

Evolution through **INNOVATION**



Hayleys Fabric PLC
Annual Report 2016/17





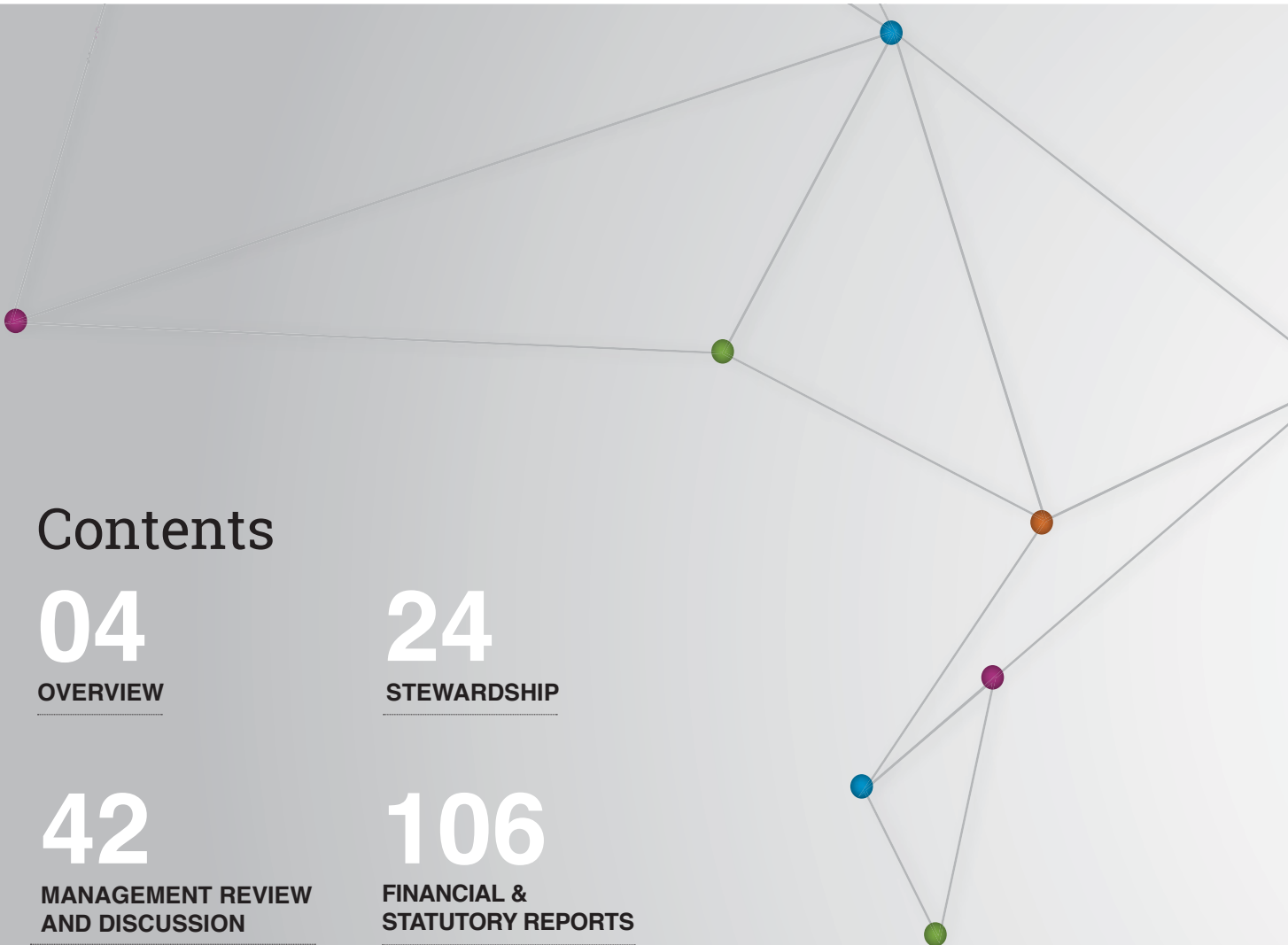
Evolution through **INNOVATION**

From year to year, people and technologies change and evolve so fast, it's often hard to keep track of what's happening, where and to whom. The old becomes new almost overnight as we quickly replace the obsolescent with state-of-the-art, in the relentless search for better, faster, more effective ways of manufacture and delivery, across Sri Lanka and across the world.

At Hayleys Fabric we want to be the best at all that we do and we believe the way to perfection is through innovation. That's why we have invested so much into research and development, into innovating new products and technologies that serve our customers and thus, our other stakeholders with better value each year.

Our commitment to innovation-led transformation is what has powered our journey to success. It has delivered quantifiable results: the expansion of our existing markets to USA and Australia, a successful entry into synthetic fabric manufacture and a modification to our processes that has resulted in cleaner emissions, reduced production time and lower energy consumption.

And that's how we're evolving; through progressive strategies, creative thinking and innovation.



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Hayleys Fabric PLC becomes the first textile Company in Sri Lanka to produce carbon neutral Annual Report

Hayleys Fabric PLC received the carbon neutral certificate for its Annual Report for financial year 2016/17, making the Company to be the first Sri Lankan textile Company to produce a carbon free Annual Report. Climate Smart Initiatives (ClimateSI) issued the carbon neutral certificate after conducting a thorough assessments of all processes and emission sources attributed to the production of the Annual Report for the financial year 2016/17 against Greenhouse Gas Protocol's Product Life Cycle Accounting and Reporting Standard, and obtained a confirmation from the UN Framework Convention on Climate Change which declares that Hayleys Fabric PLC has offset the carbon footprint of its Annual Report for the financial year 2016/17 to achieve carbon neutral status.

Hayleys Fabric PLC being part of a conglomerate committed for sustainability and environmental protection has decided to consider carbon neutralization activity as part of their drive towards achieving the above and as a result, Hayleys Fabric PLC has initiated the process required to obtain carbon neutral status by looking at the emission sources and taking appropriate action to mitigate such emissions. This process will not only help Hayleys Fabric PLC to contribute to the society by minimizing CO₂ emissions but will also enable all suppliers who are engaged with Hayleys Fabric PLC's providing services to design, develop and produce the Annual Report as the process of neutralization of carbon to look at their processes to mitigate emission reductions, which is a contribution to the society at large.

About the Report

Our third consecutive Integrated Report has been designed to present a balanced review of our financial, environmental and social performance for the financial year ended 31st March 2017. We have used the following standards, frameworks and guidelines in preparation of the report to ensure that we comply with regulatory requirements and incorporate best practice in to our reporting processes.

for decision making and facilitating optimum allocation of resources. Notable changes to the structure include a separate segment on our prospects strengthening the strategic focus and future orientation of the report. We also improved the connectivity of information by signposting readers to key areas through the value creation model. Deeper engagement with stakeholders provided valuable insights as explained in the

they are reported in a concise and consistent manner facilitating comparability and transparency. Reliability of information has been enhanced by assurance on both the financial statements and the sustainability information by the external auditors Ernst & Young.

Hayleys Fabric PLC is committed to pursuing excellence in corporate reporting and monitor discussions on this evolving topic to identify and



We continue to refine our processes for holistic reporting within the Company, enhancing the quantity and quality of information available

Stakeholder Engagement segment of the report. Care has been taken to ensure that material issues are presented in this report and that

implement best practice, adapted to suit our circumstances.



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Integrated Annual Report

For inquiries about this report, please contact:

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www.hayleysfabric.com



Awards During the Year



Won the Bronze Award for the 2nd consecutive year in the Manufacturing Sector at the Annual Report Awarding Ceremony - 2016 Organized by CA Sri Lanka and Colombo Stock Exchange



Certificate of Merit Awarded by SAFA (South Asian Federation of Accountants) for the Excellence in Integrated Reporting Award Ceremony held in Dhaka- Bangladesh



Certificate of Merit Awarded by CMA Sri Lanka for the Excellence in Integrated Reporting Award - 2016

About Us

Hayleys Fabric PLC

Hayleys Fabric PLC is Sri Lanka's pioneering fabric manufacturer providing highly customized fabric to global fashion brands. A strong innovation capability built over the years makes us the only manufacturer with our own branded fabric range "Inno" which has gained high levels of acceptance with our customers. Part of the Hayleys' Group adjudged the Best Corporate Citizen in 2016, we maintain high standards of social and environment responsibility while adhering to our promise of consistent quality and timely delivery.

About Us

Diversified Weft Knit Manufacturer in Sri Lanka

Pioneer Manufacturer of polyester fabric in Sri Lanka

Pioneer in manufacture of Nylon fabric in Sri Lanka

Our own branded fabric "Inno" developed in-house

1,012 Employees

US\$ 47mn in Total Assets

Our Capability

Circular knitting of Fabric

Fabric Dyeing & Finishing

Fabric Printing

Brushing & Sueding

Innovative Fabric

Product development



Our Vision

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

Our 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.

Our Value

Integrity

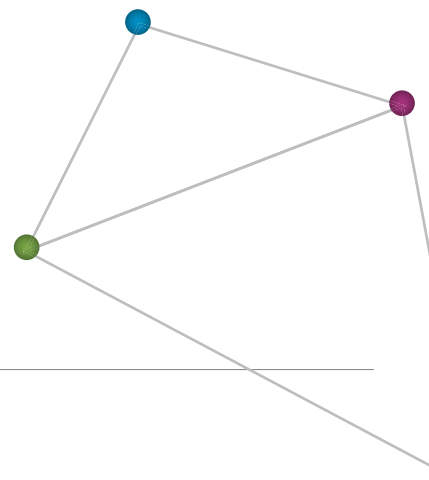
.....
'do the right thing' -
managing with honesty,
efficiency, and reliability
always

Service

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

Quality

.....
delivering excellent
standards consistently





Innovation

invent in services and technologies to improve on what we do

People

to build our team to create value to stakeholders

Accountability

holding ourselves responsible to deliver what we promise

Good Citizenship

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



Performance Highlights:

Our relevance to the Economy

	2017	2016
Relevance to Country's Economy		
Economic value added (USD. Mn)	3.05	2.79
Fabric produced (MT)	7,656	7,786
Proportion of purchases from suppliers within Sri Lanka (%)	28%	24%

Monetised Capitals

		2017	2016
Revenue	USD '000'	55,537	59,924
Results from Operating Activities	USD '000'	1,347	2,648
Profit before tax	USD '000'	413	1,813
Profit after tax	USD '000'	490	1,845
Basic /Diluted earnings per share	USD	0.002	0.009
Cash earnings per share	USD	0.014	0.020
Interest cover	No. of times	0.69	3.17
Return on equity (ROE)	%	3%	11%
Pre-tax return on capital employed (ROCE)	%	4%	8%

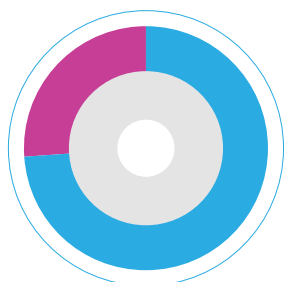
Balance Sheet Highlights and Ratios

Total assets	USD '000'	46,775	42,746
Total debt	USD '000'	19,687	16,819
Net debt (cash)	USD '000'	18,221	15,616
Total shareholders' funds	USD '000'	17,585	17,127
No. of shares in issue	000'	207,741	207,741
Net assets per share	USD	0.085	0.082
Long term Debt /Equity	%	35%	12%
Total debt / total assets	%	42%	39%

Market / Shareholder Information

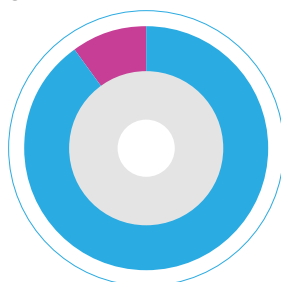
Market price of share as at 31st March (actual)	Rs.	13.60	18.00
Market Capitalisation	Rs. Million	2,825	3,719
Price earnings ratio (PER) (diluted)	No. of times	39	14

2017



● Shareholders' funds 74%
● Long term borrowings 26%

2016



● Shareholders' funds 90%
● Long term borrowings 10%

Financial Capital

Revenue
USD 55.54 Mn
 2016 : USD 59.92 Mn

Profit After Tax
USD 0.49 Mn
 2016 : USD 1.84Mn

Total Assets
USD 46.77Mn
 2016 : USD 42.74 Mn

Equity
USD 17.59Mn
 2016 : USD 17.13Mn

Economic Impact

Economic Value Added
USD 3.05Mn
 2016 : USD 2.79Mn

Taxes Paid
USD 0.33Mn
 2016: USD 0.12Mn

Intellectual Capital

% of Revenue from Inno range
17%
 2016 : 8%

No. of Accreditations from Fashion Brands
24
 2016 : 21

Social & Network Capital

Employees from < 15Km Radius
695
 2016: 799

No. of people benefited from Community engagement
Over 2,100
 2016: Over 1,000

Human Capital

No. of Employees
1,012
 2016 : 1,059

Employee Retention Rate
92%
 2016 : 96%

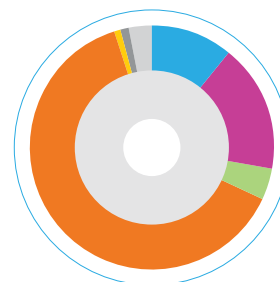
Manufactured Capital

Investment in Plant & Machinery
USD 1.4 Mn
 2016: 2.3 Mn

Environmental Impact

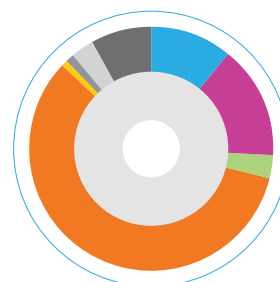
Direct Energy Consumption
654,734 GJ
 2016: 703,720 GJ

Property Plant & Equipment 2016



● Freehold Land 11%
 ● Buildings 17%
 ● Water Treatment Plant 4%
 ● Plant & Machinery 63%
 ● Furniture and Fittings 1%
 ● Computers 1%
 ● Factory Equipment 3%

Property Plant & Equipment 2017



● Freehold Land 11%
 ● Buildings 15%
 ● Water Treatment Plant 3%
 ● Plant & Machinery 58%
 ● Furniture and Fittings 1%
 ● Computers 1%
 ● Factory Equipment 3%
 ● Capital WIP 8%

Performance Highlights:

Environment Highlights

We are conscious that the Textile and Apparel sector has a high impact on climate change and have implemented several initiatives to reduce our impact. The statement below captures the material issues in this regard.

	2017	2016
Natural Capital		
Total extent of Land	54 Acres	34 Acres
Extent of land reserved as a green belt	20 Acres	Nil
Total Raw Material Consumption (MT)	12,718	12,780
Renewable Raw Material as a % of total consumption	28%	25%
Recycled materials as a % of Raw Materials consumed	1.40%	1.30%
Direct energy consumption (GJ)	654,734	703,720
Direct energy (GJ/USD Mn. of Revenue)	11,789	11,744
Indirect energy consumption (GJ)	24,570	Nil
Indirect energy (GJ/USD Mn. Revenue)	442	Nil
Water withdrawal (m ³)	1,765,755	1,773,253
Water withdrawal (m ³ / USD Mn. Revenue)	31,794	29,592
Our Impact on the environment		
Direct greenhouse gas emissions - scope 1 (tCO ₂ eq)	11,554	11,228
Energy indirect greenhouse gas emissions - scope 2 (tCO ₂ eq)	9,206	7,183
Other indirect emissions - Scope 3 (tCO ₂ eq)	2,368	-
Total carbon footprint (tCO ₂ eq)	23,128	18,411
Total carbon footprint ((tCO ₂ eq)/USD Mn. of Revenue)	416	307
Water discharged after treatment (m ³)	1,525,679	1,727,617
Waste generated and disposed according to CEA requirements(m ³)-Sludge and Non Hazard	2,072	2,415
Waste recycled/re-used through third party contractors (%)	46%	51%
Significant environmental fines	NIL	NIL
Manufactured Capital		
Net Book Value-USD '000'		
- Buildings	3,694	3,841
- Plant & Machinery	14,361	14,326
Investments during the year -USD '000'		
- Buildings	592	-
- Plant & Machinery	1,413	2,322
Capacity utilization	78%	80%

Performance Highlights: Social, Human & Intellectual Capital

The Apparel and Textile sector is a key contributor to the Country's economy accounting for 3.1% of GDP in 2016 and provides employment for over 900,000 people. The statement below captures material matters related to our impact on the economy, Human Capital, Social & Network Capital and Intellectual Capital that makes it all possible.

Human Capital	2017	2016
Total workforce (employees only)	1,012	1,059
% of Employees from area (within 15 km radius)	69%	75%
Retention *	92%	96%
Employee Productivity (USD per man Hour)	18	21
Training & Development Cost-Rs.	2,032,070	4,053,840
Average Hours of Training per employee	13	6
Training coverage of employees (%)	7%	9%
Injury rate (number of injuries per 100 employees)	6.21	3.39
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
Intellectual Capital		
% of sales from Inno range	17%	8%
No. of accreditations from fashion brands for facility	24	21
Social & Network Capital		
Community engagement (no. of persons impacted)	Over 2,100	Over 1,000
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

* This ratio has been computed excluding NAITA trainees.

Last year figures have been re-stated as appropriate to be in line with current calculations.

Chairman's Statement

Sri Lanka's apparel sector had a growth of 1.16% in 2016 amidst challenging market dynamics and industry -wide pressures on prices & margins.



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Dear Stakeholder,

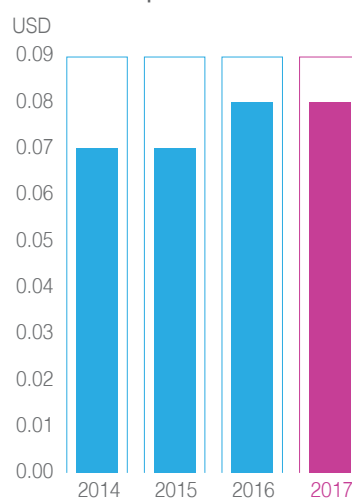
It is my pleasure to report that your Company recorded US\$.490,267 profit after tax for the financial year ended 31st March 2017 with a total asset growth of 9.4%. Looking beyond the numbers, our main goal has been implementation of a paradigm change in strategy as we successfully repositioned the Company to operate in the fast paced, high value spectrum of fabric maintaining our momentum in long term growth.

Setting Our Performance In Context

The global apparel market continued its trend of relatively healthy volume growth and marginal value growth of 2.7% and 0.3% respectively with the value of the market estimated at USD 1.3 trillion for 2016. These numbers reflect the challenging market dynamics and industry-wide pressure on margins as prices

“Your Company recorded US\$.490,267 profit after tax for the financial year ended 31st March 2017 with a total asset growth of 9.4%.”

Net Assets per share



Market Capitalization

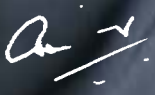
Rs.2,825mn

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Corporate
Governance

Read more about the
Governance framework and
policy statements.




A.M. Pandithage
Chairman

Chairman's Statement



We expanded our Inno range enabling us to target customers with a curated range of products, successfully repositioning the Company.

declined by 2.1% over a decade from USD15.37 to USD 12.44 due to intense competition and increasingly price conscious consumers.

Sri Lanka's apparel sector growth reflected relatively healthy value

growth of 1.16% in 2016 as total exports amounted to US\$ 4,675 mn indicating the attractiveness of the destination. Key supporting factors include a zero tolerance of child labour, forced labour and decent workplaces where Sri Lankan

apparel is marketed under the slogan "Garments without Guilt". Significant investments in green factories coupled with investments in energy efficient technologies and responsible disposal of effluents and waste has further strengthened



"Innovation and a commitment to high standards is key to the course we have set for the Company, in line with the strategic goals of the Hayleys Group."

the overall attention to sustainability supporting customers' need to protect their brand reputations.

Key players in the industry including Hayleys Fabric constantly seek to move up the value spectrum by increasing the sophistication of their products and developing their capacity to innovate in order to improve operating margins. Availability of talented employees and visionary leadership supported the apparel industry which has evolved at a fast pace, gathering momentum with each expansion. We are indeed proud to be a part of the story as the pioneer of knitted fabric in the country evolving to become the first fabric manufacturer to launch its own line of fabric and the market leader for weft knit fabric in the country.

Recent developments in the negotiations for re-instituting the GSP+ concessions with the EU are encouraging as it makes our products more competitive to the 28-member European Union. The EU as a bloc is Sri Lanka's main export destination, absorbing 21 % of Sri Lankan exports in 2016, the country's second largest trading partner after the US which accounted for 27%. Apparel exports to the EU amounted to US\$1,944 mn (41%) in 2016 ranking 2nd behind the US which amounted to US\$ 2,122.9mn.

A Forward-Looking Strategy

As part of the Hayleys Group, Hayleys Fabric takes a long-term view based on our insights of the industry, its potential and the ground realities. Over the past 3 years, Hayleys Fabric made considerable progress in moving up the value spectrum, becoming more selective, thereby moving away from catering to the traditional mass market low margins segment. During the year under review, we expanded our Inno range enabling us to target customers with a curated range of products, successfully repositioning the Company.

Financial Performance

Naturally the transition was not easy, and resulted in lower volumes as orders naturally took time to materialize resulting in lower production volumes and turnover. Revenue and margins declined due to the repositioning of the Company impacting profit after tax which amounted to US\$ 0.49 mn, a decrease of 74% in profitability. The Board is confident that the strategic changes implemented during the year will drive improved financial performance in 2017/18 with top line growth and margin growth supporting profitability.

Total assets growth of 7.5% to US\$46.7 mn reflects continued investment in a new operational

model. Financing activities during the year included negotiation of loans at more attractive rates, due to the improved financial position of the Company.

The Way Forward

We are transforming as a provider of high value fabric to leading fashion brands, ensuring that our model is fit for the future in the fast-paced fashion industry. The change in the model was possible due to the nurturing of talent which has significantly increased the intellectual capital of the Company. Innovation and a commitment to high standards is key to the course we have set for the Company, in line with the strategic goals of the Hayleys Group.

Acknowledgements

I commend the co-ordinated efforts of an inspired and hard working team who have delivered the results set before you in a year of strategic change. We also wish to thank our shareholders, customers, suppliers and strategic partners who have helped us to maintain high levels of engagement supporting our aspirations. We look to your continued support in the coming years as we continue to embrace change as the one constant to deliver value to stakeholders.

A.M. Pandithage

Chairman

15th May 2017

Managing Director's Review

A year with strategic changes that met with challenges that will benefit the stakeholders in the longer term.....

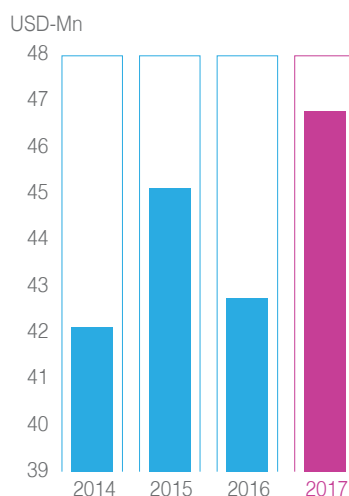


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Once again, after a year of operations, it is a pleasure to place before you the performance of the Company during the year. It was a year with mixed results which on the one hand enhanced sustainability of the strategic direction taken to select new markets whilst making some sacrifices in capacity fulfillment due to delays in materialization of orders for new products in new markets. As the expected volumes did not materialize, the Company found itself in a difficult situation to fill capacity at short notice. This resulted in a 7% drop in turnover when compared to the previous year. The impact on profitability was much greater due to the lower margins in the existing business coupled with the overhead recovery with open capacity. Therefore the PAT for the year was USD 490,267/- compared to the previous year which was

“Market studies show that the apparel market is rapidly moving towards synthetic fabric mainly Polyester and Polyester blends and Nylon and Nylon blends. These fabric are attractive to meet the new trends in sports wear for leisure – “Athleisure”.”

Total Assets



Investment in Plant and
Machinery

USD 1.4mn

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Natural Capital

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



E. R. P. Goonetilleke
Managing Director / CEO

Managing Director's Review

USD1.85Mn. With this drop in profitability, all financial KPIs also showed a drop when compared to the previous year. ROCE ended at 4%, a drop from 8% compared to the previous year and the Earnings per share stood at USD 0.002 when compared to USD 0.009 the previous year.

The main change was the focus on the USA market with the INNO range of fabric. Market research shows that the growth markets are USA and Australia. New products were developed to suit specific customer brands with new fabric. The running fabric types in these markets which were already in the customer's vendor base could not be shared due to their own strategies of rationalizing their supply chain. Therefore the Company had to enter these markets and attract these new customers with totally new products which were not established in their supply chain from this region.

Engaging the Customer

The Company engages with the Brand owner and the garment maker to secure its orders. In some cases the Brand will nominate the fabric supplier and in other cases the garment maker is able to select its fabric supplier. In both cases, a certain degree of partnership is required between all three parties for R&D, new product innovation, inventory liabilities, sales forecasts/projections and capacity reservations based on forecasts. One of the most critical and attractive solution to

all brands, is speed of delivery in small order quantities. The Company has been able to master this model successfully and this has attracted fashion fabric to the Company. Although this is not the easiest solution for capacity filling, this will be the future, where order quantities will become smaller and all customers will require flexibility to change with speed. With e-commerce taking the lead, suppliers offering flexibility with smaller order quantities with the shortest lead time will become winners. Your company has already started working on e-commerce successfully and with the growth in the business it will become profitable. This will enhance the sustainability of the Company.

Market studies show that the apparel market is rapidly moving towards synthetic fabric mainly Polyester and Polyester blends and Nylon and Nylon blends.

These fabric are attractive to meet the new trends in sports wear for leisure – "Athleisure". Unlike cotton and cotton blends, synthetic fabric can be made to suit different applications. It is also less expensive than cotton and the comfort factor of cotton can be achieved with different types of finishes that can be applied or in-built to the fabric. Finishes with brushing or sueding are some of these finishes. Your company has the experience in the polyester range. The Nylon range is new to the Company, although successful orders have already been executed.

A dedicated fabric innovative team and a dedicated product development team are two areas the Company has established and this has attracted all the top brands to select new types of fabric for the future. Continuous development of innovative fabric is the future and your company with



its own INNO brand, leads in this area and it helps to engage with the brand as well as the garment maker.

The Apparel Industry Outlook

The traditional Sri Lankan market is focused mainly on the UK, Europe and USA which account for almost 87% of total apparel exports. According to research carried out by Euromonitor, the UK & European markets reflect a downward trend in volumes as well as selling prices due to prevailing regional economic conditions which are forecast to remain subdued in the year ahead. In 2016, Europe has shown a drop of 2% in sales and a drop in unit price of 2%. In contrast, the North American market shows a 2% growth in sales with a marginal drop of 0.4% in unit prices. Australia also indicates a growth trend and the Company is working with an Australian brand. Africa and the Middle East are other growth areas, however, the local apparel industry has not entered these markets. Although there is a significant increase in global units, a downward trend in unit price is seen.

In Sri Lanka, there has been a drop in sales and number of units. However, an increase in unit price is seen. This is indicative of the industry moving into a higher value product segment whilst the large volumes have moved into Bangladesh which is hovering around 6 times larger than Sri Lanka in terms of sales.



A strong focus on Technology

The Company continued its focus on up-grading with new technology and machinery in readiness for the challenges in upgrading quality levels, product flexibility and cost reductions through productivity improvements. Accordingly, this year too an amount of USD 3.57 Mn was incurred in areas of Knitting, Dyeing, and Printing. These machines that were purchased were the best in class with the latest technology.

We are also in the process of expanding the floor space by approximately 65,000 sq. feet for knitting and for warehousing to reduce on inefficiency costs by improving the production flow to a more streamlined process and provide additional space for increased raw material inventory to

enhance response time to cater to the higher end fashion business by reputed brands.

We also implemented the conversion from use of furnace oil to LPG which is a lower carbon intensive fuel. All burners in all the boilers were replaced with top of the range fuel efficient dual fuel burners to retain the flexibility to switch over to furnace oil in an emergency. This has improved both the cost efficiency and the carbon foot print of our operations.

A highly motivated team

We are entering an era of labour shortages and the Company has continuously improved the working environment and working relationships. Improvements were made to support the technical expertise with technical training



Managing Director's Review

“We carry-out several checks daily on the effluent treatment plant, to ensure that the quality of water discharged meets with environment standards and specifications.”

given overseas as well as obtaining technical resource personal from our machinery suppliers to carry out on the job technical training. Re-structuring the production areas was carried out to enhance responsibility based on capability. The Company is also looking at importing technical skills from some of the large and well-known mills in China to enhance the technical skills and working methods of the production areas.

Regular audits carried out by our customers with regard to social compliances have received high grades. The Trade Unions have been working closely with the Management and a continuous dialogue has helped the overall understanding of expectations. The company also carried out a survey with the use of an external agency to assess if it is a Great Place to Work, and the results showed a positive improvement overall. An employee turnover of 8% is testimony to the employee satisfaction within the Company.

Environment responsibility

Today, the environment is identified as the most significant threat to the Industry. Water, being one of the most important resources for the industry and for humanity, is constantly under scrutiny of the authorities and the villagers. Your company takes this very seriously and ensures that water usage,

and treatment is perfectly carried out. We carry-out several checks daily on the effluent treatment plant, to ensure that the quality of water discharged meets with environment standards and specifications. Flue gas emission, noise levels and safety of chemical handling are meticulously checked to ensure that they adhere to all environmental regulations and to maintain health and safety of all

we promote environment related activities such as tree planting projects, encouraging school children to grow plants of all types and employees of the Company carrying out organic vegetable cultivation with the premises on low lying land areas. We continue to grow flowering plants, provide bird feed to attract birds, and a growth in fish and ducks that swim in our large ponds are testimony to these activities.

Reducing our carbon foot-print is a key goal which is measured and has focused action being planned and implemented to



people in and around the premises, including the neighbouring villages. Our journey with our Brand owners to reach a state of zero discharge of potentially hazardous chemicals by the year 2020 is on track. We have a dedicated environmental protection unit that participates in many forums locally and overseas and look at best practices on a continuous basis.

A culture of caring for the environment continues to be fostered within the Company as

ensure delivery of targets. External agencies have been hired to advise the Company on measures that can be taken. The Company is working with Climate Smart Initiatives (Pvt) Ltd (Climate SI) to reduce the carbon foot print.

Socially responsible

Being located in the middle of a village makes it a natural expectation to be with the village at times of need and also to develop the village and its people.

Continuous engagement with local transporters, catering services, collectors of cardboard packing material, fabric trims and waste fabric pieces, empty chemical barrels are many of the areas that the Company disposes to the small business individuals in the village through a tender procedure. The development in the village around the Company is clearly seen. The largest contribution is through the efforts made to recruit people from the village. This has resulted in a significant improvement in the living standards of the people in the village, with most people owning their own houses, motor bikes and three-wheelers. The Company continues to engage closely with all religious institutions, schools, elderly homes, special wards in the hospitals and other charitable activities throughout the year.

The Company's National level CSR involvement at Rathmalgahawewa, Kahatagasdigiliya in Anuradhapura through the Puritas Sath Diwera to provide clean potable water has shown results with a distinct reduction in CKD and the Company has gone further in ensuring that the education facilities for the children in the village (close to around 500 children) has also been provided by your company.

A positive outlook

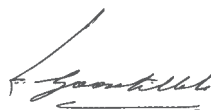
The future ahead is very encouraging with the Company making strong and sustainable in-roads to new markets with established world famous brands in the USA and Australia and diversifying its product portfolio

with the existing UK and European brands. The pending GSP+ will definitely create a demand for capacity in the country and this will be an added advantage to fill capacity. Your company is also in a position to deliver a range of products compared to others in the country and the new products launched through Inno is another added advantage. Overall, the management is confident that the performance in the ensuing year would be much better than the year under review.

Acknowledgements

Firstly I wish to thank the Chairman, Mr. Mohan Pandithage, for the confidence placed in me and for the support, advice and encouragement I received from you at all times and your availability at all times when needed. I thank the Board of Directors for being a part of the strategy formulation and for supporting me along the way towards meeting our long term goals.

My sincere appreciation and thanks to my Management team, who believed in my leadership, supported me at all times and worked as one team towards a sustainable future in line with our vision.

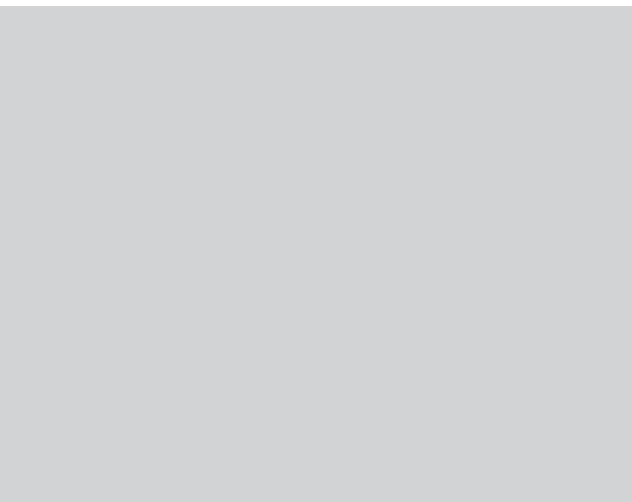


E.R.P. Goonetilleke

Managing Director/ CEO
15th May 2017

Board of Directors





Board of Directors

1

A. M. Pandithage **Chairman**

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 Maritime Advisory Council of the Ministry of Ports & Shipping. Member of the Advisory Council of the Ceylon Association of Ships' Agents. Member of the National Steering Committee on Skills Sector Development of the Department of National Planning.

2

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

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

3

K. D. D. Perera *

Mr. Dhammika Perera is the quintessential business leader, with interests in a variety of key industries including Hydropower generation, Manufacturing, Hospitality, Entertainment, Banking and Finance. He has over 27 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 and Delmege Limited. He is the Co-Chairman of Hayleys PLC, The Kingsbury PLC, Executive Deputy Chairman of L B 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, Sun Tan Beach Resorts Limited and Hayleys Global Beverages (Pvt) Limited.

4

S. C. Ganegoda *

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 **

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 17 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 **

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

(Pvt.) Ltd and in Central Engineering Consultancy Bureau (CECB) before joining Royal Ceramics Lanka PLC in 1993. Mr. Somaratne counts more than 24 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.

7 Dr. S. J. Nawaratne **

Dr. Sunil Jayantha Nawaratne is the Senior Advisor to the Minister - Ministry of Social Empowerment & Welfare and before that, served 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 organizations 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), 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 Jayawardenapura and University of Colombo.

8 Ananda Sunil Jayatilleka **

Mr. Ananda Sunil 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 Work Study and Organisation and Methods (F.M.S.(UK)).

He is presently the Chairman/ Managing Director of Latex Green Private Limited, a BOI Company manufacturing Latex Mattresses and Pillows for export. Mr. Jayatilleka has been a Director of Richard Pieris & Co. Ltd and also the Managing Director of Richard Pieris Exports Ltd for over 15 years and has served on various Boards within the Richard Pieris Group. 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 Pigott Maskew Ltd (Subsidiary of General Tire - South Africa). Presently he serves as a Non-Executive Director of Tea Small Holder Factories PLC under the John Keells Group.

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

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, 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





Management Team

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 11 years of Manufacturing experience in Textiles as sector Head of Finance.

3

S. S. Pulasinghe **General Manager - Operations**

Saliya Pulasinghe holds a National Diploma in Engineering Sciences from Institute of Engineering Technology and an MBA from University of Wales, UK. 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 23 years of experience in Construction & Manufacturing Industries.

4

A. B. Senarathne **General Manager - Production**

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

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

Nalaka has total work experience of over 16 years in manufacturing, and logistic services industry. Prior to joining the Company, he was the Financial Controller for the Knit Cluster of Hirdaramani Group, and Assistant Manager-Finance at Textured Jersey Lanka (Pvt) Ltd. He is a Finalist of the Chartered Institute of Management Accountants, UK, and a SAP certified solution consultant.

6

M. H. Jayasinghe **Deputy General Manager - Marketing**

Malith 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.

7

T. N. Peiris **Deputy General Manager - Brushing and Printing**

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.

8

M. L. Dayananda **Deputy 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.

9

K. P. C. P. K. Pathirana
Deputy 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.

10

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

Mahesh Perera holds a National Diploma in Mechanical Engineering from the University of Moratuwa.

He has over 24 years experience in the field of Engineering and 15 years experience from Textile manufacturing Industry.

11

C. P. Wanasinghe
Deputy General Manager -
Planning and ERP

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

12

K. D. C. R. Gunaratne
Senior Manager - Knitting

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

Corporate Governance

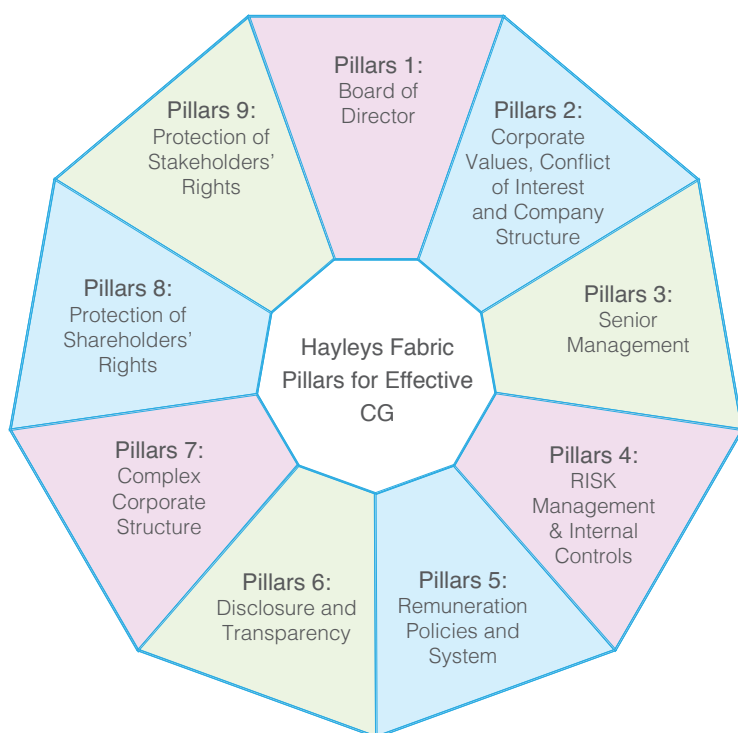
Stewardship

Corporate governance and risk management combine to define how we conduct business. Together they form our playbook, articulating our vision, values and philosophy, providing structure for decision making at appropriate levels. Finely balanced to drive efficiency and innovation while providing sufficient safeguards to preserve value, they facilitate careful stewardship of the Company.

foundation facilitating oversight and accountability, driving sustainable value creation.

Our Corporate Governance framework is designed to comply 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



Hayleys Fabric PLC's governance structures and frameworks have evolved over time, keeping pace with best practice, regulatory requirements and our own business needs. 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

Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (Code)

This report seeks to explain why our Corporate Governance mechanisms are a key strength for the Company, driving our intrinsic value. It is set out in accordance with the Code to ensure that it is comprehensive and in a logical sequence.

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

The Board

The Board of Directors play a critical role in setting the tone at the top and driving the performance of the Company. Key determinants of an effective board include the composition of the Board, its role and responsibilities and functioning mechanisms.

The Board (11 Principles)

- A1: An effective Board
- A2 & A3: Roles of Chairman & Chief Executive Officer
- A4: Financial Acumen
- A5: Board Balance
- A6: Supply of Information
- A7: Appointments to the Board
- A8: Re-election (A8)
- A9: Appraisal of Board Performance
- A10: Disclosure of Director's Information
- A11: Appraisal of Chief Executive Officer

Composition of the Board

The Board comprises four (4) Independent Non-Executive Directors and two (2) Non-Executive Directors whose profiles are given on pages 26 & 27. The Chairman and two (2) Non-Executive Directors also 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. Their collective skills and experience are summarized below:

recommendations made by the Board. The Group Nominations Committee makes recommendations to the Board in this regard giving due consideration to the strategic demands facing the Company which are considered and referred to the shareholders at the Annual General Meeting. Retiring directors may be re-elected on a rotational basis excepting the MD/Chief Executive Officer who is appointed by the Board and remains as an Executive Director until expiry/termination of such appointment. Non-Executive

his expertise and the names of companies in which the he holds directorships are provided to the Colombo Stock Exchange (CSE) on appointment of new directors. This information is also updated and disclosed the Annual Report together with their membership of Board Sub-committees. Further, any changes in the details provided by the Directors are disseminated to the CSE without delay.

The Board determines the independence of Directors based on annual declarations submitted

Areas of Expertise	No of Directors Deemed to have required expertise	Remarks
Financial acumen, experience in investing and strategy	02	- All directors are experienced directors 02 directors are members of professional accounting bodies
Experience in manufacturing	03	These directors have been directly involved in the day to day running of manufacturing operations
Extensive knowledge of the apparel sector	01	All directors have experience in boards of highly reputed companies
Experience in corporate governance and risk management	07	

As all directors except the Chairman and MD/CEO are Non-Executive of whom 4 are independent, there is a sufficient balance of power, minimising the tendency for one or few members of the Board to dominate the Board processes or decision making. This facilitates the exercise of independent judgement by each individual director, enhancing the quality of decision making and enriching deliberations.

Appointment of Directors

Directors are appointed by the shareholders at the Annual General Meeting based on

Directors are appointed for specific terms subject to re-election and to the provisions in the Companies Act relating to the removal of a Director, and their re-appointment is not automatic. The names of the Directors submitted for election or re-election is accompanied by a resume to enable shareholders to make an informed decision on their election. Casual vacancies are filled by the Board based on the recommendations of the Group Nominations Committee as provided for in the Articles of Association.

A brief resume of each such Director, including the nature of

by the Non-Executive Directors in line with the Schedule H of the Code. A Director to be deemed 'independent', must be independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment. Accordingly, the following are deemed to be Independent Non-Executive Directors are:

- Mr. H. Somashantha
- Mr. R.N. Somarathne

Corporate Governance

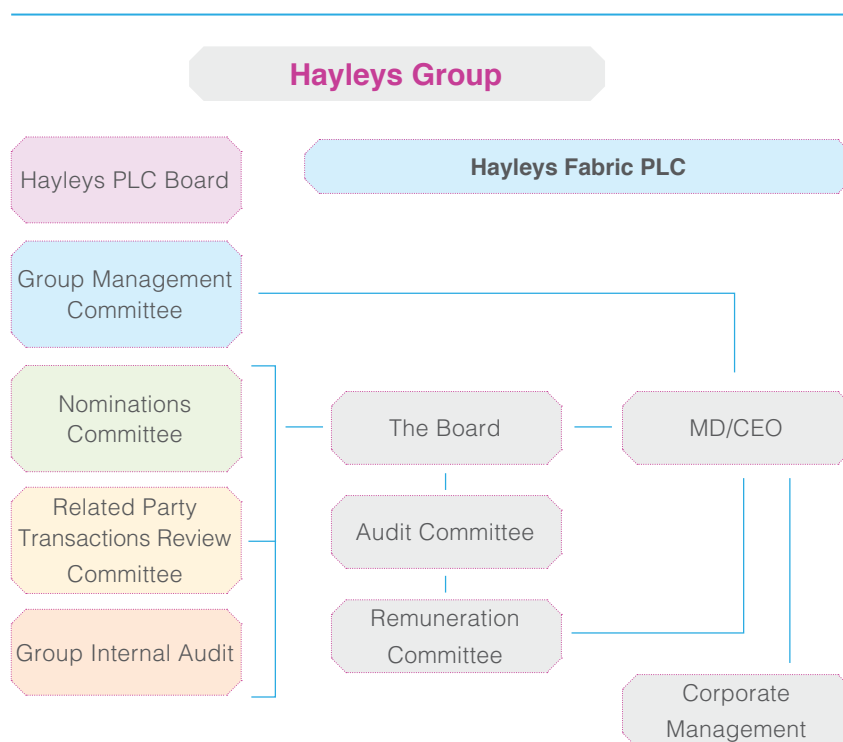
- Dr. N. S. J. Nawaratne
- Mr. A. S. Jayatilleke

Governance Structure

The Board has set in place a sufficiently robust governance structure which ensures compliance with relevant regulatory requirements, maintains an appropriate balance between stakeholder interests and enables efficient functioning of the Company. Key elements of the governance structure are:

- Organisation structure
- Framework of policies
- Systems and processes to monitor progress

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 discharging their responsibilities as outlined in the structure given.



The Board has appointed an Audit Committee and a Remuneration Committee to assist in the discharge of its duties and also has access to the Hayleys Group

Nominations Committee and the Related Party Transactions Review Committee. The areas of oversight and the composition of these committees are given below.

Board Committee	Areas of Oversight	Composition	Further Information
Audit Committee	Financial Reporting Internal Controls Internal Audit External Audit	Comprises 3 Independent Non-Executive directors including the Chairman.	Report of the Audit Committee on page 108
Nominations Committee	Appointment of Key Management Personnel Succession Planning Effectiveness of the Board and its Committees	Hayleys PLC Nominations Committee acts as Company's Nomination Committee.	
Remuneration Committee	Remuneration policy for Key Management Personnel Goals and targets for Key Management Personnel Performance evaluation HR Policy Organisation structure	Comprises 2 non-executive directors of whom both are independent directors including the Chairman.	Report of the Remuneration Committee on page 110
Related Party Transactions Review Committee	Review of related party transactions	Hayleys PLC - (Parent Company's) Related Party Transactions Review Committee acts as Company's Committee.	Report of the Committee on page 111

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.

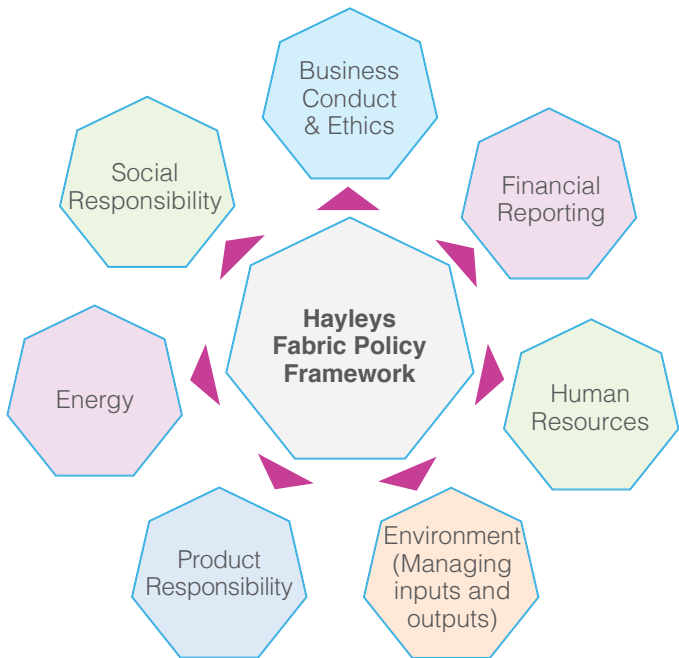
A framework of policies and procedures including a risk management framework has been established to ensure compliance with relevant laws and international best practice. The Secretaries and Management keep the Board informed of new laws and revisions, regulations and requirements coming into effect which are relevant to them as individual Directors and collectively to the Board. The policy framework encompass the following:

- Energy
- Social Responsibility

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.

Powers and Responsibilities of the Board

The Board provides leadership in setting the strategic direction and



- Business Conduct & Ethics
- Financial Reporting
- Human Resources
- Environment (Managing inputs and outputs)
- Product Responsibility

is responsible for establishing a sound control framework facilitating the smooth functioning of the Company whilst safeguarding interests of key stakeholders as set out in the Board Charter and summarized below.

Key Board Responsibilities	Powers Reserved for the Board
• 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	• Approval of strategic plans • Approval of remuneration policies and structures • Approval of capital expenditure • Appointment of the MD/ Chief Executive Officer

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.

Meetings & Minutes

Board meetings are held on a monthly basis with the flexibility to arrange ad-hoc meetings to supplement these when required. Meetings are arranged well in advance with the agenda and

Corporate Governance

information relating to matters set before the Board circulated at least one week in advance facilitating sufficient time for due consideration of the same. There is provision to circulate papers closer to the meeting on an exceptional basis. Additionally, urgent matters may be circulated for which unanimous approval is required as per the Articles of Association.

Roles of Chairman and MD/CEO

Positions of the Chairman and the MD/Chief Executive Officer are segregated in line with best practice to maintain a balance of power and authority. Both the Chairman and the MD/Chief Executive Officer are members of the Board as recommended by the Group Nominations Committee.

Directors	Board Meetings	Audit Committee
Mr. A. M. Pandithage	7/7	
Mr. E. R. P. Goonetilleke	7/7	
Mr. K. D. D. Perera*	3/7	
Mr. S. C. Ganegoda	5/7	
Mr. H. Somashantha	7/7	4/4
Mr. R. N. Somaratne	6/7	
Dr. N. S. J. Nawartne	7/7	4/4
Mr. A. S. Jayatilleka	7/7	4/4
* Ms. Y. Bhaskaran (* Alternate Director to Mr. K. D. D. Perera)	4/7	
Total No. of Meetings	7	4

The Board met seven (7) times during the year as set out below. It is estimated that non-executive directors dedicate not less than 30 hours per annum for the affairs of the Company and those directors who are also on the Audit Committee dedicate a further 12 hours.

Board minutes are prepared providing an accurate record of matters discussed at Board Meetings and Directors may also request recording of any concerns expressed by the Board as a whole or those of individual Directors. 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.

The Chairman provides leadership to the Board, controls and preserves order at Board meeting and provides the Board with strategic direction and guidance in managing the affairs of the Company.

He is also responsible for,

- Ensuring the new Board members are given appropriate induction, covering terms of appointment,
- The effective participation of both Executive and Non-Executive Directors;
- Ensuring that Directors have sufficient information on matters set before the Board
- All Directors are encouraged to make an effective contribution, within their respective capabilities, for the benefit of the Company;

Board Highlights 2016/17

Approval to:

- Purchase brand new Machinery
- Conversion to dual fuel operations with furnace oil and LP Gas.
- Construct new building
- Purchase 20 acres of Land
- Formulate overseas joint ventures.
- Obtain offshore loan to re-structure loan portfolio
- Finalize a collective agreement with trade union for the following year.

- A balance of power between Executive and Non-Executive Directors is maintained;
- The views of Directors on issues under consideration are ascertained
- Bringing director resignations over unresolved issues to the attention of the Board and circulating a written statement provided by the Director to the Board.
- Meeting with the Non-Executive Directors without presence of Executive Directors, annually to evaluate the performance of the Managing Director/CEO and whenever deemed necessary.
- Discussing the annual performance evaluation of the Board and its sub-committees based on self-evaluations submitted by the Directors.

The Board has delegated the responsibility for the day-to-day operations of the Company to the MD/CEO who leads the Corporate

Management team in making and executing operational decisions. The Managing Director is also responsible for recommending strategy to the Board and provides assurance that operations have been conducted in accordance with relevant regulatory requirements.

Training for Directors

The Directors are made aware of 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 are members of the Sri Lanka Institute of Directors and attend their sessions from time to time. Management also make presentations to ensure that the Board is aware of key developments affecting the business operations of the Company. Newly appointed directors are provided with an orientation pack with all relevant external and internal regulation documents and a tour of the factory premises. Many of the directors are also members of professional bodies which have Continuing Professional Education requirements for annual renewal of membership.

During the year under review, all independent directors of the Company attended a two day course on corporate governance conducted by the Sri Lanka Institute of Directors together to ensure that they are updated on best practice in corporate governance.

Directors' Remuneration (3 Principles)

- Remuneration Procedures
- The Level & Makeup of Remuneration
- Disclosure of Remuneration

Directors' and Executive Remuneration

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

The current composition of the Remuneration Committee is as follows:

- Mr. A.S. Jayatilleka – *Chairman*, Independent Non-Executive Director
- Mr. H. Somashantha - Independent Non-Executive Director

Further information about the activities of this key committee are summarized in the Remuneration Committee Report on page 110.

Remuneration Policy

Remuneration policy is recommended by the Remuneration Committee to the Board for their approval. The Remuneration Committee and the Board seek to ensure that remuneration is in line with market expectations and sufficient to attract, retain and motivate directors, executives and other employees in line with the business requirements of the Company. Surveys are conducted regularly to benchmark remuneration with the market and the Group Companies. The Company seeks to be within the industry band taking in to account the size, expansion plans and current challenges facing the Company and take in to account the

provisions set out in Schedule E of the Code as required.

Remuneration of the Non-Executive Directors is determined by the Board as a whole in line with current market conditions. Remuneration paid to directors in total during the reporting period is given on page 149 of the financial statements. Remuneration for Non-Executive Directors reflects the time commitment and responsibilities of their role, taking into consideration market practices. Non-Executive Directors are not included in share options as there is no scheme in existence. No arrangement exists for emoluments in respect of loss of office.

Remuneration for executives including the MD/Chief Executive Officer comprise the following:

Base Pay

- Monthly Salary
- Employee Provident Fund Contribution @ 12%
- Employee Trust Fund Contribution @ 3%
- Gratuity for employees with over 5 years service

Benefits

- Company Vehicle (Corporate Management Only)
- Medical Insurance including hospitalisation

Performance-based incentives have been determined for Executive Directors by the Remuneration Committee to ensure that the total earnings of the Executive Directors are aligned with the achievement of objectives and budgets of the Group companies.

Corporate Governance

Relations with Shareholders

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 Annual General Meeting is the main forum for shareholder engagement and their participation is encouraged by the timely circulation of the notice of meeting and the annual report and financial statements. 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.

Relations With Shareholders (3 Principles)

- Constructive use of AGM and General Meetings
- Communication with shareholders
- Major and material transactions

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.

The Chairman of the Company ensures the Chairman of Audit, Remuneration and Nomination Committees are available to answer questions at the AGM if so requested by the Chairman. A copy of the Annual Report including Financial Statements, Notice of the Meeting and the Form of Proxy is sent to shareholders 15 working days prior to the date of the AGM, in order to

provide the opportunity to all the shareholders to attend the AGM. A summary of the procedures governing voting at General Meeting is circulated to shareholders with every Notice of the General Meeting.

Please refer pages 42 to 47 on "Our approach to Stakeholder Engagement" in the Sustainability Report for a complete list of the communication channels available at the Company to disseminate timely communication to shareholders.

The Company's future strategies and their potential impact have been disclosed in the following sections of this annual report:

- Chairman's Statement pages 14 to 17
- Managing Director's Review page 18 to 23
- A Positive Outlook on pages 94 & 95

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

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 Company. Related party transactions are given in Note 25 to the Financial Statements of the Annual Report on pages 151 & 152 and Report on Related Party Transaction Review Committee is given on page 111.

Accountability & Audit (5 Principles)

- D1: Financial Reporting
- D2: Internal Control
- D3: Audit Committee
- D4: Code of Conduct & Ethics
- D5: Corporate Governance Disclosures

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 Statement pages 14 to 17
- Managing Director's Review pages 18 to 23
- The Capitals Report on page 54 to 93
- A Positive Outlook on page 94 & 95
- Managing Risk on page 96 to 100

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

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

- The Directors' Report on pages 113 to 118 (including the declaration that the Company is a going concern)
- The Statement of Directors' Responsibility on page 121
- Report of the Auditors on page 125
- The Management Discussion & Analysis on pages 48 to 95
- Audit Committee on pages 108 & 109
- Board of Directors' Statement on Internal control on pages 119 & 120
- Related Party Transactions Review Committee Report on page 111

The Board is responsible for formulating and implementing appropriate and adequate internal control systems to safeguard the assets of the Company and has appointed an Audit Committee to assist in discharge of this duty. The principal responsibility of the Audit Committee is oversight over financial reporting, internal controls, internal audit and monitoring auditor independence. Its duties include gaining assurance on the control over financial processes and the integrity of the Company's financial reports, monitoring the performance, objectivity and independence of the external auditor and reviewing work of the internal auditor. The Terms of Reference for the Audit Committee complies with the Code of Best Practice on Corporate Governance issued by the SEC and CASL and the Code of Best Practice on Audit Committees issued by CASL and

is available with the Company Secretaries. The Audit Committee Report is given on pages 108 & 109 of the Annual Report and provides information on the composition of the Board, key responsibilities and activities during the year.

Code of Business Conduct & Ethics and Corporate Governance Report

The Company has developed Code of Conduct for its employees including the Corporate and Senior Management. This Codes 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.

Shareholders (2 principles)

- E1: Institutional Shareholders
- Shareholder voting
- Evaluation of Governance Disclosures
- E2: Other investors
- Investing Divesting Decision
- Shareholder voting

Shareholders

The Board conducts the Annual General Meetings in a manner that encourages relevant discussion amongst shareholders and active participation in voting on matters reserved for shareholders. Voting of the shareholders is crucial in carrying a resolution at the AGM. The Chairman, who plays the role of the agent, communicates the views and

queries of the shareholders to the Board and the senior management, in order to ensure that the views are properly communicated to the Company. Institutional Investors are encouraged to give due weight to all relevant matters relating to the Board structure and composition.

Individual investors are encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions. The Company's website provides a wide range of information on the Company, the Group and its activities and the CSE is also informed about price sensitive information on a timely basis to facilitate dissemination to the investing public in a timely manner. Individual shareholders are encouraged to participate in General Meetings of the Company and exercise their voting rights.

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 - pages 48 to 53
- The Environment - Natural Capital on pages 83 to 91
- Labour Practice - Human Capital on page 70
- Society - Social & Network Capital on pages 65 & 66
- Product Responsibility - Social & Network Capital on pages 61 to 64
- Shareholder identification, engagement and effective communication - Investor Relations on page 44

Corporate Governance

Colombo Stock Exchange Listing Rules Section 7.10

Statement of Compliance

This section covers Hayleys Fabric PLC's compliance with the requirements of the Continuing Listing Requirements Section 7.10 on Corporate Governance Rules for Listed Companies issued by the Colombo Stock Exchange.

This reflects the Company level of conformity to CSE's Listing Rules which comprise of the following fundamental principles:

- Non- Executive Directors (NEDs)
- Independent Directors
- Disclosures relating to Directors
- Remuneration Committee
- Audit Committee
- Related Party Transactions Review Committee

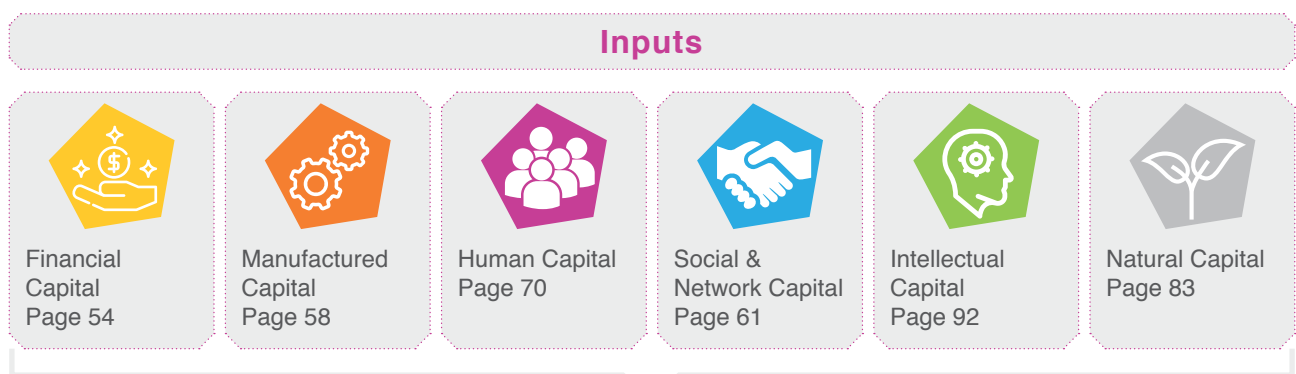
Rule No.	Subject	Applicable requirement	Compliance Status	Applicable Section in the Annual Report
7.10.1(a)	Non-Executive Directors (NED)	As at the conclusion of the immediately preceding AGM six (6) out of eight (8) Directors were Non-Executive Directors.	Yes	Corporate Governance
7.10.2(a)	Independent Directors	Four (4) out of six (6) Non-Executive Directors were independent as at 31st March, 2017.	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 pages 26 & 27 which contains their profiles.	Yes	Corporate Governance
7.10.3(b)	Disclosure relating to Directors	The Board has determined that four (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

Rule No.	Subject	Applicable requirement	Compliance Status	Applicable 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.	Yes	Corporate Governance and Board of Directors (profile) section in the Annual Report
7.10.5(a)	Composition of Remuneration Committee	The Remuneration Committee comprises two (2) Independent Non-Executive Directors as disclosed in the Remuneration Committee Report on page 110.	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 in item 30 of the CASL code table on page 37 the disclosure of the Remuneration Committee is given on Committee page 110 and the Remuneration paid to Directors is given in the Note 22 to the Financial Statement on page 149.	Yes	Corporate Governance and the Board Committee Reports
7.10.6(a)	Composition of Audit Committee	Comprises NEDs, all of whom are independent.	Yes	Corporate Governance
7.10.6(b)	Audit Committee Functions	Refer Audit Committee Report on pages 108 & 109	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 108. The basis of determination of the independence of the Auditor is also given in the Audit Committee Report.	Yes	Corporate Governance Committee Report
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 111.	Yes	The Committee of the Parent Company which functions as the Committee of the Company.

Focus on Strategy

Creating Value for Stakeholders

We have refined our business model to one that is more responsive to the needs of our stakeholders at every stage, from design to delivery. Teams work together to forecast fashion trends, incorporate these into our own branded fabric portfolios, develop flexible sourcing strategies with suppliers and drive production of high quality fabric that meet exacting customer specification on time. Key achievements during the year include a sharp reduction of lead times and improved production efficiencies as observed in the last quarter. Ensuring a safe and pleasant work environment for our employees while delivering commensurate value remains a key priority. We maintained close links with the surrounding community supporting its socio economic progress, preservation of its social and cultural heritage and its natural environment and resources.



Manufacturing Process



Significant Impact	Value Created	Value Shared
Corporate Governance Risk Management	2.6% increase in Net Assets.	For Shareholders Refer Investor Relations on page 54
Relationship Management HR Management	Interest Paid USD 725,671 Employee Costs USD 6,847,142	For Providers of Finance
Quality Assurance Research & Development	Training Hours 13,473	For Employees Refer Human Capital Report on page 74
Accounting & Finance Production Management Procurement	7,322 MT of fabric Earnings: PBT USD 413,323 Investment in PP&E USD 3,874,916 Purchases USD 50,237,064	For Customers Refer Social & Network Capital on page 61
Training & Development	T&D cost USD 13,604	For Suppliers Capital on page 67
Local Government Community engagement	Taxes paid USD 331,807 Over 1,000 jobs US\$ 49,000 in strategic philanthropy	For Government Refer Performance Highlights on page 11 For Community Refer Social & Network Capital on page 65

Focus on Strategy

Stakeholder Identification

We engage with a number of stakeholders whom we impact or who have the potential to impact our business facilitating early identification of their concerns

and areas for improvement in various aspects of our business. 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. We engaged specialists to carry out an employee survey and a customer survey as part of our planned improvements in this vital area which has given us valuable insights.

Why and How we engage with them	Concerns
Customers: Brand Owners & Apparel Manufacturers	
Multi layered relationship management with buyers and apparel manufacturers including visits to our factory and Overseas visits to customer offices. Other key engagement mechanisms are: • Annual Customer survey • Regular Quality & Performance Review	Their concerns are key inputs impacting all areas of our business. These include: • Product quality, • Lead times, • Environmental management • Labour practices. Refer Social & Network Capital Report on page 61
Investors	
Investor Relations management is a structured process with sign off by the Board. Regulatory requirements such as quarterly financial statements, annual reports and communications to the Colombo Stock Exchange on key developments is done in a timely manner. Feedback is obtained mainly through the Annual General Meeting. We also co-operate with equity research analysts and monitor reports published about us.	Investor concerns have evolved from a purely financial return orientation to a focus on the long term sustainability and growth of the Company. Key concerns include: • Earnings & Dividends • Growth prospects • Environment, Social practices and Governance • Share price and liquidity Refer Investor Relations Report on page 54

Why and How we engage with them	Concerns
Employees Managing employee relationships is key to enhancing productivity and a key area of focus for the Corporate Management Team with the HR team taking lead. Key engagement mechanisms include: • An open-door policy • Formal performance appraisals, • Regular meetings with unions • Communication of company performance • Employee satisfaction survey with Great Place to Work The Human Resources Team is responsible for ensuring a sufficiently robust level of engagement and addressing their concerns together with other departments.	• Remuneration • Employee benefits • Conducive workplace • Training & Development • Career progression Refer Human Capital Report on page 70
Suppliers: Large scale corporates and local suppliers When engaging with large suppliers of yarn, dyes and chemicals we rely on reputed and relevant certifications regarding product quality, environment and social practices. Engagement with small scale suppliers: We engage with suppliers of ancillary services to obtain canteens, janitorial and other services for which we give preference to suppliers from the community where possible, provided our business needs are met.	Supplier seek to grow with us and value our input to their processes. We provide feedback if there are issues to ensure that supplies conform to our specifications. Refer Social & Network Capital Report on page 67
Regulators Regulators' information requirements are met in a timely manner and access is provided to regulators who visit our premises in a spirit of co-operation. Our company's approach to regulation is that we need to go beyond regulation and voluntary adoption of standards and certifications ensures that we are fully compliant with all regulations.	Regulators concerns are mainly centered around compliance with regulations and collection of dues such as income tax, VAT,PAYE tax etc. Refer Performance Highlights on page 11
Community As the factory is located in a village where Hayleys Fabric is the leading employer, engaging with the community is a priority. We also play a key role in developing livelihoods within the community by selling waste materials and obtaining services from micro entrepreneurs in the village. Consequently, we are involved in the festivities that take place in the village as a sponsor and have regular meetings with community leaders on matters concerning the socio economic progress of the community as a whole.	The main concerns center around supporting the economic and social activity in the village whilst ensuring that the environment is not damaged by our operations. Refer Social & Network Capital Report on page 65

Focus on Strategy

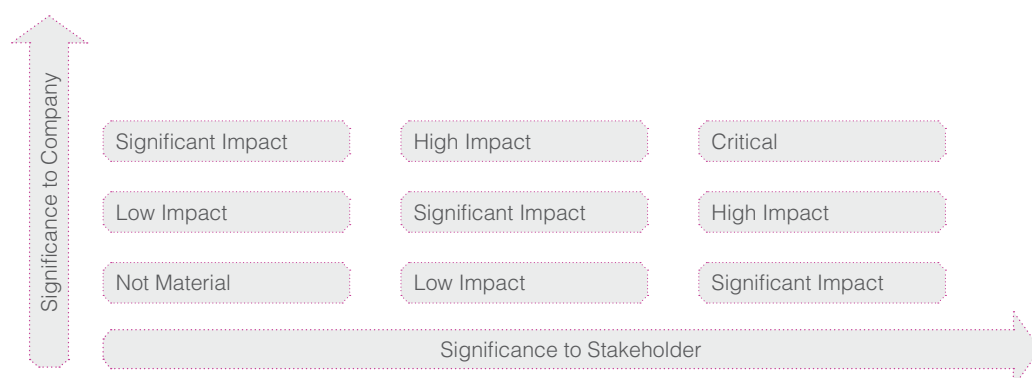
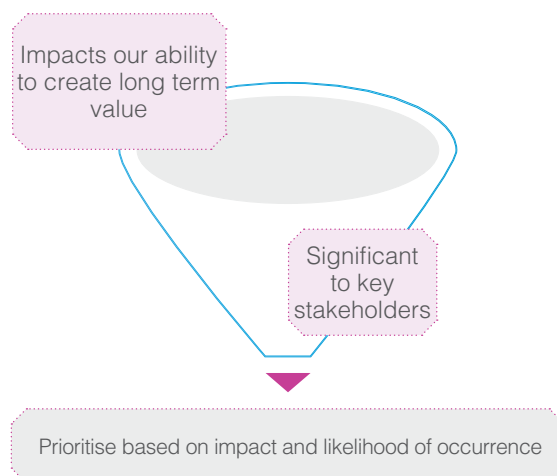
We engage with a number of stakeholders whom we impact or who have the potential to impact our business facilitating early identification of their concerns and areas for improvement in various aspects of our business. Engaging with stakeholders is a shared responsibility across the organization with both formal and informal feedback playing a key role in how we enhance our value creation processes. We engaged specialists to carry out an employee survey and a customer survey as part of our planned improvements in this vital area which has given us valuable insights.

Determining Material Issues

We define material issues as any factor impacting our achievement of strategic goals. These are filtered using the criteria listed below by the Corporate Management Team including the MD/CEO. The GRI G4 Guidelines provide a framework for guidance and is supplemented by other practical matter which may not be part of the GRI G4 guideline. Key Performance Indicators are identified for material issues and these are monitored throughout the year at varying frequencies at different levels with responsibilities assigned to relevant Heads of Department to facilitate early health checks on progress towards strategic goals.

Progress made on the material issues identified are monitored on an organisational basis by the Corporate Management Team and is included in this report. The process adopted for identifying the material issues is given below:

The material aspects were identified, evaluated and prioritized as summarized in the heat map and table below considering their significance to stakeholders and the Company together with factors that mitigate their impact such as the regulatory environment of the country. There were no significant changes in aspect boundaries & scope compared to last year.



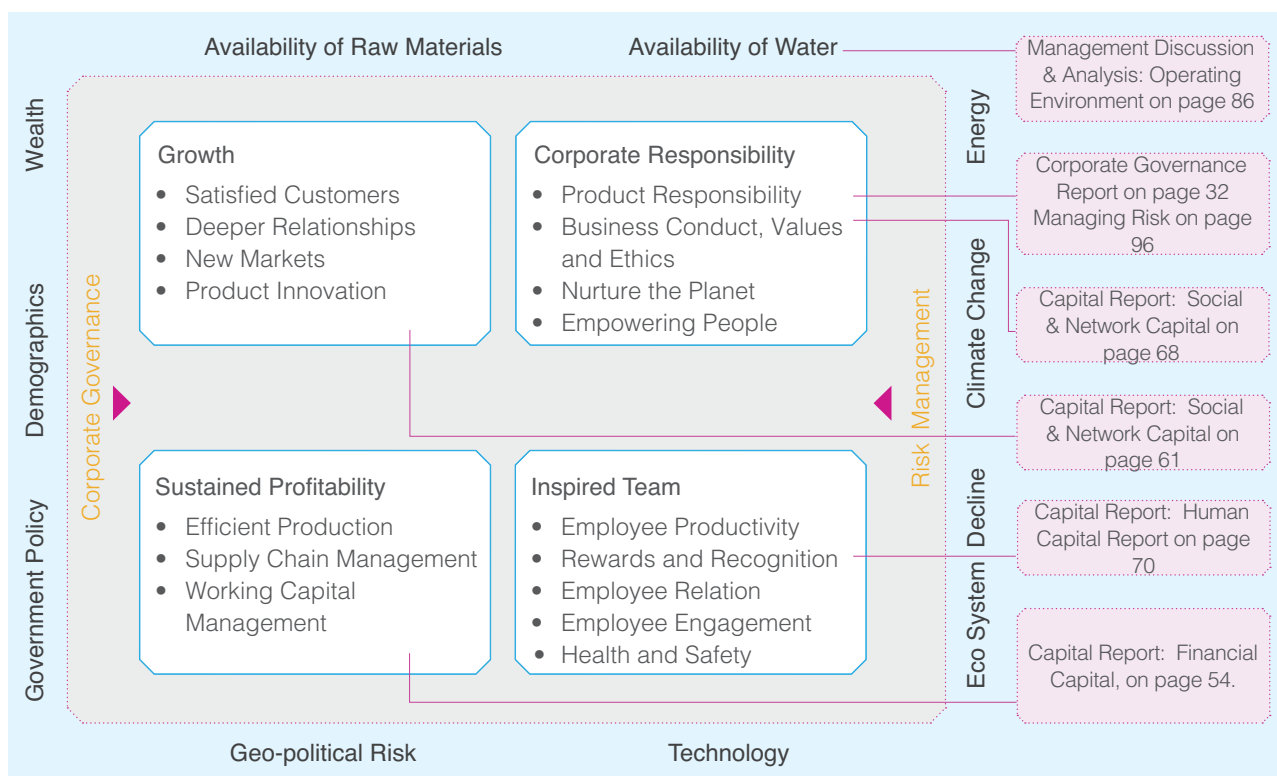
Critical	High Impact	Significant Impact
Water	Customer Satisfaction / Health & Safety	Compliance (Environment, Social and product responsibility)
Raw Material	Timely Delivery	Supplier Assessment
Energy	Product Responsibility	Product labelling
Employee Health & Safety	Employment	Anti-corruption
Employee Relations	Training & Development	Grievance mechanisms
Effluents & Waste	Innovation	Bio Diversity
Emissions	Market Presence	
	Local Community Relations	
	Indirect Economic Impacts	
	Transport	
	Government Policy	

Strategy Formulation

Material aspects identified as critical, having a high or significant impact on the operations of Hayleys Fabric PLC were segregated

into two group: factors that could be controlled effectively by the Company and those outside its sphere of control or influence. These are logically arranged to

facilitate communication in the diagram below, summarizing our strategy



Operating Environment

The apparel and textile industry contributes significantly towards the National economy. Valued at Rs.281,481mn and accounting for 3.1% of GDP, it is the country's largest export commodity and second largest foreign exchange earner. Main countries of export are the United States (US), accounting for 45.2% of total apparel exports in 2016 and the European Union (EU) 41.5%. (Source: Apparel Exporters Association)

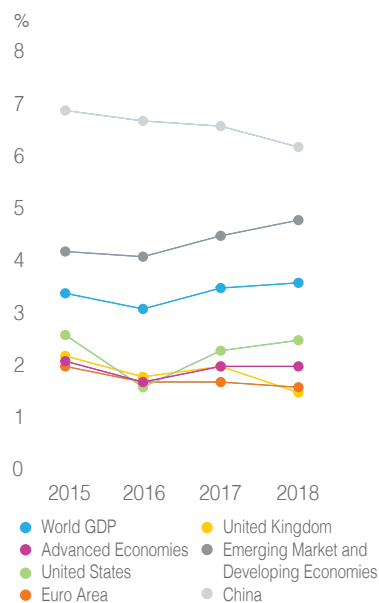
The industry is supported by approx 300 apparel manufacturers and 4 large scale fabric mills, of which Hayleys Fabric PLC plays a key role as a pioneer and industry leader in fabric. These fabric mills mainly supply the local apparel manufacturers, substituting in part their textile imports.

This section of the Report provides context to our performance, globally and locally.

Global economy

Despite the pickup of global economic activity in the fourth quarter, 2016 marked another challenging year wrought by stagnant global trade, subdued investment and heightened policy uncertainty. Global GDP growth declined from 3.4 % in 2015 to 3.1% in 2016, whilst that of Advanced Economies declined from 2.1% to 1.7% and Emerging Market and Developing Economies from 4.2% to 4.1%.

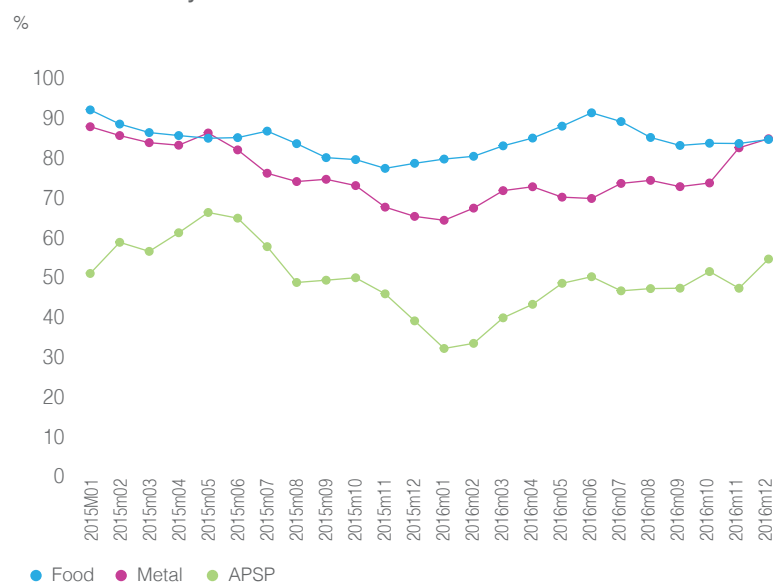
GDP Growth



(Source: World Economic Outlook (WEO) Update April 2017)

of the year, contributed towards increased manufacturing and trade activity and the global economy gaining momentum towards end 2016. Stronger activity and expectations of more robust global demand, resulted in commodity prices recovering from their troughs in early 2016. Some of the strongest price increases were observed for fuels: oil prices increased 46% during the year in part due to the agreement by the Organization of the Petroleum Exporting Countries (OPEC) and other producers to cut oil production; Natural gas prices rose 69% following higher oil prices, although a mild winter in Asia and US has subsequently subdued demand for gas-fired power generation and helped contain gas prices in these areas.

Real Commodity Price Indices



(Source: World Economic Outlook (WEO) Update April 2017)

Growing consumer confidence and a gradual recovery in investment from the second half

Among non-fuel commodities, metal prices have increased 32% and agricultural commodity

prices by 6%. Financial markets were buoyant amid strengthening consumer confidence and positive macroeconomic data. Long-term nominal and real interest rates, particularly USD and GBP rates, rose during the year following policy decisions. With widening interest differentials, the U.S. dollar strengthened whereas the euro and Japanese yen weakened.

In Sri Lanka's main apparel export market, the United States, the economy regained momentum, with strong job creation, solid growth in disposable income, and robust consumer spending. Growth also remained solid in the UK, the next largest export market, on the back of strong consumer demand, despite the

uncertainty following Brexit. Strong domestic demand also contributed towards improved economic activity in Euro Area countries such as Germany and Spain, although several economies still operate significantly below capacity. Growth in China, the largest exporter of global apparel and textile, remained strong, backed by continued fiscal policy support.

With Global economic activity picking up, world growth is projected at 3.5 % in 2017 and 3.6% in 2018. Economic activity in both advanced economies and emerging market and developing economies is forecast to increase boosted by fiscal initiatives in the major economies notably China and the United States.

from 4.8% in 2015 as the country faced its worst drought in four decades. The recorded growth was on the back of the rapidly expanding industrial and services sectors, which grew 6.7% and 4.2% respectively, whilst the agricultural sector, contracted 4.2%. Key industries driving growth were construction, mining & quarrying, financial services, insurance and telecommunications. Consequent to the drought, rising food prices together with adjustments to the tax structure contributed to higher inflation. Headline inflation and core inflation, based on the National Consumer Price Index (NCPI, 2013=100), and accelerated to 8.2 % and 7.1% respectively, in February 2017, on a year-on-year basis.

Our relevance to the economy

			Projection	Projection
	2015	2016	2017	2018
World GDP	3.4	3.1	3.5	3.6
Advanced Economies	2.1	1.7	2	2
United States	2.6	1.6	2.3	2.5
Euro Area	2	1.7	1.7	1.6
Germany	1.5	1.8	1.6	1.5
Japan	1.2	1	1.2	0.6
United Kingdom	2.2	1.8	2	1.5
Emerging Market and Developing Economies	4.2	4.1	4.5	4.8
Russia	-2.8	-0.2	1.4	1.4
China	6.9	6.7	6.6	6.2
India	7.9	6.8	7.2	7.7
Latin America and the Caribbean	0.1	-1	1.1	2
Middle East	2.7	3.9	2.6	3.4

(Source: World Economic Outlook (WEO) Update April 2017)

Sri Lankan economy

Sri Lanka's sluggish economic growth slowed to 4.4% in 2016,

Despite tightening of monetary policy and the resultant increase in market interest rates, the deceleration in monetary and credit expansion was slower than expected. Year-on-year growth of private sector credit remained relatively high at 20.9% in January 2017 whilst credit to the public sector increased considerably, causing year-on-year broad money (M2b) growth to remain high at 17.7 % in January 2017.

In the country's external sector, the trade deficit widened substantially to USD 9.1 billion in December 2016 from USD 8.4 billion a year before. Export earnings contracted 2.2 % whilst import expenditure increased 2.5 % during the year. Decline in exports is mainly on account of the reduction in exports of transport equipment and agricultural products, impacted by

Operating Environment

low global commodity prices and reduced domestic output given the adverse weather conditions. However, amongst others, export earnings from textiles and garments increased 1.3% in 2016, retaining its position as the largest export commodity. Imports grew mainly due to higher imports of machinery and equipment, textiles and textile articles and gold. Textile imports increased 17.8%.

Earnings from tourism and workers' remittances both grew at a healthy rate and continued to cushion the adverse impact of the trade deficit on the BOP. Gross official reserves were estimated at US dollars 6 billion at end December 2016 equivalent to 3.7 months of imports, while the Sri Lankan rupee depreciated by 1.2 per cent against the US dollar during the year up to end March 2017.

Apparel and Textile industry

The Global market

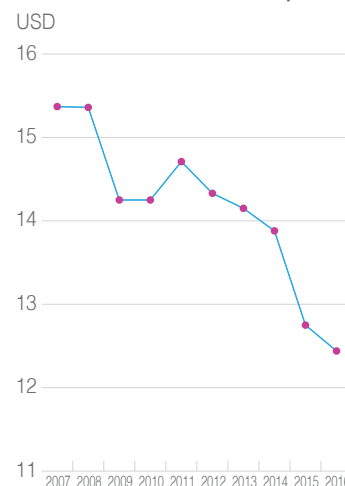
The global apparel market grew at a healthy pace of 2.7% to 106 trillion units in 2016 whilst market value grew marginally by 0.3%, to USD 1.3trillion. Reflecting the challenging market dynamics, volumes grew resiliently at a CAGR of 0.6% over the past 3 years and value declined at a CAGR 0.5%. Global prices have progressively declined by 2.1% to USD 12.44 from 15.37 a decade ago, attributed to fierce competition and pressure from price savvy consumers.

Potential markets

The global apparel market is shaped by three contrasting regional movements – robust growth in emerging markets, steady recovery in North America and a continued slowdown in

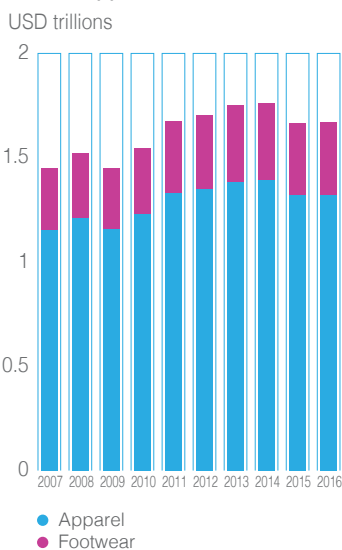
Western Europe. Asia Pacific remains the largest regional market and the fastest growing market. Notwithstanding the high base factor, the market grew 3% pa followed by Africa and the Middle East (2%), North America (2%) and Australasia (0.2%). Europe and Latin American markets contracted by 2% and 9% respectively.

Historical Prices - Unit price



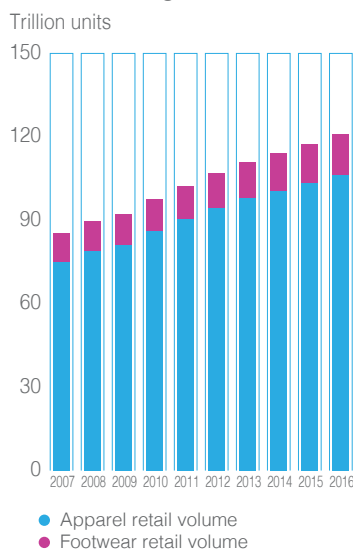
Source: Euromonitor

Global Apparel and Footwear market



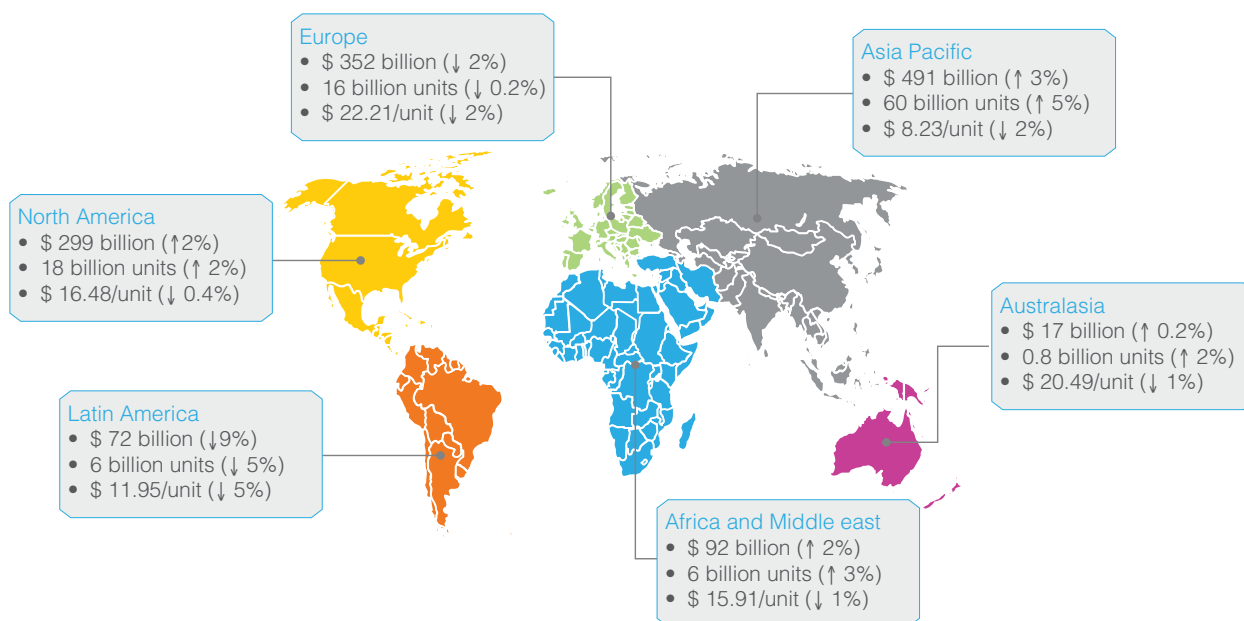
Source: Euromonitor

Global average volumes



Source: Euromonitor

Apparel Sales by Continent, in 2016



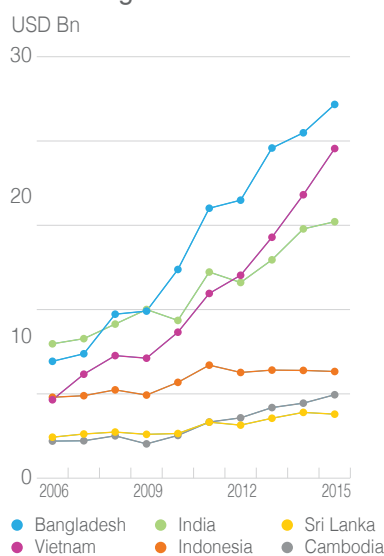
Source: Euromonitor, Google Maps

Market players

Top three exporters of apparel are China, the European Union and Bangladesh, together accounting for over 70% of world exports (WTO - World Trade Statistical Review 2016). Regional to Sri Lanka, main countries of export are Bangladesh, Vietnam and India.

China, the European Union (Turkey, Italy) and India remained the top three exporters of textiles. They account for over half of the world's exports (WTO - World Trade Statistical Review 2016).

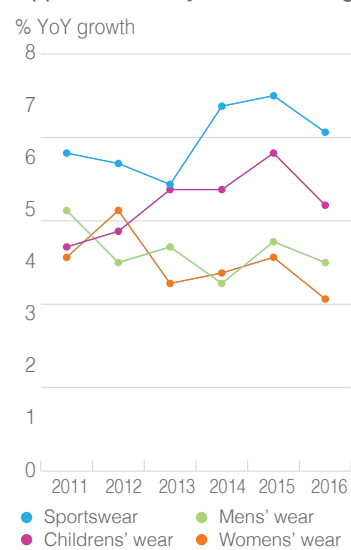
Major Apparel Exporters in the Region



Source: Euromonitor

Popular trends

Apparel Sales by Product category



Source: Euromonitor

Operating Environment

Although women's wear is the bedrock of the fashion market, it reflects the slowest growth. Rising middle class in emerging markets with high disposable incomes and lavish spending on their children has contributed towards increased children's wear. However, sportswear is the fastest growing segment at 6.5%, driven by consumer interest in health and well-being.

Athleisure

A sub segment of sportswear, Activewear or 'Athleisure' is currently the most popular trend, providing functional and stylish clothing and catering to the consumer preference of comfort dressing as part of the daily lifestyles, from gym to mall to a night out. Athleisure reflects a shift in lifestyle. It is a trend that is expected to stay awhile, prompting brands to invest in the segment. Given the increasing competition, brands seek to adapt by using innovative, technologically savvy fabric and keeping pace with new fashion trends. Fabric mills with strong research and development capabilities and able to deliver value added specialty fabric are sought after by the retail brands.

Fast fashion

In a highly-competitive industry the fast fashion or concept-to-market model is being adopted by retailers given the potential for increased profits and growth. Fast fashion clothing collections are based on the most recent fashion trends presented on the cat walk and involves the retailer bringing the fashion to its stores quickly. It involves conceiving, designing, producing, and logistics management to have clothing ready for shoppers on the sales floor as

early as 2 weeks. The products arrive just in time" with a speed that creates demand and assures quick turnover.

There are fewer markdowns maximizing revenue and gross margins. The retailers do not replenish, but rather replaces sold out styles with new looks. Speed is the critical in this model and a flexible and agile supply chain is imperative to capitalize on speed.

Eco-fashion

Eco Fashion is also a fast growing trend, embraced by the environment, social and health conscious consumer and promoted aggressively by retailers.

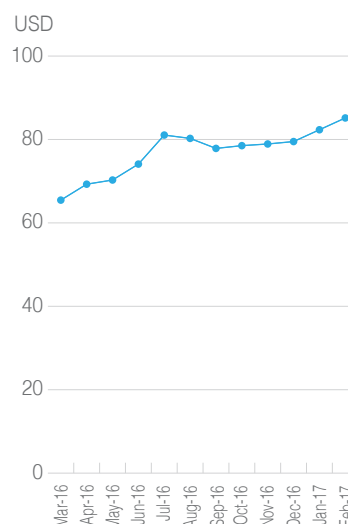
Polyester blends

Synthetic blended fabric such as polyester blends are also growing in popularity. These fibers are created with better performance and aesthetic characteristics and are much cheaper than cotton.

Margin pressure

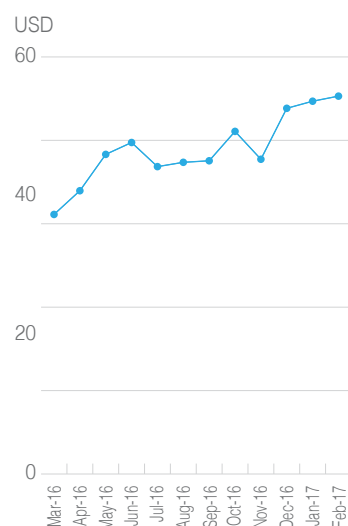
- Fierce competition, volatile raw material (cotton) prices and rising wages has weighed on margins. However, the higher use of manmade fibers, which prices are dependent on petroleum prices, and are less volatile than those of cotton or wool has contributed towards steadying production costs.
- During most of 2016, oil prices and energy costs fluctuated within a narrow range, rising from December 2016 subsequent to the OPEC decision to curtail production.

World Cotton Prices



(source: www.indexmundi.com)

World Crude Oil Prices

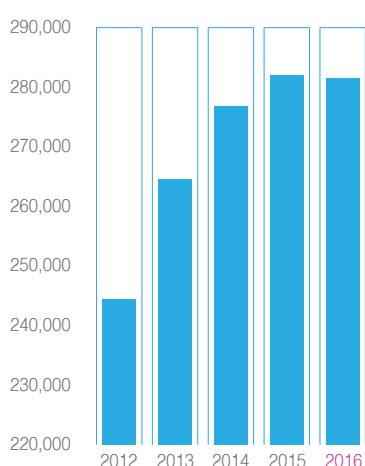


(source: www.indexmundi.com)

The Sri Lankan Context

Manufacture of Textile and Apparel

(Rs.Mn)



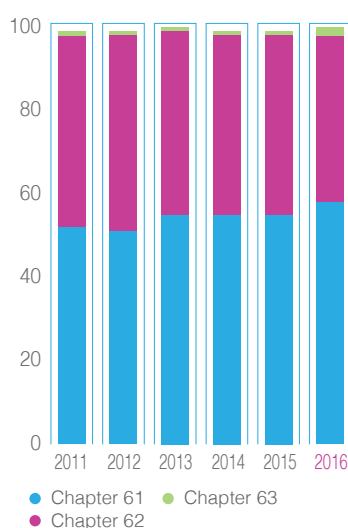
The Sri Lankan apparel, textile and leather industry contracted 0.2% to Rs.281Bn in 2016, contributing 3.1% to GDP, a decline from 3.3% in 2015. The Factory Industry Production Index (FIPI) a key indicator which highlights the manufacturing sector performance of the economy, contracted 2.1% in wearing apparel but expanded 2.3% in textile.

Decline in export demand from traditional markets in the USA and EU was the key reason for the poor performance in apparel whilst the growth in textiles is attributed to the increase in domestic market demand.

The Sri Lankan apparel sector is recognized by international retailers for its excellence in delivery and reliability whilst maintaining quality and innovation at global standards. Good industrial practices in labour management and environmental conservation has also made Sri Lanka an attractive destination for apparels made under ethical labour and environmental conditions. The

industry is focused on identifying niche markets and building brand identity in creating competitive advantage over other regional counterparts.

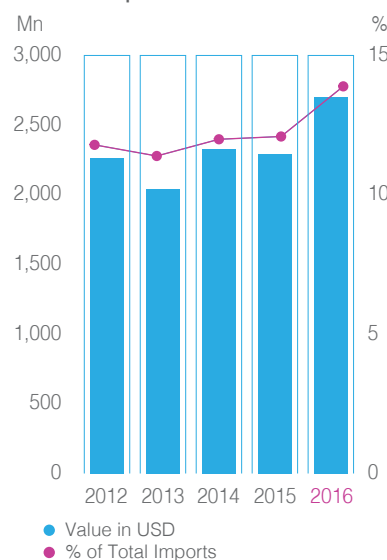
Export of Apparel by type



(Source : Sri Lanka Apparel Exporters Association /<http://www.srilanka-apparel.com/export-performance/summary>)

Exports grew 1.3% to USD 4,884mn in 2016, 45.7% of exports were to the USA and 41.3% to EU, Sri Lanka's largest markets. Chapter 61 articles (knitted or crocheted apparel) accounted for 58% of the exports with Chapter 62 exports (apparel that is not knitted or crocheted) accounting for a further 40%. Chapter 63 exports which comprises other made up textile articles, sets, worn clothing and textile articles and rags accounts for the balance 2%. Knitted or crocheted apparel exports has outpaced the growth of non- knitted or crocheted apparel as the country's industry focusses on increasingly higher value added items.

Textile Imports



(source: Central Bank)

Import of textiles and textile articles increased 17.8% to USD 2,704.9mn in 2016, the majority of which were used in the local manufacture of apparel for export. Available at relatively lower prices, these imported textiles, unfavourably impact the domestic textile manufacturing subsector. Given the strong apparel manufacturing industry in Sri Lanka, there is significant potential for growth for the local fabric manufacturers as import substitutes particularly given the advantage they already enjoy from the close proximity to the apparel manufactures and the potential saving in cost and lead time for overseas buyers. As such local fabric mills strive to enhance their competitive edge in terms of price, quality, research, design and innovation whilst maintaining high social and environment compliance standards.

The Capitals Report

	Financial Capital	Financial Review
	Social & Network Capital	Delivering value to customers, suppliers and community
	Human Capital	Delivering value to employees
	Natural Capital	How we transform natural capital into fabric and our impact on the environment
	Manufactured Capital	Our capacity to transform yarn to fabric
	Intellectual Capital	This is our competitive advantage, the tacit knowledge, systems and processes of the Company

Sustained Growth: Financial Capital

2017 was a year of transition for Hayleys Fabric PLC as it repositioned itself to become a niche supplier of innovative, self-developed fabric to premium brands, with the expectation of driving sustainable growth in earnings in the long term and increased shareholder value. Before this, the Company's focus was on producing and selling high end polyester and polyester blends, which products were being quickly duplicated by other fabric manufacturers resulting in increased pressure on margins.

Its new strategy is based on innovative collaborations with selected buyers to produce a wide range of premium fabric of varying features and functionality under its Inno brand as enumerated in page 92. This transition to the next level in the fabric industry, requires considerable changes to operations including investment

upgrades of machinery and skills, development of technology, innovation and enhanced customer relationship and marketing. As such, financial capital played a critical role funding and enabling the transformation of these interrelated and interdependent 'Capitals' over the year.

Strategic changes commonly results in company profits falling in the short run from pre-transition growth phase levels, given the disruptions to normal operations. As such, Hayleys Fabric PLC recorded a dip in turnover by 7% to USD 56mn in 2017 compared against the previous year. PBT fell 77% to USD 0.4mn. However, the statement of financial position remained stable. Accumulated losses reduced to USD 1.4mn, maintaining liquidity and the funding position of the Company.

Going forward, we are confident these investments will realize in significantly improved profits.

Financial

Cash Profit

USD. 2.9mn

Human

Training Hours

13,473

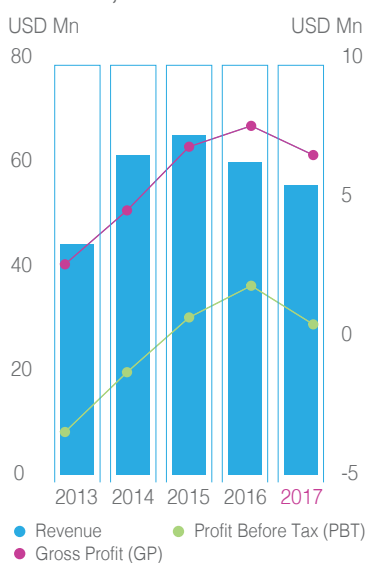
Environment

Total Carbon Footprint - tCO₂eq

23,128

Our focus has been on increasing our business with a few global retail brands who offer opportunities for further growth and deeper relationships.

Revenue, GP and PBT



Revenue

Turnover dipped for a second consecutive year in 2017. However, the reasoning behind the decrease in turnover differs to that of last year. In 2016, turnover dipped following Hayleys Fabric's shift in business strategy to increasingly focus on selling high margin polyester and polyester blends, resulting in a change in the sales product mix. The strategy was successful and resulted in a substantial increase in

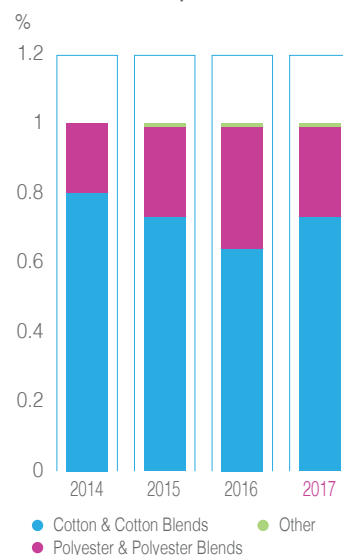
profits by maximizing the return on existing capacity.

The dip in turnover this year is attributed to the repositioning of Hayleys Fabric PLC as a niche supplier of innovative fabric and time lag in converting confirmed orders to sales. The Company was successful in gaining the confidence of the buyers for its new product developments and within a short spell entered into sales contracts. However, for reasons outside the control of Hayleys Fabric, these orders took longer than anticipated to materialize, production commencing only from February 2017. Until then, on the request of buyers and based on forecasts provided, the Company was compelled to reserve its production capacity. As such, production capacity remained underutilized and the Company made less volumes of sales. Sales volumes fell 2% and turnover declined 7% for the year ended March 2017.

Price pressure from competition for Hayleys Fabric other products too contributed towards the reduction in turnover. On average, price per Kg sold in 2017 declined 5%.

The sales product mix continues to shift towards high margin polyester and polyester blended fabric, though the Company compelled to fill the empty capacity from Cotton based products towards the year end as reflected in the graph below.

Revenue composition



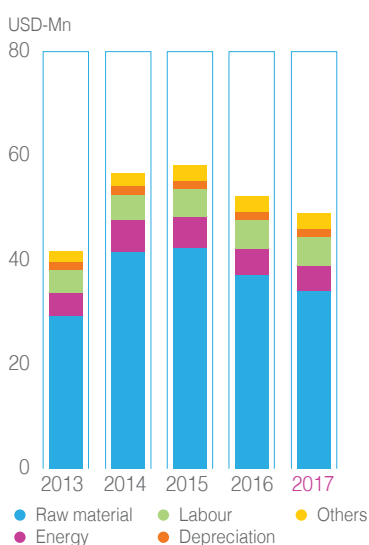
Cost of sales and Gross Profit

In general, lean processes and higher levels of cost consciousness has facilitated efficiencies in all processes, contributing towards a reduction in costs. However, despite

The Capitals Report

these efforts Gross Profit margin declined from 13% to 12% in 2017, largely due to the reduction in turnover being insufficient to sustain the fixed overheads.

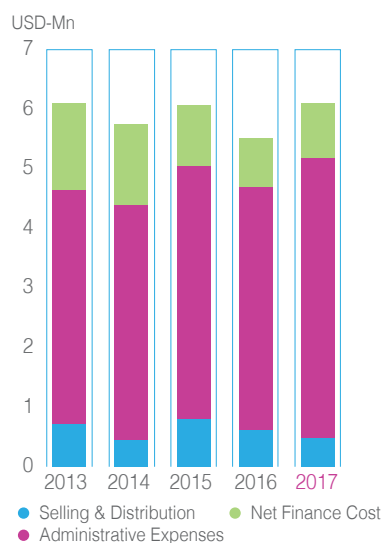
Cost of Sale Composition



Despite the increase in global polyester and cotton commodity prices during the year, Hayleys Fabric was able to manage cost of raw materials by drawing on stocks held at hand and locking in on good relationship maintained with suppliers. Similarly, energy intensity per unit produced had improved due to the focused energy management initiatives engaged in and described in the Natural Capital report on page 85. Depreciation charged for the year has inevitably increased following the continuous investments in machinery, described fully on page 85 under Manufactured Capital. The Increase in labour wages reflects annual increment on account of increase in cost of living.

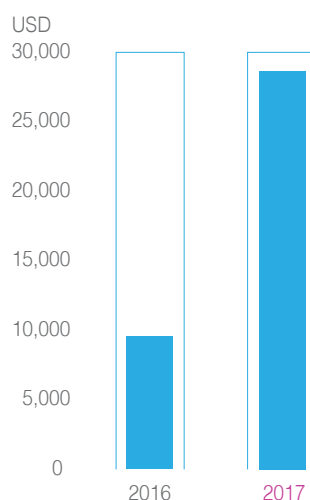
Operating Expenses

Operating Expenses



Operating costs were controlled during the year, reflecting an increase of only 10% from 2016. Net finance costs increased by 12%, following the rise in market USD rates and the investment in machinery, which assets were mostly funded by long term debt. Interest cover narrowed to 0.69 times from 3.17 times the previous year.

Research & Development cost



Investment in Research & Development (R & D) increased by over 300%, driving new product development and innovations, central to our business strategy. The continuous investments in R & D over the past years has successfully built the skills and technology to create core competencies that differentiates Hayleys Fabric PLC from other textile manufactures. Leveraging on these competencies, we were able to successfully develop over 30 innovations concepts incorporating over 150 variations and develop over 50 new products in collaboration with suppliers, gaining the confidence of our buyers.

Pre & Post Tax Profit

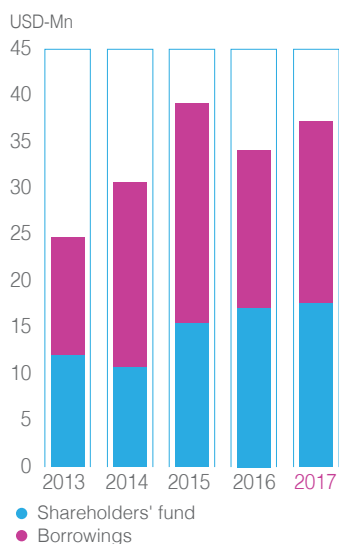
Profit before tax decreased by 77% to USD 0.41mn whilst profit after tax decreased by 73% to USD 0.49mn. The main reason for the reduction in profit is the decline in turnover.

A provision of USD 0.021mn has been made in respect of income tax. The income tax shown in the P&L shows reversal due to overprovision made in respect of prior year and reversal of deferred tax of USD 0.098Mn.

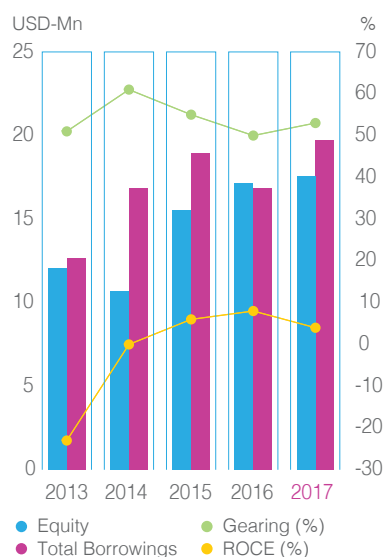
Capital Structure

The Capital structure remained stable, with gearing increasing yet remaining acceptable at 53%. Accumulated losses reduced by USD 0.4mn to USD 1.4mn. ROCE declined to 4% (2016 – 8%).

Capital Structure



Gearing & Return on Capital Employed

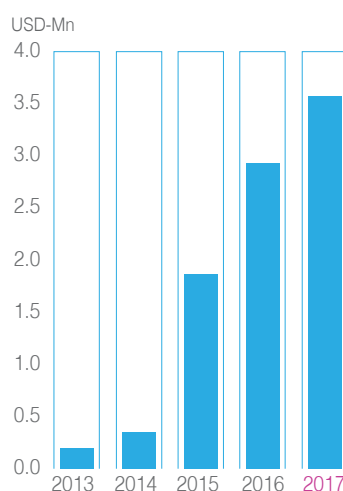


Capital Expenditure

In 2017, the Company invested in machinery worth USD 1.4mn, funded primarily by long term debt. The machinery included Knitting, dyeing and finishing machines, a sludge dryer and LPG plant. These investments of new technology facilitates enhanced product quality, cost efficiency and environment

sustainability in gaining competitive advantage and meeting client's expectations. In the longer term they will contribute toward driving sustainable profits.

Capital Expenditure



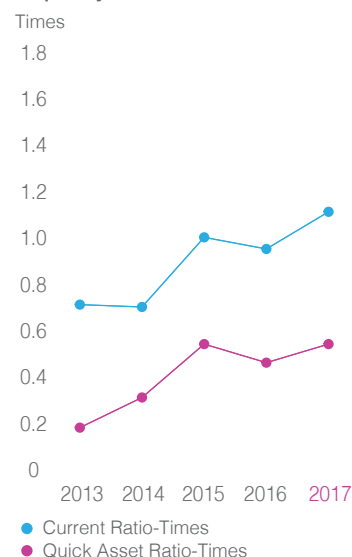
Cash flow and working capital management

Cash flow generated from operations for the FY 2017 was considerable at USD 1.1mn. These funds were utilized to settle short term debt.

The current and quick assets ratios have improved to 1.12 (2016 – 0.96) times a 0.55 (2016 -0.47) times, respectively, subsequent to the increased inventory holding and

debtor balances compared against the previous year. The increases are attributed to the shift in business strategy and the marketing and sale of products to new buyers. These ratios are expected to streamline over the next year, as volumes grow and relationships strengthen.

Liquidity Ratios



In general, investment in the Fast React planning tool and SAP (ERP) system in 2015 has strengthened day to day supply chain and working capital management, reducing costs of holding and improving cash flow generation.

Return to Shareholders

	2017	2016
ROE (%)	3%	11%
Earnings per share-USD	0.002	0.009
Market Price per share-Rs.	13.60	18.00
No of shares in issue	207,740,888	207,740,888
Market capitalization-Rs.Mn	2,825	3,719

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Enabling Performance: Manufactured Capital

Our manufacturing capabilities are a critical part of our competitive edge. As the pioneering fabric manufacturer in the country, we have the ability to cater to the entire portfolio of customer requirements encompassing nylon, polyester and cotton blends with end to end solutions in Sri Lanka. Additionally, the Company is capable of a range of fabric finishes ranging from brushing, sueding and the full range of rotary colour printing. Sublimation printing with its own in house digital printer are the newly added printing

and water consumption. We have also invested in talented human capital by bringing in expertise in the relevant field from all part of the world. A dedicated innovative product development division of the Company with its own brand name “Inno” has been responsible to add value to our prestiges customer portfolio by giving them ideas and suggestions to complement their strategic directions especially in the “Athleisure” segment.

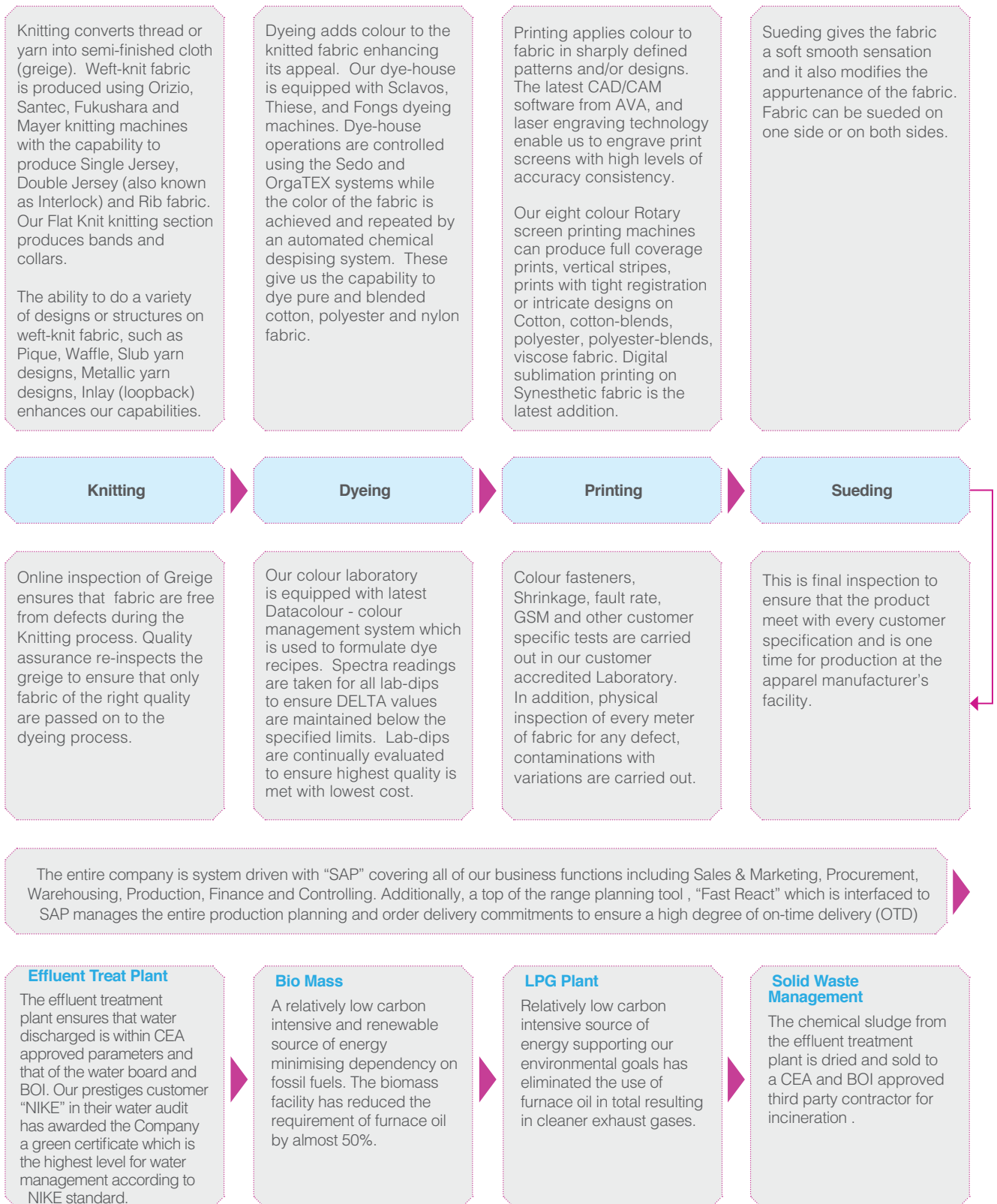
Our manufacturing facilities are located in 54 acres of land in the Western Province of the Country.

is used for production has been landscaped with large trees including over 50 KUMBUK trees and ponds to attract fish and bird life within the premises .The buildings cover an area of 364,000 square feet and house the state of the art machinery for knitting, weaving, dyeing and finishing that enables us to produce a wide range of fabric. The diagram below provides a glimpse of our manufacturing capability

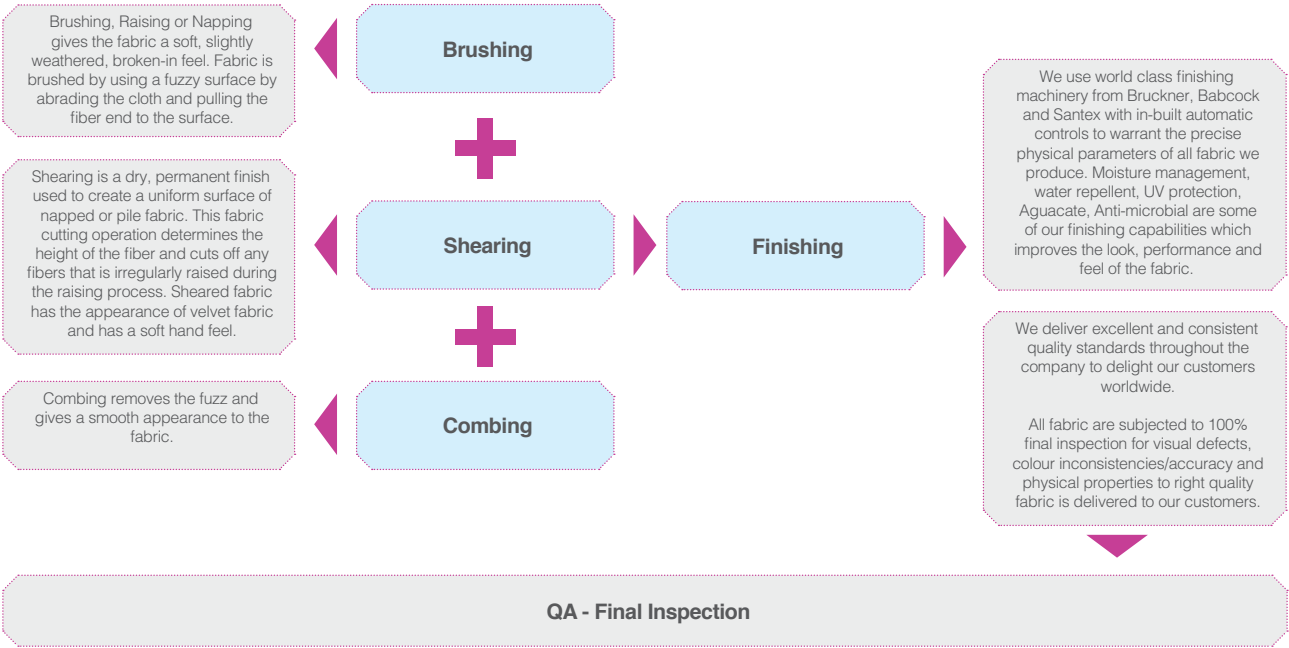
	Gross Carrying Value-USDs		Net Carrying Value-USDs	
At cost	31.03.2016	31.03.2017	31.03.2016	31.03.2017
Freehold Land	2,453,601	2,773,808	2,453,601	2,773,808
Buildings	5,874,800	5,874,800	3,840,913	3,694,043
Water Treatment Plant	2,190,854	2,221,729	866,098	818,465
Plant and Machinery	29,430,044	30,550,829	14,326,250	14,361,431
Motor Vehicles	1,101	1,101	-	-
Furniture and Fittings	1,265,365	1,274,285	280,697	212,318
Office Equipment	264,954	276,339	25,469	28,700
Computers	389,898	428,283	137,932	138,716
Factory Equipment	3,115,090	3,329,692	654,496	670,402
Safety and Medical Equipment	190,483	197,314	18,502	21,225
Bungalow Equipment	8,364	8,263	483	205
Total Value of Depreciable Assets	45,184,554	46,936,443	22,604,441	22,719,313
Work in Progress	4,778	1,866,496	4,778	1,866,496
Total Value of Depreciable Assets	45,189,332	48,802,939	22,609,219	24,585,809
Planned Investments for 2017/18				987,000

functions. Regular investment ensure that our facilities are future ready with high levels of productivity and efficiency in materials, energy

Within this 54 acres, an area of 20 acres is kept as forest reserve as part of our environment protection policy. The 34 acres land which



The Capitals Report



A Trusted Partner: Social & Network Capital

Key components of our social and network capital are as follows:



Satisfied Customers

Last year, we chose to reposition ourselves as a vibrant and innovative total solution provider of polyester and polyester blended performance and luxury fabric, under our new brand identity 'Hayleys Fabric'. This year we differentiated ourselves further, elevating our position in the market as a niche supplier of innovative synthetic fabric, particularly Athleisure, with our new range of Nylon fabric drawing on our strengths to create maximum value for our customers and in the long term, our shareholders.

Our customers are global fashion brand owners who select our fabric to be manufactured into articles of apparel in factories located in Sri Lanka. These brands include Decathlon, Victoria's Secret Intimissimi, Express, NEXT, Addidas, NIKE, CottonON, M&S, George/Asda and Mothercare.

Combining customer centricity with innovation, we've begun to follow an outside-in approach to the market in doing business. Instead of being driven by what we are good at, we

review the market and design our products around it, enabling us to be ahead of competition in discovering new market opportunities and developing new products faster. This has resulted in the Company entering the USA market and Australian market in a very short time span by ;

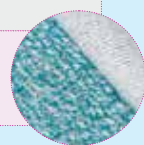
- Expansion to markets outside the European Union- our traditional buyer base,
- Establishing ourselves with renowned international apparel brands as an innovative fabric supplier, particularly at a time the retailers are seeking to narrow their supplier base
- Development of over 150 new products and variations under our Inno brand,
- Confirmed order pipeline for the next season at the higher end of the spectrum with commensurate pricing and appointment as the nominated partner in synthetic fabric supply to a leading apparel brand.

Despite a considerable and promising order pipeline in its initial year of transition to the next level in the fabric industry, the financial statements for the current year 2016/17 do not reflect the successful implementation of this strategy. This is attributed to lengthy approvals processes and the fact that the contracts materialized only towards the end of the financial year. However, following the continuous growth in order book and materialization of orders, we expect the business potential of the strategy to be reflected in the financial statements from the first quarter of the financial year commencing April 2017.

Highlights

Niche supplier of innovative synthetic fabric

Market Positioning



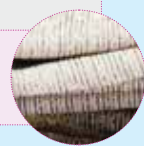
Design our products to suit customer needs

Philosophy



- New markets
- Viewed as an innovative supplier
- Over 150 fabric in our Inno range
- Strong order pipeline
- Appointment as nominated supplier to leading brands

Results



The Capitals Report

Geographical expansion

Until 2016, the European Union was our main market, accounting for over 90% of sales. Economic stress in the region and weakening market dynamics resulted in pressure on price and falling unit sales volumes. Subsequently, we sought to expand and explore new opportunities in non-traditional and traditional markets, such as the USA. Since the recession, the USA apparel market has been growing constantly in terms of value and units sold.

Competition amongst apparel retailers is tight and expectations from the supply chains high. Despite these challenges, we leveraged on our enhanced customer value proposition to



continuously work towards introducing new and innovative products, most releasing new designs in their stores as often as every 2 weeks. As such, their internal design studios are constantly seeking inspiration for new product designs and new fabric types to suit the relevant application. The general

are designed after deep analysis of consumer requirements, latest fashion trends and customer brand values, and anticipating fashion trends. We have at times, surprised our customers at the conclusion of an international fashion show by presenting swatches of fabric which have just trended on the catwalk, a true test of our ability to forecast trends.

Customer Value Proposition

Innovation	Agile Supply Chain	Responsible Products	Capacity
- Research and development facilities - Own branded fabric portfolio	- Reduced lead time by 10 days - Reliable, on time delivery - Leader in speed to market. - Ability to produce Cotton, Polyester and Nylon fabric with many finishes.	- Product labelling and marketing communications - High level of social and environmental compliance - assurance on compliance	- End to end solutions - Complete portfolio - polyester, nylon, cotton 30 MT Fabric per day

successfully break into new markets.

Innovation

Driven by stiff competition, our buyers offer chic, trendy styles with rapid turnarounds, to stay ahead in the market. In this age of 'fast fashion', these companies

requirement has been to develop synthetic ranges to produce garments with "Athleisure" designs.

Hayleys Fabric PLC fills this needs by leveraging on our Research and Development skills and offering, innovative, self-developed fabric and finishers. These concepts

Apart from our own designs and experiments, we collaborate with buyers in designing new fabric or duplicating identified fabric. Since the launch of Inno, Sri Lanka's only registered brand by a fabric mill, in 2015, we have created over 150 designs and variations of fabric over the past year, of differing features and functionality.

We specialize in innovation of synthetic fabric made from polyester and nylon blends. These fabric are popular in the manufacture of performance and sports-inspired apparel as well as leisure wear, the fastest growing global fashion trends.

Agile Supply Chain

Retail brands value their responsiveness to the latest fashion trends. These customers prioritize design and speed to market through the various stages

of the value chain - design, manufacture, distribution and retailing. An agile supply chain is critical to the success of this “concept -to-market” strategy where performance in design, quality, delivery, time and cost is key to gaining competitive advantage.

Hayleys Fabric PLC is one of a handful of suppliers that have the proven innovative, technologically advanced manufacturing that can keep up with the stringent requirements of this practice, confirmed by being appointed as the designated synthetic fabric supplier in Sri Lanka to a leading global apparel brand.

We have invested in new technology, upgraded our machinery for high quality and cost efficiency and fine-tuned our supply chain management to serve our customers better. Collaborations in product design with our own suppliers, also significantly contribute towards the consistent and timely delivery of innovative and sophisticated products.

Further, the highly advanced and efficient apparel manufacturing sector in Sri Lanka plays a key role in import substitution for fabric, saving lead time and cost (of transportation) to our customers.

Responsible products

Product responsibility is a key concern for our customers and at Hayleys Fabric, our fabric is predominantly used for active wear, lingerie and baby wear and directly impacts the well-being of consumers. Further, manufacturing inputs, outputs, processes and

policies can negatively impact our people, the environment and the community.

High levels of product responsibility are nurtured in the organization as part of its culture while quality control monitoring systems are embedded in all aspects of the organization. Our raw materials are sourced from suppliers who are certified for their social and environmental management practices in order to ensure that ethical practices are maintained throughout the supply chain. The following international certifications and accreditations provide assurance on various aspects of our processes.

Capacity

Our local competitive advantage lies in the fact that we are a mill with the capability to offer end to end solutions from design, development, printing, brushing and sueding together with a wide range of polyester and nylon based fabric. These capabilities also extend towards cotton and cotton based fabric, which account for 73% of sales and which had been our mainstay in the past, prior to the popularity of polyester and polyester blended and Nylon and Nylon Blended fabric.

Customer engagement and Satisfaction

Good relations with our customers drive our business and build our brand. We are committed to fostering close and effective engagement with our customers, in particular, given our market expansion strategy and transitioning as a niche supplier to renowned international retail brands. We strive to understand our customer requirements and concerns better and improve our level of service, nurturing our relationships into strategic partnerships built on trust and transparency.

This year, we administered our first customer satisfaction survey to our direct customers, apparel manufacturers located in Sri Lanka, engaged in manufacturing for our ultimate buyer, the retail brands. The questions were related to product quality, technology and innovation, delivery, compliance, communication and service and we obtained feedback on how we could serve our customers better. Overall, the response rate was acceptable, and customer's ratings was satisfactory.



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Laboratory Accreditation of
George Clothing



Oeko-tex 100 certification for
harmful substances



Laboratory Accreditation of
Boden



Laboratory Accreditation of Limited
Brands



Organic Content Standards
Certification



Global Organic Textile
Standards Certification

Creating Value for the Community

We are committed to contributing 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 factory and village.



- Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle
- Promote public procurement practices that are sustainable, in accordance with national policies and priorities

Creating Value in the Community

Empowering People

Cultural Activities

Capacity

Employment Opportunities

Local Sourcing

Supporting Livelihoods

Safe Water

Disaster Relief

Sponsorship of cultural events

Empowering people

As the main employer within a 15 km radius, Hayleys Fabric PLC makes a significant contribution to the socio economic progress of the local community by engaging in the following initiatives.

- Provision of employment opportunities by giving preference to persons from the local community when recruiting. Currently 69% of employees are from an area within 15 km of the factory.
- Contracting local suppliers whenever possible; including when sourcing the following inputs:
 - Saw dust
 - Transportation
 - Canteen
 - Cleaning & gardening services
 - Man power
- Empowering women to generate an income through cottage industries by the sale of fabric waste scrap at nominal price. Waste fabric is fashioned in to wicks for oil lamps which are packeted and sold for devotees who light lamps at temples and homes. Fabric waste is also used to produce household rugs.

- Donation of fabric waste scrap to the Kalutara Psychiatric Rehabilitation Unit of the Kalutara Hospital which is used by patients to design and produce handcraft. This contributes towards the health and well-being of the patients.

Fostering deeper relations

We are committed towards engaging and developing a stronger relationship with the local community leaders, built on goodwill and trust. We sponsor cultural activities in the village, strengthening our bonds with the village whilst promoting village harmony.

- Main Sponsor for the “Unduwap Perahera” at Gallena Raja Mahaviharaya, Warakagoda, Neboda where a majority of our employees participated
- Regular sponsorships to six religious institutions around the factory to support the well-being of these institutions.

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- Recognising and financially supporting outstanding students in the village schools who are children of our employees.

Good Citizenship

- Provision of portable water – The Company participated in the Hayleys Group CSR project, Puritas Sath Diyawara. At an investment of approx USD 40,000, we provide 8,000 liters of drinking water daily to over 1,200 people / families in the village of Rathmalgahawewa, Kahatagasdigiliya in Anuradhapura. The villagers are affected by Chronic Kidney Disease (CKD) attributed to consumption of contaminated water from abuse of agro chemicals in surrounding areas.
- Provision of school supplies – the 'Going Beyond' project is an extension to the Puritas Sath Diyawara project, where the Hayleys Group focuses on supporting more sustainable growth of the identified villages through educational development, youth empowerment and enhanced livelihood. As such, as a primary initiative, we provided 525 children from Rathmalgahawewa Maha Vidyalya, Kahatagasdigiliya all supplies needed for the school year including uniform material, stationery items and school bags.
- Donation towards cancer treatment facility – we contributed USD 10,000

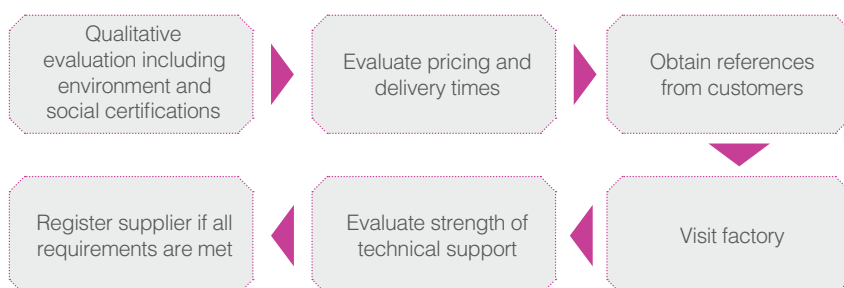
towards 'Trail 2016', a local initiative to raise USD 5mn from contributions towards the establishment of a new cancer treatment facility as part of an extension of the Karapitiya Teaching Hospital in Galle. The total cost of the project is estimated at USD 10mn, where the government of Sri Lanka will contribute the balance USD 5mn. The Karapitiya Teaching Hospital is the 3rd largest national hospital in the country and the most accessed healthcare center in the South of Sri Lanka. In 2015, the hospital recorded its highest number of cancer related deaths.

Supply chain management

Our supply chain is focused on delivering high quality raw materials at reasonable costs in a socially and environmentally responsible manner on time, being flexible providing fast delivery of

are globally renowned, owning some of the best mills in the world.

New suppliers are evaluated through a rigorous and documented process, as follows.



materials and most importantly, being a vital element in the Company's efforts in product development and innovation. Developing a transparent, stable and sustainable supply chain that meets these customer expectations is central to the Company's competitive advantage. As such, supplier selection, development, and integration is a key strategic initiative undertaken as part of the Company's overall business strategy.

Supplier portfolio

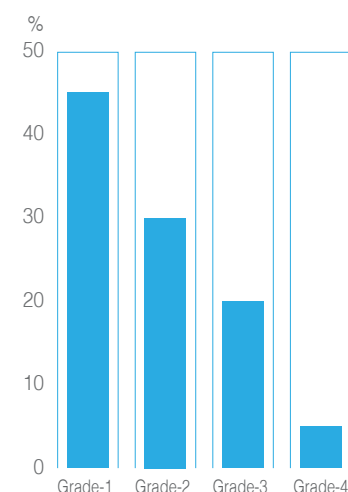
Our supply chain consists of over 300 suppliers in over 20 countries linked to over 100 factories, of which 22 are new suppliers sourced in 2017. Following the increased focus on production of superior quality, niche products we sought new suppliers for the purchase of specialty yarns and other raw materials, where such materials could not be sourced from the existing suppliers. Premium priced, these suppliers

Supplier engagement

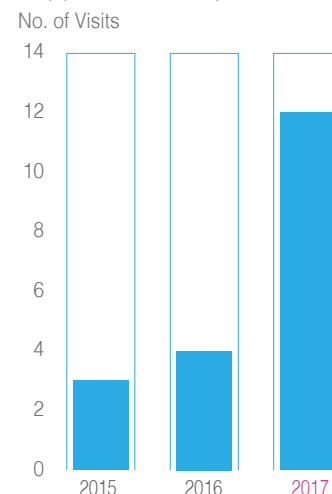
We proactively engage with our suppliers. We appreciate that to ensure sustainability in our supply chain we must help our suppliers to improve their production conditions and capabilities. We conduct supplier audits, visit factories and train selected suppliers in raw material product development. These initiatives have helped reap considerable economic gains from higher quality materials, improved product development, greater supplier support, shared risk taking and more favourable terms.

Supplier audits are conducted on a quarterly basis assessing the Company on price, quality, delivery, flexibility and communication. The suppliers are graded on a scale of 1 to 5, where 1 is the highest score. We provide constructive feedback on areas for improvement and follow up on progress made with each subsequent audit. In 2017, over 75% of suppliers obtained a rating of 1 or 2.

Suppliers' Rating 2017



Suppliers' Factory visits



Factory visits are conducted to selected key suppliers each year by a team of technical and commercial officers, observing directly the factory operations and gaining a better understanding and perspective of the supplier's performance potential and capabilities. This helps us to identify potential risks, prioritise our actions and manage social and environmental compliances more effectively.

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Likewise, suppliers are invited to visit the Hayleys Fabric factory. Whilst this promotes transparency nurturing stronger relationships, suppliers are afforded the opportunity to obtain a better understanding of our business requirements, in an effort to increase their value addition.

Product responsibility

We are conscious of, and responsible towards, the environment and society, promoting environment sustainable and ethical manufacturing practices throughout our value chain. We monitor and assess social and environmental risks and impacts in our supply chains regularly and adjust our sourcing, production and logistics accordingly. In line with the Zero Discharge Joint Road Map (ZDHC) formed by leading brand owners in the textile and footwear industry, including many of our own buyers, we have formed a team and are working toward achieving zero discharge of hazardous chemicals in the supply chain by 2020.



visits, observe firsthand the environmental and social sustainability of our suppliers. We annually obtain certifications provided by third parties confirming the practices adopted. Depending on the findings of any assessments, we will describe appropriate corrective action and remediation plans and follow up on progress made. In the most serious of situations, we will terminate the business relationship, although this has not occurred to date with any supplier.

22 new suppliers and 100% of total suppliers were screened for environmental, labour and child labour criteria in 2017. There were no significant issues identified.

certification from our suppliers for their shipments that the raw material conforms to international standards by requesting for certifications issued by 3rd parties, regarding same.

Certifications required from suppliers include the following:

New product development

We recognize the importance of integrating the supply chain into our product development cycle given the substantial benefits involved. These include shorter product development time, quicker time to market, 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.

The supplier's involvement ranges from design of fabric to development, collaborating with Hayleys Fabric in jointly developing solutions together to independently designing and creating products, which are then offered to Hayleys Fabric PLC for further development. During the year, 59 new products were developed with suppliers.

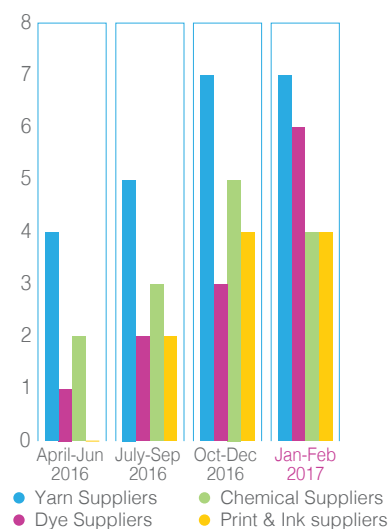
Certification	Area of Certification
OEKO TEX	Testing for harmful substances and confirmation for usage
Global Recycled Standards	Confirmation for recycled material
ISO 14001:2004	Environment Management System
SA 8000	Social responsibility including zero tolerance of child labour

At initial evaluation of prospective suppliers, we assess them for environment and social criteria, including labour practices, and subsequently during factory

Further, our products come in direct contact with the human skin and we are concerned about the health and well-being of the wearer. We obtain

Developments made with Suppliers

Nos.



- **Innovation and Technology:** Does the supplier have the required engineering expertise and physical facilities to develop an adequate design, manufacture it, and solve problems when they occur?
- **Training:** Do the supplier's key personnel have the required training to initiate and successfully operate required processes?

We are careful in selecting which suppliers to integrate into product development, given the long term commitment involved. These suppliers are carefully selected based on the following criteria and track record, upon mapping our needs against their capabilities.

- **Targets:** Is the supplier capable of achieving the required targets regarding cost, quality, and product performance/function ?
- **Timing:** Will the supplier be able to meet the product development schedule?
- **Ramp-up:** Will the supplier be able to increase capacity and production fast enough to meet volume production requirements?

The Capitals Report

Stronger together: Human Capital

Our high performing and motivated team of 1,012 employees are capable of responding to the changing business strategies/ market conditions, rapidly. Effective engagement initiatives, attractive financial and non-financial

interests of other stakeholders. The Board approves strategy, policy and monitors performance on aspects relating to management of Human Capital. The HR & Remuneration Committee has oversight responsibility over the HR Function. The Human Resources Department is in charge of implementing the



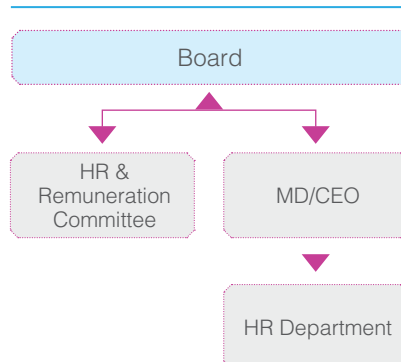
remuneration, good working conditions and investments in training and development has allowed us to build a satisfied work force. In an industry where retention of employees is a key challenge, our retention rate was 92% in 2017.

Our employees are critical to transforming our capitals to deliver value to stakeholders and balancing their interests is key to growth. The diagram below depicts the employee value proposition and how the different areas of our employee management creates value for the employees.

Governance

Our strong governance structure ensures that we balance the interests of our employees with the

HR strategy and is under the direct supervision of the MD/CEO



Policy framework

Management adheres to formal policy frameworks covering all areas related to employee management including recruitment, succession



- By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value
- By 2020, substantially reduce the proportion of youth not in employment, education or training
- Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms
- Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment

planning, performance appraisal, training and development, compensation and benefits, labour relations and grievance handling among others.

The policies are formulated with reference to regulatory enactments and international best practice including Principle 6 of the UN Global Compact. Accordingly, the

policies ensure that the Company does not engage in child labour or forced labour, protect human rights. Compliance of the same is monitored by the HR function and the HR & Remuneration Committee. A strong regulatory framework, reinforced by internal audit inspections, high levels of management awareness and monitoring by key customers ensure that all employees can work in a conducive environment in safety and dignity.

It also contains explicit statements on the Company's zero tolerance policy on bribery and corruption which is reinforced with high levels of awareness nurtured through orientation programs and reinforced regularly at meetings and through internal communications. There are no pending legal cases on issues of bribery or corruption.

Our Team Profile

Our team consists of 937 full time employees and 75 trainees from

manual nature of work involved, female participation is limited at 5%. We strive to redress the gender balance by increasing the number of females recruited to administrative departments.

HR Policy Coverage

Recruitment

- No Child labour policy
- No Forced labour policy
- Job description policy
- No Discrimination policy

Engagement

- Remuneration policy
- Performance management system policy
- Internal mobility policy
- Employee Relations

General

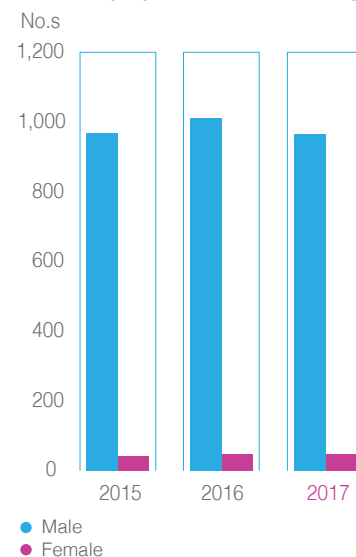
- Grievance handling policy
- Industrial relations policy
- Health and Safety policy
- Disciplinary policy
- Communication policy

An Employee Code of Conduct & Ethics communicates the employees' rights and obligations including employee grievance mechanisms. Ethics are displayed in Sinhala and English languages and being operated under separate compliance team.

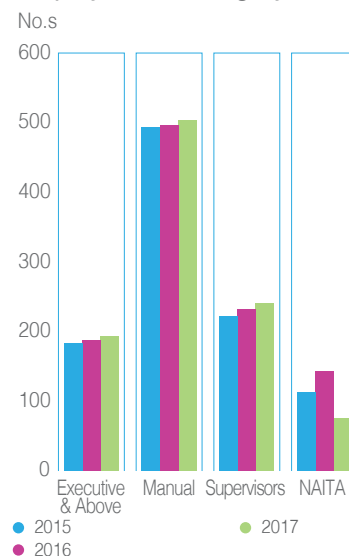
the National Apprenticeship & Industrial Training Authority (NAITA). We offer employment opportunity to villagers from the vicinity and 69% of employees are those living within a 15km radius of the factory. Inherent to the textile industry, given the



Total Employment-Gender Analysis

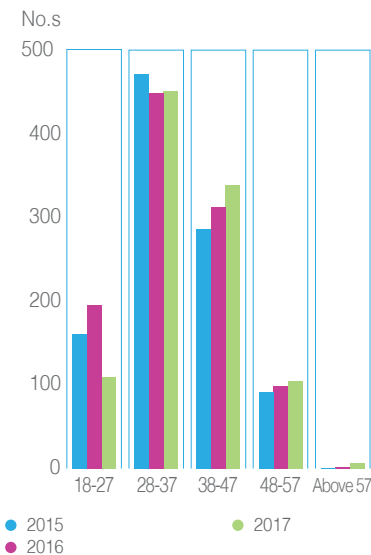


Employment category



The Capitals Report

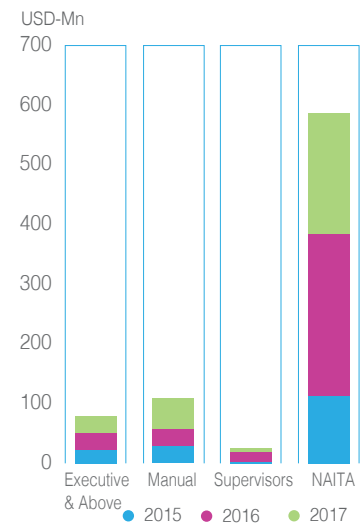
Total Employment - Age Analysis



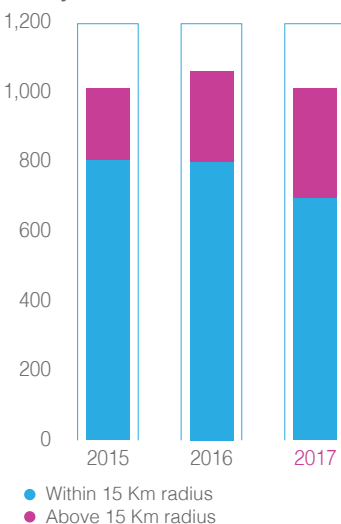
Our partnerships and collaborations with universities and technical institutes, facilitates attracting some of the best talent whilst offering students opportunities to intern at the Company. Preference is given to candidates from the local community improving the company's social relationships.

During the year under review 292 (Including NAITA Trainees) new employees were recruited of whom 48% were living within a radius of 15km from the factory.

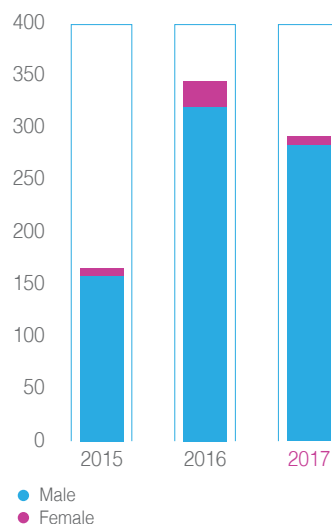
Employment Category - Recruitment



Total Employment - Distance Analysis



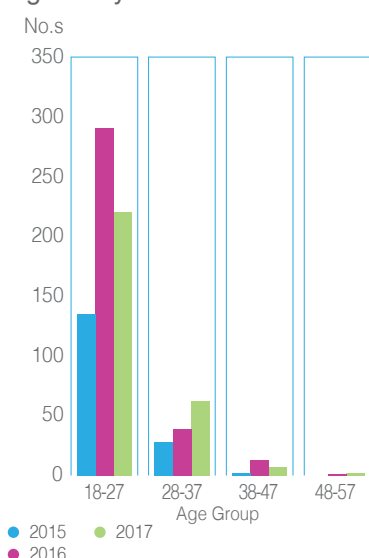
Gender Analysis - Recruitment



Talent Attraction

We have in place a structured recruitment and selection mechanism as set out in the HR Policy framework. 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.

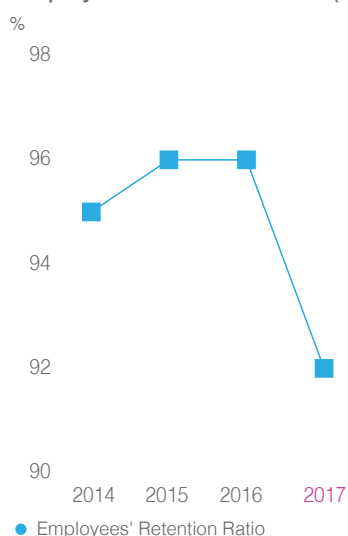
Age Analysis - Recruitment



Employee Retention

Our employee retention levels have been consistently high as depicted in the graph. Success is attributed to a mix of factors including high levels of employee engagement, remuneration and benefits, culture, training and development and the limited number of employment alternatives available in the village. Turnover is mainly due to economic migration as younger employees seek opportunities in the capital or overseas.

Employees' Retention Ratio (%)



dialogue is maintained with employees through staff meetings, held for all workers at least twice a month and daily meetings conducted at departmental level. Our open door policy has proved to be a strong mechanism for handling grievances, where potential issues are resolved faster and with less conflict within the team. No collective agreements were signed with the employees in the current year.

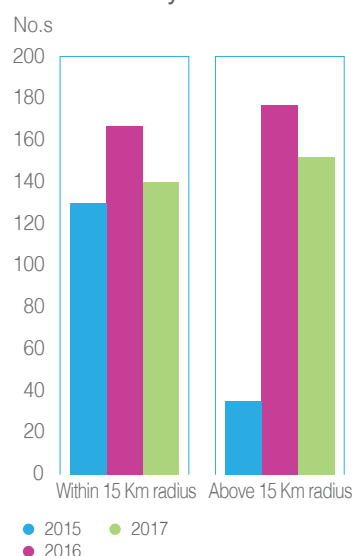
Informal engagement is encouraged through numerous cultural, entertainment and sports activities to improve interaction and develop a sense of camaraderie amongst employees. Whilst Employee participation levels at these events are high, employees also enthusiastically organize and do all the ground work themselves as it provides a forum to showcase their talents in various activities.

Rewards and recognition

We offer an attractive and equitable remuneration structure, above the minimum wage requirements, that recognizes the employee contributions and rewards performance facilitating high levels of motivation and retention.

Performance appraisals are carried out for all staff on an annual basis and is linked to salary increments and promotions. The performance

Distance Analysis - Recruitment



Employee engagement

We engage employees through formal and informal channels addressing concerns ranging from discipline, dignity of labour to socio economic progress. Regular

Employee Category	Turnover	Gender		Turnover Rate (%)	From Village	Age Group			
		Male	Female			18-27	28-37	38-47	Above 47
Executives	29	20	9	15%	1	10	13	6	0
Clerical, Supervisory and Allied Grades	8	6	2	3%	6	2	2	1	3
Manual	33	32	1	7%	28	4	16	6	7
Total	70	58	12	8%	35	16	31	13	10

The Capitals Report

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

appraisal system uses a combination of objective and subjective criteria which are mutually agreed by both the line manager and employee at the beginning of the year. The KPIs are fully aligned to our business goals and serves to build and maintain a target driven culture incentivizing productivity and spurring growth.

During the year, 28 persons were identified for promotion through this process for vacancies that occurred during the year.

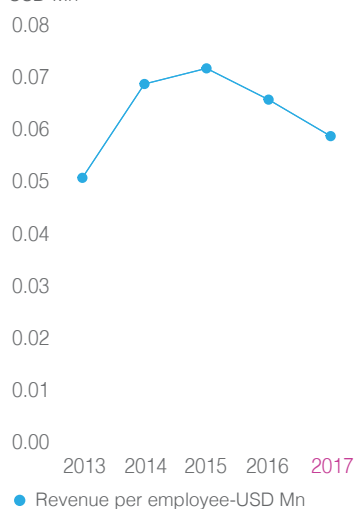
capabilities, skills and competencies to successfully execute the company's vision and strategy - to be able to effectively respond to changing technical conditions on the ground or to cultural differences across the globe.

Hayleys Fabric PLC has in place a comprehensive training and development plan, aligned to its business plan, covering multiple areas



Revenue per employee

USD-Mn



In addition to salary and emoluments, incentives provided include gratuity at rates higher than regulatory requirements, leave allocations above the legal requirement, staff loans at concessionary rates, comprehensive medical insurance benefits for staff and family members, benevolent benefits etc.

Training and Development

We make substantial and continual investments in our people to ensure they are equipped with the necessary

including technical skills, soft skills and leadership development skills.

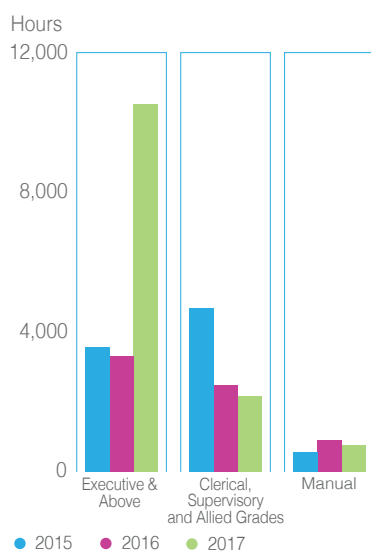
A total of 13,473 training hours were dedicated for the employees, averaging 13 hours per employee for the year (2016- 6 hours). Training coverage was 7 %. (2016- 9%)

We also facilitate our employees obtaining relevant lifelong qualifications. This year, the Company invested LKR 900,000 enabling 30 employees to obtain qualifications from Sri Lanka Institute of Textile and Apparel (SLITA).

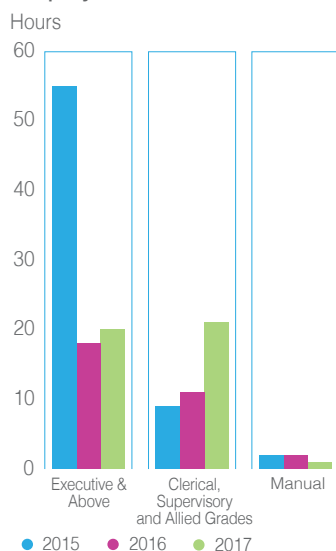
Further, we are an approved training provider for National Apprentice and Industrial Training Authority (NAITA) and the Apprentice Training Institute (ATI) an affirmation of our high standards of training and development.



Total Training Hours



Average Training Hours per employee



Stimulating innovation

Much emphasis is placed on stimulating innovation and nurturing a culture of learning and growth at Hayleys Fabric PLC. Training and development is provided to employees to learn new and modern concepts and technologies and facilitate application of their learning

component changes and process engineering to enhance productivity.

Employees are encouraged to pitch ideas to senior managers. This has given employees a sense of ownership and a number of pitched ideas have been implemented, rewarded and recognized for



at the factory. They are empowered in their roles and responsibilities, encouraging out of the box thinking and innovation.

As such, an inspired Research & Development team experiments with new fabric and finishes and enthusiastically researches new technology in textile manufacture. A dynamic engineering team scrutinizes the Company's systems, seeking lean mechanisms,

their efforts. These employees are mentored and monitored by a commercially savvy Corporate Management Team with high awareness of the need for sustainable growth.

The Capitals Report



► Provision of potable water for the CKD affected people in Rathmalgahawewa, Anuradhapura District





The Capitals Report



► Study packs gifted to Children of our staff members who won Grade 5 scholarship examination in 2016



► Fabric off cut donated to Kalutara Psychiatric rehabilitation unit for patients to learn hand craft.



► Aids awareness programme conducted by Sexual Transmission Decease Unit, Nagoda Hospital



► Free medical checkup for employee



► Contd. Free medical checkup for employee



► Principle sponsor for the Warakagoda annual uduwap perahara



► Trail 2016



► Trail 2016



The Capitals Report



► School Book Distribution 2017 at Rathmalgahawewa for five hundred children



► Winners of the art Competition 2017



► Blood donation campaign





► Hayleys Group Vesak lantern competition 2016



► IDPL Cricket Tournament



► New Year Celebration 2017



The Capitals Report

Health & Safety

We strive for a safe work environment free of hazards and work-related risks and have in place a Health and Safety policy which details the standards, procedures and guidelines for employees to abide by. We have two management level executives who are directly responsible to daily monitor any violation in this area and to carry out regular Health & Safety Awareness programs. Further, continuous dialogue is maintained between employees and management on improving health and safety aspects with high levels of awareness and strict enforcement of minimum safety procedures. Joint worker management committees on Health and Safety that represent an average of 15% workforce participation facilitates a consultative process with practical solutions for their concerns.

In addition, the following steps are taken to mitigate potential health and safety hazards;

- The fire squad, represented by all departments in the Company meet quarterly to evaluate and



review the fire safety equipment and procedures in place.

- A medical officer is available 2 days per week and employees are able to obtain free medical check-ups on a weekly basis.
- Collaborations with Kalutara Hospital, Nagoda facilitates emergency medical services.
- Periodic safety audits are carried out.
- First-aid boxes are made available at multiple locations within the premises.

All accidents are reported immediately to the respective department managers and the Head of HR & Admin, and are tracked consistently.

Year	Rate of Injury	Occupational Diseases	Lost Days	Work Related Fatalities
2016	3.39	0	20	0
2017	6.21	0	43	0

Industrial Relations

Our employees are represented by three trade unions, which collectively cover 80 % of our employees. Regular meetings are held between the management and the unions and an open and effective dialogue has helped maintain cordial relations. Salary increments and other worker conditions have been implemented after negotiations with Unions. There were no industrial disputes during the year under review.

Deeper relationships

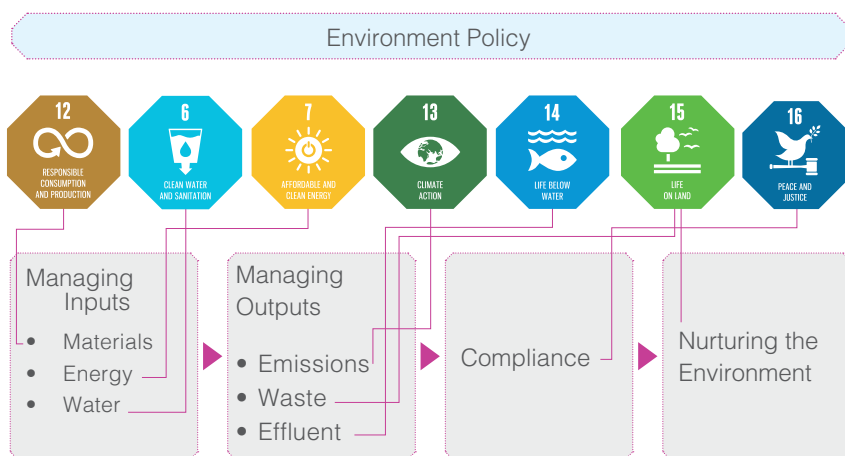
We believe that engaging the employee's family and creating a bond, improves the overall confidence & respect for the organization. Extension of support towards the welfare of families of employees reflects the value we place on the employees and is attributed to enhancing employee engagement, retention and productivity. We engaged in the following activity during the year.

- Distribution of gift packs containing educational and stationery items to employees' children who were successful at the grade 5 Scholarship Examination -2016.

Managing Our Impacts: Natural Capital

Hayleys Fabric PLC remains committed to creating a greener, more sustainable working environment. We recognize our

footprint. Further, we proactively engage in monitoring, reporting and reviewing our performance, facilitating compliance with regulatory, customer and voluntary requirements.



responsibility to monitor, manage and reduce our environmental impacts wherever and whenever possible, taking action beyond basic legal and regulatory compliance.

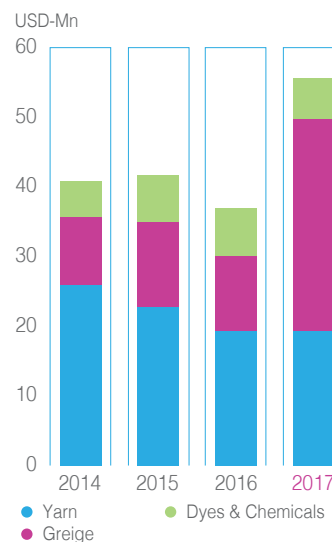
Our environment management policy is graphically depicted here together with the relevant Sustainable Development Goals.

We are conscious that 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 believe if we manage our inputs better, we are better able to manage our outputs and to this end we constantly explore the use of more efficient technologies and processes to minimize our environmental

Raw Materials

Our key raw materials are yarn, dyes and chemicals, accounting for approximately 60-70% of our manufacturing costs. Raw material consumption declined by 8 % during the year, largely due to the reduction in production volumes. Material efficiency and minimized waste also contributed to the reduction following the continuous investments in new technology and processes over the past years, driven by our commitment towards responsible consumption of raw materials, especially of chemicals and dyes. Such investments include a state of the art dyeing plant, ongoing product developments to improve the dye and chemical recipes and sourcing of premium quality dyes, as per buyer requirements.

Materials Consumption



- By 2030, achieve the sustainable management and efficient use of natural resources
- By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
- Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle
- Promote public procurement practices that are sustainable, in accordance with national policies and priorities

The Capitals Report

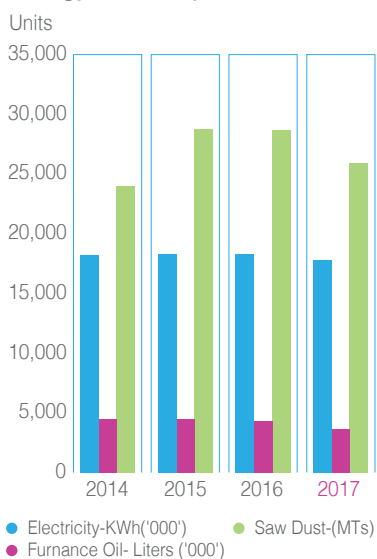
Our renewable raw materials consists of cotton and organic dyes. Increase in the consumption of renewable raw materials is attributed to the business strategy of progressively shifting to more synthetic fabric such as nylon and polyester. Consumption of recycled polyester yarn, produced from recycled waste including plastic water bottles, amounted to 1.4% (2016 – 1.3%) of total raw materials consumed. It was purchased only on special request by the buyer.

We continue to source all our principal raw materials from suppliers certified for their environmental management practices.

Energy

Energy is a significant operating expense in the textile industry. It accounts for 15 % to 20 % of production cost and stands next to raw material cost.

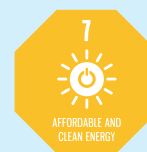
Energy Consumption



Hayleys Fabric PLC obtains energy from a mix of sources – electricity, furnace oil, bio mass, diesel (marginal) and LPG. The main sources of energy are electricity and furnace oil.

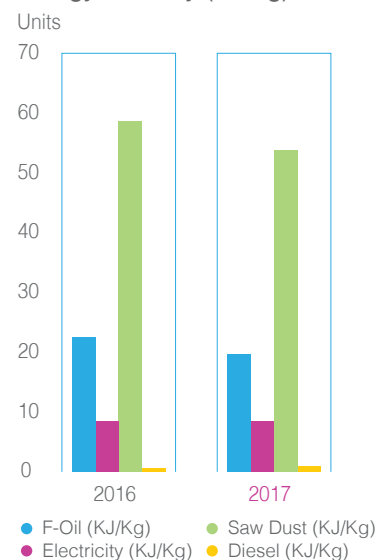
During the year, the Company installed a Liquid Petroleum Gas (LPG) plant to support the increasing energy requirements and reduce the dependency on furnace oil. LPG has a higher energy efficiency and is more eco-friendly than furnace oil. As such, dual fuel (LPG and furnace oil) burners were installed for the thermic boilers used in the plant, to support the new initiative. However, subsequent to the sharp increase in global LPG prices since November 2016, in comparison to furnace oil, the increase in cost of purchase has offset the cost saving gained by way of energy efficiency. The Company has therefore temporary reverted to furnace oil and is monitoring the price trends.

Energy consumption declined in 2017 largely due to the reduction in production volumes. Similarly, overall energy intensity has improved to 85.50 from 90.40 (kj/kg), rewarding the Company's arduous efforts towards enhancing energy efficiency through investments in new technology and lean processes. Energy intensity ratio has been increasing over the past years, despite the many initiatives to increase energy efficiency. The increase is attributed to Hayleys Fabric's business model, which focuses on production of value added fabric where the knitting, dyeing and finishing processes are energy intensive operations.



- By 2030, increase substantially the share of renewable energy in the global energy mix
- By 2030, double the global rate of improvement in energy efficiency

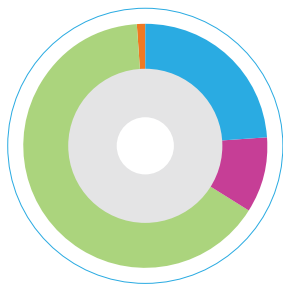
Energy Intensity (KJ/Kg)



Renewable energy accounts for 12 % of total energy consumed and is derived from the biomass energy generated from saw dust. Despite being a cleaner source of energy compared against fossil fuels, expansion of bio mass energy by the Company is limited given the difficulty in sourcing saw dust in the required quantities.

Energy generated has been increasingly utilised towards producing heat and steam.

Purpose of Energy Consumed 2017



- F-Oil (KJ/Kg)- Heating 24%
- Electricity (KJ/Kg)-Machine running & Lighting 10%
- Saw Dust (KJ/Kg)-Steam generation 65%
- Diesel (KJ/Kg) -Generators/Transport 1%



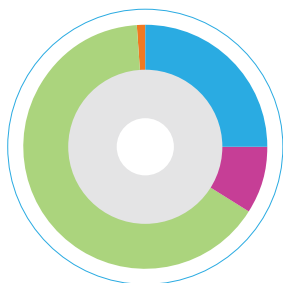
boilers, other initiatives engaged in by Hayleys Fabric PLC to improve energy efficiency are as follows;

- Replacement / expansion of production machinery with new energy efficient machinery. For example, the new dyeing machinery installed have a reduced cycle times for white colours, resulting in significant energy savings.
- Checking properties of the thermic oil and replacing with new oil to improve heat transfer efficiency.
- Designed a mechanism in-house to recycle clean water released from the water treatment plant by using it to produce steam in the boiler. As the water released is at a higher temperature, less energy

is required to heat the water to boiling point.

- Replacement of CFL and other inefficient bulbs with LED lights, beginning in areas of high usage and expanding across the entire factory. ie;
- Replaced 40W Florescent lamps with 20W LED lights in production areas, resulting in an electricity saving of 2.78 kwh per day cumulating to a cost saving of LKR 0.14mn p.a
- Replaced 400W Mercury lamps with 80W CFLs in the yarn warehouse, resulting in an electricity saving of 1.92 kwh per day cumulating to a cost saving of LKR 0.1mn p.a
- Introduction of variable frequency motors and drives to reduce power consumption resulting in an electricity saving of 120kwh per month and cost saving of LKR 4.6mn p.a
- Rationalisation of boilers and regular tuning of burners
- Engaging staff in conservation, through awareness building and training programs.

Purpose of Energy Consumed 2016



- F-Oil (KJ/Kg)- Heating 25%
- Electricity (KJ/Kg)-Machine running & Lighting 9%
- Saw Dust (KJ/Kg)-Steam generation 65%
- Diesel (KJ/Kg) -Generators/Transport 1%

Apart from the investment in an LPG plant and installation of dual fuel burners for 6 of 7 thermic



The Capitals Report

Water

Hayleys Fabric PLC is conscious of its excessive water footprint, inherent to fabric mills and is actively engaged in exploring technology and process mechanisms to improve water efficiency and reduce water consumption.

Hayleys Fabric PLC's sources water solely from the adjacent river "Kalu Ganga" which has an abundant supply of water with regular flooding occurring in many areas around the village. There are no protected nature reserves in close proximity to the area. However, the Company is conscious of its responsibilities towards the sustainability of freshwater resources and makes every effort to increase water efficiency and maintain 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 90.

Water consumption has decreased by 0.42% this year, largely due to the decrease in production tonnage. However, water efficiency continues to reflect a declining trend given the Company's continued shift towards manufacture of fashionable value added fabric, which processes are more water intensive.

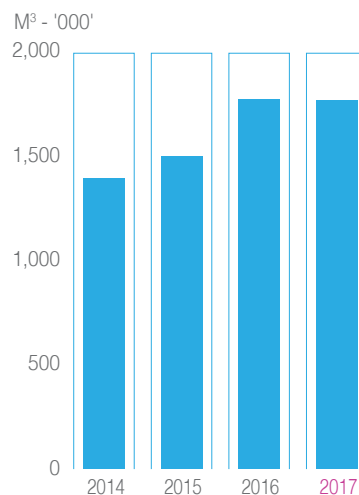
2017		
Water Recycled and Reused	106,499 M ³	6 % of total water withdrawn from river

The following initiatives have been implemented to reduce water consumption and improve water efficiency.



- By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
- By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
- By 2030, implement integrated water resources management at all levels, including through transboundary cooperation as appropriate
- By 2020, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes

Water Consumption



required to process 1kg of fabric, compared against the previous system. Water efficiency is expected to significantly improve going forward.

- Recycling the cooling water from dye machines by sending it back into the cooling process, thus saving the need to source fresh water.
- Condensate and Recover Project to improve steam boiler feed water system and to reduce the water consumption.
- 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 programs. Display of sign boards at all user points as a reminder to consume water consciously.
- Installation of a new dyeing plant in 2017 amongst other benefits, the plant is incorporated with an advanced rinsing system, which halves the quantum of water

Emissions

Carbon emissions

Carbon air pollutants are generated by combustion of fossil fuels in the generation of energy. We are focused on reducing emissions by reducing energy consumption and converting to more eco-friendly fuels such as bio-gas and LPG. Initiatives implemented to save energy are explained on page 84.

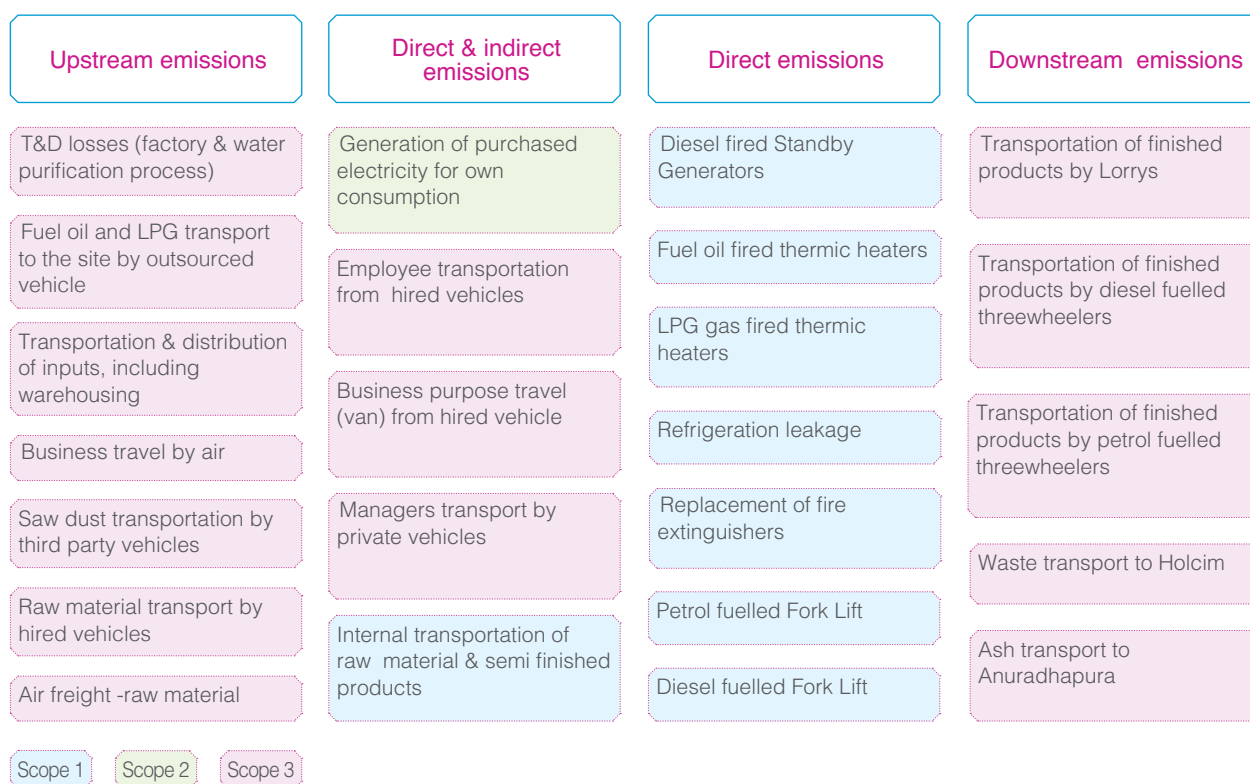
The methodologies used to measure emissions are as follow;

Air and noise pollution

Hayleys Fabric PLC is conscious of ensuring that the factory is a safe working environment. As such the Company monitors the level of air and noise pollution, within the factory doors and outdoors.



- Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning



Source	Information used to quantify CO ₂ emissions
Electricity	CO ₂ emissions calculated using the Gross Generation and Gross Emission from power plants. National grid emission factor for thermal energy of 0.51 tCO ₂ eq/MWh (based on National Energy Balance 2014)
Residual Fuel Oil	Using furnace oil calorific value of 40,400 kJ/kg and emission factor of 77.64 tCO ₂ eq/TJ
Diesel (Stationary Combustion)	Using diesel calorific value of 43,000 kJ/kg and emission factor of 74.34 tCO ₂ eq/TJ
LPG	Using diesel calorific value of 47,300 kJ/kg and emission factor of 63.15 tCO ₂ eq/TJ
Diesel (Mobile Combustion)	Using diesel calorific value of 43,000 kJ/kg and emission factor of 75.24 tCO ₂ eq/TJ

The Capitals Report

Scope 1 emissions for 2016/17 (tonne CO₂eq)

Source	Emissions (tCO ₂ eq)
Diesel	513.50
Residual Fuel oil	10,061.39
LPG	908.48
Petrol	28.99
Methane	0.00
R22	41.49
Fire Extinguisher	0.16
Total	11,554.02

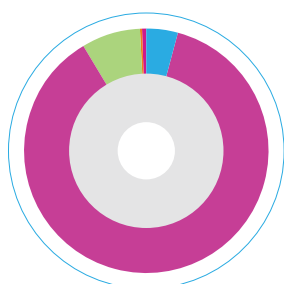
Scope 2 emissions for 2016/17 (tonne CO₂eq)

Source	Emissions (tCO ₂ eq)
Electricity consumption - factory	8,997.51
Electricity consumption - water purification	208.54
Total	9,206.04

Scope 3 emissions for 2016/17 (tonne CO₂eq)

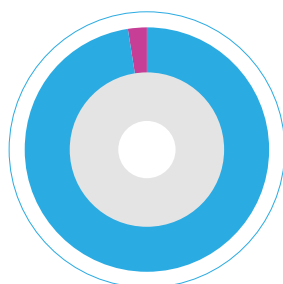
Source	Emissions (tCO ₂ eq)
Employee transport	556.69
Raw material transport	228.18
Finished good delivery	495.58
Waste transport	29.18
Transmission & distribution loss	1,058.69
Total	2,368.33

Scope 1 emissions for 2016/17

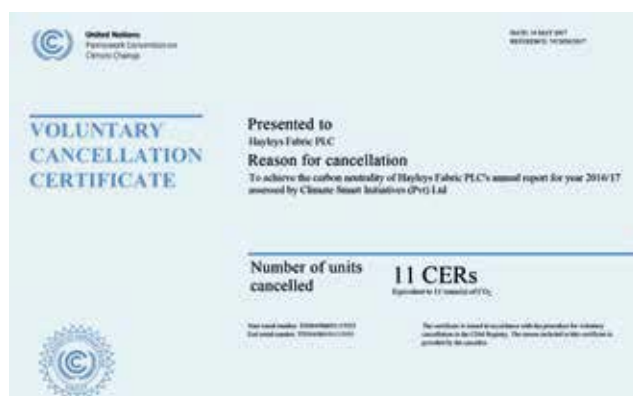


- Diesel 4.44%
- Residual Fuel oil 87.08%
- LPG 7.86%
- Petrol 0.25%
- Methane 0.00%
- R22 0.36%
- Fire Extinguisher 0.00%

Scope 2 emissions for 2016/17



- Electricity consumption - factory 97.73%
- Electricity consumption - water purification 2.27%



Monitoring the Quality of Air

Company monitors the exhaust emissions of all 7 boilers on a quarterly basis and measures the quality of air in the dyeing plant (indoors) and in 5 locations round the factory boundary (outdoors) annually. The air quality tests are conducted by the National Institute of Occupational Safety and Health and monitored against the standards stipulated by the American Conference of Government Industrial Hygienist (ACCGIH). Quality of air is satisfactory.

Outdoor quality of air

Type of gas		O3 ppm	CO ppm	CO2 ppm
Threshold - As per ACCGIH		<0.1 ppm	<25 ppm	<5000ppm
Location	Relative Humidity %			
A	67	0	0	451
B	62	0	0	435
C	58	0	0.88	434
D	57	0	1.76	464
E	56	0	0.96	444

Indoor Quality of Air

Type of gas	Relative Humidity	HCHO	CO ppm	CO2 ppm
Threshold - As per ACCGIH	40 - 70%	0.75 ppm	<25 ppm	<1000ppm
Location -Dye House	56%	0 - 0.3	0	479

Noise pollution

Noise pollution occurs at various operations of the fabric mill, caused by the vibration of the mechanical parts of the machines. The highest noise levels are found in the knitting rooms. The noise levels are on average, within the threshold stipulated in the National Environment Act No.47 of 1980. (NEA)

Noise measurement indoors

Location	Equivalent Continuous Sound pressure Level (dBA)	Threshold -NEA
Dye House 1	78.5	85 dBA
Dye House 2	80.2	
Knitting AB	83.6 - 84.2	
Knitting CD	81.6 - 86.7	
Finishing Section	82.4	
Bio mass area	83.3	

(The average was computed to be 52.5 dBA, which is within the threshold stipulated in the NEA.)

The Capitals Report

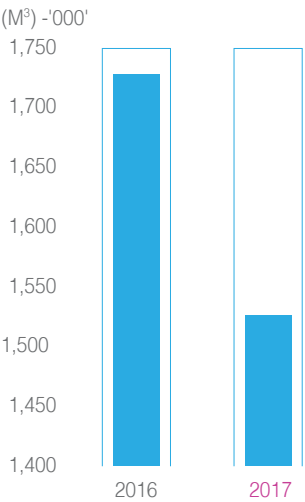
Effluents

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

Our water treatment plant, expanded in 2015 incorporating enhanced purification methodology has contributed towards purer, better quality water being 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).

Water Discharged to the River



	2016	2017	Standards to maintain
PH at 25 DEGREES C	7.90	7.90	6.5-8.5
Temperature 0C (DEGREES C)	33.80	36.00	40.00
BOD5 at 20 0C (MG O2 /L)	30.00	20.00	30.00
COD (MG O2 /L)	143.92	170.00	250.00
Total Suspended Solids (MG/L)	18.2	19.00	50.00



- By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution



- By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
- By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
- By 2030, implement integrated water resources management at all levels, including through transboundary cooperation as appropriate
- By 2020, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes

Solid waste

We are committed towards disposing of all solid waste in an environmentally responsible manner. The following are disposed through Geo Cycle, professionals in the field.

- Waste from water treatment
- IT and electronic discards

Waste fabric are sold to local villagers facilitating self-employment and cottage industries such as production of wicks for oil lamps, rugs and other products. Further, fabric off cuts are donated to the Psychiatric Rehabilitation Unit of the Nagoda Hospital, Kalutara to support treatments in occupational therapy where patients are taught hand craft.



- By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements

- 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 the employees.
- Nurturing the partly grown “Kumbuk Trees” (*Terminalia Arjuna*) planted last year within the vicinity of the factory water treatment plant. These trees are known to grow well near water logged areas. Kumbuk is one of Sri Lanka's most majestic trees and its timber is of exceptional strength and durability. The wood can remain submerged in water for centuries, yet remaining strong & healthy.

Solid Waste-MT

Method	Type	2016	2017
Incineration	Sludge -	1,226	944
Total hazardous waste		1,226	944
Sale for reuse	Fluff	71	23
	Fabrics strips, off cuts, etc.	623	599
Sale for Re-cycle	Cardboards, yarn cones, etc	383	412
	Polythene	112	95
Total non-hazardous waste		1,189	1,128
Total		2,415	2,072

(In 2017, total recycled/reused material decreased by 5 % to 1,128 MT.)

Nurturing the environment

We are conscious of the need to nurture and sustain the environment and to this end have engaged in the following initiatives;

- Purchase of 20 acres of forest, adjacent to the factory property, to be maintained as forest coverage. Forests help maintain the water quality of rivers and purity of air.



- By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally

Compliance

We have complied with all relevant environmental regulations, during the year under review as we are very much concern on environmental impact from our final product and every effort is being made to minimize the adverse impact to the Bio-diversity.

The Capitals Report

Our Potential: Intellectual capital

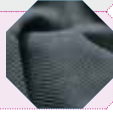
Intellectual capital drives our growth. It comprises our brand values nurtured over time and the collective pool of tacit knowledge and skills of our employees. Our Intellectual capital enables the Company to remain ahead of competition in a very dynamic and evolving apparel industry, offering innovative and technologically advanced fabric with the appliance and functionality our customers require.

to differentiate ourselves through deep understanding of our customer needs and delivering on innovation, speed, reliability, quality, service and (social and environment) responsibility. Our ratings, endorsements and awards bears testimony to success of our endeavours, enhancing our brand value and intellectual capital.

Inno & Innovation

We lead the industry through fabric innovation and are the first fabric

innovative fabric. In particular, our ability to cater to performance and sports-inspired apparel as well as leisure wear which are the fastest growing global fashion trends enables us to position our fabric at the higher end of the spectrum. Combining customer centricity with innovation we have been successful in being appointed the nominated partner in synthetic fabric supply to a renowned international apparel brand, which has in turn opened many more doors for new market opportunities.

Established as a pioneer in the textile industry, our brand reflects our capabilities and has gained recognition amongst global fashion brands	In-house developed branded range of polyester blended fabric which account for 15% of our customer orders is testimony to our ability to innovate	Our quality assurance processes honed over 3 decades is critical to customer satisfaction.
Brand Recognition 	Inno & Innovation 	Quality Assurance Processes 
Recruitment, training and performance management systems provides for alignment of personal and corporate goals, innovation and high levels of performance	Entrepreneurship and professionalism are combined within the leadership of the Company, ensuring that our strategic direction and resource allocation are harmonised	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
Talent Management 	Leadership 	Group Linkages 

Quality Assurance Processes

Our quality assurance processes, which span the entire length of our processes from receipt of raw material to the dispatch of finished goods, form the foundation for brand building activities. High end equipment and experienced professionals combine to ensure that our quality assurance processes drive customer satisfaction with feedback to production teams facilitating continuous improvement.

Talent Management

Engaging a highly talented and skilled team has been critical in achieving success. Our dedicated customer engagement team carefully selects and designs fabric concepts having forecasted fashion trends following in-depth analysis of consumer requirements, latest fashion trends and customer brand values. Our inspired Research & Development team experiments with new fabric and finishes whilst our dynamic engineering team enthusiastically researches new technology in textile manufacture.

Between those who design concepts to those who engage in innovation technology and those who specialize

Brand recognition

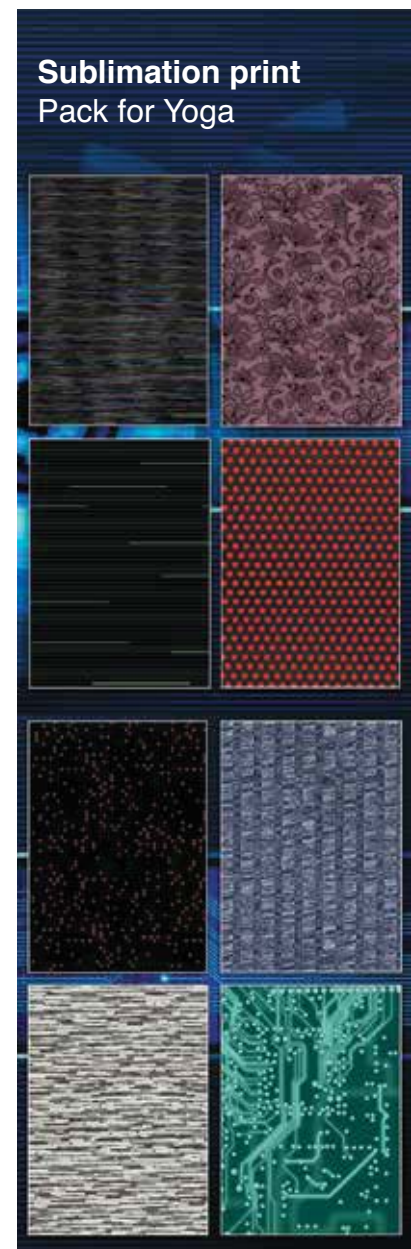
The Hayleys fabric PLC brand reflects the innovative and vibrant culture of the Company, its core competency in the manufacture of premium quality performance and luxury fabric and our heritage as a part of one of Sri Lanka's leading conglomerates. We strive

mill in Sri Lanka to launch our own brand, Inno, in 2014. Having developed over 150 new products internally with variations used in active wear, lingerie and sleepwear, this year we repositioned ourselves and gained brand recognition amongst global fashion brands as a niche supplier of premium,



modern concepts and technologies and application of their learning facilitated at the factory. Further, employees are empowered in their roles and responsibilities, nurturing creativity and innovation.

Please refer the Human Capital report on page 75



in each area of operations that the value chain covers, our employees combine to create a unique work force who are invaluable to the organization.

By cultivating talent and harnessing our employees' ideas, we are able to create more value from our intellectual capital. The management

encourages a culture of learning and growth, stimulating innovation. All employees are encouraged to share knowledge, new ideas and provide suggestions for improvement of the systems of the Company. They are recognized and rewarded for their contributions. Training and development is provided to employees to learn new and

A Positive Outlook

Business Environment 2017/18

Market studies show that the global apparel market is moving towards synthetics which gives the flexibility to customize garments to suit the user. The highest growth is in the “Athleisure” / sportswear segment which uses mainly polyester and nylon blends. This sector has overtaken the children’s wear, men’s wear and baby wear. The local mills are geared to take the challenge of moving into synthetics whilst continuing the traditional cotton based products. The Company has been producing polyester for many years and can consider itself as a leader in this segment and has also the capability of producing the Nylon range.

The GSP+ expected during the year 2017 will be a boost to attract business from Europe as this will compensate for the price pressure that exists due to several economic reasons in the region. Research indicates that the USA market shows a positive growth and this would be another area of focus for the Company.

Overall, the Sri Lankan apparel giants are performing well with innovation, design and development capabilities to add value and this has resulted in the average selling prices to move in an up-ward direction.

In Sri Lanka, the prolonged drought may result in raising food and oil imports, adversely impacting growth, inflation and the balance of payments. Whilst industrial and services growth is expected to remain robust in 2017, the agricultural sector, could drag the economy. GDP



growth is forecast at 5%, in 2017. The Central Bank of Sri Lanka may be required to further tighten monetary policy as a precautionary measure, in order to contain the build-up of adverse

with the proven capabilities of speedy delivery, superior supply chain and production facilities and research and development skills for the design of innovative value added speciality fabric.



inflation expectations and the possible acceleration of demand side inflationary pressures.

The global outlook for 2017 and 2018 is positive compared to 2016. Growth in the US will exceed that in the Euro Area whilst power shift to emerging markets will continue. Stiff competition in the apparel market would require retailers to keep adapting to challenges faced and seek opportunities from therein, including from changes in consumer behaviour and the internal workings of the fashion system. In this context, increased opportunities exist for textile mills

Performance of Capitals

A strong pipeline of orders, heightened capacity to innovate, improved supply chains and re-engineered workflows place us a strong competitive position to become the best Weft Knit manufacturer in the country. This is how we propose to deliver increased value to shareholders in the year that has commenced.

- Financial Capital - Growth in earnings through high margin products and volume growth - Drive cost leadership through smart sourcing strategies and operational excellence	- Manufactured Capital - Increase capacity through investments of USD 1.4mn - Investing in responsible production using energy efficient and clean technology	- Social & Network Capital - Grow our supply chain into a strong source of competitive advantage by improving response times, increased customization, reduce turnaround times - Strengthen order pipeline through deeper customer engagement - Innovate and inspire fashion as a niche supplier to international brands - Support the external community through economic and social development initiatives
- Human Capital - Inspire our team to deliver corporate goals through improved communication and performance management - Acquire and nurture talent to drive competitive advantage - Recognise and Reward	- Natural Capital - Responsible consumption and production - Manage and minimise our impacts through clean technology - Deepen engagement in sustainability	- Intellectual Capital - Widen our own branded range of fabrics - Improve our research and Development capability - INNOVATE

We believe that the above plans will deliver the following goals:

Key Performance Indicators	Goal
Earnings growth (PBT)	3% - 5%
Employee productivity	80% - 90%
Reduced emissions	10%
Reduce water consumption	5% -10%



Managing Risk

Risk is a shared responsibility across the organization and the Corporate Management Team work together to ensure that we identify the material issues that have the potential to provide us a significant competitive advantage or become impediments to achievement of corporate goals. The process is described here and the table below provides a snapshot of our Principal Risks which are those classified as Critical or High Impact. It is noteworthy that Emissions has been reclassified as Critical from the previous year's classification as High Impact, in view of the urgent need for climate action.

Risk	Impact	Mitigating Factors/Activities	Net Risk Assessment
Availability of Water	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 maybe impacted by a prolonged drought.	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 m3 annually¹ 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 m2), well above flood alert levels for most other rivers in the country. Recycle water withdrawn from source for cooling and heating purposes Review operations to reduce water usage intensity Compliance with licensing requirements of the Central Environment Authority Refer page 86 of the Natural Capital segment for further information.	Assessment: High Based on rainfall patterns, investments in reducing water footprint, employee engagement and community engagement activities
Raw Material	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.	Broadbasing of suppliers and deepening relations to drive competitive advantage Ensure that suppliers of raw material have certifications for their manufacturing processes Quality control processes from receiving point to ensure a match with specifications Monitoring market trends for yarn, chemicals etc to ensure we receive competitive pricing Refer page 67 on Creating Value for Suppliers for further information.	Assessment: Low Based on supplier relationships, screening and quality control processes

Risk	Impact	Mitigating Factors/Activities	Net Risk Assessment
Energy	Energy is required at every stage of our manufacturing operations and has a direct impact on our carbon footprint and profitability	Review energy mix and decrease dependency on main grid Increased investments in renewable energy sources Investing in energy efficient machinery and equipment Driving cost leadership through energy management Continuous monitoring of energy intensity ratio to drive required action Investment made in LPG for dual fuel operations Refer page 84 of the Natural Capital segment for further information	Assessment: Low Based on continuous monitoring of energy intensity ratio and investments in renewable energy and upward trend in oil prices
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.	Establishment of worker management health and safety committees to ensure their views are understood and addressed Establishing safety procedures for all operations that present risks to employees and ensuring implementation of the same Maintaining and monitoring employee health and safety statistics Refer page 82 of the Human Capital Report for further information.	Assessment: Low Based on established structures, procedures, monitoring and review mechanisms
Employee Relations	Employee relations are a key concern as 69% are employed from the vicinity and 80% are members of politically allied trade unions as Hayleys Fabric recognizes the right to freedom of association	Open door policy for employees to discuss areas of concern Regular structured dialogue with union representatives to identify areas of concern Balanced HR policies applied in a consistent manner building trust with employees Communicating how personal goals are aligned with organization goals through an organization wide performance management system Refer page 73 of the Human Capital Report for further information.	Assessment: Low Based on established structures, procedures, monitoring and review mechanisms

Managing Risk

Risk	Impact	Mitigating Factors/Activities	Net Risk Assessment
Effluents & Waste	Effluents from our processes contain chemicals and are discharged to the river after treatment which can affect the community and the bio diversity of the surrounding area.	Investing in effluent treatment and solid waste management Monitoring quality of effluents on an hourly basis to ensure conformity with CEA requirements Residual sludge is dried, re-processed and serves as energy source Refer Natural Capital Report on page 90	Assessment: Low Based on investments and rigorous monitoring processes in place
Emissions	Directly impacts our carbon footprint, compliance with CEA license and the quality of air in the community.	Investments in energy efficient technology Investments in switching to low carbon intensity energy sources Managing energy mix to reduce emissions Continuous monitoring of emissions to ensure compliance with CEA requirements and certifications Refer Natural Capital Report on page 87 for more information	Assessment: Low Based on current requirements and plans in place for reducing the carbon footprint
Customer Satisfaction	Customer satisfaction is key to business growth	High levels of customer engagement to understand areas of concern Compliance with requirements and specifications Focus on innovation Monitoring customer rankings Customer survey Refer Creating Value for Customers on page 61	Assessment: Moderate Based on processes in place and adjusted to recognize the rapid pace of change in requirements

Risk	Impact	Mitigating Factors/Activities	Net Risk Assessment
Timely Delivery	Timely delivery is key to profitability as late delivery comes with penalties and loss of customer satisfaction	Increased inventory to facilitate shorter lead times Production scheduling to maximize capacity utilization and ensure timely delivery Quality control checks at each stage of the process to ensure compliance with specifications and timely delivery Monitoring delivery time compliance and penalties incurred, if any. Refer Creating Value for Customers on page 62	Assessment: Moderate Based on customer requirements, processes in place and adjusted to recognize the complexity of production scheduling
Product Responsibility	Product responsibility is critical to our reputation and growth	Compliance with regulatory and certification requirements Monitoring of customer complaints Supplier screening for financial, social and environmental criteria Quality control processes Refer Creating Value for Customers on pages 62 & 63	Assessment: Low Based on quality assurance processes in place
Employment, Local Community Relations, Market Presence & Indirect Economic Impacts	As the largest employer within a 15 km radius, the employment opportunities provided are critical for the socio economic progress of the community and an interdependency exists which requires continuous engagement with both employees and the local community	High levels of engagement with employees and community Robust employee and community value propositions to maintain an appropriate balance Building pride in the organization with employees and community Refer Human Capital Report and Creating Value for the Community on pages 72 and 65 respectively.	Assessment: Low Based on high levels of engagement with employees and community
Innovation	Our ability to innovate is key to growth and profitability	Monitoring of fashion trends to anticipate customer needs in developing own portfolio Investment in our own Design Centre with state of the art equipment Ability to attract and retain highly qualified and experienced talent to operate the Design Centre Continuous monitoring of performance to inspire and motivate these highly skilled employees	Assessment: High Based on the rapid pace of innovation in the industry

Managing Risk

Risk	Impact	Mitigating Factors/Activities	Net Risk Assessment
Marketing Communications	Marketing communications are key to growth requiring a fine balance that does not over promise while conveying our capability to potential and existing customers	Marketing communications are reviewed at Corporate Management level to ensure accuracy, integrity and appeal Monitoring fines, if any.	Assessment: Low Based on high level team engaged in the process and zero fines.
Transport	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's requirements.	Distance is factored in to the supplier selection criteria for orders Transport of hazardous chemicals is done under stringent conditions contracted with a third party provider with specialized capability to ensure safe transportation Employee transport provided by a third party evaluated for safe driving Workmen compensation cover extended to cover travel and from work	Assessment: Low Based on a track record with zero incidents in transport hazards
Government Policy	Government policies on foreign relations, interest rates, taxes, inflation, energy and wages has a direct impact on Hayleys Fabric's impacting operating margins, profitability and cash flows.	Rising inflation, interest rates and wages is monitored and strategies adjusted to minimize impact where possible. An example is the re-negotiation of interest rates on loans based on improved financial performance which has reduced finance costs. Joint industry action to promote favourable terms of trade with other countries	Assessment: Moderate 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.

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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- 2016/17

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 indicators in the Annual Report- 2016/17 ("the Report").

- Limited assurance on the information presented in the Report (General Standard Disclosures and Specific Standard Disclosures of the GRI Index pages 101 to page 105), prepared in accordance with the requirements of the Global Reporting Initiative G4 '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 G4 '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.

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 G4 'In accordance' - Core guidelines. This report is made solely to the Company in accordance with our engagement letter dated 20 March 2017. 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

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 N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal T P M Ruberu FCMA FCCA

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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 2017.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative G4 'In accordance' - Core guidelines.

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

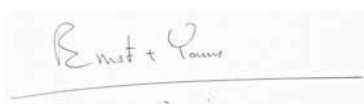
Limitations and considerations

Economic, 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 GRI-G4-'In accordance' Core Sustainability Reporting Guidelines.



Chartered Accountants

15th May 2017

Colombo

Report of the Audit Committee

The Audit Committee of Hayleys Fabric PLC is a Committee appointed by the Board of Directors.

This complies with the requirement of the Corporate Governance Rules as per section 7.10 of the Listing Rules of the Colombo Stock Exchange (CSE). The Audit Committee has conducted its affairs in compliance with the requirements of the Code of Best Practice on Audit Committee.

Terms of Reference

The powers and responsibilities of the Audit Committee are governed by the Audit Committee Charter which is approved and adopted by the Board. The purpose of the Committee is to assist the Board in fulfilling their oversight responsibilities that include the integrity of the Financial Statements, risk management, internal control, compliance with legal and other regulatory requirements, review of external and internal auditors' performance and independence.

Committee Composition

The Committee comprised of three (3) Independent Non-Executive Directors as below and this fulfilled the requirements of the Listing Rule No.7.10.6 of the Colombo Stock Exchange (CSE) throughout the financial year.

Mr. H. Somashantha (Chartered Accountant)	Chairman –Independent Non-Executive Director
Dr. N.S.J. Nawartha	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

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

Compliance with Financial Reporting

Audit Committee reviews quarterly and annual financial statements prior to publication

This also includes

- Evaluating the adequacy and appropriateness of Company's Accounting policies
- Reviewing Financial statements that are prepared in compliance with Company's Act No.7 of 2007, applicable Sri Lanka Accounting Standards (SLFRS/ LKAS) and the requirement of other regulations as applicable
- Reviewing appropriateness of significant judgments made by the Company
- Reviewing the other management reports submitted to the Committee

- Evaluating the Company's ability to continue as a going concern

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

Accordingly, the Committee has reviewed Audited Financial Statements, quarterly unaudited Financial Statements, all matters relating to internal controls, financial reporting with internal and external auditors and management.

Risk Management

The Audit Committee has reviewed risk management process of the Company and procedures adopted to manage and mitigate the effects of such risk. Further the Committee has identified key risks which have an impact on the operations and appropriate actions have been taken to mitigate their impact to the minimum extent.

Internal Audit

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

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

Audit Committee has met the Internal Auditors during the year under review and the following 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.

External Audit

The External Auditors of the Company, Messrs Ernst & Young, Chartered Accountants submitted a detailed audit plan for the year ended 31 March 2017 and prior to the year- end financial review, the Committee had meetings with the External Auditors along with Management, reviewed the scope, timelines of the audit plan and approach for the audit.

The External Auditors' reports with management responses for the year under review were tabled at the Audit Committee Meeting.

The Committee reviewed the non-audit services and its impact on the independence of the External Auditors and were satisfied that it has not been impaired by any event or service that gives rise to a conflict of interest.

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.

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.

Meetings

Four (4) Meetings were held during the year ended 31 March 2017. The attendance details are given on page 36

The Internal Auditors attended the meetings quarterly.

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 2017

Report of the Remuneration Committee

The Remuneration Committee of Hayleys Fabric PLC comprises of the following members all of whom are independent Non-Executive Directors. The Committee act as a sub-Committee to the Remuneration Committee of the Parent Company, Hayleys PLC.

Mr. A.S. Jayatilleka - Chairman

Mr. H. Somashantha

The Remuneration Committee in discharging their duties ensured that the following were adequately adhered to;

Complying with laws and best practices

- Ensured that the Executive Directors do not set their own remuneration.
- Ensured that they comply with any relevant legislation.

Establishing General Remuneration Policy

- Considered pay scales for directors, taking into consideration the remuneration offered by companies of similar nature.
- Considered the relationship that remuneration should have to measurable performance or enhanced shareholder value.
- Considered the significance of the remuneration towards measurable performance influencing share holder value.
- Considered when the directors should receive performance-related benefits.

Determining remuneration packages for each director

- Established remuneration packages that will attract, motivate & retain directors who will enhance shareholder value.
- Considered how different aspects of the packages are balanced.
- Considered what measures are used to assess the performance of individual directors.

Determining disclosure

- Considered what disclosures should be made in the remuneration committee report, in the accounts, and under the corporate governance section.



A.S. Jayatilleka
Chairman - Remuneration
Committee

15th May 2017

Report of the Related Party Transactions Review Committee

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

Composition of the Committee

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

The Committee comprises the following members.

Dr. H. Cabral**, PC - Chairman
Mr. M.Y.A. Perera** - (Appointed w e f. 12.09.2016)

Mr. S. C. Ganegoda *

Mr. M. D. S. Goonatilleke -
(Resigned w.e.f. 12.05.2016)

** Independent Non-Executive

*Executive

Attendance

Committee met – 04 times in the Financial Year 2016/2017

Meetings were held on 18th May 2016, 5th August 2016, 4th November 2016 and 9th February 2017.

	Meetings
Dr. H. Cabral, PC	4/4
Mr. M.Y.A. Perera	2/2
Mr. S. C. Ganegoda	3/4

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 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 and to recommend, where necessary, to the Board and obtain their approval prior to the execution of any related party transaction.
- To monitor that all related party transactions of the entity are transacted on normal commercial terms and are not prejudicial to the interests of the entity and its minority shareholders.
- Meet with the management, Internal Auditors/External Auditors as necessary to carry out the assigned duties.
- To review the transfer of resources, services or obligations between related parties regardless of whether a price is charged.
- To review the economic and commercial substance of both recurrent/non recurrent related party transactions

- To monitor and recommend the acquisition or disposal of substantial assets between related parties, including obtaining 'competent independent advice' from independent professional experts with regard to the value of the substantial asset of the related party transaction.

Task of the Committee

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

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



Dr. Harsha Cabral, PC.
Chairman

Related Party Transactions Review
Committee of Hayleys PLC

17th May 2017

Responsibility Statement of Managing Director/CEO and Chief Financial Officer

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

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

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

All applicable Sri Lanka Accounting Standards have been duly applied. The significant Accounting policies and estimates involving 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 a true and fair picture and the form and substance of transactions, and reasonably present the Company's State of affairs.

The Company has established a proper system of internal controls 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 think important.



E.R.P. Goonetilleke
Managing Director/CEO



Ruwan Rohitha Bandara
Chief Financial Officer

15th May 2017

Annual Report of the Board of Directors

General

The Board of Directors of Hayleys Fabric PLC has pleasure in presenting the Annual Report of the Company together with the Audited Financial Statements of the Hayleys Fabric PLC for the year ended 31 March 2017.

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 under the Companies Act No.07 of 2007.

Company's registration No. PQ 37 and the issued shares of the Company are listed on Colombo Stock Exchange (CSE) on April 2003.

Principal Activities

The principal activity of the Company is manufacturing knitted fabric. There were no significant changes in the activities of the Company in the year under review.

Vision, Mission and Values

The Company's Vision, Mission and Values are given on page 08 in the Annual Report. The Board of Directors and employees of the Company conduct their activities with the best level of ethical standards and integrity in order to achieve the vision and mission.

Review of Business Performance

Review of business performance for the year under consideration and future outlook of the Company is available in the Chairman's Message in pages 14 to 17, Managing Director's Operation

Review pages 18 to 23 and the section titled 'Business Report' pages 54 to 57.

The measures taken by the Company to manage its risks are given in detailed in the report titled 'Risk Management' on pages 96 to 100 of the Annual Report.

Financial Statements and Auditor's Report

The Financial Statements of the Company duly approved by the Directors and certified by the Chief Financial Officer of the Company are provided on pages 126 to 156 as per Sections 150, and 168 of the Companies Act.

Auditors' Report

The Company's External Auditors Messrs Ernst & Young –Chartered Accountants performed the audit on the Financial Statements for the year ended 31 March 2017 and the Auditors' Report on the Financial Statements is given on page 125 of the Annual Report as required by Section 163 (1) (c) of the Companies Act.

Accounting Policies

A summary of significant Accounting Policies adopted in the preparation of the Financial Statements is given pages 130 to 139 of the Annual Report as required by Section 168 (1) (d) of Companies Act.

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

Going Concern

After considering the financial position, operating conditions,

regulatory and other factors, the Directors of the Company have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future and thus adopted the going concern basis in preparing the Financial Statements.

Financial Results and Appropriations

Revenue

The gross revenue generated by the Company was USD 55,537,401 (USD 59,924,103). A breakup of revenue is given in note 18 to the Financial Statements.

Profit and appropriations

The profit after tax of the Company was USD 490,267 (USD 1,845,409) after reversing USD 76,944, for taxation (Reverse USD 32,445).

In addition, Company's total comprehensive income net of tax was USD 457,968 (USD 1,617,770).

The Company's cumulative loss inclusive of brought forward retained losses of USD 1,835,599 (USD 3,453,599) amounted to USD 1,418,583 (USD 1,835,599).

The Directors did not recommend any dividends for the year.

Taxation

A statement of the income tax rates applicable and calculation is given in note 23 to the Financial Statements. The Company has also made the appropriate provision/ (Reversal) of deferred tax as per the resulting temporary differences calculated under liability method, as prescribed by Sri Lanka

Annual Report of the Board of Directors

Accounting Standard-LKAS 12 “Income Taxes”.

Economic Service Charge (ESC) applicable to the Company was USD 273,653 (USD Nil) and paid USD 273,653 (USD 37,773) for the year ended 31 March 2017.

Corporate Donations

During the year donations amounting to USD 13,496 (USD 5,231) were made by the Company. Shareholders approved Rs.800,000/- as donations for the year 2016/17 at the last Annual General Meeting. The Company has donated USD 13,496 (Rs. 2,024,940/-) for the year 2016/17. Ratification of the excess amount of Rs. 1,224,940/- is sought by the Shareholders at this Annual General Meeting.

Stated Capital and Reserves

The Stated Capital of the Company as at 31 March 2017 was USD 17,561,761 (USD 17,561,761) consisting of 207,740,888 shares (207,740,888 shares).

Total reserves as at 31 March 2017 amounted to USD 23,706 (USD 434,262 negative) comprising capital reserve of USD 1,442,289 (USD 1,401,337) and revenue reserve of USD 1,418,583 negative (USD 1,835,599 negative). Movements of those reserves are shown in the Statement of Changes in Equity in the Financial Statements.

Property, Plant and Equipment and intangible assets

The carrying value of property, plant and equipment as at the date of statement of financial position

amounted to USD 24,585,809 (USD 22,609,219). Capital expenditure for the Company amounted to USD 3,874,916 (USD 2,934,198).

The carrying amount of intangible assets at the reporting date amounted to USD 247,207 (USD 487,545) and during the year the Company incurred USD Nil (USD 24,012) to acquire the intangible assets.

Detailed movements of property plant and equipment and intangible assets are shown in note 6 and 7 respectively to the Financial Statements.

Market value of freehold property

The Land owned by the Company is re-valued every two years unless the fair value of the Land changes significantly at each reporting date so that the carrying value of land does not differ materially to its market value. Re-valuation is done by professionally qualified independent valuers having appropriate experiences.

Details of the land and original cost are given in note 6 to the Financial Statements including the valuation method and effective date of valuations.

The Company records all other assets at cost and checks for any impairment and identifies any trigger for impairment.

Contingent Liabilities and Capital Commitments

The details of contingent liabilities and capital commitments as at 31 March 2017 have been disclosed

in note 26 to the Financial Statements.

Events after the Reporting period

No circumstances have arisen since the reporting date that would require adjustment to or other disclosure in the financial statements.

Risk Management

The Company activities were exposed to different types of risks and those have been disclosed on note 29 to these Financial Statements. In addition, the Company's risk management process is given in page from 96 to 100.

Statutory payments

The Directors to the best of their knowledge and belief are satisfied that all statutory payments have been paid up to date or have been provided for in these Financial Statements.

Internal Control

The Board of Directors reviewed the Company's system of internal controls and are satisfied with the effectiveness of those controls up to the date of signing the Financial Statements.

The Board of Directors' Report on Internal Controls is given in pages 119 & 120

Corporate Governance

The Board is committed towards maintaining an effective Corporate Governance Framework and implementing systems and structures required in order to maintain best practices. Company

has complied with the Listing Rules of the Colombo Stock Exchange (CSE) and the Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka (CASL) and Securities and Exchange Commission (SEC). The pages from 32 to 41 show the manner in which the Company has complied with those practices.

Environmental Protection

The Directors, to the best of their knowledge and belief, are satisfied that the Company has not engaged in any activities, which have caused adverse effects on the environment and it has complied with the relevant environmental regulations.

Compliance with Applicable Laws and Regulations

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.

Share information and Shareholdings

The market value of an Ordinary share of the Company as at 31 March 2017 was Rs.13.60 (Rs.18.00). Information relating to earnings, net assets and market value per share is given in page 160 of the Report.

The number of shareholders as at 31 March 2017 was 3,284 (2,836).

The list of top twenty shareholders of the Company as at 31 March

2017 is also given on page 117 of this Report.

Board of Directors

The Board of Directors of the Company are comprised as follows;

Directors	Status
Mr. A.M. Pandithage-Chairman	Executive
Mr. E.R.P. Goonetilleke-Managing Director/CEO	Executive
Mr. K.D.D.Perera	Non-Executive
Mr. S.C.Ganegoda	Non-Executive
Mr. H. Somashantha	Independent Non-Executive
Mr. R.N. Somaratne	Independent Non-Executive
Dr. N.S.J. Nawartne	Independent Non-Executive
Mr. A.S. Jayatilleka	Independent Non-Executive
Ms. Yogadinusha Bhaskaran (Alternative Director to Mr. K. D. D. Perera)	Non-Executive

The profile of the Directors are given on pages from 26 to 27 of the Annual Report.

1. Mr. K. D. D.Perera and Mr. H. Somashantha retire by rotation and be eligible offer themselves for re-election.

The Board has made a determination as to the independence of each Independent Non-Executive Director and confirms that four of the Non-Executive Directors meet the criteria for independence in

terms of Rule 7.10.4 of the Listing Rules.

Board Committee

The following Independent Non-Executive Directors served as members of the Audit Committee and Remuneration Committee

Audit Committee

Directors	Status
Mr. H. Somashantha	Chairman – Independent Non-Executive Director
Dr. N.S.J. Nawartne	Independent Non-Executive Director
Mr. A.S. Jayatilleka	Independent Non-Executive Director

Remuneration Committee

Directors	Status
Mr. A.S. Jayatilleka	Chairman – Independent Non-Executive Director
Mr. H. Somashantha	Independent Non-Executive Director

The Audit Committee and Remuneration Committee Reports are given in page 108 and page 110 of the Annual Report respectively.

Related Party Transactions Review Committee

The related party transactions of the Company during the financial year have been re-viewed by the Related Party Transactions

Annual Report of the Board of Directors

Re-view Committee of parent Company which also functions as Related Party Transaction Review Committee of the Company and are in compliance with the Section 09 of the CSE Listing Rules.

Directors' Shareholding

The Shares held by Directors and their spouses in the Company are as follows;

of the Colombo Stock Exchange that the transactions carried out by the Company with its Related Parties during the financial year ended 31 March 2017, did not exceed 10% of equity or 5% of the total assets of the Company.

Related Party transactions of the Company have been disclosed in note 25 to the Financial Statements.

	Number of Shares	
	As at 31/03/2017	As at 01/04/2016
Mr. A.M. Pandithage- Chairman	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. Somaratne	25,000	25,000
Dr. N.S.J. Nawartne	Nil	Nil
Mr. A.S. Jayatileka	Nil	Nil
Ms. Yogadinusha Bhaskaran (Alternate Director to Mr. K.D.D.Perera)	Nil	Nil

** Mr. K.D.D. Perera holds 50.44% directly and indirectly of the total issued shares of Hayleys PLC which has 122,487,023 shares in Hayleys Fabric PLC.

Directors' Meeting Attendance

Directors' Board meeting and Audit Committee attendances were given in page 36.

Interest Register

The Company maintains an Interest Register in compliance with Companies Act No.7 of 2007.

Directors' Interest in Transactions

The Directors declared in terms of the requirement of the Listing Rules

Policy No.	P/233108/2006/1
Limit of Liability	USD 5,000,000
Policy Premium	LKR 4,470,000
Coverage	Worldwide
Period	01/06/2016-31/05/2017

Human Resources

The number of employees in the Company as at 31 March 2017 was 1,012 (2016-1,059).

The Company is committed to pursuing various Human Resources Development initiatives that ensure the employees' development across all levels and facilitating the value creation to employees themselves, the Company and all other stakeholders.

Auditors

The Company's Auditors during the year under review were Messrs Ernst & Young, Chartered Accountants and their independent Audit Report is given on page 125 of the Annual Report.

Audit Committee reviews the appointment of the Auditors, its effectiveness and independence including the level of audit and non-audit fees paid to the Auditors.

Total amount paid to the Auditors for audit and non-audit professional works have been shown in note 22 to the Financial Statements. The Auditors do not have any relationship other than that of an Auditor with the Company.

Further details on the work of the Auditor and the Audit Committee are set out in the Audit Committee Report.

Directors' Remunerations

The Executive Directors' remuneration for the year ended 31 March 2017 is disclosed in note 22 to the Financial Statements. Total fees paid to Non-Executive Directors for the same year ended is USD 17,222 (USD 13,221) which is determined as per the scales of payments decided by the Board.

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 (D&O) of the Company.

The retiring Auditors have expressed their willingness to continue in office and are deemed re-appointed as Auditors in term of section 158 of the Companies Act No.07 of 2007.

A Resolution to re-appoint them as Auditors of the Company and authorizing the Directors to determine their remuneration will be submitted at the forthcoming Annual General Meeting.

Annual Report

The information provided in this report is in pursuance of the requirements of the Companies Act No.07 of 2007 and the Listing Rules of the Colombo Stock Exchange.

The Board of Directors have approved the Audited Financial Statements of the Company together with the Reviews and other Reports which form part of

the Annual Report on 15th May 2017. The appropriate number of copies of the Annual Report would be submitted to the Colombo Stock Exchange, the Sri Lanka Accounting and Auditing Standards Monitoring Board and the Registrar of Companies, within the applicable time lines.

Major Shareholdings

The twenty major shareholders and the percentage held by each are as follows;

FIRST TWENTY SHAREHOLDERS AS AT 31/03/2017

	Name of Shareholder	Number of Shares As at 31/03/17	%	Number of Shares As at 31/03/16	%
1	HAYLEYS PLC NO 3 SHARE INVESTMENT ACCOUNT	122,487,023	58.96	122,487,023	58.96
2	THE CEYLON INVESTMENT PLC A/C # 02	11,265,372	5.42	11,265,372	5.42
3	THE CEYLON GUARDIAN INVESTMENT TRUST PLC A/C # 02	10,883,750	5.24	10,883,750	5.24
4	EMPLOYEES PROVIDENT FUND	5,540,727	2.67	5,540,727	2.67
5	HAYLEYS ADVANTIS LIMITED	5,036,850	2.42	5,036,850	2.42
6	HAYLEYS AGRICULTURE HOLDINGS LIMITED	3,472,257	1.67	3,472,257	1.67
7	THE CEYLON CHAMBER OF COMMERCE ACCOUNT NO 02	2,550,792	1.23	2,550,792	1.23
8	ROSEWOOD (PVT) LTD - ACCOUNT NO.01	2,378,721	1.15	154,636	0.07
9	MR.A.N.ESUFALLY	1,815,000	0.87	361,700	0.17
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)	1,628,934	0.78	1,628,934	0.78
12	EAST INDIA HOLDING (PVT) LTD	1,627,385	0.78	1,708,000	0.82
13	THE SRI LANKA FUND	986,132	0.47	1,036,132	0.50
14	MRS.M.T.MOOSAJEE	974,824	0.47	974,824	0.47
15	FREUDENBERG SHIPPING AGENCIES LIMITED	841,786	0.41	841,786	0.41
16	BANK OF CEYLON A/C NDB WEALTH GROWTH FUND	774,565	0.37	774,565	0.37
17	BANK OF CEYLON NO.01 ACCOUNT	774,098	0.37	200,000	0.10
18	MR.G DANGAMPOLA & MRS.N.P.DANGAMPOLA	773,077	0.37	760,077	0.37
19	MR.K.A.S.R NISSANKA	700,100	0.34	700,100	0.34
20	DEUTSCHE BANK AG AS TRUSTEE FOR GUARDIAN ACUITY EQUITY FUND	631,869	0.30	671,869	0.32
	Total	176,943,262	85.17	172,849,394	83.20

Annual Report of the Board of Directors

As at 31 March 2017, there were 3,284 (2,836) registered shareholders. The percentage of shares held by public as per the Colombo Stock Exchange Rules at 31 March 2017 was 36.92 % (36.67%). Number of shareholders representing the public holding as at 31 March 2017 was 3,278 (2,829).

The issued number of shares of the Company

As at 31.03.2017 - 207,740,888

As at 31.03.2016 - 207,740,888

Annual General Meeting

The Annual General Meeting will be held at the Registered Office of the Company, No.400, Deans Road, Colombo 10 at 3.00 pm on 26th June 2017. The notice of the Annual General Meeting appears on page 161.

Acknowledgement of the Contents of the Report

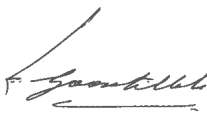
As required by Section 168 (1) (k) of the Companies Act No.7

of 2007, the Board of Directors hereby acknowledge the contents of this Report.

For and on behalf of the Board



A. M. Pandithage
Chairman



E. R. P. Goonetilleke
Managing Director



Hayleys Group Services (Pvt) Ltd
Secretaries

15th May 2017

Board of Directors' Statement on Internal Control

The Board is responsible for the internal control of the Company, with the aim of safeguarding the Company's assets and thus the interests of the shareholders. Through a sound system of internal controls, the Board ensures the reliability of financial reporting and its compliance with legislation, regulations, applicable accounting policies and the Company's business principles. All communication and financial reporting is to be correct, relevant, objective and transparent.

Control environment

The control environment includes the internal governance instruments adopted by the Board for the Company's daily operations. These control mechanisms comprise policy documents, which are continuously assessed, reviewed and updated.

Control structure

The control structure is based on the Board, the Audit Committee and the Chairman, and the division of duties and responsibilities between these parties.

The Board is responsible for ensuring that the Company's organization structure is logical and transparent, with clearly defined roles, responsibilities and processes. The work of the Board is also covered by processes and formal work plans, with a clear internal distribution of tasks. The Board has overriding responsibility for financial reporting, among other things, and must therefore assess the performance and earnings of the operations through a package of reports including results, forecasts and analyses of Key Performance Indicators (KPIs). The

Board also reviews the Company's interim reports and year-end report

The Board's Audit Committee is tasked with ensuring compliance with the principles for financial reporting and internal control.

It follows up the effectiveness of the internal control system and reviews the financial procedures to ensure that the information can be traced back to underlying financial systems and that it is in line with legislation and relevant standards. It examines procedures for reporting and financial controls, as well as addressing the Company's financial reports. The Committee also monitors, evaluates and discusses significant issues in the areas of accounting and financial reporting. It evaluates and manages information pertaining to disputes and potential improprieties, as well as assists management with identifying and evaluating mainly financial and similar risks that are relevant to the operations in order to ensure that the focus is on managing these risks.

The Audit Committee has also the right to determine the focus of the internal audit and examines the work, qualifications and independence of the external auditors. Reports are provided to the Board regarding internal meetings, as well as meetings with the internal auditors, the external auditors.

The Managing Director/CEO is subject to instructions issued by the Board and is responsible for ensuring an effective control environment.

The Managing Director/CEO is also responsible for the ongoing control work and for ensuring that the Company's accounting complies with legislation and that the management of assets is adequately performed.

Senior management is responsible for managing and maintaining the internal control systems required to manage significant risks in the Company's operating activities.

Management is also responsible for clearly ensuring that all employees understand the requirements for and the individual's role in maintaining sound internal control.

The internal control process is mainly followed up by two bodies: the Audit Committee and the Internal Audit function. The Audit Committee establishes the principles that apply for the Company with respect to accounting and financial reporting, and monitors compliance with these regulations. The Committee meets with the external auditors to obtain information about the focus and scope of the audit and to discuss results and coordination of the external and internal audits.

In addition, the Committee establishes the direction, scope and time schedules for the work of the Company's internal auditors, Hayleys Management Audit and System Review Department (HMA and SRD) whose audits are reported directly to the Audit Committee.

The scope of the internal audit includes, among other factors, operational efficiency, compliance with regulations and guidelines,

Board of Directors' Statement on Internal Control

and the quality of financial reporting of the Company and effectiveness of Internal controls that are already in place.

The Internal Auditors also issue reports from individual audits to the appropriate members of the Company's management.

Procedures are in place for performing regular reviews of the agreed actions to ensure that recommended actions are taken following the internal audit. These are based on an agreed schedule set with the party responsible for the individual activities.

Internal audits encompass a broad spectrum of functions and issues determined by the Board. The areas audited include: compliance with the systems, guidelines, policies and processes established for the Company's business operations; the existence of systems to ensure that financial transactions are carried out, archived and reported in an accurate and lawful manner; and opportunities to improve management control, the Company's profitability and the organization, which may be identified during audits. For the year ended 31 March 2017, 4 internal audits were performed which covered significant areas of the Company.

Risk assessment

Within the framework of the Company's operating activities and review functions, procedures are in place for risk assessments pertaining to the financial reporting. These procedures aim to identify and evaluate the risks that may affect internal control.

The procedures encompass risk assessments in conjunction with strategic planning and acquisition activities, as well as processes for identifying amendments to the accounting policies to ensure that they are accurately reflected in the financial reporting.

Control systems are in place in all areas of the Company in order to prevent, identify and adjust errors or deviations. The Company manages the risks that the Board and management consider to be significant to the business operations, internal control and financial reporting. These structures comprise both an organization with clearly defined roles that enables an effective and – from an internal control perspective – appropriate division of responsibility, and specific control activities that enable the identification and timely prevention of risks becoming a reality.

Information and communication

The Company's regulations, guidelines and manuals are communicated through several internal channels and the efficiency of this communication is monitored on an ongoing basis. There are formal and informal information channels that enable employees to communicate important information to relevant recipients and ultimately, if necessary, to the Board of Directors. Clear guidelines have also been established for external communications, the aim of which is to provide the most accurate overview possible while at the same time ensuring that all obligations with regard to information are met.

Confirmation

The Board of Directors of Hayleys Fabric PLC confirm that the financial reporting and internal control systems have been designed to provide reasonable assurance on financial reporting and those Financial Statements have been prepared in accordance with applicable Sri Lanka Accounting Standards (SLFRSs/ LKASs) and other applicable regulatory requirements.



E.R.P. Goonetilleke
Managing Director



H. Somashantha
Chairman – Audit Committee



Ruwan Rohitha Bandara
Chief Financial Officer

15th May 2017

Statement of Directors' Responsibilities for Financial Statements

The responsibility of the Directors in relation to the Financial Statements of the Hayleys Fabric PLC is set out in this statement. The responsibility of the Auditors, in relation to the Financial Statements prepared in accordance with the provisions of the Companies Act, No.7 of 2007, is given in the Independent Auditors' Report on page 125 of the Annual Report.

The Financial Statements of the Company comprises of

- A Statement of Profit or Loss and Other Comprehensive Income which represents a true and fair view of the profit or loss and Other Comprehensive Income of the Company
- A Statement of Financial Position which represents a true & fair view of the state of affairs of the Company at 31 March 2017.

In preparing above Financial Statements, the Directors are required to ensure that;

- The Company has complied with all applicable Sri Lanka Accounting Standards (SLFRSs/ LKASs)
- Listing rules of the Colombo Stock Exchange are complied with.
- Appropriate Accounting policies have been selected and applied consistently and any deviations if any, have duly been disclosed.
- Reasonable and prudent judgments and estimates have been made.

As per the provisions of the Company Act No.7 of 2007, the Directors of the Company require to prepare Financial Statements which give a true & fair view of the state of affairs of the Company as at the end of the financial year, profit or loss, cash flows of the Company for the year ended 31 March 2017.

Therefore, the Directors confirm that the Financial Statements of the Company for the year ended 31 March 2017 have been prepared in accordance with the Sri Lanka Accounting and Auditing Standards Act No.15 of 1995, The Companies Act No.7 of 2007 and has duly provided the information required by and otherwise complied with the Listing Rules of the Colombo Stock Exchange (CSE) and the Code of best practice of Corporate Governance issued jointly by the CA Sri Lanka and the Securities and Exchange Commission of Sri Lanka (SEC).

The Financial Statements have been prepared on a going concern basis as the Directors are of the view that the Company has adequate resources to continue operations for the foreseeable future from the date of signing these Financial Statements.

The Directors are required to provide the Auditors with every opportunity to take whatever steps necessary to enable them to form their independent opinion.

The External Auditors Messrs Ernst & Young Chartered Accountants, have examined the Financial Statements together with all financial records and related

information. Their opinion on Financial Statements is given on page 125

The Board of Directors accepts responsibility for integrity and objectivity of the Financial Statements.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and to establish proper internal control systems with a view to preventing and detecting fraud and other irregularities.

The Directors are also 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 applicable taxes, duties and levies payable by the Company and all contributions, levies and taxes payable on behalf of the employees of the Company and all other known statutory dues as were due and payable by the Company as at the end of the reporting period have been paid or provided for, except as specified in note 26 to the Financial Statements covering contingent liabilities.

By order of the Board

Hayleys Group Services (Pvt) Ltd
Secretaries

15th May 2017

The background features a light gray gradient with a network of thin gray lines. Three dots (orange, purple, and green) are positioned at different points, with lines radiating from them. On the right side, there is a vertical strip showing a stack of colorful fabrics or papers in shades of orange, purple, and blue.

Financial Statements



Financial Reports

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Statement of Changes in Equity	128
Statement of Cash Flows	129
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Corporate Information	IBC

Financial Calendar 2016/17

1st Quarter Report	1st August 2016
2nd Quarter Report	2nd November 2016
3rd Quarter Report	1st February 2017
4th Quarter Report	15th May 2017
Annual Report 2016/17	1st June 2017
25th Annual General Meeting	26th June 2017

Independent Auditor's Report



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

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
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eysl@lk.ey.com
ey.com

TO THE SHAREHOLDERS OF HAYLEYS FABRIC PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Hayleys Fabric PLC which comprise the statement of financial position as at 31 March 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply

with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion:
 - 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,
 - The financial statements of the Company comply with the requirements of section 151(2) of the Companies Act No. 07 of 2007.

15th May 2017

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 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		2017	2016
	Note	USD	USD
ASSETS			
Non-Current Assets			
Property, plant and equipment	6	24,585,809	22,609,219
Intangible assets	7	247,207	487,545
		24,833,016	23,096,764
Current Assets			
Inventories	8	11,207,843	10,029,150
Trade receivables	9	6,928,230	6,996,694
Other receivables	10	1,117,430	1,095,638
Advances and prepayments	11	1,222,770	325,148
Cash and cash equivalents	12	1,466,049	1,203,029
		21,942,322	19,649,659
Total Assets		46,775,338	42,746,423
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated capital	13	17,561,761	17,561,761
Revaluation reserve		1,442,289	1,401,337
Retained losses		(1,418,583)	(1,835,599)
Total Equity		17,585,467	17,127,499
Non-Current Liabilities			
Interest bearing loans and borrowings	14	6,213,954	1,969,958
Deferred tax liabilities	23.2	1,193,714	1,301,772
Retirement benefit obligations	15	2,196,587	1,923,472
		9,604,255	5,195,202
Current Liabilities			
Trade and other payables	16	5,292,100	4,726,510
Interest bearing loans and borrowings	14	13,472,777	14,848,702
Amounts due to Hayleys PLC		45,410	45,244
Income tax payable		31,657	115,688
Other non financial liabilities	17	743,672	687,578
		19,585,616	20,423,722
Total Equity and Liabilities		46,775,338	42,746,423

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

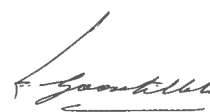


Ruwan Rohitha Bandara
Chief Financial Officer

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



A.M.Pandithage
Chairman



E.R.P.Goonetilleke
Managing Director

Colombo

15th May 2017

The accounting policies and notes on pages 130 through 156 form an integral part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

As at 31 March		2017	2016
	Note	USD	USD
Revenue	18	55,537,401	59,924,103
Cost of Sales		(49,044,172)	(52,370,449)
Gross Profit		6,493,229	7,553,654
Other Operating Income	19	35,590	20,329
Administrative Expenses		(4,706,240)	(4,076,487)
Distribution Expenses		(471,881)	(618,409)
Other Expenses	20	(4,021)	(231,097)
Net Financing Costs	21	(933,354)	(835,026)
Profit Before Tax		413,323	1,812,964
Income Tax Reversal	23	76,944	32,445
Profit for the Year		490,267	1,845,409
Other Comprehensive Income not to be reclassified to profit or loss			
- Surplus on revaluation of land	6.8	40,952	-
- Actuarial loss on defined benefit plans	15	(83,240)	(258,681)
- Income tax effect	23.2	9,989	31,042
Total Comprehensive Income, Net of Tax		457,968	1,617,770
Basic / Diluted Earnings per Share	24	0.002	0.009

The accounting policies and notes on pages 130 through 156 form an integral part of these financial statements.

Statement of Changes in Equity

Year ended 31st March 2017	Stated capital USD	Revaluation reserve USD	Retained earnings/(losses) USD	Total USD
Balance as at 1st April 2015	17,561,761	1,401,337	(3,453,369)	15,509,729
Profit for the year	-	-	1,845,409	1,845,409
Other comprehensive income	-	-	(227,639)	(227,639)
Total comprehensive income		-	1,617,770	1,617,770
Balance as at 31st March 2016	17,561,761	1,401,337	(1,835,599)	17,127,499
Profit for the year	-	-	490,267	490,267
Other comprehensive income	-	40,952	(73,251)	(32,299)
Total comprehensive income		40,952	417,016	457,968
Balance as at 31st March 2017	17,561,761	1,442,289	(1,418,583)	17,585,467

The accounting policies and notes on pages 130 through 156 form an integral part of these financial statements.

Statement of Cash Flows

Year ended 31st March		2017	2016
	Note	USD	USD
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		413,323	1,812,964
Adjustments for			
Depreciation on property, plant and equipment	6	1,923,910	1,812,300
Amortization of Intangible Assets	7	240,338	237,744
Provision for retiring gratuity	15	288,574	226,027
Net unrealised gain on translation of foreign currency		(41,030)	(369,220)
Net finance costs		753,257	750,438
(Profit)/loss on disposal of property, plant and equipment		4,021	(1,935)
Loss on impairment of Property, Plant and Equipment		-	231,097
Debtors / Creditors write back		(35,590)	(18,394)
Impairment charge/ (reversal) for bad and doubtful debts		(5,396)	7,947
Impairment charge/ (reversal) for slow moving inventories		137,191	(60,198)
Operating Profit before Working Capital Changes		3,678,598	4,628,770
(Increase)/Decrease in trade and other receivables		(17,498)	(310,776)
(Increase)/Decrease in advances and prepayments		(77,695)	113,685
(Increase)Decrease in inventories		(1,315,884)	988,934
Increase/(Decrease) in trade and other payables and other non financial liabilities		705,551	(2,023,254)
Cash Generated from Operations		2,973,072	3,397,359
Retiring gratuity paid	15	(57,632)	(29,430)
Interest paid		(725,671)	(724,037)
Economic service charge paid		(273,653)	(37,773)
Net Cash Flows From Operating Activities		1,916,116	2,606,119
Cash Flows From / (Used in) Investing Activities			
Purchase and construction of property, plant and equipment		(4,532,477)	(2,724,034)
Proceeds from disposal of property, plant and equipment		11,346	6,871
Purchase of Intangible Assets		-	(24,012)
Interest received		-	6,444
Net Cash Flows Used in Investing Activities		(4,521,131)	(2,734,731)
Cash Flows from / (Used in) Financing Activities			
Proceeds from new term loans		8,000,000	1,579,052
Repayment of term loans	14	(5,060,633)	(3,999,592)
Net Cash Flows From /(Used in) Financing Activities		2,939,367	(2,420,540)
Net Increase /(Decrease) in Cash and Cash Equivalents		334,353	(2,549,151)
Cash and Cash Equivalents at the beginning of the year	12	(10,001,983)	(7,452,832)
Cash and Cash Equivalents at the end of the year	12	(9,667,630)	(10,001,983)

The accounting policies and notes on pages 130 through 156 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 2016.

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 Cash Flow Statement 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.

Impairment of Non-Financial Assets

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

Deferred Tax

Deferred Tax Assets as reflected in Note 23.2 are recognized for 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

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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
Plant and Machinery *	15- 20 years
Factory and Office Equipment **	6 2/3 years
Motor Vehicles	5 years
Furniture and Fittings	6 2/3 years

*Includes Water Treatment Plant

**Includes safety, medical & bungalow equipment

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 the expense category consistent with the function of the intangible assets.

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

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 selling expenses.

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

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

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
- 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 the debtors 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.

If there is objective evidence that an impairment loss has been incurred, 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. The Company determines the classification of its financial liabilities at initial recognition.

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

Notes to the Financial Statements

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 on the following basis:

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 amounts of deferred tax assets are 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

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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. However, the Company will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under SLFRS 9.

(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 expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Company expects a marginal increase in the impairment recorded due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including

forward-looking elements to determine the extent of the impact.

(c) Hedge accounting

The Company does not have carry have 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. During 2016, the Company performed a preliminary assessment of SLFRS 15, which is subject to changes arising from a more detailed ongoing analysis.

The Company 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 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 to 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.

Presentation and disclosure requirements

SLFRS 15 provides presentation and disclosure requirements, which are more detailed than under current SLFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in Company's financial statements. Many of the disclosure requirements in SLFRS 15 are completely new. During the year, the Company developed and started testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

LKAS 7 Disclosure Initiative – Amendments to LKAS 7

The amendments to LKAS 7 Statement of Cash Flows require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Company.

LKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to LKAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any significant impact on the Company.

SLFRS 16 Leases

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 (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). 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. Lessor accounting under SLFRS 16 is substantially unchanged from today's accounting under LKAS 17. Lessors will continue to classify all leases using the same classification principle as in LKAS 17 and distinguish between two types of leases: operating and finance leases.

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 2017, the Company plans to assess the potential effect of SLFRS 16 on its consolidated financial statements.

Notes to the Financial Statements

6. PROPERTY, PLANT & EQUIPMENT

6.1 Gross Carrying Amounts

	As at 01.04.2016 USD	Revaluation USD	Additions/ Transfers USD	Disposals/ Transfers/ USD	As at 31.03.2017 USD
<i>At valuation</i>					
Freehold Land	2,453,601	40,952	279,255	-	2,773,808
<i>At cost</i>					
Buildings	5,874,800	-	-	-	5,874,800
Water Treatment Plant	2,190,854	-	30,875	-	2,221,729
Plant and Machinery	29,430,044	-	1,412,962	(292,177)	30,550,829
Motor Vehicles	1,101	-	-	-	1,101
Furniture and Fittings	1,265,365	-	10,442	(1,522)	1,274,285
Office Equipment	264,954	-	11,385	-	276,339
Computers	389,898	-	39,128	(743)	428,283
Factory Equipment	3,115,090	-	222,320	(7,718)	3,329,692
Safety and Medical Equipment	190,483	-	6,831	-	197,314
Bungalow Equipment	8,364	-	-	(101)	8,263
Total Value of Depreciable Assets	45,184,554	40,952	2,013,198	(302,261)	46,936,443

6.2 In the course of construction

	As at 01.04.2016 USD	Impairment for the Year USD	Incurred during the year USD	Transfers USD	As at 31.03.2017 USD
Work in Progress	4,778	-	3,382,651	(1,520,933)	1,866,496
Total gross carrying amount	45,189,332	-	5,395,849	(1,823,194)	48,802,939

6.3 Depreciation

	Balance As at 01.04.2016 USD	Impairment for the Year USD	Charge for the Year USD	Disposals/ Transfers USD	Balance As at 31.03.2017 USD
<i>At Cost</i>					
Buildings	2,033,887	-	146,870	-	2,180,757
Water Treatment Plant	1,324,756	-	78,508	-	1,403,264
Plant and Machinery	15,103,794	-	1,363,110	(277,506)	16,189,398
Motor Vehicles	1,101	-	-	-	1,101
Furniture and Fittings	984,668	-	78,821	(1,522)	1,061,967
Office Equipment	239,485	-	8,154	-	247,639
Computers	251,966	-	37,647	(46)	289,567
Factory Equipment	2,460,594	-	206,414	(7,718)	2,659,290
Safety and Medical Equipment	171,981	-	4,108	-	176,089
Bungalow Equipment	7,881	-	278	(101)	8,058
Total Depreciation	22,580,113	-	1,923,910	(286,893)	24,217,130

6.4 Net Book Values

Year ended 31st March	2017 USD	2016 USD
At Cost		
Freehold Land	2,773,808	2,453,601
Buildings	3,694,043	3,840,913
Water Treatment Plant	818,465	866,098
Plant and Machinery	14,361,431	14,326,250
Motor Vehicles	-	-
Furniture and Fittings	212,318	280,697
Office Equipment	28,700	25,469
Computers	138,716	137,932
Factory Equipment	670,402	654,496
Safety and Medical Equipment	21,225	18,502
Bungalow Equipment	205	483
	22,719,313	22,604,441
In the course of construction		
Work in Progress	1,866,496	4,778
Total carrying amount of property, plant and equipment	24,585,809	22,609,219

6.5 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of USD 3,874,916 (2016 - USD 2,934,198). Cash payments amounting to USD 4,532,477 (2016 - USD 2,724,033) 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 7,031,225 which are still in use. (2016 - USD 6,664,630).

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 marker 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 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 - Rs. 70,000 a perch.

Land extent of 20.2 acres of Land in Anguruwatota - 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 (2016 - USD 1,052,264)

Notes to the Financial Statements

7. INTANGIBLE ASSETS

	2017 USD	2016 USD
Software		
Cost		
At beginning of the year	1,249,276	1,225,264
Acquisitions	-	24,012
At end of the year	1,249,276	1,249,276
Amortization		
At beginning of the year	(761,731)	(523,987)
Amortization	(240,338)	(237,744)
At end of the year	(1,002,069)	(761,731)
Net Book Value	247,207	487,545

8. INVENTORIES

	2017 USD	2016 USD
Raw materials	3,820,195	3,927,126
Less : Impairment for slow moving items	(235,697)	(222,494)
	3,584,498	3,704,632
Work-in-progress	4,324,321	3,324,022
Less : Impairment for slow moving items	(216,725)	(122,816)
	4,107,596	3,201,206
Finished goods	1,073,494	1,016,891
Less : Impairment for slow moving items	(185,256)	(176,284)
	888,238	840,607
Stock consumables	2,648,618	2,303,812
Less : Impairment for slow moving items	(21,107)	(21,107)
	2,627,511	2,282,705
	11,207,843	10,029,150

9. TRADE RECEIVABLES

	2017 USD	2016 USD
Related party	-	-
Others	7,068,518	7,142,378
Less : Impairment loss recognised (9.2)	(140,288)	(145,684)
	6,928,230	6,996,694

9.1 The aging analysis of trade receivables is as follows:

		Neither past due nor impaired	Past due					Total
			0 - 60 days	61-120 days	121-180 days	181-365 days	> 365 days	
As at 31/03/2017	Related party	-	-	-	-	-	-	-
	Others	3,584,354	2,925,160	358,039	62,753	-	138,212	7,068,518
	Total	3,584,354	2,925,160	358,039	62,753	-	138,212	7,068,518
As at 31/03/2016	Related party	-	-	-	-	-	-	-
	Others	3,670,835	3,129,850	193,819	689	3,004	144,182	7,142,378
	Total	3,670,835	3,129,850	193,819	689	3,004	144,182	7,142,378

See note 29 on credit risk of trade receivables, which explains how the Company manages and measures credit quality of trade receivables that are neither past due nor impaired.

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

	2017 USD	2016 USD
Balance as at the beginning of the year	145,684	137,737
Impairment loss recognized during the year	-	7,947
Reversal of previously recognized impairment loss	(5,396)	-
Balance as at the end of the year	140,288	145,684

10. OTHER RECEIVABLES

	2017 USD	2016 USD
VAT recoverable	496,383	587,806
Claim receivable	7,595	7,154
WHT recoverable	10,105	10,333
ESC recoverable	477,566	318,386
Staff loans & advances	6,628	18,726
Deposits	119,153	105,902
Other receivables	-	47,331
	1,117,430	1,095,638

Notes to the Financial Statements

11. ADVANCES AND PREPAYMENTS

	2017	2016
	USD	USD
Advances paid to suppliers	1,116,448	281,140
Other prepayments	106,322	44,008
	1,222,770	325,148

12. CASH AND CASH EQUIVALENTS IN CASH FLOW STATEMENT

Components of Cash and Cash Equivalents

12.1 Favourable Cash and Cash Equivalent Balance

	2017	2016
	USD	USD
Cash and Bank Balances	1,466,049	1,203,029
	1,466,049	1,203,029

12.2 Unfavourable Cash and Cash Equivalent Balance

	2017	2016
	USD	USD
Bank Overdraft (Note 14)	(743,940)	(650,457)
Short term loans	(3,200,000)	(3,500,000)
Import loans	(7,189,739)	(7,054,555)
	(11,133,679)	(11,205,012)
Total cash and cash equivalent balance for the purpose of cash flow statement	(9,667,630)	(10,001,983)

13. STATED CAPITAL

	2017		2016	
	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

	2017		2016	
	Number	USD	Number	USD
Balance at beginning of the year	207,740,888	17,561,761	207,740,888	17,561,761
Issued during the year	-	-	-	-
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.

14. INTEREST BEARING LOANS AND BORROWINGS

	31.03.2017			31.03.2016		
	Amount Repayable Within 1 Year	Amount Repayable After 1 Year	Total	Amount Repayable Within 1 Year	Amount Repayable After 1 Year	Total
	USD	USD	USD	USD	USD	USD
Term loans (Note 14.1)	2,339,098	6,213,954	8,553,052	3,643,690	1,969,958	5,613,648
Short term loans	3,200,000	-	3,200,000	3,500,000	-	3,500,000
Import loans	7,189,739	-	7,189,739	7,054,555	-	7,054,555
Bank overdraft	743,940	-	743,940	650,457	-	650,457
	13,472,777	6,213,954	19,686,731	14,848,702	1,969,958	16,818,660

14.1 Term loans

	2017 USD	2016 USD
Balance at the beginning of the year	5,613,648	8,038,740
New loans obtained	8,000,000	1,579,052
Repayments	(5,060,633)	(3,999,592)
Effect of movements in exchange rates	37	(4,552)
Balance at the end of the year	8,553,052	5,613,648

14.2 Maturity 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 31.03.2017	1,709,387	8,388,661	3,374,729	6,213,954	-	19,686,731
Total Interest bearing borrowings- As at 31.03.2016	650,457	10,899,804	3,298,441	1,969,958	-	16,818,660

15. RETIREMENT BENEFIT LIABILITY

	2017 USD	2016 USD
Retirement Benefit Obligation - Gratuity		
At beginning of the year	1,923,472	1,656,995
Effects of movement in exchange rate	(41,068)	(188,801)
Benefits paid by the plan	(57,632)	(29,430)
Current service cost	83,390	69,237
Interest cost	205,185	156,790
Actuarial losses recognized directly in Other Comprehensive Income	83,240	258,681
At end of the year	2,196,587	1,923,472

Notes to the Financial Statements

15.1 Expenses recognised in the Statement of Profit or Loss

	2017	2016
	USD	USD
Current service cost	83,390	69,237
Interest cost	205,185	156,790
	288,575	226,027

15.2 Legal Liability as at 31st March

	2017	2016
	USD	USD
	1,604,040	1,367,046

15.3 The Gratuity liability as at 31st March 2017 is based on an actuarial valuation carried out by NMG Consulting, a firm of professional actuaries.

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

	2017	2016
	USD	USD
Rate of discount	12%	11%
Salary increase	11%	10%
Retirement age	60 Years	60 Years
Weighted average remaining working life	8.4 Years	9.4 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 is as follows:

	Salary increment rate		Discount rate	
	1% Increase	1% decrease	1% Increase	1% decrease
	USD	USD	USD	USD
As at 31st March 2017	205,972	(183,548)	(181,038)	206,650
As at 31st March 2016	202,555	(178,508)	(176,007)	203,183

16. TRADE AND OTHER PAYABLES

	2017	2016
	USD	USD
Trade Payables		
- Related Parties (16.2)	76,235	40,054
- Others	5,032,986	4,605,867
Other Payables	182,879	80,589
	5,292,100	4,726,510

16.1 Aging Analysis for Trade and Other Payables.

		On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
		USD	USD	USD	USD	USD	USD
31.03.2017	Related party	25,800	50,360	75		-	76,235
	Others	718,319	4,090,081	199,410	55,633	152,422	5,215,865
	Total	744,119	4,140,441	199,485	55,633	152,422	5,292,100
31.03.2016	Related party	28,353	11,701	-		-	40,054
	Others	510,391	3,904,495	40,206	113,900	117,464	4,686,456
	Total	538,744	3,916,196	40,206	113,900	117,464	4,726,510

16.2 Payable to Related Parties

Name of the Company	Relationship	Nature of Transaction	2017 USD	2016 USD
Puritas (Pvt) Ltd	Fellow Subsidiary	Purchase oxypura products	76	-
Hayleys Electronics Lighting (Pvt) Ltd	Fellow Subsidiary	Purchase of electronic items	1,445	291
The Kingsbury Hotel PLC	Fellow Subsidiary	Entertainment facility	-	45
Hayleys Travels (Pvt) Ltd	Fellow Subsidiary	Reservations, ticketing and other travel related services	10,365	21,995
Hayleys Tours (Pvt) Ltd	Fellow Subsidiary	Reservations and travel related services	1,460	-
Hayleys Industrial Solutions (Pvt) Ltd	Fellow Subsidiary	Purchase spare part items and obtained technical support	18,313	631
MIT Cargo (Pvt) Ltd	Fellow Subsidiary	Logistic service	6,692	9,490
Hayleys Advantis Ltd	Fellow Subsidiary	Cost of intangible assets/Service	16,497	
Logiwiz Limited	Fellow Subsidiary	Logistic service	321	241
Logiventures (Pvt) Ltd	Fellow Subsidiary	Logistic service	-	470
Expelogix (Pvt) Ltd.	Fellow Subsidiary	Logistic service	5,109	3,121
Hayleys Business Solutions Int.(Pvt) Ltd	Fellow Subsidiary	Payroll charges	3,732	3,681
Volanka (pvt) Ltd.	Fellow Subsidiary	Warehouse Facility	1,801	-
Delmege Forsyth & Co.(Pvt) Ltd	Affiliate Company	Purchases of mechanical items	564	-
Diesel & Motor Engineering Company PLC	Affiliate Company	Purchase spare part items and obtained technical support	179	89
Hayleys Leisure Holdings (Pvt) Ltd.	Fellow Subsidiary	Project management	8,621	-
Fentons Ltd.	Fellow Subsidiary	Purchases of fire extinguishers	1,060	-
			76,235	40,054

17. OTHER CURRENT NON FINANCIAL LIABILITIES

	2017 USD	2016 USD
Accrued Expenditure	714,144	638,756
Advances Received	29,528	48,822
	743,672	687,578

Notes to the Financial Statements

18. REVENUE

	2017	2016
	USD	USD
Sales of Fabrics	55,145,708	59,496,562
Sundry Sales	391,693	427,541
	55,537,401	59,924,103

19. OTHER OPERATING INCOME

	2017	2016
	USD	USD
Profit on disposal of property, plant and equipment	-	1,935
Debtors/Creditors write back	35,590	18,394
	35,590	20,329

20. OTHER EXPENSES

	2017	2016
	USD	USD
Loss on disposal of property, plant and equipment	4,021	-
Impairment of Property, Plant and Equipment	-	231,097
	4,021	231,097

21. NET FINANCING COST

21.1 Finance income

	2017	2016
	USD	USD
Interest income	-	(6,444)

21.2 Finance cost

	2017	2016
	USD	USD
Interest on short term borrowings	485,629	452,157
Interest on long term loans	267,628	304,725
Loss on translation of foreign currency	180,097	84,588
Finance cost	933,354	841,470
Net finance cost	933,354	835,026

22. PROFIT BEFORE TAX

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

	2017	2016
	USD	USD
Directors' fees	17,222	13,221
Directors' emoluments	226,714	240,319
Audit fees	14,148	13,872
Non-audit professional services	4,014	2,777
Depreciation of property, plant and equipment	1,923,910	1,812,300
Amortization of intangible assets	240,338	237,744
Impairment of Plant and machinery	-	231,097
Legal fees	95,390	40,164
Donations	13,496	5,231
Impairment charge /(reversal) for slow moving inventories	137,191	(60,198)
Impairment charge /(reversal) for Receivables	(5,396)	7,947
Research & Development	28,646	7,269
Staff cost (Note 22.1)	6,847,142	6,464,709

22.1 Staff cost

	2017	2016
	USD	USD
Defined contribution plan cost- EPF and ETF	469,204	442,464
Defined benefit plan cost- Retiring gratuity	288,575	226,027
Salaries and other cost	6,089,363	5,796,218
	6,847,142	6,464,709

23. INCOME TAX

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

	2017	2016
	USD	USD
Income Tax on profit for the year (Note 23.1)	31,657	115,688
(Over)/under provision in respect of previous year	(10,532)	(17,437)
Provision for deferred tax (Note 23.2)	(98,069)	(130,696)
Income tax expense reported in the Statement of profit or loss	(76,944)	(32,445)

Notes to the Financial Statements

23.1 Reconciliation of Current Tax Expenses and product of Accounting Profit

	2017 USD	2016 USD
Profit before tax	413,323	1,812,964
Disallowable expenses	2,731,274	2,359,909
Tax deductible expenses	(2,738,742)	(2,689,703)
Tax loss set-off	(142,049)	(519,109)
Taxable income	263,806	964,061
Income tax @ 28%	-	-
Income tax @ 12%	31,657	115,688
Income tax on current year profit	31,657	115,688
Details of Tax Losses carried forward		
Tax Loss brought forward	9,790,909	10,310,018
Add: incurred during the year	-	-
Less: Set off against the current income tax liability	(142,049)	(519,109)
Tax Loss carried forward	9,648,860	9,790,909

Company's profit from exports is taxed at 12% and other income is liable at the rate of 28%

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

	Statement of Financial Position		Statement of Profit or Loss and Comprehensive Income	
	2017 USD	2016 USD	2017 USD	2016 USD
Deferred Tax Liabilities				
Capital allowances for tax purposes	2,239,639	2,212,804	26,835	96,481
	2,239,639	2,212,804	26,835	96,481
Deferred Tax Assets				
Tax effect of tax loss carried forward	688,979	597,609	(91,370)	(232,510)
Defined Benefit Plans	263,590	230,817	(32,773)	(31,978)
Impairment for Slow Moving Inventories	76,521	65,124	(11,397)	7,224
Impairment for Doubtful Debts	16,835	17,482	647	(954)
	1,045,925	911,032	(134,893)	(258,218)
Net Deferred Tax Liability	1,193,714	1,301,772		
Deferred Income Tax Charge to Profit or Loss			(98,069)	(130,696)
Deferred Income Tax Charged to Other Comprehensive income			(9,989)	(31,042)
Charge to Statement of Profit or Loss and Other Comprehensive Income			(108,058)	(161,737)

24. BASIC / DILUTED EARNING PER SHARE

Basic Earning per share is calculated by dividing the profit 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 earning per share computations.

24.1 Amount Used as the Numerator:

	2017 USD	2016 USD
Earning attributable to Ordinary Shareholders of the Company for Earnings per Share	490,267	1,845,409

24.2 Number of Ordinary Shares Used as the Denominator:

	2017 Number	2016 Number
Weighted Average Number of Ordinary Shares in issue applicable to Basic Earning per Share	207,740,888	207,740,888

25. RELATED PARTY DISCLOSURES

25.1 Transaction with the parent and related entities during the year

(a) Name of the Company	Relationship	Nature of Transaction	2017 USD	2016 USD
Hayleys PLC	Parent	Office space together with other related facilities	584,166	563,595
Puritas (Pvt) Ltd	Fellow Subsidiary	Purchase oxypura products	20,223	397
Hayleys Consumer Products Ltd	Fellow Subsidiary	Purchase of electronic items	311	446
Hayleys Electronics Lighting (Pvt) Ltd	Fellow Subsidiary	Purchase of electronic items	23,044	6,868
The Kingsbury Hotel PLC	Fellow Subsidiary	Entertainment facility	2,091	1,064
Hayleys Travels (Pvt) Ltd	Fellow Subsidiary	Reservations, ticketing and other travel related services	56,040	69,764
Hayleys Tours (Pvt) Ltd	Fellow Subsidiary	Reservations and other travel related services	9,417	3,518
Hayleys Industrial Solutions (Pvt) Ltd	Fellow Subsidiary	Purchase spare part items and obtained technical support	79,148	24,204
MIT Cargo (Pvt) Ltd	Fellow Subsidiary	Logistic service	47,929	42,335
Hayleys Advantis Ltd	Fellow Subsidiary	Cost of intangible assets/Service	34,363	-
Agility Logistics (Pvt) Ltd	Fellow Subsidiary	Logistic service	1,018	344
Civaro Lanka (Pvt) Ltd	Fellow Subsidiary	Logistic service	-	913
Logiwiz Limited	Fellow Subsidiary	Logistic service	966	6,064
Logiventures (Pvt) Ltd	Fellow Subsidiary	Logistic service	522	948
Expelogix (Pvt) Ltd.	Fellow Subsidiary	Logistic service	19,882	29,987
Hayleys Business Solutions Int.(Pvt) Ltd	Fellow Subsidiary	Payroll charges	45,704	43,314
Rileys (Pvt) Ltd.	Fellow Subsidiary	Purchase of consumable items	-	587
Volanka (Pvt) Ltd.	Fellow Subsidiary	Warehouse Facility	18,421	-
Hayleys Leisure Holdings (Pvt) Ltd.	Fellow Subsidiary	Project management	43,475	-

Notes to the Financial Statements

			2017	2016
			USD	USD
(a) Name of the Company (Contd.)	Relationship	Nature of Transaction		
Fentons Ltd.	Fellow Subsidiary	Purchases of fire extinguishers	17,578	-
Delmege Forsyth & Co.(Pvt) Ltd	Affiliate Company	Purchases of mechanical items	4,079	10,425
Diesel & Motor Engineering Company PLC	Affiliate Company	Purchase spare part items and obtained technical support	1,931	4,823
Hayleys Free Zone Ltd.	Fellow Subsidiary	Obtained technical support	-	69

- b) Amounts due from /to related parties are reflected in these financial statements within notes 9,16 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:

		2017			2016		
Facility		Facility Amount	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	2,602,836	121,313	3,975,000	2,878,578	106,459
	Overdraft facility	487,203	114,575	11,487	498,206	(137,888)	920
Pan Asia Bank	Trade facility	3,000,000	1,411,909	75,547	3,000,000	2,030,938	57,553
	Overdraft facility	-	(104,960)	15	-	(31,851)	3,170

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

	2017	2016
	USD	USD
Short term employment benefits	226,714	240,319

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

26. COMMITMENTS AND CONTINGENCIES

26.1 The amount of capital expenditure approved by the Directors but not contracted for was USD 2,035,563 (2016-USD 4,000,000)

26.2 Contingent liabilities as at 31 March 2017 on bills discounted amounted to USD 556,140 (2016 - USD 343,752).

27. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included under
		2017	2016	
		USD	USD	
Plant & Machinery, Water Treatment Plant	Primary Mortgage for Loans and Borrowings	15,179,896	15,192,348	Property, Plant & Equipment
Land & Buildings	Primary / Concurrent mortgage for Loans and Borrowings	6,467,851	6,294,514	Property, Plant & Equipment
Inventories	Primary / Concurrent mortgage for Loans and Borrowings	8,580,332	7,746,445	Inventories
Trade Receivables	Primary / Concurrent mortgage for Loans and Borrowings	6,928,230	6,996,694	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 2017 and 2016. 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 2017 and 2016.

Notes to the Financial Statements

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:

2017		2016	
Increase/Decrease in basis points	Effect on profit before tax -USD	Increase/Decrease in basis points	Effect on profit before tax -USD
0.47	(87,052)	0.41	(63,544)
-0.47	87,052	-0.41	63,544

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.

	2017		2016	
	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%	25,181	3%	18,424
	-3%	(26,739)	-3%	(19,563)
	Change in EURO Rate	Effect on profit before tax -USD	Change in EURO Rate	Effect on profit before tax -USD
Change in Euro Exchange Rate	3%	4,605	3%	3,186
	-3%	(4,890)	-3%	(3,383)

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 68% of the Company's debt will mature in less than one year at 31 March 2017 (2016: 88%) 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.

Notes to the Financial Statements

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	2017 LKR '000	2016 LKR '000
ASSETS		
Non-Current Assets		
Property, plant and equipment	3,784,739	3,403,592
Intangible assets	38,055	73,395
	3,822,794	3,476,987
Current Assets		
Inventories	1,725,335	1,509,788
Trade receivables	1,066,532	1,053,282
Other receivables	172,017	164,937
Advances and prepayments	188,234	48,949
Cash and cash equivalents	225,684	181,104
	3,377,802	2,958,060
Total Assets	7,200,596	6,435,047
EQUITY AND LIABILITIES		
Capital and Reserves		
Stated capital	1,968,193	1,968,193
Revaluation reserve	222,026	210,957
Retained earnings	(5,378)	(67,947)
Exchange fluctuation reserve	522,266	467,170
Total Equity	2,707,107	2,578,373
Non-Current Liabilities		
Interest bearing loans and borrowings	956,576	296,557
Deferred tax liabilities	183,760	195,969
Retirement benefit obligations	338,143	289,559
	1,478,479	782,085
Current Liabilities		
Trade and other payables	814,666	711,529
Interest bearing loans and borrowings	2,073,999	2,235,324
Amounts due to Hayleys PLC	6,991	6,812
Income tax payable	4,873	17,416
Other current non financial liabilities	114,481	103,508
	3,015,010	3,074,589
Total Equity and Liabilities	7,200,596	6,435,047

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

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

Followings are the exchange rates were used to convert the financials into LKR

	31.03.2017	31.03.2016
Statement of Profit or Loss and Other Comprehensive Income	150.04	141.76
Statement of financial position	153.94	150.54

Statement of Profit or Loss and Other Comprehensive Income Translated into LKR

As at 31 March	2017 LKR '000	2016 LKR '000
Revenue	8,332,832	8,494,841
Cost of Sales	(7,358,588)	(7,424,035)
Gross Profit	974,244	1,070,806
Other Operating Income	5,340	2,882
Administrative Expenses	(706,124)	(577,883)
Distribution Expenses	(70,801)	(87,666)
Other Expenses	(604)	(32,760)
Net Financing Costs	(140,040)	(118,373)
Profit Before Tax	62,015	257,006
Income Tax Reversal	11,545	4,599
Profit for the Year	73,560	261,605
Other Comprehensive Income not to be reclassified to profit or loss		
- Surplus on revaluation of land	6,144	-
- Actuarial loss on defined benefit plans	(12,489)	(36,671)
- Income tax effect	1,499	4,401
Total Comprehensive Income, Net of Tax	68,714	229,335
Basic / Diluted Earnings per Share	0.35	1.26

Ten Year Summary

	10-year compound growth %	2017 USD	2016 USD	2015 USD	2014 USD	2013 USD	2012 USD	2011 USD	2010 USD	2009 USD	2008 USD
Results											
Net turnover	(1)	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	59,736,554
Profit after tax	(24)	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	5,877,245
Funds Employed											
Stated capital	12	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	6,534,102
Reserves	(51)	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	15,226,288
Shareholders' fund	(2)	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	21,760,390
Borrowings (both short & long term)	3	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	15,443,809
		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	37,204,199
Assets Employed											
Non current assets	(0)	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	25,686,328
Current assets	1	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	20,286,525
Current liabilities net of borrowings	(3)	(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)	(8,050,296)
Provisions	19	(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)	(718,359)
Capital Employed	0	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	37,204,199
Cash Flow											
Net cash inflow/(outflow) from operating activities		1,096,189	2,606,119	(1,392,458)	(3,763,827)	589,410	5,660,679	(4,837,120)	3,783,556	3,677,255	6,619,224
Net cash inflow/(outflow) from investing activities		(3,701,204)	(2,734,731)	(1,712,927)	(401,501)	(507,460)	(1,339,693)	(2,485,654)	(2,046,136)	(2,615,639)	(3,615,591)
Net cash inflow/(outflow) from financing activities		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)	(5,162,870)
Increase / (decrease) in cash & cash equivalents		334,353	(2,549,151)	7,080,416	(2,873,740)	5,736,597	2,493,067	(6,425,644)	(831,449)	(489,470)	(2,159,237)
Key Indicators											
Earnings/(Loss) per share (basic) USD		0.002	0.009	0.004	(0.008)	(0.025)	(0.120)	(0.1394)	0.062	0.064	0.116
Net assets per share USD		0.085	0.082	0.075	0.07	0.08	0.13	0.31	0.46	0.46	0.43
Dividend per share Rs.		-	-	-	-	-	-	-	2.50	2.00	6.40
Gearing %		53	50	55	61	51	70	60	41	41	42
Turnover to capital employed (times)		1.49	1.77	1.89	2.22	1.79	1.61	1.46	1.25	1.50	1.61

Share Information

Ordinary Shareholders as at 31st March 2017

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	1,543	579,262	0.279	9	3,850	0.002	1,552	583,112	0.281		
1,001 - 10,000	1,187	4,795,234	2.308	6	28,700	0.014	1,193	4,823,934	2.322		
10,001 - 100,000	459	14,588,674	7.023	10	453,863	0.218	469	15,042,537	7.241		
100,001 - 1,000,000	53	15,043,742	7.241	5	1,760,752	0.848	58	16,804,494	8.089		
OVER 1,000,000	12	170,486,811	82.067	-	-	-	12	170,486,811	82.067		
	3,254	205,493,723	98.918	30	2,247,165	1.082	3,284	207,740,888	100.000		

CATEGORY	RESIDENTS			NON RESIDENTS			TOTAL		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individuals	3,044	27,013,948	13.004	25	737,543	0.355	3,069	27,751,491	13.359
Institutions	210	178,479,775	85.914	5	1,509,622	0.727	215	179,989,397	86.641
	3,254	205,493,723	98.918	30	2,247,165	1.082	3,284	207,740,888	100.000

Market Value

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

	2017 (LKR)	2016 (LKR)
Highest	21.10 (on 12th May 2016)	24.00 (on 12th Oct.2015)
Lowest	13.20 (on 24th March 2017)	15.00 (on 9th March 2016)
Year end	13.60	17.70

Share Trading

	2017	2016
As at 31st March		
No. of transactions	10,957	16,870
No. of shares traded	30,463,216	53,117,895
Value of shares traded (Rs.)	554,239,967	1,068,931,287

Notice of Meeting

Notice is hereby given that the Twenty Fifth 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 Monday , 26th June 2017 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 2017 with the Report of the Auditors thereon.
2. To re-elect Mr. K. D. D. Perera, who retires by rotation at the Annual General Meeting, a Director.
3. To re-elect Mr.H.Somashantha, who retires by rotation at the Annual General Meeting, a Director.
4. To ratify sum of Rs. 1,224,940/-donated in the financial year 2016/17 in excess of the sum approved by the Shareholders.
5. To authorise the Directors to determine contributions to charities for the year 2017/18.
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 2017/18.
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, 2017.

By Order of the Board

HAYLEYS FABRIC PLC
HAYLEYS GROUP SERVICES (PRIVATE) LIMITED
Secretaries

Colombo
22nd May 2017

Notes

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 Fifth Annual General Meeting of the Company to be held on Monday, 26th June, 2017 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, 2017, with the Report of the Auditors thereon.	☐	☐
2. To re-elect Mr.K.D.D.Perera, who retires by rotation at the Annual General Meeting, a Director	☐	☐
3. To re-elect Mr.H.Somashantha, who retires by rotation at the Annual General Meeting, a Director	☐	☐
4. To ratify sum of Rs. 1,224,940/-donated in the financial year 2016/17 in excess of the sum approved by the Shareholders.	☐	☐
5. To authorise the Directors to determine contributions to charities for the year 2017/18.	☐	☐
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 2017/18.	☐	☐

(**) 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..... 2017.

.....
Signature Of Shareholder

Witness(**);

Name Address

Signature NIC No.

Notes:

(a) * Please delete the inappropriate words.

(b) A shareholder entitled to attend and vote at the Annual General Meeting of the Company, is entitled to appoint a proxy to attend and vote instead of him/her and the proxy need not be a shareholder of the Company.

** Full name of shareholder/proxy holder and their NIC Nos and Witness are mandatory. Your Proxy Form will be rejected if these details are not completed.

(c) A shareholder is not entitled to appoint more than one proxy to attend on the same occasion.

(d) Instructions are noted on the reverse hereof.

(e) This Form of Proxy is in terms of the Articles of Association of the Company.

Form of Proxy

Instructions as to Completion

1. To be valid, this Form of Proxy must be deposited at the Registered Office of the Company, No.400, Deans Road, Colombo 10, by 3.00 p.m. on Saturday, 24th June, 2017.
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.

In the case of the individual shareholders, the signature of the shareholder should be witnessed by any person over 18 years of age.
6. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.
7. In case of Marginal Trading Accounts (slash accounts), the form of Proxy should be signed by the respective authorised Fund Manager/Banker with whom the account is maintained.

Corporate Information

Name of Company

Hayleys Fabric PLC

Legal Form

A Quoted Public Company with Limited Liability
(Incorporated in Sri Lanka in 1993)

Company Registration Number

PQ 37.

Accounting year end

31st March

Principal Activity

Manufacturing of knitted fabric

Directors

A.M.Pandithage - Chairman
E.R.P Goonetilleke - Managing Director
K.D.D.Perera
S.C.Ganegoda
H.Somashantha
R.N Somaratne
Dr.N.S.J.Nawaratne
A.S.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- 2627653 (4 Lines)

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
HSBC
Hatton National Bank
Bank of Ceylon
NDB Bank
Sampath Bank
Commercial Bank of Ceylon Ltd.
Deutsche Bank
Citibank, N.A.
Seylan Bank
Pan Asia Bank

Auditors

Ernst & Young
Chartered Accountants,
201, De Saram Place,
Colombo 10.

www.hayleysfabric.com