate Company	Purchases of mechanical items	-	564
Hayleys Leisure Holdings (Pvt) Ltd.	Fellow Subsidiary	Project management	4,307	8,621
Fentons Ltd.	Fellow Subsidiary	Fire solution & electrical installation	38,602	1,060
Alufab PLC.	Fellow Subsidiary	Installation of fire doors	1,840	-
Singer Sri Lanka PLC.	Fellow Subsidiary	Purchases of electrical items	1,351	-
Advantis Freight (Pvt) Ltd	Fellow Subsidiary	Logistic service	502	-
			90,296	76,056

## Notes to the Financial Statements

### 17. OTHER CURRENT NON FINANCIAL LIABILITIES

	2018 USD	2017 USD
Accrued Expenditure	686,665	714,144
Advances Received	-	29,528
	686,665	743,672

### 18. REVENUE

	2018 USD	2017 USD
Sales of Fabric	57,285,305	55,145,708
Sundry Sales	401,498	391,693
	57,686,803	55,537,401

### 19. OTHER OPERATING INCOME

	2018 USD	2017 USD
Profit on disposal of property, plant and equipment	182	-
Debtors/Creditors write back	60,732	35,590
	60,914	35,590

### 20. OTHER EXPENSES

	2018 USD	2017 USD
Loss on disposal of property, plant and equipment	-	4,021
	-	4,021

### 21. NET FINANCING COST

#### 21.1 Finance income

	2018 USD	2017 USD
Interest income	(1,027)	-

#### 21.2 Finance cost

Interest on short term borrowings	542,475	485,629
Interest on long term loans	286,107	267,628
Loss on translation of foreign currency	146,479	180,097
Finance cost	975,061	933,354
Net finance cost	974,034	933,354

## 22. PROFIT / (LOSS) BEFORE TAX

	2018 USD	2017 USD
<i>Profit / (Loss) before tax is stated after charging all expenses including the following ;</i>		
Staff cost (Note 22.1)	7,235,595	6,847,142
Directors' fees	17,270	17,222
Directors' emoluments	240,207	226,714
Depreciation of property, plant and equipment	1,955,485	1,923,910
Amortization of intangible assets	143,410	240,338
Legal fees	85,624	95,390
Audit fees	15,444	14,148
Non-audit professional services	6,151	4,014
Donations	5,335	13,496
Impairment charge for slow moving inventories	73,041	137,191
Impairment charge /(reversal) for receivables	65,566	(5,396)
Research & development	15,153	28,646

### 22.1 Staff cost

	2018 USD	2017 USD
Salaries and other personnel cost	6,270,449	6,089,363
Defined contribution plan cost- EPF and ETF	570,478	469,204
Defined benefit plan cost- Retiring gratuity	394,668	288,575
	7,235,595	6,847,142

## 23. INCOME TAX

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

	2018 USD	2017 USD
Income Tax on profit for the year (Note 23.1)	-	31,657
(Over)/under provision in respect of previous year	(7,607)	(10,532)
Irrecoverable Economic Service Charge (ESC) (Note 23.3)	727,727	-
Provision for deferred tax (Note 23.2)	(89,649)	(98,069)
Income tax expense reported in the Statement of profit or loss	630,471	(76,944)

## Notes to the Financial Statements

### 23.1 Reconciliation of Current Tax Expenses and product of Accounting Profit / (Loss)

	2018 USD	2017 USD
Profit/(loss) before tax	(49,045)	413,323
Disallowable expenses	2,928,188	2,731,274
Tax deductible expenses	(2,963,116)	(2,738,742)
Tax loss set-off	-	(142,049)
Taxable income/(loss)	(83,973)	263,806
Income tax @ 12%	-	31,657
Income tax on profit	-	31,657
<b>Details of Tax Losses carried forward</b>		
Tax Loss brought forward	8,059,015	8,352,252
Add: incurred during the year	83,973	-
Less: Set off against the current income tax liability	-	(142,049)
Effects of movement in exchange rate	(182,774)	(151,188)
Tax Loss carried forward	7,960,214	8,059,015

Company's profit from exports is taxed at 12% and other income is liable at the rate of 28% for the financial year 2017/18.

### 23.2 Deferred Tax Assets, Liabilities and Income Tax relates to the following

	Statement of Financial Position		Statement of Profit or Loss and Comprehensive Income	
	2018 USD	2017 USD	2018 USD	2017 USD
<b>Deferred Tax Liabilities</b>				
Capital allowances for tax purposes	2,685,636	2,239,639	445,997	26,835
Tax on revaluation of land	201,920	-	201,920	-
	2,887,557	2,239,639	647,918	26,835
<b>Deferred Tax Assets</b>				
Tax effect of tax loss carried forward	1,114,430	688,979	(425,451)	(91,370)
Defined Benefit Plans	284,622	263,590	(21,032)	(32,773)
Impairment for Slow Moving Inventories	99,501	76,521	(22,979)	(11,397)
Impairment for Doubtful Debts	28,820	16,835	(11,985)	647
	1,527,372	1,045,925	(481,447)	(134,893)
<b>Net Deferred Tax Liability</b>	1,360,184	1,193,714		
Deferred Income Tax Reversal to Profit or Loss			(89,649)	(98,069)
Deferred Income Tax Charged to Other Comprehensive income- Land revaluation			201,920	
Deferred Income Tax Charged / (Reversal) to Other Comprehensive income- Defined benefit plan			54,199	(9,989)
Charge to Statement of Profit or Loss and Other Comprehensive Income			166,470	(108,058)

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**23.3** With the enactment of the Inland Revenue Act No. 24 of 2017, the Company is able to claim all taxable losses to the extent of taxable income in an entity. Considering that Economic Service Charge (ESC) paid is recoverable only during the year of payment and two subsequent years. Management has made an assessment of ESC recoverable and an amount of USD 727,727 has been provided for in these Financial Statements.

#### **24. BASIC / DILUTED EARNINGS / (LOSS) PER SHARE**

Basic Earnings / (Loss) per share is calculated by dividing the Profit / (Loss) for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the earnings / (Loss) per share computations.

##### **24.1 Amount Used as the Numerator:**

	2018 USD	2017 USD
Earnings attributable to Ordinary Shareholders of the Company for Earnings / (Loss) per Share	(679,516)	490,267

##### **24.2 Number of Ordinary Shares Used as the Denominator:**

	2018 Number	2017 Number
Weighted Average Number of Ordinary Shares in issue applicable to Basic Earnings / (Loss) per Share	207,740,888	207,740,888

## Notes to the Financial Statements

### 25. RELATED PARTY DISCLOSURES

#### 25.1 Transactions with the parent and related entities during the year

a)

Name of the Company	Relationship	Nature of Transaction	2018 USD	2017 USD
Hayleys PLC	Parent	Office space together with other related facilities	639,380	584,166
Puritas (Pvt) Ltd	Fellow Subsidiary	Purchase oxypura products	376	20,223
Hayleys Consumer Products Ltd	Fellow Subsidiary	Purchase of electronic items	-	311
Hayleys Electronics Lighting (Pvt) Ltd	Fellow Subsidiary	Purchase of electronic items	31,160	23,044
The Kingsbury Hotel PLC	Fellow Subsidiary	Entertainment facility	1,368	2,091
Hayleys Travels (Pvt) Ltd	Fellow Subsidiary	Reservations, ticketing and other travel related services	75,391	56,040
Hayleys Tours (Pvt) Ltd	Fellow Subsidiary	Reservations and other travel related services	17,705	9,417
Hayleys Aventura (Pvt) Ltd.	Fellow Subsidiary	Purchase spare part items and obtained technical support	140,251	79,148
MIT Cargo (Pvt) Ltd	Fellow Subsidiary	Logistic service	47,333	47,929
Hayleys Advantis Ltd	Fellow Subsidiary	Cost of intangible assets/service	-	34,363
Agility Logistics (Pvt) Ltd	Fellow Subsidiary	Logistic service	2,381	1,018
Advantis Freight (Pvt) Ltd	Fellow Subsidiary	Logistic service	5,168	-
Logiwiz Limited	Fellow Subsidiary	Logistic service	12,644	966
Logiventures (Pvt) Ltd	Fellow Subsidiary	Logistic service	387	522
Expelogix (Pvt) Ltd.	Fellow Subsidiary	Logistic service	26,419	19,882
Dipped Products PLC	Fellow Subsidiary	Cost of intangible assets/service	12,079	-
Volanka (Pvt) Ltd.	Fellow Subsidiary	Warehouse Facility	12,515	18,421
Hayleys Leisure Holdings (Pvt) Ltd.	Fellow Subsidiary	Project management	-	43,475
Fentons Ltd.	Fellow Subsidiary	Fire Solution & Electrical Installation	134,045	17,578
Delmege Forsyth & Co.(Pvt) Ltd	Affiliate Company	Purchase of mechanical items	1,141	4,079
Energynet Pvt. Ltd.	Fellow Subsidiary	Service charge of electrical equipments	198	-
Mabroc Teas (Pvt) Ltd.	Fellow Subsidiary	Purchase of tea	1,429	-
Hayleys Lifesciences (Pvt) Ltd.	Fellow Subsidiary	Purchase of Stationery	257	-
Singer Sri Lanka PLC	Fellow Subsidiary	Purchase of electrical equipments	1,858	-
Alufab PLC	Fellow Subsidiary	Installation of aluminium doors	5,102	-
Cosco Shipping Lines Lanka (Pvt) Ltd.	Fellow Subsidiary	Logistic service	12,522	-

b) Amounts due from /to related parties are reflected in these Financial Statements within Notes 9,11,16 and directly in the Statement of Financial Position.

c) Mr. K.D.D.Perera who is a Director of the Company has a significant influence on the operation of Sampath Bank PLC and Pan Asia Bank PLC. The Company has carried out transactions in the ordinary course of business with Sampath Bank PLC and Pan Asia Bank PLC during the year, the details of which are as follows:

Facility	Facility Amount	2018			2017		
		Outstanding amount	Interest & charges incurred during the year	Facility Amount	Outstanding amount	Interest & charges incurred during the year	
	USD	USD	USD	USD	USD	USD	
Sampath Bank	Trade facility	3,975,000	2,600,098	113,234	3,975,000	2,602,836	121,313
	Overdraft facility	476,221	434,706	25,257	487,203	114,575	11,487
Pan Asia Bank	Trade facility	3,000,000	2,197,276	73,046	3,000,000	1,411,909	75,547
	Overdraft facility		(5,441)	-	-	(104,960)	15

## 25.2 Transactions with Key Management Personnel

Key management personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Directors of the Company (including executive and non executive Directors) have been designated as KMP of the entity while their immediate family members have also been identified as related parties.

An immediate family member is defined as spouse or dependent. A dependent is defined as anyone who depends on the respective Director for more than 50% of his/ her financial needs.

### a) Loans to Key Management Personnel

No loans have been provided to the Directors of the Company.

### b) Compensation of key management personnel

	2018 USD	2017 USD
Short term employment benefits	240,207	226,714

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

## 26. COMMITMENTS AND CONTINGENCIES

**26.1** There were no capital expenditure approved by the Directors but not contracted for as at 31 March 2018. (2017-USD 2,035,563)

**26.2** Contingent liabilities as at 31 March 2018 on bills discounted amounted to USD 32,415 (2017 - USD 556,140).

## Notes to the Financial Statements

### 27. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included under
		2018 USD	2017 USD	
Plant & Machinery, Water Treatment Plant	Primary Mortgage for Loans and Borrowings	15,862,169	15,179,896	Property, Plant & Equipment
Land & Buildings	Primary / Concurrent mortgage for Loans and Borrowings	6,358,521	6,467,851	Property, Plant & Equipment
Inventories	Primary / Concurrent mortgage for Loans and Borrowings	8,941,938	8,580,332	Inventories
Trade Receivables	Primary / Concurrent mortgage for Loans and Borrowings	7,896,734	6,928,230	Trade Receivable

### 28. EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after the reporting date that require adjustments to or disclosure in the financial statements.

### 29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's financial assets included trade other receivables, cash and cash equivalent that arrive directly from its operations.

The Company is exposed to Market risk, Interest rate risk, Foreign currency risk and liquidity risk. The Company continuously evaluates the mentioned risks and appropriate actions are being taken with assistance from Group Treasury Department to minimize the adverse impact arising from such risks .

#### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise 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 2018 and 2017. The following assumptions have been made in calculating the sensitivity analyses:

The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 March 2018 and 2017.

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's debt obligations with floating interest rates.

The Company manages its interest rate risk by constantly monitoring the interest rates and negotiating them with the banks through assistance from the Parent Company's Treasury. Company's strategy is to keep the borrowing rates at AWPLR for LKR borrowings and USD borrowings at 3 Months LIBOR +3.5% or less.

### Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the Company's profit before tax is affected through the impact on floating rate borrowings outstanding as of the reporting date is as follows:

2018		2017	
Increase/Decrease in basis points	Effect on profit before tax -USD	Increase/Decrease in basis points	Effect on profit before tax -USD
0.53	(86,923)	0.47	(87,052)
-0.53	86,923	-0.47	87,052

### 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.

	2018		2017	
	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%	26,745	3%	25,181
	-3%	(28,399)	-3%	(26,739)

	2018		2017	
	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%	2,698	3%	4,605
	-3%	(2,865)	-3%	(4,890)

### 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 major all 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.

### 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 80% of the Company's debt will mature in less than one year at 31 March 2018 (2017: 68%) based on the carrying value of borrowings reflected in the financial statements. The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

### Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The maturity profile of the Company's financial liabilities based on contractual undiscounted payments are provided in Notes 14.2 and 16.1 to the financial statements.

### Capital Management

The Company's Capital is made up of both equity and debt capital which have been disclosed in Notes 13 and 14 respectively.

### Fair Value of Financial Instruments

Financial assets of the Company include cash and cash equivalents, trade receivables and other receivables, whilst financial liabilities include trade and other payables and interest bearing loans and borrowings.

The management assessed that cash and cash equivalents, trade receivables, other receivables, trade and other payables approximate their carrying amounts largely due to the short term maturities of these instruments. The management also assessed that long term variable rate borrowings approximate their carrying amounts largely due to the market based interest rates charged.

# Statement of Financial Position

## Translated into LKR

As at 31 March	2018 LKR '000	2017 LKR '000
<b>ASSETS</b>		
<b>Non-Current Assets</b>		
Property, plant and equipment	3,939,757	3,784,739
Intangible assets	23,943	38,055
	3,963,700	3,822,794
<b>Current Assets</b>		
Inventories	1,815,019	1,725,335
Trade receivables	1,243,657	1,066,532
Other receivables	104,714	172,017
Advances and prepayments	77,037	188,234
Cash and cash equivalents	54,449	225,684
	3,294,876	3,377,802
<b>Total Assets</b>	<b>7,258,576</b>	<b>7,200,596</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and Reserves</b>		
Stated capital	1,968,193	1,968,193
Revaluation reserve	195,346	222,026
Retained earnings	(59,237)	(5,378)
Exchange fluctuation reserve	578,850	522,266
<b>Total Equity</b>	<b>2,683,152</b>	<b>2,707,107</b>
<b>Non-Current Liabilities</b>		
Interest bearing loans and borrowings	517,530	956,576
Deferred tax liabilities	214,215	183,760
Retirement benefit obligations	320,180	338,143
	1,051,925	1,478,479
<b>Current Liabilities</b>		
Trade and other payables	1,293,416	814,666
Interest bearing loans and borrowings	2,113,604	2,073,999
Amounts due to Hayleys PLC	8,337	6,991
Income tax payable	-	4,873
Other current non financial liabilities	108,143	114,481
	3,523,499	3,015,010
<b>Total Equity and Liabilities</b>	<b>7,258,576</b>	<b>7,200,596</b>

The financial statements prepared and presented in US Dollars reflect the economic substance of underlying events and circumstances of the enterprise. The supplementary information in SL Rupees is presented for convenience purposes only. The statements presented in SL Rupees are not a full set of financial statements and are not purported to comply with Sri Lanka Accounting Standards. They represent selected information taken from the US Dollar financial statements, translated into SL Rupees generally using the principles set out in Sri Lanka Accounting Standards (LKAS) 21 for the translation of financial statements to a presentation currency from a measurement currency. Revenue and costs are converted using the average exchange rate for the period. Assets and liabilities are converted using the exchange rate at the end of the year. The revenue reserves incorporates the profit for the period reflected in the income statements.

In accordance with advice received from the Urgent Issue Task Force of the Institute of Chartered Accountants of Sri Lanka, stated capital is represented at it's original SL Rupee value.

Following exchange rates were used to convert the financials into LKR

	2018	2017
Statement of Profit or Loss and Other Comprehensive Income	155.40	150.04
Statement of financial position	157.49	153.94

# Statement of Profit or Loss And Other Comprehensive Income

## Translated into LKR

Year ended 31 March	2018 LKR '000'	2017 LKR '000'
Revenue	8,964,529	8,332,832
Cost of Sales	(8,020,072)	(7,358,588)
<b>Gross Profit</b>	<b>944,457</b>	<b>974,244</b>
Other Operating Income	9,466	5,340
Administrative Expenses	(734,198)	(706,124)
Distribution Expenses	(75,982)	(70,801)
Other Expenses	-	(604)
Net Financing Costs	(151,365)	(140,040)
<b>Profit/(Loss) Before Tax</b>	<b>(7,622)</b>	<b>62,015</b>
Income Tax (Expense)/Reversal	(97,975)	11,545
<b>Profit/(loss) for the Year</b>	<b>(105,597)</b>	<b>73,560</b>
<b>Other Comprehensive Income not to be reclassified to profit or loss</b>		
- Surplus on revaluation of land	-	6,144
- Income tax effect on revaluation of land	(31,378)	-
- Actuarial loss on defined benefit plans	60,161	(12,489)
- Income tax effect on actuarial (gain)/loss on defined benefit plans	(8,423)	1,499
<b>Total Comprehensive Income, Net of Tax</b>	<b>(85,237)</b>	<b>68,714</b>
Basic / Diluted Earnings/(loss) per Share	(0.51)	0.35

# Ten Year Summary

	10-year compound growth %	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
		USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
<b>Results</b>											
Net turnover	(0)	57,686,803	55,537,401	59,924,103	65,031,509	61,252,088	44,193,490	45,936,097	58,322,307	50,056,501	59,074,278
Profit after tax	(184)	(679,516)	490,267	1,845,409	679,920	(1,388,400)	(3,642,771)	(7,581,712)	(7,078,596)	3,163,627	3,235,324
<b>Funds Employed</b>											
Stated capital	12	17,561,761	17,561,761	17,561,761	17,561,761	13,563,304	13,563,304	6,534,102	6,534,102	6,534,102	6,534,102
Reserves	(168)	(524,791)	23,706	(434,262)	(2,052,032)	(2,875,191)	(1,508,395)	2,012,633	9,594,346	17,021,818	16,632,221
Shareholders' fund	(3)	17,036,970	17,585,467	17,127,499	15,509,729	10,688,113	12,054,909	8,546,735	16,128,448	23,555,920	23,166,323
Borrowings (both short & long term)	0	16,706,671	19,686,731	16,818,660	18,951,491	16,866,448	12,655,851	19,996,108	23,706,118	16,362,217	16,124,369
		33,743,641	37,272,198	33,946,159	34,461,220	27,554,561	24,710,760	28,542,843	39,834,566	39,918,137	39,290,692
<b>Assets Employed</b>											
Non current assets	(1)	25,167,948	24,833,016	23,096,764	22,610,098	22,622,634	24,304,984	25,750,288	27,616,695	26,737,822	26,462,825
Current assets	1	20,921,177	21,942,322	19,649,659	22,507,145	19,490,701	11,753,515	13,006,227	18,987,220	23,428,147	19,624,002
Current liabilities net of borrowings	5	(8,952,285)	(6,112,839)	(5,575,020)	(7,535,519)	(11,615,635)	(8,632,504)	(7,453,474)	(3,954,781)	(7,520,043)	(5,978,624)
Provisions	17	(3,393,199)	(3,390,301)	(3,225,244)	(3,120,504)	(2,943,139)	(2,715,235)	(2,760,198)	(2,814,569)	(2,727,790)	(817,511)
Capital Employed	(2)	33,743,641	37,272,198	33,946,159	34,461,220	27,554,561	24,710,760	28,542,843	39,834,566	39,918,137	39,290,692
<b>Cash Flow</b>											
Net cash inflow/(outflow) from operating activities		4,235,513	1,916,117	2,606,119	(1,392,458)	(3,763,827)	589,410	5,660,679	(4,837,120)	3,783,556	3,677,255
Net cash outflow from investing activities		(2,375,774)	(4,521,131)	(2,734,731)	(1,712,927)	(401,501)	(507,460)	(1,339,693)	(2,485,654)	(2,046,136)	(2,615,639)
Net cash inflow/(outflow) from financing activities		(2,572,428)	2,939,367	(2,420,540)	10,185,800	1,291,588	5,654,647	(1,827,919)	897,130	(2,568,869)	(1,551,086)
Increase / (decrease) in cash & cash equivalents		(712,690)	334,353	(2,549,151)	7,080,416	(2,873,740)	5,736,597	2,493,067	(6,425,644)	(831,449)	(489,470)
<b>Key Indicators</b>											
Earnings/(Loss) per share (basic) USD		(0.003)	0.002	0.009	0.004	(0.008)	(0.025)	(0.120)	(0.1394)	0.062	0.064
Net assets per share USD		0.082	0.085	0.082	0.075	0.07	0.08	0.13	0.31	0.46	0.46
Dividend per share Rs.		-	-	-	-	-	-	-	-	-	2.50
Gearing %		50	53	50	55	61	51	70	60	41	41
Turnover to capital employed (times)		1.71	1.49	1.77	1.89	2.22	1.79	1.61	1.46	1.25	1.50

# Glossary of Financial Terminology

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## Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

## Accrual Basis

Recording revenues and expenses in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period.

## Actuarial Gain/Loss on defined benefit plan

Gain or loss arising from the difference between estimates and actual experience in an entity's defined benefit plan.

## Amortized cost

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayment plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

## Assets Turnover

Revenue divided by average total assets.

## Borrowings

Bank loans and overdrafts.

## Capital Employed

Shareholders' funds plus debt.

## Cash Equivalents

Liquid investments with original maturities of three months or less.

## Contingent Liabilities

Conditions or situations at the date of Statement of Financial Position, the financial effect of which are to be determined by future events which may or may not occur.

## Current Ratio

Current Assets divided by Current Liabilities.

## Debt/Equity Ratio

Debt as a percentage of Shareholders' funds.

## Deferred Taxation

Sum set aside for income tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

## Direct Employment

The workers employed by the Company.

## Discount Rate

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

## Diluted Earnings Per share

Profit attributable to equity holders divided by the weighted average number of ordinary shares in issue during the period adjusted for options granted but not exercised and outstanding unexpired warrants.

## Earnings Per Share (EPS)

Profit attributable to equity holders divided by the weighted average number of ordinary shares in issue during the period.

## EBIT

Earnings before interest and tax (Includes other operating income).

## EBITDA

Earnings before interest, tax, depreciation and amortization.

## Effective Rate of Taxation

Income tax including Deferred tax over Profit before tax.

## Energy Intensity

Total energy consumed by the Company in GJ divided by the production in MT

## Equity

Shareholders' funds

## Fair value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## Financial Instrument

A financial instrument is any contract that gives rise to both a financial assets in one entity and a financial liability or equity instrument in another entity.

## Interest cover

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

## Market capitalization

Number of Shares in issue at the end of the period multiplied by the share price at the end of the period.

## Market value added

Market capitalization minus shareholders' funds.

## Net Assets

Total assets minus long term and current liabilities.

## Net Assets Per Share

Net assets at the year- end divided by the number of Ordinary shares in issue

## Net Profit Ratio

Profit after tax attributable to equity holders of the Company divided by total revenue.

## Net working capital

Current assets minus current liabilities.

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**Organic wastage**

Bio-degradable waste.

**Price Earnings Ratio**

Market price of share as at the year-end divided by Earnings Per Share.

**Public Holding**

Percentage of shares held by the public calculated as per the Colombo Stock Exchange Listing Rules as at the date of the Report.

**Quick Asset Ratio**

Current Assets other than inventory divided by Current liabilities.

**Return on Assets (ROA)**

Profit after tax divided by average total assets.

**Return on Capital Employed (ROCE)**

Earnings before interest and tax as a percentage of average shareholders' funds plus total debt.

**Return on Equity (ROE)**

Profit after tax as a percentage of Average shareholders' funds.

**Recycle**

The process of converting waste into reusable materials.

**Risk Management**

The identification, analysis, assessment, control and avoidance , minimization or elimination of unacceptable risk.

**Shareholders' Funds**

Total of issued and fully paid share capital and both capital and Revenue Reserves.

**Stewardship**

The role of supervising or taking care of the organization.

**Total Assets**

Non- current assets plus current assets.

**Total Debt**

Long term loans plus short term loans and overdrafts.

# Investor Information

## Ordinary Shareholders as at 31 March 2018

No. Of Shares Held	Residents			Non Residents			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 - 1,000	1,603	592,528	0.285	10	4,050	0.002	1,613	596,578	0.287
1,001 - 10,000	1,189	4,831,478	2.326	7	40,700	0.020	1,196	4,872,178	2.345
10,001 - 100,000	474	15,460,094	7.442	13	588,063	0.283	487	16,048,157	7.725
100,001 - 1,000,000	59	14,943,919	7.194	4	1,692,175	0.815	63	16,636,094	8.008
Over 1,000,000	12	169,587,881	81.634	-	-	-	12	169,587,881	81.634
	3,337	205,415,900	98.881	34	2,324,988	1.119	3,371	207,740,888	100.000

Categories of shareholders	Residents			Non Residents			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individuals	3,136	28,294,265	13.620	32	1,407,856	0.678	3,168	29,702,121	14.298
Institutions	201	177,121,635	85.261	2	917,132	0.441	203	178,038,767	85.702
	3,337	205,415,900	98.881	34	2,324,988	1.119	3,371	207,740,888	100.000

## Market Value

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

	2018 (LKR)	2017 (LKR)
Highest	17.70 (on 28th Apr. 2017)	21.10 (on 12th May 2016)
Lowest	12.20 (on 28th Mar. 2018)	13.20 (on 24th Mar. 2017)
Year end	12.50	13.60

## Share Trading

	2018	2017
No. of transactions	9,990	10,957
No. of shares traded	30,273,485	30,463,216
Value of shares traded (LKR)	484,704,794	554,239,967

## Major Shareholding

The twenty major shareholders and the percentage held by each as

### FIRST TWENTY SHAREHOLDERS AS AT 31 March 2018

Name of Shareholder	No. of Shares	No. of Shares		%
	As at 31/03/2018	%	As at 31/03/2017	
1 HAYLEYS PLC NO 3 SHARE INVESTMENT ACCOUNT	122,487,023	58.96	122,487,023	58.96
2 THE CEYLON GUARDIAN INVESTMENT TRUST PLC A/C # 02	8,645,207	4.16	10,883,750	5.24
3 THE CEYLON INVESTMENT PLC A/C # 02	8,474,184	4.08	11,265,372	5.42
4 UNION ASSURANCE PLC/A/C NO.05 (UNIT LINKED LIFE INSURANCE FUND - EQUITY FUND)	7,254,039	3.49		
5 EMPLOYEES PROVIDENT FUND	5,540,727	2.67	5,540,727	2.67
6 HAYLEYS ADVANTIS LIMITED	5,036,850	2.42	5,036,850	2.42
7 HAYLEYS AGRICULTURE HOLDINGS LIMITED	3,472,257	1.67	3,472,257	1.67
8 THE CEYLON CHAMBER OF COMMERCE ACCOUNT NO 02	2,506,275	1.21	2,550,792	1.23
9 MR.A.N.ESUFALLY	1,815,000	0.87	1,815,000	0.87
10 MR.A.M.WEERASINGHE	1,800,000	0.87	1,800,000	0.87
11 HATTON NATIONAL BANK PLC A/C NO.4 (HNB RETIREMENT PENSION FUND)	1,528,934	0.74	1,628,934	0.78
12 EAST INDIA HOLDING (PVT) LTD	1,027,385	0.49	1,627,385	0.78
13 FREUDENBERG SHIPPING AGENCIES LIMITED	841,786	0.41	841,786	0.41
14 THE SRI LANKA FUND	817,132	0.39	986,132	0.47
15 BANK OF CEYLON A/C NDB WEALTH GROWTH FUND	774,565	0.37	774,565	0.37
16 BANK OF CEYLON NO.01 ACCOUNT	774,098	0.37	774,098	0.37
17 MR.G DANGAMPOLA & MRS.N.P.DANGAMPOLA	773,077	0.37	773,077	0.37
18 MR.K.A.S.R NISSANKA	700,000	0.34	700,100	0.34
19 MRS.M.T.MOOSAJEE	649,774	0.31	974,824	0.47
20 ALLNATT INVESTMENTS (PVT) LTD	565,844	0.27	565,844	0.27
Total	175,484,157	84.47	174,498,516	84.00

### The issued number of shares of the Company

As at 31.03.2017 - 207,740,888

As at 31.03.2018 - 207,740,888

Registered Shareholders as at 31 March 2018 - 3,371 (3,284)

The percentage of shares held by public as at 31 March 2018 as per Colombo Stock Exchange (CSE) Rules was 36.92% (36.92%)

No. of shareholders representing Public Holding as at 31 March 2018 - 3,365 (3,278)

### DIRECTORS' SHAREHOLDING

DIRECTORS' SHAREHOLDING AS AT 31st March	Direct holding	
	No. of Shares 2018	No. of Shares 2017
Mr.A.M.Pandithage	Nil	Nil
Mr.E.R.P.Goonetilleke	Nil	Nil
Mr.K.D.D.Perera **	4,090	4,090
Mr.S.C.Ganegoda	Nil	Nil
Mr.H.Somashantha	20,000	20,000
Mr.R.N.Somararatne	25,000	25,000
Dr.N.S.J.Nawaratne	Nil	Nil
Mr.A.S.Jayatilleka	Nil	Nil
Mrs.Y.Bhaskaran	Nil	Nil
( alternate Director to Mr.K.D.D.Perera )		

\*\* Mr.K.D.D.Perera holds 50.44% directly and indirectly of the total issued shares of Hayleys PLC which has 122,487,023 shares in Hayleys Fabric PLC.

# Notice of Meeting

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Notice is hereby given that the Twenty Sixth Annual General Meeting of Hayleys Fabric PLC, will be held at the Registered Office of the Company, at No.400, Deans Road, Colombo 10, on Tuesday, 26th June, 2018 at 3.00 p.m. and the business to be brought before the meeting will be:

1. To consider and adopt the Annual Report of the Board and the Statements of Accounts for the year ended 31st March, 2018 with the Report of the Auditors thereon.
2. To elect Mr. R. R. Bandara who has been appointed to the Board since the last Annual General Meeting, a Director.
3. To re-elect Mr. A.S. Jayatilleka, who retires by rotation at the Annual General Meeting, a Director.
4. To re-elect Mr. R.N. Somaratne, who retires by rotation at the Annual General Meeting, a Director.
5. To authorise the Directors to determine contributions to charities for the year 2018/19.
6. To authorize the Directors to determine the remuneration of the Auditors, Messrs. Ernst & Young, Chartered Accountants who are deemed to have been re-appointed as Auditors for the year 2018/19.
7. To consider any other business of which due notice has been given.

NOTE :

A shareholder is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a shareholder of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office, No.400, Deans Road, Colombo 10 by 3.00 p.m. on 24th June , 2018.

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

Colombo

25th May 2018

# 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 Sixth Annual General Meeting of the Company to be held on Tuesday, 26th June, 2018 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, 2018, with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To elect Mr. R. R. Bandara who has been appointed to the Board since the last Annual General Meeting, a Director	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr.A.S. Jayatileka, who retires by rotation at the 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 authorise the Directors to determine contributions to charities for the year 2018/19.	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorize the Directors to determine the remuneration of the Auditors, Messrs. Ernst & Young, Chartered Accountants who are deemed to have been reappointed as Auditors for the year 2018/19.	<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..... 2018.

.....  
Signature Of Shareholder

Witness(\*\*);

Name ..... Address .....

Signature ..... NIC No. ....

Notes:

- (a) \* Please delete the inappropriate words.
- (b) A shareholder entitled to attend and vote at the Annual General meeting of the Company, is entitled to appoint a proxy to attend and vote instead of him/her and the proxy need not be a shareholder of the Company .  
\*\* Full name of shareholder/proxy holder and their NIC Nos and Witness are mandatory. Your Proxy Form will be rejected if these details are not completed.
- (c) A shareholder is not entitled to appoint more than one proxy to attend on the same occasion.
- (d) Instructions are noted on the reverse hereof.
- (e) This Form of Proxy is in terms of the Articles of Association of the Company.

## Form of Proxy

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### Instructions as to Completion

1. To be valid, this Form of Proxy must be deposited at the Registered Office of the Company, No.400, Deans Road, Colombo 10, by 3.00 p.m. on Sunday, 24th June, 2018.
2. In perfecting the Form of Proxy, please ensure that all details are legible
3. If you wish to appoint a person other than the Chairman of the Company (or failing him, one of the Directors) as your proxy, please insert the relevant details at 1 overleaf and initial against this entry.
4. Please indicate with an X in the space provided how your proxy is to vote on each resolution. If no indication is given, the proxy in his discretion will vote as he thinks fit. Please also delete (\*\*\*) if you do not wish your proxy to vote as he thinks fit on any other resolution brought before the Meeting.
5. In the case of a Company / Corporation, the proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
6. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.
7. In case of Marginal Trading Accounts (slash accounts), the form of Proxy should be signed by the respective authorised Fund Manager/Banker with whom the account is maintained.

# Corporate Information

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## 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.Jayatileka  
Ms.Yogadinusha Bhaskaaran (Alternative Director to  
K.D.D.Perera)

## Secretaries

Hayleys Group Services (Pvt) Ltd.  
400, Deans Road,Colombo 10.  
Telephone: (94-11) 2627650 /51/52/53

## Registered Office

400, Deans Road ,  
Colombo 10.  
Telephone: (94-11) 2627000

## Main Office & Factory

Narthupana Estate , Neboda.  
Telephone: (94-34) 4297100, 2242055

## Bankers

Standard Chartered Bank  
Hongkong and Shanghai Banking Corporation  
Hatton National Bank PLC  
Bank of Ceylon  
National Development Bank PLC  
Sampath Bank PLC  
Commercial Bank of Ceylon PLC  
Deutsche Bank AG  
Citibank, N.A.  
Seylan Bank PLC  
Pan Asia Banking Corporation PLC  
People's Bank

## Auditors

Ernst & Young  
Chartered Accountants,  
201, De Saram Place,  
Colombo 10.

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