

HAYLEYS FABRIC PLC

# PROGRESSIVE BY NATURE

ANNUAL REPORT 2019/20



**“We  
continuously  
look at our  
business  
from fresh  
perspectives and  
take advantage  
of new ideas  
and technology  
to reduce our  
environmental  
footprint.”**



[www.hayleysfabric.com](http://www.hayleysfabric.com)  
SCAN to access full Integrated  
Annual Report







# Sustainable Innovation

**Our 25+ years of expertise in the local fabric manufacturing industry is defined by one signature trait-our progressive nature. At Hayleys Fabric we thrive on exploring the possibilities of tomorrow to deliver fashion-forward fabric loved by apparel giants worldwide. Today, we have shifted our focus towards sustainable innovation, further aligning our operations to become a socially responsible commercial entity with greater degree of transparency.**

**As we move in to another chapter of our journey, we will continue to leverage on our advanced technology and vibrant team to expand our footprint across the globe with sustainable solutions that gives us an edge in the market - because we are progressive by nature.**



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**“Driven by innovation and committed to global product commercialization, our goal is to provide our customers with fabric that enhance the value of everyday life.”**



# “Progressive and innovative”

## Introduction



**Hayleys Fabric PLC** (formerly known as **Hayleys MGT Knitting Mills PLC**), is the pioneer in textile manufacturing in Sri Lanka. We are capable of providing a complete portfolio of end- to end solutions from design to manufacturing of fabric made out of natural and synthetic fiber. We are proud to be the first apparel sector company to be listed on the Colombo Stock Exchange in 2003.

Hayleys Fabric is capable of producing 3 million meters of fabric per month. We are proud to have some of the leading global fashion brands, such as Victoria's Secret, Pink, Intimissimi, Tezanos, Nike, Decathlon, Asics, Tommy Hilfiger, Calvin Klein and Next as our partners.

Our product range includes Single Jersey, Interlock, Pique, Rib, Fleece and Polar Fleece, Jacquard and Flat Knits, which are composed using pure and blend of cotton, polyester, viscose, modal yarns, in both solid colors and in printed form.

Hayleys Fabric's manufacturing facility is capable of Knitting, Dyeing, Printing, Brushing, Sueding and Finishing pure and blended polyester and cotton fabric. Our laboratories are equipped with modern, state-of-the art machinery to achieve 100% accuracy in color and are accredited by Decathlon, Next, Limited Brands, NIKE, George, Tesco, and Marks and Spencer. Knitting section has a dedicated comprehensive Flat Knit section which produces Collars and Cuffs. Printing section is equipped with the latest CAD system from AVA CAD/CAM, which is specifically designed for textile and apparel sector. SAP-ERP system is used to seamlessly integrate all of our business functions and FastReact Production planning tool which is specifically designed for the textile and apparel industry is used to coordinate all production related activities.

# ABOUT THE REPORT

We are pleased to present our sixth Integrated Annual Report which sets out the performance for the financial year ending 31 March 2020. It presents a balanced review of our performance for covering financial, environmental and social performance, our governance framework and how we manage risk. Building on our fifth consecutive Integrated Annual Report for the previous financial year ending on 31 March 2019, this year's report has been further refined to enhance readability. The report has been structured to reflect our strategy which is a key change from the capitals structure adopted in the previous years.

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

Regulatory Requirements	Voluntary Frameworks
<ul style="list-style-type: none"> <li>Companies Act No. 7 of 2007</li> <li>Continued Listing Requirement of the Colombo Stock Exchange</li> <li>Sri Lanka Accounting &amp; Auditing Standards Act No.15 of 1995</li> <li>Sri Lanka Financial Accounting &amp; Reporting Standards (LKASs/SLFRSs)</li> </ul>	<ul style="list-style-type: none"> <li>Code of Best Practice on Corporate Governance</li> <li>Integrated Reporting Framework</li> <li>This report has been prepared in accordance with the GRI Standards: Core option</li> </ul>

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

Information	Source
Financial statements including accounting policies and notes to the accounts	<ul style="list-style-type: none"> <li>Hayleys Fabric PLC</li> </ul>
Operational and sustainability information	<ul style="list-style-type: none"> <li>Hayleys Fabric PLC</li> </ul>
Information on the Global economy and market trends	<ul style="list-style-type: none"> <li>World Economic Outlook April 2020 published by International Monetary Fund</li> <li>Euromonitor reports</li> </ul>
Information on the Sri Lankan economy, apparel and textile sub-sector	<ul style="list-style-type: none"> <li>Central Bank of Sri Lanka website and Joint Apparel Association Forum websites</li> </ul>

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

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

## For inquiries about this report, please contact:

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



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

# AWARDS DURING THE YEAR



Bronze award under the Category of Textile and Textile Processing Industry at Presidential Environment Awards Ceremony - 2019, organized by the Central Environment Authority of Sri Lanka



**Asia Sustainability Reporting Awards**

**Asia's Best Integrated Report (Design)**

**BRONZE 2019**



Bronze award under the Asia's Best Integrated Report (Design) category at the Asia Sustainability Reporting Awards 2019, organized by CSRWorks International - Singapore



Merit award under the Textile category at the Presidential Export Awards Ceremony 2018/19, organized by the Sri Lanka Export Development Board



Merit Award under the Manufacturing Sector, above Rs.5Bn Revenue category, at the Annual Report Awarding Ceremony - 2019, organized by CA Sri Lanka and Colombo Stock Exchange.

# ABOUT US

Hayleys Fabric PLC is an innovator of a wide range of fabric for quality conscious global fashion brands. Having pioneered fabric manufacturing in the country, we have developed our own branded range of fabric "Inno" which is now included in the portfolios of some of the world's leading brands. We continue to invest in developing fashion forward fabric that are relevant for this fast paced industry using our expertise across a wide range of knits and finishes. As a publicly listed subsidiary of Hayleys Group, we are strengthened by a heritage of entrepreneurship and governance spanning 140+ years.



## Our Markets

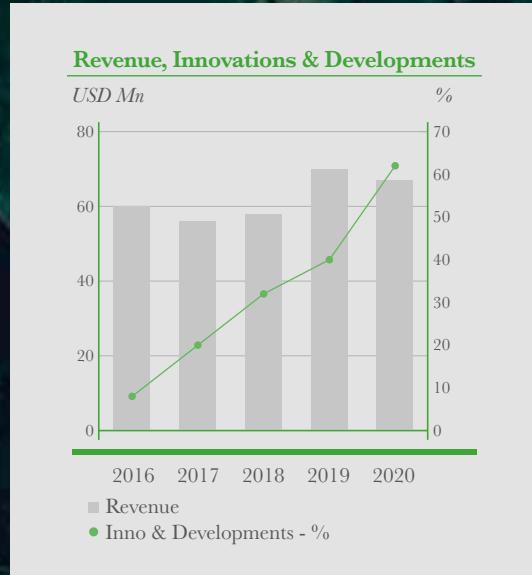


## What We Do



## How We Add Economic Value





Socially &  
Environmentally  
Responsible



Our Team



1300 People

# Vision

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

# Mission

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

# Core Values

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

## PERFORMANCE HIGHLIGHTS

# PERFORMANCE HIGHLIGHTS



**“We continue to invest in developing fashion-forward fabric across a wide range of knits and finishes.”**



**USD 2.85 Mn**

Operating Profit



**3.84**

Carbon Emission  
Intensity (tCO<sub>2</sub>e/MT of  
production)



**85%**

Capacity Utilization

## Financial Indicators

### REVENUE AND PROFITABILITY

		2020	2019
Revenue	USD '000'	67,116	69,941
Results from operating activities	USD '000'	2,852	2,778
Profit before tax	USD '000'	1,669	1,849
Profit after tax	USD '000'	1,271	1,058
Basic / Diluted earnings per share	USD	0.006	0.005
Cash Profit	USD '000'	5,035	4,459
Interest cover	No. of times	3.1	2.8
Return on equity (ROE)	%	7%	6%
Pre-tax return on capital employed (ROCE)	%	7%	8%
Price earning ratio	No. of times	7.8	9.7

### BALANCE SHEET

		2020	2019
Total assets	USD '000'	48,937	47,610
Total debt	USD '000'	16,772	15,185
Inventory holding days	No. of days	78	62
Debtors' days	No. of days	40	43
Total shareholders' funds	USD '000'	18,406	17,859
No. of shares in issue		207,740,888	207,740,888
Net assets per share	USD	0.09	0.09
Debt / (Equity+Debt)	%	48%	46%
Total debt / Total assets	%	34%	32%

### MARKET / SHAREHOLDER INFORMATION

		2020	2019
Market price of share as at 31st March	Rs.	8.70	8.50
Market capitalisation	Rs. Million	1,807	1,766
Dividend per share	Rs.	0.60	-
Dividend yield	%	7%	-

# PERFORMANCE HIGHLIGHTS

## Non-Financial Indicators

### RESPECT FOR THE ENVIRONMENT

	2020	2019
Total extent of land	54 Acres	54 Acres
Extent of land reserved as a green belt	20 Acres	20 Acres
Extent of land designated as a wet land bio-diversity area	8 Acres	Nil
Total raw material consumption (MT)	15,245	15,127
Renewable raw material consumption (MT)	4,301	4,866
Renewable raw material as a percentage of total material consumption	28%	32%
Recycled raw materials as a percentage of total material consumption	2.9%	2.6%
Direct energy consumption (GJ)	749,722	663,174
Energy intensity (GJ/ MT of production)	90.4	73.7
Indirect energy consumption (GJ)	24,511	23,800
Indirect energy intensity (GJ/MT of production)	3.0	2.6
Water withdrawal (M <sup>3</sup> )	1,898,977	1,822,231
Water intensity (M <sup>3</sup> '000'/MT of production)	0.23	0.20
Water recycled and reused (M <sup>3</sup> )	301,667	161,118
Water footprint (M <sup>3</sup> )	2,994,952	2,866,194

### OUR IMPACT ON THE ENVIRONMENT

	2020	2019
Direct greenhouse gas emissions (tCO <sub>2</sub> e)	15,256	14,911
Indirect greenhouse gas emissions (tCO <sub>2</sub> e)	16,622	15,436
Total carbon footprint (tCO <sub>2</sub> e)	31,878	30,347
Carbon emissions intensity (tCO <sub>2</sub> e/MT of production)	3.84	3.37
Water discharged to the river (M <sup>3</sup> )	1,578,129	1,573,566
Waste generated and disposed according to CEA requirements (MT) - Hazardous & Non-Hazardous	2,520	1,905
Waste recycled/ incinerated through third party contractors	60%	46%
Significant environmental fines - USD	Nil	Nil

### RELEVANCE TO COUNTRY'S ECONOMY

	2020	2019
Fabric produced (MT)	8,294	9,004
Proportion of purchases from suppliers within Sri Lanka (Local)	26%	24%

### ADVANCE TECHNOLOGY

	2020	2019
Net Book Value - USD '000'		
- Buildings	4,739	4,925
- Plant & Machinery	14,659	14,155
Investments during the year - USD '000'		
- Buildings	517	274
- Plant & Machinery	2,404	590
Capacity utilization	85%	91%

## Non-Financial Indicators

### AN INSPIRED TEAM

	2020	2019
Total workforce	1,300	1,249
Percentage of employees from the area (within 15 km radius)	66%	68%
Employee retention	95%	94%
Employee productivity (USD per man hour)	19	21
Training & development cost - USD	10,957	43,245
Average hours of training per employee (excluding Casual)	3.6	3.3
Training coverage of employees (excluding Casual)	74%	58%
Injury rate	1.63	3.48
Percentage of employees receiving performance reviews	100%	100%
Incidences of child labour (below 16 years) or young workers (between 16 – 18 years) (operations & our suppliers)	Nil	Nil
Incidences of forced labour during the year (operations & our suppliers)	Nil	Nil

### RESPONSIBLE INNOVATION

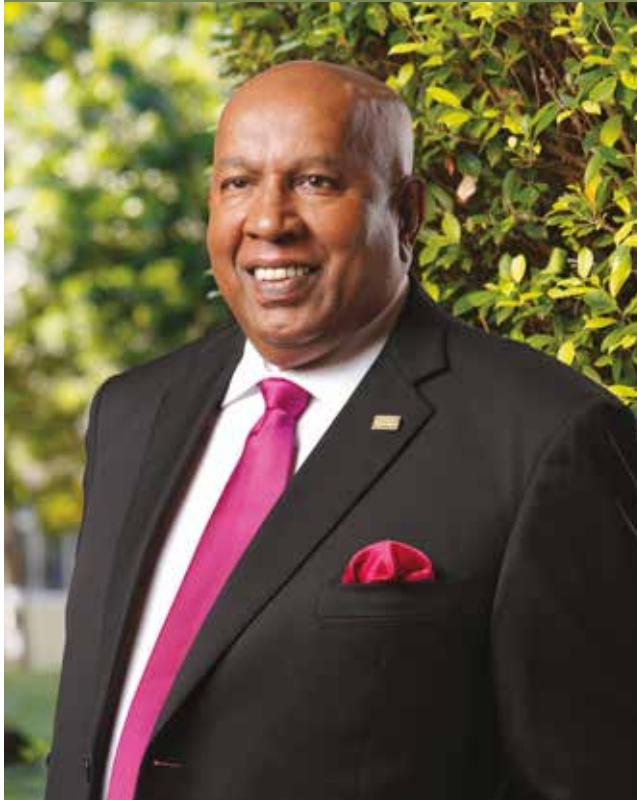
	2020	2019
Percentage of sales from Inno and product proposals	62%	40%
No. of Accreditations / Certifications & Memberships from Fashion Brands	51	47

### STRONG NETWORKS

	2020	2019
Community engagement (No. of persons impacted)	Over 2,000	Over 2,000
Proportion of businesses analysed for risk of corruption (%)	Nil	Nil
Significant fines for violation of laws / regulations - USD	Nil	Nil
Proportion of labels carrying ingredients used (%)	100%	100%
Proportion of labels carrying information on disposal (%)	Nil	Nil
Proportion of labels carrying sourcing of components (%)	Nil	Nil
Significant fines for product/service issues - USD	Nil	Nil

# “Transparent and responsible”

## EXECUTIVE REPORTS



# Chairman's Message

## **Dear Shareholder,**

I am pleased to report that Hayleys Fabric PLC maintained their momentum to record a profit after tax of US\$ 1.27 Mn in a year of extraordinary challenges.

The strategy to move up the value chain by developing our own portfolio bore fruit as the orders materialized, supporting higher capacity utilization and profitability. Innovation, an efficient production strategy and high level of customer engagement were key contributors to success.

The COVID-19 pandemic had a significant impact on the fashion industry due to the closure of malls and complex supply chains which led to the push back of all orders. The factory re-opened on 17th April to process some of the orders that were pushed back and we have also secured orders for fabric used for face masks which supports the operation of the Company at this juncture. As our business model is fabric manufacture, our products are relevant even in the current environment as frontline workers require protective wear. Our manufacturing capability and experience is vast, ranging from high end performance fabric to more basic fabric. Accordingly, we will look to

drive capacity utilization with orders that are relevant for the prevailing conditions while maintaining our focus on growing our higher value orders, a strategy that was deployed some years ago, to support sustainability of the business.

## **A CHALLENGING YEAR**

Global growth declined to 2.9% in 2019 from 3.6% in 2018 as trade tensions between USA and China and other country specific factors weighed on growth. With all major central banks around the world adopting accommodative monetary policy stances in response to decelerating growth, the IMF also forecasts a recession with global output contracting by 3% in 2020 but increasing to 5.8% in 2021 with warnings of significant downside potential.

The McKinsey Global Fashion Index 2020 predicted a 3-4% increase for 2020 with a warning of turbulent times ahead, requiring players to be attuned to their environment and agile in responding to challenges ahead. The report included a warning of polarized growth with most of the gains accruing to the Top 20 players while a growing number of players struggled to create value. In contrast,

the McKinsey Corona Virus Update issued later estimated revenues to contract by 27% to 30% in 2020 with potential for positive growth of 2 to 4% in 2021 reflecting the impact of the pandemic on the fashion industry.

Sri Lanka's apparel exports grew by 5% to US\$ 5,596.5 Mn accounting for 47% of the country's total exports in 2019. Growth in exports to EU and nontraditional markets such as Canada, The United Arab Emirates, Australia, and Japan supported diversifying export markets as exports to USA declined. Despite this progress, it is noted that countries such as Bangladesh, Vietnam and Cambodia recorded significant growth from 2010 in comparison to Sri Lanka due to cost competitiveness from scalability and preferential access to major markets. I note that the apparel sector crafted a strong recovery after the April terror attacks to drive growth in 2019 and trust we are able to do the same as we drive a recovery from the COVID-19 pandemic. Sri Lanka's positioning as Garments without Guilt has enabled us to edge up the volumes at a very slow pace but a more conscious world post COVID-19 may

# CHAIRMAN'S MESSAGE

**"Aligning innovation, supply chains, workflows and logistics with customer strategy will be the key to survival in the year ahead as it was to the success of the reporting year."**

present vastly different challenges that need to be addressed collectively by the industry and policy makers.

## ATTUNED & AGILE

Performance during the year was reliant on being attuned to customer needs and fashion trends to determine appropriate responses and I believe this will benefit

digitization trends to enhance the customer value proposition.

The team at Hayleys Fabric PLC developed fabric made with plastic recovered from the ocean and developed an app to allow consumers to give specific details of the location from where the waste originated, taking the industry to a new level of environmental consciousness.



us as we navigate the financial year that has commenced. Aligning innovation, supply chains, workflows and logistics with customer strategy will be the key to survival in the year ahead as it was to the success of the reporting year. Inputs from our innovation team were key to developing a Phase 2 'Me to We' Collection of next generation fabrics for clients at the high end of the fashion industry, adding over 9 innovative new products to our growing portfolio. We also looked at innovations in raw materials and combined this with the sustainability and

This app created significant enthusiasm among customers as it provided a direct line of sight to the source of raw materials used in the item and we believe that it will remain relevant even in the shifting demand dynamics of the post COVID - 19 world.

Advanced technology, continuous efforts to reduce lead times and environmental impact while maintaining quality underpinned our innovation led strategy. The team also managed to drive efficiencies in production costs through leaner workflows and a sustainability mindset.

## PERFORMANCE

Top line growth declined by 4% to US\$ 67.12 Mn as we lost 16 days during the year due to the COVID-19 lockdown. The main contributor to performance was the innovation led production strategy which supported a 4% growth in gross profit which improved from 12% in 2019 to 13% in 2020. PBT which had improved significantly over the previous year, declined sharply in March which reported a loss before tax of US\$ 0.99 Mn due to the closures of our factory and those of apparel manufacturers, closing the year at US\$1.67Mn PBT, 9.7% below the previous year. With the up-grading of Technology to meet the present quality standards and to improve productivity, we have invested in new technology. This enabled us to record an increase of 20% in profit after tax which amounted to US\$ 1.27 Mn for the financial year 2019/20 reflecting agile strategy that is attuned and responsive to customer needs.

Total assets of US\$ 49 Mn are supported by US\$ 18 Mn of equity and a debt to total capital ratio of 48% with sufficient room for further borrowing if required to weather the expected volatility in the forecast for 2020 and even beyond.

## LOOKING AHEAD

The future of fashion remains clouded for the present due to its discretionary nature and mall closures. Many retailers are expected to experience severe constraints in cash flow which will lead to a shakeout in the industry. These shakeouts in key export markets will hit emerging and developing economies in the supply chain the hardest, with impacts expected to outlast the pandemic itself as recovery from the pandemic will coincide with a recessionary market. All players will need to collaborate to ramp up resilience planning and adapt their operating models to surviving the immediate crisis and transforming to leaner and more sustainable business models that survive the industry's dramatic transformation.

Consumers will be more frugal and look for deeper discounts due to reduced income and uncertain prospects. Digital channels will significantly ramp up to entice shoppers reluctant to visit malls as



social distancing becomes a norm for 2020. Sustainability, value for money, creative integrity and data protection from brand owners will be the key to success, even in the digital space.

Having progressed on our journey of moving into premium market segments and working closely with brand owners, we now need to maintain this lucrative business while increasing capacity utilization with other products as well. The orders to manufacture masks are a case in point and an example of the agile strategy required to ride the rapids of 2020. Safety measures have been implemented to minimize the risks to employees who are vital for continued operations. Our intent is to emerge as an even more agile organisation with a future fit business model ready to compete in the future of fashion.

## ACKNOWLEDGEMENTS

The team at Hayleys Fabric have stepped up to deliver an improved performance and I am sincerely appreciative of their commitment to realising our vision. I commend the leadership provided by Mr. Rohan Goonetilleke navigating the challenges during this year and wish him success in the months ahead. I also take this opportunity to welcome Mr. Malith Jayasinghe to the Board of Hayleys Fabric during the year, where he works in an executive capacity heading the Sales and Marketing team which has delivered a

strong performance under his leadership. Our supply chain partners play a vital role in our success and I thank them for their continued support. It is necessary to mention the financial support provided by our Banks over the years and we are deeply appreciative of their contribution. The Board joins me in thanking our shareholders who have supported our growth and look to their continued confidence.

A handwritten signature in black ink, appearing to read "A.M. Pandithage".

**A.M. Pandithage**

Chairman

06 May 2020



# Managing Director's Review

## Dear Shareholder,

*A successful year despite a set-back in March 2020 due to Covid - 19 - Progressive by nature through innovation and alignment to customer strategy will demonstrate resilience through the "New Normal"*

It is with great pleasure that I wish to report the performance of your Company for the financial year 2019/20. A very successful 11-months up to end February 2020 with March erasing some of the gains as a result the forced closure due to Covid - 19.

The continuation of our strategy of being progressive by nature and alignment to our mission has made the Company stronger and well recognized by top clothing brands internationally and garment manufactures in Sri Lanka. Your Company is firmly on course towards its vision of being the 'most sought after fabric mill in Asia'.

Upto 11 months ending February 2020, the Company recorded a turnover of US\$ 65.81 Mn with a PBT of US\$

2.65Mn which was well over PBT of US\$ 1.85Mn, reported for financial year 2018/19. However, the financial year ended with turnover of US\$ 67.12Mn & PBT of US\$ 1.67Mn, after a substantial loss incurred during second half of March owing to closure of plant due to Covid- 19. The year ended with a PAT of US\$ 1.27Mn compared to US\$ 1.06Mn in the previous year.

## CHALLENGES ARISING FROM COVID - 19

The Management took immediate measures to rationalize costs and freeze capital expenditure and availed itself of facilities announced by the government with regards to financial moratorium which immensely facilitated managing cash flows for the next 12 months.

The focus of being 'progressive by nature' made the Management to look for options to re-commence operations amidst Covid - 19. Product development activity with anti-viral chemical trials commenced and the

focus changed to health related fabric within a few days. This was developed quickly together with local garment manufactures and the Company changed its production to cater to fabric required for face masks and protective clothing for medical use. With this, the Company secured sufficient orders to re-commence operations in April 2020 under extremely strict Covid - 19 health & safety regulations and protocols with special approval from relevant government authorities.

## THE "NEW NORMAL"

As a result of Covid - 19, the entire operation of the Company was reviewed to extract all its positives and adopt a new work culture with cost effectiveness and enhanced productivity whilst maintaining the new normal of social distancing. Accordingly, video conferencing, a balance between work from home and office with heavy dependency on ICT to maintain the new normal. This is expected to improve working hours with less time used in

## **“Our team has been successful in developing an App to support sustainability through traceability.”**

travelling to work and back, visiting business partners for meetings and discussions and also a reduction in the need for overseas travel.

### **SUSTAINABILITY**

In the context of the clothing business especially relating to fashion, lingerie and active wear, sustainability and traceability are two integral components for all top brands that are engaged with your Company. The INNO Team has been successful in developing a mobile application (App) to support sustainability by tracing back to the origin of the fabric and a top clothing brand requested the Company to permit exclusive use of this App for a limited period whilst the Company maintains its copyrights.

Re-cycled polyester is a trendy sustainable product and this App developed by the INNO team scans the QR code in a garment, and the user will have the ability to trace the details such as the number of PET bottles that were used to make the garment as well as the location of the beach in Sri Lanka from where the PET bottles were collected to make the yarn.

The reduction in the consumption of water through the increased use of re-cycled water, generating solar energy, totally moving away from the use of environmentally hazardous chemicals, reduction in the carbon foot print, leading in product innovation, aligning with customer strategy with strategic investments, creating a pleasant work environment, engaging the society around the manufacturing facility, working with local authorities for the common development of the village, religious institutions, schools, hospitals are some of the sustainability aspects covered by this team.

### **SELECTING AND ENGAGING THE CUSTOMERS**

The engagement with Tier-1 customers was stepped up to ensure that the Company was firmly behind their strategies.

With the demand stemming for fabric used in face masks and protective clothing for medical use, the Company engaged with those customers speedily. Company's flexible culture in being adaptive to customer requirements assisted the Company to immediately change over to the new product range.

The customers have appreciated the close follow-up and the high service levels maintained by the staff during the closure.

Your Company has been recognized as one of the best innovators in fabric in Sri Lanka by international clothing brands and also ranks as one of the top vendors in the global supply chain by a top clothing brand.

### **INDUSTRY OUTLOOK 2019/2020**

Sri Lanka had achieved a sustainable growth of 5.7% in apparel and textile exports during the year 2019 compared to the previous year 2018 and also it has surpassed the benchmark of USD 5 Billion in a year. Based on Export Development Board (EDB) information, 43% of apparel and textile export opportunities are to the USA, 15% and 25% to the UK and Europe respectively. In 2019, Bangladesh recorded an annual turnover of USD 33 Billion, while Vietnam recorded USD 39 Billion. Your Company has aligned with this geographical market strategy and at

present nearly 50% of its sales are to the customers based in the USA.

There is a high demand for synthetic apparel produced in Sri Lanka from the leading global clothing brands. Your Company is a leader in high quality synthetic fabric and finishes in Sri Lanka

However, the Covid-19 pandemic has forced brands to hold back orders and even cancel orders in certain countries. Due to the impact of the pandemic, Fashion Weeks in key markets have been called off. Covid-19 continues to influence future behavior of the fashion industry and the trends are yet unknown.

### **CONTINUED FOCUS TO IMPROVE TECHNOLOGY AND PRODUCTIVITY**

During the year under review, the Company was in the process of expanding capacity across all areas of production to fall in line with Tier-1 customers growth and strategies.

The Company embarked on an expansion project in February 2020. A factory building in Wagawatte, in the Horana Industrial Zone was purchased with a total floor area of 40,000 square feet. All expansions were temporarily halted and plan to re-commence once there is a greater visibility of the way forward.

### **THE TEAM**

The team functions with improved cohesiveness and the culture of being holistic in the approach of problem solving. The culture of being progressive by nature which includes flexibility with a high degree of acceptance to change has also filtered through all levels in the Company.

The Management team has taken full responsibility to ensure improvements in productivity, reductions in costs through waste management using some of the

# MANAGING DIRECTOR'S REVIEW



TPM (Total Productive Maintenance) learnings.

The Trade Unions also understand the operating culture of the Company and the cooperation between the Management and the Unions have reached a higher level of understanding. Mutual trust is being further developed across the Company at all levels through continuous dialogue, openness in sharing data and information flow at all levels.

## SYSTEMS, PROCESSES AND CONTROLS

ICT has become more important during post Covid era especially with regard to cyber security, video conferencing and disaster recovery, and the Company is focusing on continuous improvement in all these areas. Recently through Hayleys Group initiative, a new Human Capital Management System was launched on an Oracle platform to cater the HR needs by leveraging the latest technological tools adhering to the global best practices in managing people the most valuable asset.

## INVENTORY MANAGEMENT

Monitoring inventory on regular frequencies to ensure that a good balance is maintained between the stock holding period and speed to market requirements as all raw materials are imported.

AI (Artificial Intelligence) was implemented as a tool for the procurement of dyes and chemicals. This tool has been functioning well and the Company has been able to better manage dyes and chemical inventory by using data on past trends and history.

As always, the Company manages all its inventory through a cycle counting system. This system will ensure that one hundred percent of the total inventory relating to dyes, chemicals, yarn, greige and engineering stocks are checked at least twice a year. As a result of these tight controls, the year-end 100% stock verification carried out by the external auditors, resulted in an accuracy of 99.9%. This is a high level of accuracy which has been consistent for the past 6 years.

## ENVIRONMENT, HEALTH, SAFETY & COMPLIANCE

As mentioned previously, this is an area that the Company focusses very seriously as the sustainability of the business will depend on the Company's alignment and actions towards EHS and Compliance.

A specialized team coordinates activities and maintain standards required by the brand owners, the CEA, labour and industrial regulators. Your Company reached the status of "Zero discharge of Hazardous Chemicals", a project

implemented by the top brands in the world, three years before the target date. This showcases dedication of the team who now are now being invited to international fora within the region as panellists.

This team also successfully implemented all necessary safety measures for Covid - 19 and was able to more than satisfy the requirements of the authorities. Given that the Dengue fever was prevalent in the country to an epidemic level, this team was focusing on ensuring that no breeding places for mosquitos exists within the 53 acre premises of the Company.

## SOCIAL RESPONSIBILITY

Demonstrating our commitment to the socioeconomic development of the surrounding village, multiple assistance were extended to the inhabitants. Balancing these expectations requires a special set of skills in addition to the standard CSR programs that are normally carried out.

Keeping on our long term contribution towards the prevention of CKD (chronic kidney disease), supplying potable water to a village in Rathmalgahawewa in Kahatagasdigiliya, Anuradhapura continued for the 4th consecutive year. It is noteworthy to highlight, as a result of this initiatives deaths due to CKD in this village ceased. In addition, the Company sponsors the educational requirements of approximately 500 school children in this.

## OUTLOOK

Due to the rapid outbreak of Covid - 19 pandemic, the outlook in March 2020 looked quite uncertain, however, better visibility prevails at the time of writing this report by end April 2020.

The industry saw new opportunities to tide over the drop in fashion and active wear business by switching over to face masks and protective clothing for medical use. Your Company which already commenced development activity in this segment in March 2020



took the lead and was the first fabric mill to commence operations on the 17th of April and ramped up capacity to be in full production before end April 2020. The business for such Covid - 19 related segment will continue for some time and fashion will take over as time goes by.

The confident team along with expertise acquired over years' will help the Company to navigate through the tough time and achieve rapid growth when the industry reaches its normalcy.

#### **ACKNOWLEDGEMENTS**

I wish to take this opportunity to thank my senior management team and the staff who believed in the strategies adopted by the Company and the trust and confidence they have in my leadership.

The Chairman has been a pillar of strength to me and I wish to thank him for the support given as well as the Board of Directors who have supported the strategies presented to them and the encouragement given and the trust placed in me.

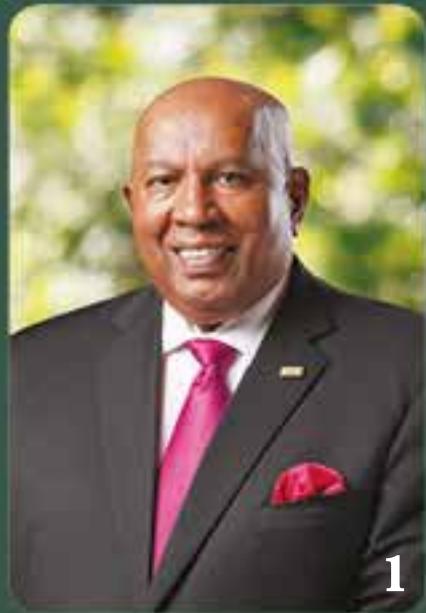
I also wish to thank all brands who work with us and our garment manufacturers who recognize the Company as a quality and reliable performer with innovation capabilities. I also wish to thank all other stakeholders of the Company including our supply chain partners and

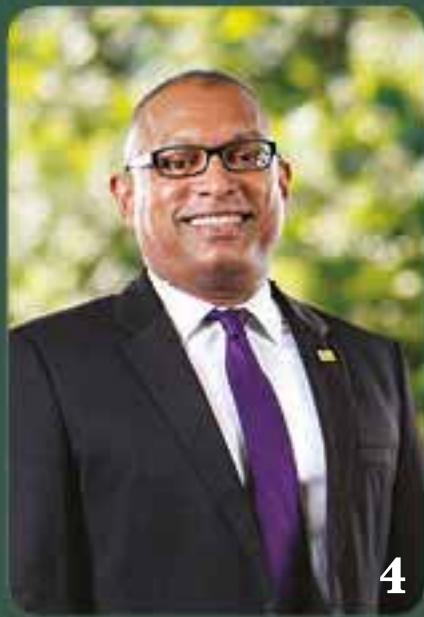
the banking community. Finally, I wish to take this opportunity to thank our valuable shareholders of the Company for being very supportive over the years.

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

06 May 2020

# BOARD OF DIRECTORS





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# BOARD OF DIRECTORS

## A. M. PANDITHAGE 1

Chairman & Chief Executive  
Executive Director: Appointed – July 2007

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

## E. R. P. GOONETILLEKE

Managing Director / CEO  
Executive Director: Appointed – March 2013

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

## K. D. D. PERERA

Non-Executive Director  
Appointed -September 2009

Appointed to the Board in September 2009. Mr. Dharmika Perera is a quintessential strategist and a business leader with interests in a variety of key industries including manufacturing, banking and finance, leisure, plantations and hydro power generation. He has over 30 years of experience in building formidable businesses through unmatched strategic foresight and extensive governance experience gained through membership of the Boards of quoted and un-quoted companies.

Mr Perera is the Chairman of Royal Ceramics Lanka PLC, Lanka Tiles PLC, Lanka Walltiles PLC, The Fortress Resort PLC, Vallibel Power Erathna PLC, Greener Water Limited, Uni-Dil Packaging Limited, Delmege Limited, and LB Microfinance Myanmar Company Limited. He is the Co-Chairman of Hayleys PLC, The Kingsbury PLC

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and Singer (Sri Lanka) PLC. Executive Deputy Chairman of LB Finance PLC, Deputy Chairman of Horana Plantations PLC. He is also an Executive Director of Vallibel Finance PLC and serves on the Boards of Amaya Leisure PLC, Haycarb PLC, Hayleys Fabric PLC and Dipped Products PLC.

## S. C. GANEGODA

Non-Executive Director  
Appointed – November 2009

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

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## HARESH SOMASHANTHA

Independent Non-Executive Director  
Appointed – February 2012

Mr. Haresh Somashantha counts 20 years of dynamic leadership career with a rich mix of finance and operations. He possesses an intimate knowledge of internal/ external processes, business planning and development, strategic and financial management. He is an expert with a track record in executing team driven process improvements with innovative solutions to increase revenue, operational efficiency, customer satisfaction and overall profitability.

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

He is the Head of Finance & Treasury of Royal Ceramics Lanka PLC (Rocell Group). Mr. Somashantha also serves as a Director/Audit Committee Member on the Boards of Vallibel Power Erathna PLC and Unidil Packaging Limited. His further Directorships include several subsidiary companies in the Delmege Group.

## R. N. SOMARATNE

Independent Non-Executive Director  
Appointed – February 2012

Mr. Nandajith Somaratne was appointed to the Board of Hayleys Fabric PLC in February 2012. He is also a Director of Lanka Walltiles PLC.

Mr. Somaratne is currently working in the capacity of General Manager (Manufacturing) for Royal Ceramics Group which includes Lanka Tiles PLC and Lanka Walltiles PLC. He has served in Ansell Lanka (Pvt) Ltd and in Central Engineering Consultancy Bureau (CECB) before joining Royal Ceramics Lanka PLC in 1993. Mr. Somaratne counts more than 27 years' experience in the manufacturing field.

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Mr. Somaratne holds an MBA from the University of Colombo, Post Graduate Diploma in Industrial Engineering from NIBM and B.Sc. in Physical Science from the University of Peradeniya. He obtained a Post Graduate Diploma in Business Finance and Strategy from the Business School of CA Sri Lanka.

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

# BOARD OF DIRECTORS

## DR. S. J. NAWARATNE

Independent Non-Executive Director

Appointed – April 2014

Dr. Sunil Jayantha Nawaratne is presently a competent authority, Institute of Technology – University of Moratuwa (ITUM) and Director General of National Institute of Education (NIE).

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

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

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## ANANDA JAYATILLEKA

Senior Independent Non-Executive Director

Appointed – March 2015

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

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

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

# R. ROHITHA BANDARA

Executive Director

Appointed – May 2018

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

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

He is also qualified in AAT, ACMA (SL), ACPM, AIPFM (UK) and has over four years' experience with Ernst & Young in different industry segments in Sri Lanka and Singapore and over 14 years of manufacturing experience in Textiles Industry as sector Head of Finance.

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# M. H. JAYASINGHE

Executive Director

Appointed – April 2019

Mr Malith Jayasinghe joined Hayleys Fabric PLC as a Management Trainee, assuming roles with increasing responsibility in Sales and Marketing functions. He counts over 15 years' experience in the Textile industry. Prior to his current appointment, Mr Jayasinghe served as the General Manager - Sales & Marketing , heading sales and Marketing for last 8 years.

Mr Jayasinghe holds a B.Sc. Degree from the University of Colombo.

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# MS. YOGADINUSHYA BHASKARAN

(Alternate Director to Mr. K.D.D. Perera)

Non-Executive Director: Appointed – June 2015

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

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

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

# MANAGEMENT TEAM





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# MANAGEMENT TEAM

## 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, 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.).

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## R. ROHITHA BANDARA

Director - Finance

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

He is also qualified in AAT, ACMA (SL), ACPM, AIPFM (UK) and has over four years' experience with Ernst & Young in different industry segments in Sri Lanka and Singapore and over 14 years of manufacturing experience in Textiles Industry as sector Head of Finance.

2

## M. H. JAYASINGHE

Director - Marketing

Mr. Malith Jayasinghe joined Hayleys Fabric PLC as a Management trainee, assuming roles with increasing responsibility in sales and marketing functions. He counts over 15 years' experience in the Textile industry. Prior to his current appointment, Mr Jayasinghe served as the General Manager - Sales & Marketing , heading sales and Marketing for last 8 years.

Mr Jayasinghe holds a B.Sc. Degree from the University of Colombo.

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## S. S. PULASINGHE

General Manager - TPM, Engineering & Special Projects

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

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

## M. L. DAYANANDA

General Manager - Supply Chain

Mr. Lal Dayananda holds an MBA in Finance from the University of Manipal, India and holds Memberships in AFA (Associate member of - Institute of Financial Accountants, UK)

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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.

## K. P. C. P. K. PATHIRANA

General Manager - Human Resources & Administration

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

## PRASANGA KIRIHENA

General Manager - Operations

Mr. Prasanga Kirihena with over 30 years' of experience in the fabric industry and Garment manufacture has held senior positions in the industry. He holds a Diploma in coloration and Finishing from Sri Lanka Institute of textile and apparel. He has held managerial positions in the leading fabric mills in Sri Lanka ranging from dyeing, finishing to operations and key senior positions in the leading apparel manufacturers in Sri Lanka.

## P. M. P. PERERA

Deputy General Manager - Engineering

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

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## C. P. WANASINGHE

Deputy General Manager - Production Planning

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

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## K. D. C. R. GUNARATNE

Deputy General Manager - Knitting

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

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## SUMITH FERNANDO

Deputy General Manager - Finance

Mr. Sumith Fernando holds an Executive Diploma from the Institute of Chartered Accountants of Sri Lanka. He has over 24 years' experience in Accounting and Finance, out of which, 15 years has been Managerial experience. In addition, Mr. Fernando counts over 8 years' experience in SAP ERP system as a power user.

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## SAMAN JAYAWARDANE

Deputy General Manager - Dyeing and Colour Lab

Mr. Saman Jayawardane started his career in 1996 and has worked in the leading fabric Mills in Sri Lanka engaged in the areas of recipe formulation/ colour lab, dye profile & dyeing technicalities. He has many years of experience in fabric mills in Thailand and Vietnam and has headed operations prior to joining Hayleys Fabric PLC. He holds Diploma in Textile Technology in SLITA and has almost 24 years experiences in Textile sector.

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# CORPORATE GOVERNANCE



## A.M. Pandithage

*Chairman & Chief Executive  
Executive Director*

- Appointed Chairman - July 2009
- Appointed Director- July 2007



## E. R. P. Goonetilleke

*Managing Director / CEO  
Executive Director*

- Appointed MD/CEO - March 2013



## K. D. D. Perera

*Non-Executive Director*

- Appointed - September 2009



## Haresh Somashantha

*Independent  
Non-Executive Director*

- Appointed - February 2012

**Diverse and well balanced,  
the Board leads by example,  
providing ethical and effective  
leadership in creating sustained  
value for all stakeholders.**



## R. N. Somaratne

*Independent  
Non-Executive Director*

- Appointed -February 2012



## Dr. S. J. Nawaratne

*Independent  
Non-Executive Director*

- Appointed April 2014

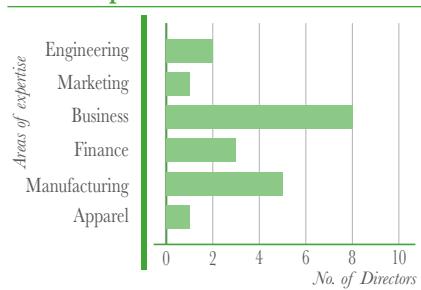


## Ruwan Rohitha Bandara

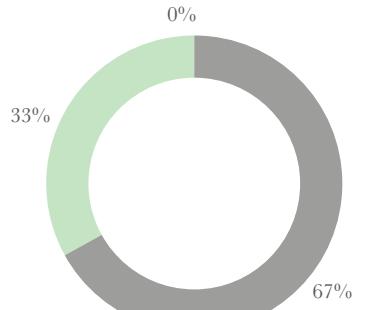
*Executive Director*

- Appointed – May 2018

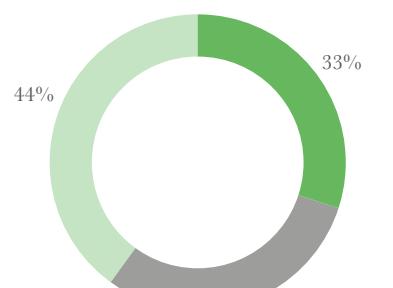
### Board Expertise



### Non Executive Directors' Tenor as at 31.03.2020



### Age Diversity of Directors



**S. C. Ganegoda***Non-Executive Director*

- Appointed: November 2009

**Ananda Sunil Jayatilleka***Senior Independent**Non-Executive Director*

- Appointed - March 2015

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

- Appointed - June 2015

**Malith Jayasinghe***Executive Director*

- Appointed Director - April 2019

**Company Secretaries**

- Hayleys Group Services (Pvt) Ltd

**Governance Highlights 2020**

- Following the uncertainty and unprecedented challenges arising from the COVID19 pandemic in March 2020, assessed the impact to the business as presented by the Company Management and reviewed the proposed business recovery plan.
- Appointment of Mr. A.S. Jayatilleka as Senior Independent Director w.e.f. 6th February 2020, in compliance with CA Code of Best Practices on Corporate Governance, 2017.
- Appointment of Mr. Malith Jayasinghe as an Executive Director, w.e.f. 01.04.2019.
- Approved capital investment of USD 900,000 for a new factory in Horana expanding knitting capacity by 150 MT.
- Approved a project of fixing solar panels with Hayleys Power Ltd. which will generate 4,104 carbon credits/p.a.
- Retirement by Rotation of Dr. N.S.J. Nawaratne, Mr. K.D.D. Perera and Mr. H. Somashantha at the AGM to be held on 27 July 2020. They have offered themselves for re-election.

**COMPLIANCE SUMMARY**

Regulation / Code	Adoption	Adherence	Page Reference To Disclosure Table
The Companies Act No.7 of 2007 and regulations	Mandatory	Fully Compliant	116 - 117
Listing Rules of the Colombo Stock Exchange (CSE)	Mandatory	Fully Compliant	45 - 46
Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987, including directives and circulars	Mandatory	Fully Compliant	117 - 120
Code of Best Practice on Corporate Governance (2017) issued by Institute of Chartered Accountants of Sri Lanka	Voluntary	Fully Compliant	47 - 49

# CORPORATE GOVERNANCE

**Hayleys Fabric PLC aspires to the highest standards of corporate governance. Being a subsidiary of the Hayleys Group, the Company inherits a legacy of practices founded on the core principles of accountability, integrity and transparency. A strong set of corporate values, written code of conduct and a proven performance monitoring system underpins its governance framework driving responsible and sustainable growth for all stakeholders.**

## NAVIGATING THE REPORT

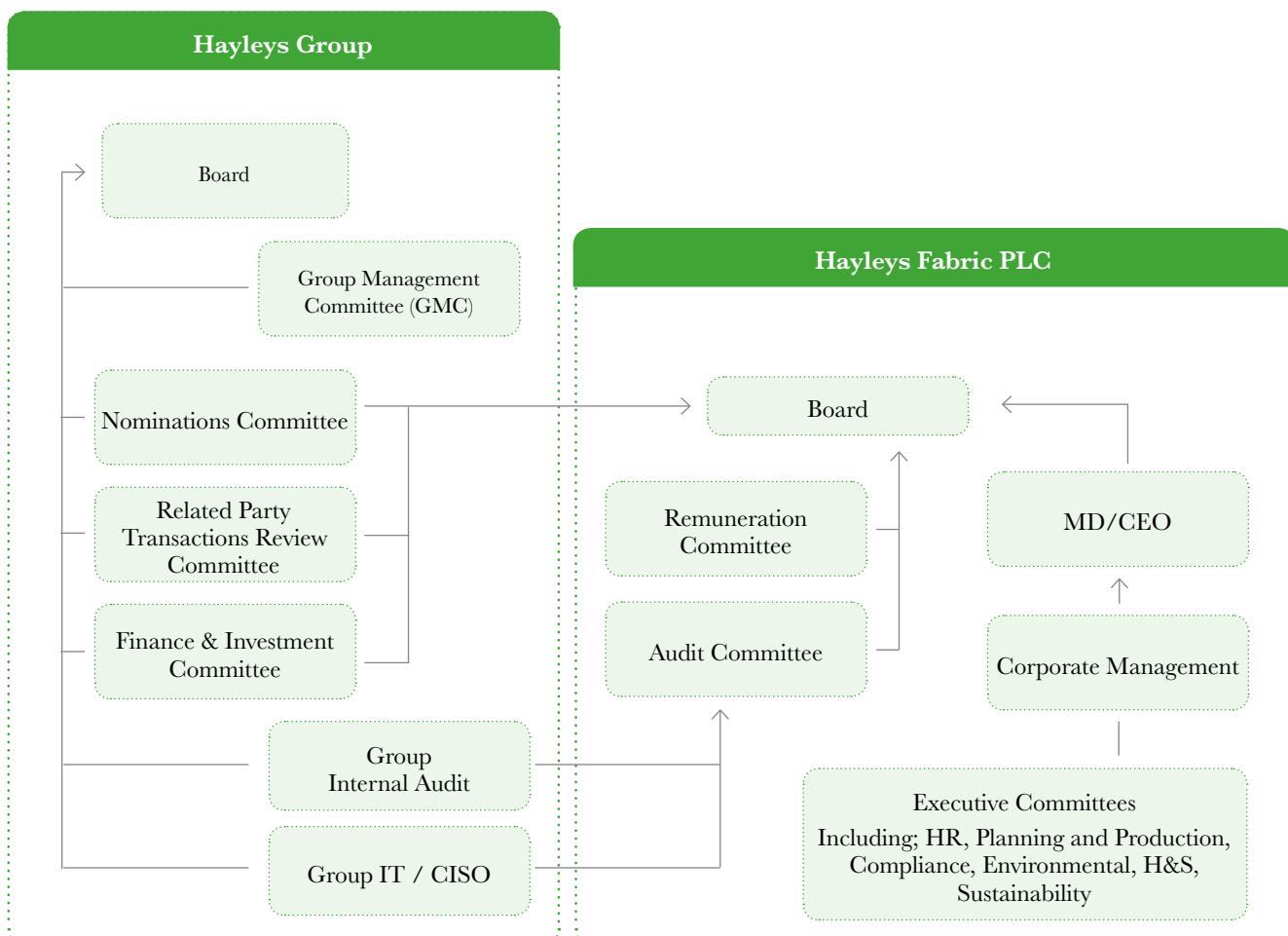
This report has been structured as follows, highlighting the ethical and effective governance practices adopted by Hayleys Fabric PLC.

1. Governance framework and structure
2. An Effective Board
3. Responsible and Fair Remuneration
4. Board Accountability
5. Relations with Shareholders

Details of Compliance with respective statutes and codes as described in the Compliance Summary on pages 47 - 49 tabled at the end of the report.

## 1. GOVERNANCE FRAMEWORK AND STRUCTURE

The Board bears responsibility to ensure the Company pursues its strategic goals in accordance with sound corporate governance principles, safeguarding its reputation, values and assets while balancing stakeholder interests. The Board retains effective control through the board-approved governance framework which comprises an organization structure, reporting mechanisms, internal controls and compliance & risk management processes. The Framework is bound by external regulations and internally formulated policies and is reviewed when necessary, to adapt to internal developments and reflect global best practices.



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

**Committee composition and roles are summarized on page 38.**



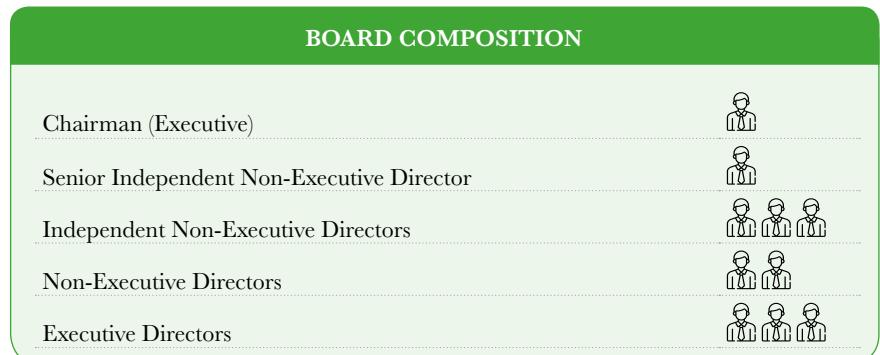
## 2. AN EFFECTIVE BOARD

### 2.1 Board Composition

The Board comprises 10 members, 4 of whom are independent. Sufficient balance of power minimizes the tendency for one or few members of the Board to dominate the Board processes or decision making. Appointment of Mr. A.S. Jayatilleka as Senior Independent Director w.e.f. 6th February 2020, in line with the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka in 2017, strengthens the independence of the Board further.

The Board is diverse in its skills, experience, age and tenure contributing varied perspectives to boardroom deliberations and exercising independent judgment to bear on matters set before them.

Three directors including the Chairman of the Audit Committee, are finance professionals ensuring a sufficiency of financial acumen. Non-Executive Directors are eminent professionals in their respective fields.



### 2.2 Appointment, Re-election and Resignation

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

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

Appointments are communicated to the CSE and shareholders through press releases and include a brief resume of the Director. Resignations/ retirements of Directors and the reasons thereof are informed promptly to CSE.

# CORPORATE GOVERNANCE

## 2.3 Board Responsibilities

The Board provides ethical and effective leadership to the organization and bears ultimate responsibility for the economic, social and environmental performance of the Company. The Board determines overall strategy and oversees implementation of the same. Key responsibilities are summarized alongside.

**Board, Directors and Key Management**  
 Personnel are indemnified by the Hayleys Group in respect of liabilities incurred as a result of their office, in terms of Section 218 of the Companies Act.

## 2.4 Board Sub-Committees

The Board has appointed an Audit Committee and a Remuneration Committee to assist in the discharge of its duties. The Nominations Committee and Related Party Transactions Review Committee of Hayleys PLC, the Parent Company, functions as the Committee of the Company as permitted by the Listing Rules of the Colombo Stock Exchange. Areas of oversight and composition of these committees are given below.

### APPOINTMENTS AND RE-ELECTION 2020

- Mr Malith Jayasinghe was appointed an Executive Director, w.e.f. 01.04.2019
- Dr. N.S.J. Nawaratne, Mr. K.D.D. Perera and Mr. H. Somashantha will retire by rotation at the AGM to be held on 27th July 2020 and have offered themselves for re-election

### KEY BOARD RESPONSIBILITIES

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

Board Committee	Areas of Oversight	Composition	Further Information
Audit Committee	<ul style="list-style-type: none"> <li>• Financial Reporting</li> <li>• Internal Controls</li> <li>• Internal Audit</li> <li>• External Audit</li> </ul>	Comprises three Independent Non-Executive Directors including the Chairman of the Committee.	Report of the Audit Committee on pages 110 - 111
Nominations Committee	<ul style="list-style-type: none"> <li>• Appointment of Key Management Personnel/ Directors</li> <li>• Succession Planning</li> <li>• Effectiveness of the Board and its Committees</li> </ul>	Hayleys PLC (Parent company) Nominations Committee assists the Company.  Comprises Chairman, one Independent Non-Executive Director and one Executive Director of Hayleys PLC	-
Remuneration Committee	<ul style="list-style-type: none"> <li>• Remuneration policy for Key Management Personnel</li> <li>• Goals and targets for Key Management Personnel</li> <li>• Performance evaluation</li> </ul>	Comprises two Independent Non-Executive Directors including the Chairman (Senior Independent Director) of the Committee	Report of the Remuneration Committee on page 112
Related Party Transactions Review Committee	• Review of related party transactions	Hayleys PLC (Parent company) Related Party Transactions Committee assists the Company.	Report of the Related Party Transactions Review Committee on page 113
Finance & Investment Committee (Voluntary Committee)	<ul style="list-style-type: none"> <li>• Finance and investment functions</li> <li>• Integration planning</li> <li>• Investor relations</li> </ul>	Comprises two Independent Non-Executive Directors and one Executive Director of Hayleys PLC  Hayleys PLC (Parent company) Finance & Investment Committee assists the Company.	-
		Comprises one Independent Non-Executive Directors and three Executive Directors and Group CFO of Hayleys PLC	-

## 2.5 Meetings & Minutes

Agenda and Board papers are sent at least 7 days before the meeting, allowing members sufficient time to review the documents. Chairman sets the Board agenda, assisted by the Company Secretary and MD/CEO. Care is taken to ensure the Board spends sufficient time considering matters critical to the Company's success, as well as compliance and administrative matters.

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

Resolutions concerning business matters may be passed by circulation, within regulations. However, if a single Director deems it necessary that such resolution must be decided at a Board meeting not by circulation, the Chairman shall put the resolution to be decided in a meeting.

The Board met 6 times during the year. All Board minutes are circulated to members, and formally approved at the subsequent Board meeting. Directors' concerns regarding matters which are not resolved unanimously are recorded in the minutes. Directors always have access to the past Board papers and minutes in case of need via electronic means.

## 2.6 Chairman and Managing Director/ CEO

The Chairman of Hayleys PLC (Parent company) serves as Chairman of Hayleys Fabric PLC. He leads the Board, preserving good corporate governance and ensuring that it works ethically and effectively, acting in the best interest of the Company. The MD/CEO is an Executive Director appointed by the Board and is accountable for implementation of the Company's strategic plan and driving performance. The role of Chairman is separate from that of the MD/CEO. A clear division of responsibilities ensures no one director has unfettered powers in the decision-making process.

### ATTENDANCE AT MEETINGS

Directors	Date of Appointment	Attendance		
		Board	Audit	Remuneration
A.M. Pandithage (Chairman) *	01 July 2007	6/6	-	-
E.R.P. Goonetilleke (MD/CEO) *	01 March 2013	6/6	-	-
K.D.D. Perera **	24 September 2009	0/6	-	-
S.C. Ganegoda **	01 November 2009	6/6	-	-
H. Somashantha ***	02 February 2012	5/6	4/4	1/1
R.N. Somaratne ***	02 February 2012	6/6	-	-
Dr. S.J. Nawartne ***	25 April 2014	2/6	1/4	-
A.S. Jayatilleka ****	30 March 2015	4/6	3/4	1/1
R.R. Bandara *	15 May 2018	6/6	-	-
M. H. Jayasinghe (Appointed w.e.f. 01.04.19) *	01 April 2019	6/6	-	-
Ms. Y. Bhaskaran (Alternate Director to Mr. K.D.D. Perera) **	01 June 2015	4/6	-	-
Total No. of Meetings		6	4	1

\* Executive Director  
\*\* Non-Executive Director  
\*\*\* Independent Non-Executive Director  
\*\*\*\* Senior Independent Non-Executive Director

# CORPORATE GOVERNANCE

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

## 2.7 Senior Independent Director (SID)

Mr. A.S. Jayatilleka was appointed Senior Independent Director of the Company w.e.f. 06th February 2020, in compliance with the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka in 2017, which requires the appointment of a Senior Independent Director, when the Chairman is not an independent Director.

The Senior Independent Director strengthens the independence and effectiveness of the Board by providing leadership and advice when the Chairman has a conflict of interest, without detracting from or undermining his authority. He provides support to the Chairman and is available as a trusted intermediary for other Directors.

## 2.8 Company Secretary

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

Secretaries maintain minutes of Board meetings, which are open for inspection by any Director at any time. Appointment and removal of the Company Secretaries is a matter for the Board as a whole.

## 2.9 Directors Independence

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

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

Directors declare their business interests at appointment and quarterly thereafter. Details are maintained in a Register by the Company Secretary and tabled at the next Board meeting. The Register is available for inspection in terms of the Companies Act. Key appointments of the Directors are included in their profiles on pages 26 to 29.

Directors excuse themselves from the meeting when the Board considers any matters in which a conflict may arise, thereby abstaining from voting. The Hayleys Group Related Party Transactions Review Committee considers all transactions that require approval, in line with the Group's Related Party

Transactions Policy and in compliance with regulations, ensuring transactions are fair and in the best interest of the Company. Related party transactions are disclosed in Note 25 to the Financial Statements on page 154 .

## 2.11 Induction and Training for Directors

On appointment, Directors are provided with an orientation pack with all relevant external and internal regulation documents and a tour of the factory premises. The Board of Directors recognize the need to keep abreast of current developments affecting the sector both globally and locally. They undertake training and professional development in their personal capacity as they consider necessary in assisting them to carry out their duties as Directors. They are members of the Sri Lanka Institute of Directors and attend sessions from time to time. Other training and continuous professional development undertaken by Directors in 2019/20 includes attending seminars/workshops/conferences, using web based learning resources and reading regulatory updates etc.

## 2.12 Board access to Information and Resources

Directors have unrestricted access to management and organisation information to clarify matters in the effective discharge of their duties and responsibilities.

DEFINITION	ASSESSMENT	OUTCOME
Independence is determined against criteria as set out in the Listing Rules of the Colombo Stock Exchange and in compliance with schedule K of the Code.	Independent assessment of Directors is conducted annually by the Board, based on annual declaration and other information submitted by Non Executive Directors	The Board is satisfied there are no relationships or circumstances likely to affect or appear to affect, Directors' judgement during the period under review.  The Board believes the independency of Mr. A.S. Jayatilleka is not compromised by being a Board member in an independent capacity of Unisyst Engineering PLC (Former Alufab PLC), a subsidiary of the Parent Company considering his experience and knowledge particularly in the manufacturing field.

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

Access to independent professional advice, co-ordinated through the Company Secretaries, is available to Directors at Company expense.

### 2.13 Executive Committees

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

### 2.14 Appraisal of MD/CEO

The Board assesses the performance of the MD/CEO annually using criteria aligned to the short, medium and long-term objectives of the Company which are agreed with the MD/CEO at the beginning of the year. Performance is

reviewed at the end of the financial year against the backdrop of the operating environment, and remuneration revised based on performance.

## 3.0 RESPONSIBLE AND FAIR REMUNERATION

### 3.1 Remuneration Policy

The Hayleys Fabric PLC's Remuneration Policy seeks to motivate and reward performance while meeting regulatory requirements, market expectations and corporate values. The Remuneration Committee (RC) consisting of 2 Non-Executive Directors is responsible for making recommendations to the Board regarding the remuneration of the Executive Directors within agreed terms of reference and in accordance with the remuneration policies of the Company. Please refer page 112 for the Report of the Remuneration Committee and Terms of Reference.

The Board as a whole determines the remuneration of the Non-Executive Director's who receive a fee for being a Director of the Board and additional fee for being a member of a committee. Remuneration for Non-Executive Directors reflects the time commitment and responsibilities of their role, taking into consideration market practices. They do not receive any performance related / incentive payments. Services of HR professionals are sought when required, by the Board and Remuneration Committee in discharging their responsibilities.

### 3.2 Level and Make Up of Remuneration

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

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

Please refer page 151 for the total Directors' Remuneration and fee.

# CORPORATE GOVERNANCE

## 4.0 BOARD ACCOUNTABILITY

### 4.1 Compliance

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

### 4.2 Risk Management and Internal Control

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

### 4.3 Accountability & Audit

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

- Chairman's Message pages 17 to 19
- Managing Director's Review pages 20 to 23
- Management Discussion & Analysis on pages 51 to 98
- Way Forward on pages 99 to 100
- Managing Risk on pages 101 to 102

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 Monitoring Board, BOI 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 118 to 120 (including the declaration that the Company is a going concern)
- The Statement of Directors' Responsibility on page 122
- Report of the Auditors on pages 124 to 127

### 4.4 External Auditor

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

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

On the recommendation of the Board, the shareholders approved the reappointment of Messrs. Ernst & Young (Chartered Accountants) as the External Auditor for

2019/20 at the last AGM. In compliance with Section 163 (3) of the Companies Act No. 07 of 2007, the External Auditors submit a statement annually confirming their independence in relation to the external audit.

### 4.5 Major or Material Transactions

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

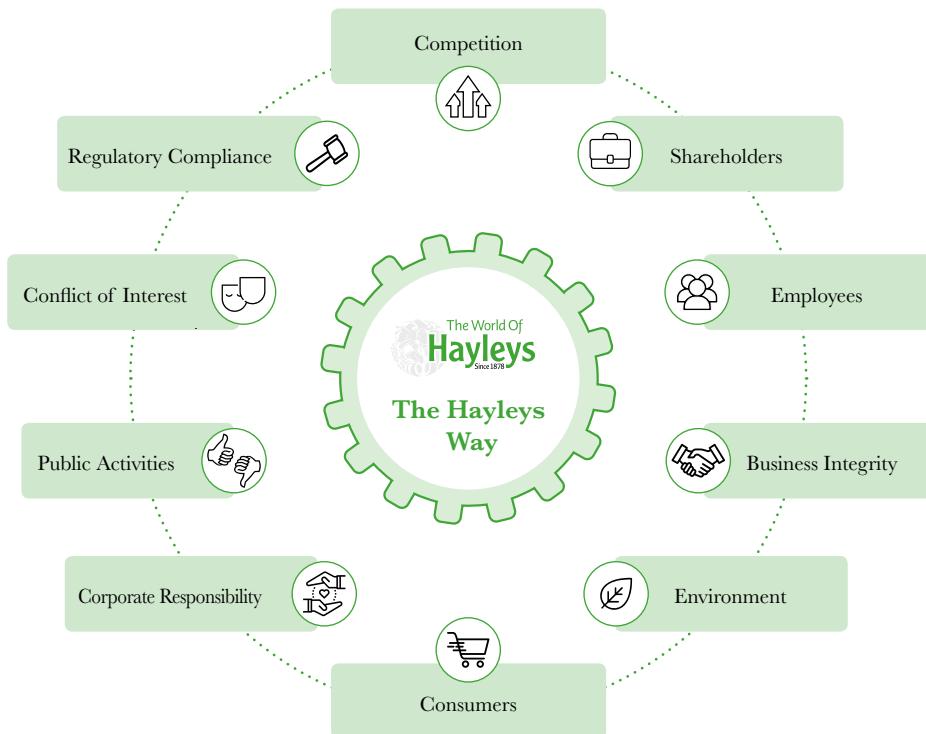
### 4.6 Code of Conduct and Ethics

Hayleys Fabric PLC is committed to conducting its business operations with honesty, integrity and with respect to the rights and interests of all stakeholders. The Company is bound by the "The Hayleys Way"- The Ethical Road Map for Code of conduct developed by Hayleys PLC (Parent Company) for the Group. It applies to all employees including key management personnel and Directors, and is inculcated at all levels through structured communication, with the objective of enhancing awareness and driving reinforcement. The code covers key topics including conflict of interest, corporate opportunities, confidentiality, fair dealing, protection and proper use of Company assets. It fosters an ethical culture and promotes compliance with relevant laws and legislation, an imperative to retaining the trust of stakeholders. The Board is not aware of any material violations of any of the provisions of the Code by any Director or employee of the Company.

### 4.7 IT Governance

Smart technology has been transforming the Textile industry over the past few years. The Company has been at the forefront using advanced technology to reduce costs, enhance operational efficiency, improve environmental impact and customer experience. Consequently, IT governance has been a key focus area of the Board.

Hayleys Group IT Department oversees and manages the IT requirement of the Company and other Group companies.



The Group Head of IT who is also the CISO is responsible for implementing the Group IT policy and the Group Information Security Policy at entirety level in liaison with the Group Companies, under the supervision of an Executive Director of the Group. Coverage and scope of related Group policies and guidelines are given below.

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

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

# CORPORATE GOVERNANCE

## 4.8 Sustainability Governance

Hayleys Fabric PLC places significant emphasis on sustainable development and value creation. Sustainability principles are embedded in the business strategy and endorsed throughout its operations. Activities undertaken by the Company in recognition of its responsibility as a corporate citizen are presented in the Integrated Annual Report as follows;

- Economic Sustainability - Sustainable Shareholder Value page 63
- Environment - Respect for the Environment on page 71
- Labour Practices - An Inspired Team on page 83
- Society - Community Advancement on page 97
- Product Responsibility - Assured Quality/ Advanced Infrastructure & Networks on page 81
- Shareholder identification, engagement and effective communication - Investor Relations on page 52

## 5.0 RELATIONS WITH SHAREHOLDERS

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

### 5.1 Communication with Shareholders

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

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

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

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

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

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

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

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

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

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

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

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

Rule No.	Subject	Requirement	Complied	Reference within the Report	Page
7.10.1(a)	Non-Executive Directors (NED)	At least 2 or 1/3 of the total number of Directors on the Board whichever is higher should be NEDs	Yes	Board Composition	37
7.10.2(a)	Independent Directors (ID)	2 or 1/3 of NEDs, whichever is higher, should be independent	Yes	Board Composition	37
7.10.2(b)	Independent Directors (ID)	Each NED should submit a signed and dated declaration of his/her independence or non-independence	Yes	Directors Independence	40
7.10.3(a)	Disclosure relating to Directors	The Board shall annually determine the independence or otherwise of the NEDs, and  Names of each Independent Directors should be disclosed in the Annual Report (AR)	Yes	Directors Independence Board Profiles	40 26
7.10.3(b)	Disclosure relating to Directors	The basis for the Board's determination of Independent Directors (ID), if criteria specified for independence is not met	Yes	Not Applicable.	-
7.10.3(c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the Director's areas of expertise	Yes	Board Profiles	26
7.10.3(d)	Disclosure relating to Directors	Provide a brief resume of new Directors appointed to the Board with details specified in 7.10.3(a), (b) and (c) to the CSE	Yes	Board Profiles	26
7.10.4 (a-h)	Criteria for defining Independence	Requirements for meeting criteria to be an Independent Director	Yes	Directors Independence	40
7.10.5	Remuneration Committee(RC)	A listed company shall have a Remuneration Committee	Yes	Remuneration Committee Report	112
7.10.5(a)	Composition of Remuneration Committee	Remuneration Committee (RC) Shall comprise of NEDs, a majority of whom will be independent  One NED shall be appointed as Chairman of the committee by the Board of Directors	Yes	Remuneration Committee Report	112
7.10.5.(b)	Functions of Remuneration Committee	The Remuneration Committee (RC) shall recommend the remuneration of Executive Directors	Yes	Remuneration Committee Report	112
7.10.5.(c)	Disclosure in the Annual Report relating to Remuneration Committee	Names of Directors comprising the Remuneration Committee (RC)  Statement of Remuneration Policy  Aggregated remuneration paid to Executive and Non-Executive Directors should be included in the Annual Report	Yes	Remuneration Committee Report  Note 22 to the Financial Statements	112 151
7.10.6	Audit Committee (AC)	The Company shall have an Audit Committee (AC)	Yes	Audit Committee Report	110
7.10.6(a)	Composition of Audit Committee	Shall comprise of Non-Executive Directors, a majority of whom are Independent  Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings  The Chairman of the Audit Committee or one member should be a member of a professional accounting body	Yes Yes Yes	Audit Committee Report	110

# CORPORATE GOVERNANCE

<b>Rule No.</b>	<b>Subject</b>	<b>Requirement</b>	<b>Complied</b>	<b>Reference within the Report</b>	<b>Page</b>
7.10.6(b)	Audit Committee Functions	Should be as outlined in the Section 7.10 of the Listing Rules	Yes	Audit Committee Report	110
7.10.6(c)	Disclosure in Annual Report relating to Audit Committee	a) Names of the Directors comprising the Audit Committee b) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination c) The Annual Report shall contain a Report of the Audit Committee in the prescribed manner	Yes Yes Yes	Audit Committee Report Audit Committee Report Audit Committee Report	110 110 110
9.3.2	Related Party Transactions Review Committee	a) Details pertaining to Non-Recurrent Related Party Transactions b) Details pertaining to Recurrent Related Party Transactions c) Report of the Related Party Transactions Review Committee d) Declaration by the Board of Directors as an affirmative statement of compliance with the rules pertaining to Related Party Transactions, or a negative statement otherwise	Yes Yes Yes Yes	Note 25 to the Financial Statements Note 25 to the Financial Statements Report of the Related Party Transactions Review Committee Annual Report of the Board of Directors	154 154 113 116

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

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

<b>Code Ref.</b>	<b>Requirement</b>	<b>Complied</b>	<b>Reference within the Report</b>	<b>Page</b>
<b>A</b>	<b>Directors</b>			
A.1	An effective Board should direct, lead and control the Company	Yes	Board Profiles	26
A.1.1	Regular Board meetings, provide information to the Board on a structured and regular basis	Yes	Meetings & Minutes	39
A.1.2	Role and Responsibilities of the Board	Yes	Board Responsibilities	37
A.1.3	Act in accordance with laws of the Country Independent professional advice	Yes	Compliance, Board access to information and resources	40
A.1.4	Access to advise and services of the Company Secretary	Yes	Company Secretary	40
A.1.5	Independent judgement	Yes	Directors Independence	40
A.1.6	Dedicate adequate time and effort to matters of the Board and the Company	Yes	Other Business Commitments / Related Party Transactions / Conflicts of Interests	40
A.1.7	Calls for resolutions by at least 1/3rd of Directors	Yes	Meetings & Minutes	39
A1.8	Board induction and Training	Yes	Induction and training for Directors	40
A.2	Chairman and CEO	Yes	Role of Chairman and MD/CEO	40
A.3	Chairman's role in preserving good Corporate Governance	Yes	Role of Chairman and MD/CEO	40
A.4	Availability of financial acumen	Yes	Board Composition	37
A.5	Board Balance	Yes	Board Composition	37
A.5.1	The Board should include sufficient number of NEDs	Yes	Board Composition	37
A.5.2	If the Board includes only 3 NEDs, they should be independent	Yes	Board Composition	37
A.5.3	Independence of Directors	Yes	Director Independence	40
A.5.4	Annual declaration of independence by Directors	Yes	Director Independence	40
A.5.5	Annual determination of independence of NEDs	Yes	Director Independence	40
A.5.6	Alternate Directors	Yes	Board Profiles	26
A.5.7 & A.5.8	Senior Independent Directors	Yes	Senior Independent Director	40
A.5.9	Annual meeting with NEDs	Yes	Chairman meets with NEDs informally.	-
A.5.10	Recording of dissent in minutes	Yes	Meetings and minutes	39
A.6	Supply of Information	Yes	Board access to information and resources	40
A.7	Appointments to the Board and Re-election	Yes	Appointment, Re-election and Resignation	38
A.7.1	Establishing a Nomination Committee, Chairman and Terms of Reference	Yes	Hayleys PLC Nomination Committee acts on behalf of Hayleys Fabric PLC Report	-
A.7.2	Annual assessment of Board composition	Yes	Board composition is assessed when recommending Directors for Re-election.	-
A.7.3	Disclosures on appointment of new directors	Yes	Appointment, Re-election and Resignation	38
A.8	Directors to submit themselves for re-election	Yes	Appointment, Re-election and Resignation	38

# CORPORATE GOVERNANCE

<b>Code Ref.</b>	<b>Requirement</b>	<b>Complied</b>	<b>Reference within the Report</b>	<b>Page</b>
A.9	Appraisal of Board and sub-Committee Performances	No	Board is in the process of setting up a formal appraisal system	-
A.10	Annual Report to disclose specified information regarding Directors	Yes	Board Profiles Meetings Attendance Directorships in Other Companies Membership in committees	26 39 26 26
A.11	Appraisal of the CEO	Yes	Appraisal of MD/CEO	41
<b>B. Directors Remuneration</b>				
B.1	Establish process for developing policy on executive and Director remuneration.		Responsible and Fair Remuneration	41
B.2	Level and Make Up of Remuneration	Yes	Responsible and Fair Remuneration	41
B.3	Disclosures related to remuneration in Annual Report - Remuneration Policy statement - Aggregate Board remuneration paid - HRRC Remuneration Committee report	Yes	Responsible and Fair Remuneration Note 22 to Financial Statements Remuneration Committee report	41 151 112
<b>C Relations with Shareholders</b>				
C.1	Constructive use of the AGM & Other General Meetings	Yes	Constructive use of the Annual General Meeting (AGM)	44
C.2	Communication with shareholders	Yes	Communication with Shareholders	44
C.3	Disclosure of major and material transactions	Yes	Major or Material Transactions	42
<b>D. Accountability &amp; Audit</b>				
D.1	Present a balanced and understandable assessment of the Company's financial position, performance and prospects	Yes	Communication with Shareholders	44
D1.1	Balanced Annual Report	Yes	Communication with Shareholders	44
D.1.2	Balanced and understandable communication	Yes	Corporate communication	44
D.1.3	CEO/CFO declaration	Yes	Chief Executive Officer's and Chief Financial Officer's Responsibility Statement	114
D.1.4	Directors Report declarations	Yes	Annual report of the Board of Directors on the Affairs of the Company	116
D.1.5	Financial reporting -statement on Board responsibilities Statement on internal control	Yes	Directors' Responsibility for Financial Reporting Directors' Statement on Internal Control	122 121
D.1.6	Management Discussion & Analysis	Yes	Capital reports	51 - 98
D.1.7	Net Assets < 50%	Yes	In the unlikely event of the Net Assets of the Company falling below 50% of Shareholders Funds the Board will summon an Extraordinary General Meeting (EGM) to notify the shareholders of the position and to explain the remedial action being taken.	-
D.1.8	Related Party Transactions report	Yes	Directors' Interest in Contracts with the Company	40

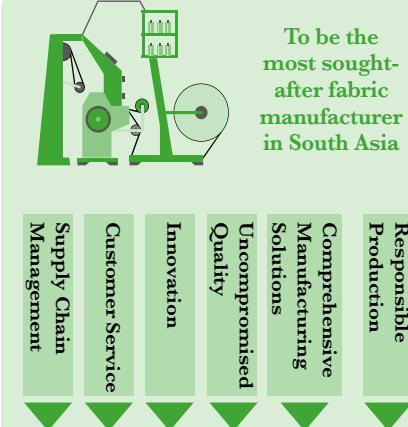
<b>Code Ref.</b>	<b>Requirement</b>	<b>Complied</b>	<b>Reference within the Report</b>	<b>Page</b>
D.2	Process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets	Yes	Risk Management and Internal control Report of the Audit Committee Directors' Statement of Internal Control	101 - 102 110 - 111 121
D.3	Audit Committee	Yes	Audit Committee Report	110 - 111
D.4	Related Party Transactions Review Committee	Yes	Related Party Transactions Review Committee report	113
D.5	Code of Business Conduct and Ethics	Yes	Code of Conduct & Ethics	42
D.6	Corporate Governance Disclosures Institutional and other investors,	Yes	Corporate Governance Report Shareholder Relations	36 44
G.	Internet of Things & Cybersecurity	Yes	IT Governance	42
H	Principals of Sustainability Reporting	Yes	Sustainability Governance	44

# “Sustainable and Responsive”

Management Discussion  
& Analysis

# CREATING VALUE

## OUR BUSINESS MODEL

OUR RESOURCES & RELATIONSHIPS	HOW WE CREATE VALUE	VALUE CREATED	CAPITAL TRADE-OFFS & INTER-DEPENDENCIES
<b>HUMAN CAPITAL</b> <ul style="list-style-type: none"> <li>Attitude, talent and skill drive innovation, efficiency and a zest for excellence</li> <li>1300 employees</li> <li>3,417 training hours</li> </ul> 	 <p>To be the most sought-after fabric manufacturer in South Asia</p> <p><b>Responsible Production</b></p> <p>From sourcing of materials to conscious consumption of water and safe and ethical working conditions for our employees, we take responsibility for our actions. We are committed to creating shared value through sustainable social and environmental practices.</p> <p><b>Comprehensive Manufacturing Solutions</b></p> <p>We offer end-to-end manufacturing solutions for an extensive portfolio of fabric which includes cotton, polyester, nylon and blends. Our services range from design to knitting, dyeing and finishing using advanced manufacturing technologies operated by a skilled team.</p> <p><b>Focus on Quality</b></p> <p>Stringent quality control checks spanning the entire value chain facilitated by State-of-the-art machinery combined with deep technical experience of employees ensures strict compliance with customer specifications.</p> <p><b>Innovation</b></p> <p>We are passionate about creating innovative products that cater to the complex needs of our customers. Our dedicated research and development team have the creativity, industry insights and technical expertise to design and develop bespoke, fashion forward, sustainable fabric in varied textures and hues.</p> <p><b>Customer Centricity</b></p> <p>In-depth customer engagement focused on understanding customer needs better has enabled us to deliver service excellence- fabric solutions that meet the expectations of high-end retail fashion brands.</p> <p><b>Flexibility, Speed &amp; Cost</b></p> <p>Robust relationships throughout our supply chain, investments in technology and lean workflows within the factory enable us to compete effectively on flexibility, speed and cost.</p>	<p><b>SUSTAINABLE SHAREHOLDER VALUE</b></p> <ul style="list-style-type: none"> <li>4% Gross profit Growth</li> <li>USD 0.09 Net Asset per share</li> </ul> <p><b>ENHANCED CUSTOMER SATISFACTION</b></p> <ul style="list-style-type: none"> <li>95% Lab to Bulk RFT</li> <li>99 new innovations &amp; product developments</li> </ul> <p><b>ENGAGED AND INSPIRED WORKFORCE</b></p> <ul style="list-style-type: none"> <li>Zero fatalities</li> <li>Training hours 3,417</li> </ul> <p><b>INCREASED SOCIO-ECONOMIC DEVELOPMENT</b></p> <ul style="list-style-type: none"> <li>Contribution to local economies /SMEs -over 2000 indirect employment opportunities created</li> <li>USD 0.3 Mn taxes paid</li> </ul> <p><b>ENVIRONMENTAL SUSTAINABILITY</b></p> <ul style="list-style-type: none"> <li>16% water recycled and reused</li> <li>63% renewable Energy</li> <li>5% increase in carbon footprint</li> <li>Zero Hazardous chemical waste</li> </ul>	<p>Financial capital is prudently allocated to maintain appropriate balance between corporate sustainability and stakeholder benefit. Disciplined capital allocation ensures our continued growth and supports our ability to add value to all other capitals</p> <p>Safety, health and skills development underpin productivity. While our top priorities are to keep our employees safe, healthy and to reach their full potential, Hayleys Fabric PLC benefits from higher productivity.</p> <p>Our communities grant our social license to operate. We invest significantly to support economic empowerment and contribute to improving the lives of those living in our local communities.</p> <p>Innovation, technology and strategic relationships underpin the profitability/ financial viability of our business operation, and attracts investment that, in turn, ensures sustainability.</p> <p>Our investment in natural capital utilizes financial capital. It is vital to protect resources for the sustainability of our business and for future generations.</p>
<b>MANUFACTURED CAPITAL</b> <ul style="list-style-type: none"> <li>State-of-the art machinery and our modern factory enables efficient and quality production</li> <li>USD 53 Mn PP&amp;E</li> <li>USD 2.9 Mn Capex investment</li> </ul> 			
<b>SOCIAL AND RELATIONSHIP CAPITAL</b> <ul style="list-style-type: none"> <li>Strong relationships underpin our reputation and the trust of key stakeholders.</li> <li>Over 4 top tier brands</li> <li>90% suppliers with Grade 1 ratings</li> </ul> 			
<b>INTELLECTUAL CAPITAL</b> <ul style="list-style-type: none"> <li>Product innovations and operational excellence systems drives our competitive advantage.</li> <li>51 Accreditations / Certifications</li> <li>USD 19,579 R &amp; D</li> </ul> 			
<b>NATURAL CAPITAL</b> <ul style="list-style-type: none"> <li>Includes critical inputs we seek to source responsibly and use efficiently.</li> <li>1,898,977 M<sup>3</sup> water consumption</li> <li>90.4 energy intensity (GJ/ MT of production)</li> </ul> 			
<b>FINANCE CAPITAL</b> <ul style="list-style-type: none"> <li>We are disciplined in allocation of our financial capital. Cash from operations, debt and equity fund our growth.</li> <li>USD 18.4 Mn Equity</li> <li>USD 16.8 Mn Debt</li> </ul> 			

# CREATING VALUE

## STAKEHOLDER IDENTIFICATION

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

## STAKEHOLDER ENGAGEMENT

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

	 Brand Owners & Apparel Manufacturers	 Investors	 Employees
Importance	Engagement with global tier1 brand owners and apparel manufacturers drives innovation and supports our growth	Investor Relations is a structured process with sign off by the Board on written communications	Managing employee relationships is key to driving growth, innovation and productivity
Engagement Mechanisms	<ul style="list-style-type: none"> <li>Multi layered relationship management</li> <li>Visits</li> <li>Trade Exhibitions &amp; Fairs</li> <li>Customer survey</li> <li>Quality &amp; Performance Review</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly Financial Statements</li> <li>Press Releases</li> <li>Annual Report</li> <li>Annual General Meeting</li> <li>CSE Announcements</li> </ul>	<ul style="list-style-type: none"> <li>Open-door policy</li> <li>Formal performance appraisals</li> <li>Regular meetings with trade unions</li> <li>Communication of Company performance</li> </ul>
Concerned Focus	<ul style="list-style-type: none"> <li>Innovations</li> <li>Product quality</li> <li>Lead times</li> <li>Environmental footprint</li> <li>Labour practices</li> <li>Sustainable supply chain</li> <li>Price competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>Earnings &amp; Dividends</li> <li>Growth prospects</li> <li>Environment &amp; Social impact</li> <li>Governance</li> <li>Share price and liquidity</li> </ul>	<ul style="list-style-type: none"> <li>Remuneration</li> <li>Employee benefits</li> <li>Conducive workplace</li> <li>Training &amp; Development</li> <li>Career progression</li> <li>Health and safety</li> </ul>
How we managed	<ul style="list-style-type: none"> <li>Invested in R&amp;D center</li> <li>Invested in technology upgrades</li> <li>Engaged in Lean manufacturing processes</li> <li>Continuation of TPM</li> <li>Obtained new accreditations</li> <li>Employee training and development</li> <li>Employee engagement</li> <li>Maintained good industrial relations</li> <li>Enhanced Biodiversity, environmental practices</li> <li>Strengthened supply chain</li> </ul>	<ul style="list-style-type: none"> <li>Innovations and new product developments</li> <li>Increased penetration with existing buyers</li> <li>New buyers</li> <li>Improved productivity and cost efficiencies</li> <li>Improved social and environmental practices</li> <li>Obtained new accreditations</li> <li>Submission of Financial and other reports within time line</li> </ul>	<ul style="list-style-type: none"> <li>Benchmarked remuneration and benefits to industry stats</li> <li>Fair and transparent performance appraisal system</li> <li>Adhered to the collective bargaining agreement of 2019/20</li> <li>Employee engagement initiatives</li> </ul>
Outcomes	<ul style="list-style-type: none"> <li>Better understanding of our business model, our strengths and values.</li> <li>Increased awareness of our commitment to sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>Good relationship with shareholders</li> <li>Positive reputation amongst investors</li> </ul>	<ul style="list-style-type: none"> <li>Better understanding of Company policies, performance and management decisions</li> <li>Inclusivity in decision making</li> </ul>
Report Reference	Satisfying Our Customers pages 80 to 82	Sustainable Shareholder Value Pages 63 to 66	An Inspired Team Pages 83 to 89

	 Suppliers	 Regulators	 Community
Importance	Large scale suppliers are assessed for environment and social practices and are typically accredited by brand owners while SMEs in the vicinity are given preference for ancillary services	We engage with government agencies to ensure compliance with regulatory requirements	As a responsible corporate, our engagements with the community are multi-faceted: as an employer, a responsible manufacturer and through strategic philanthropy
Engagement Mechanisms	<ul style="list-style-type: none"> <li>• Relationship management</li> <li>• Feedback</li> <li>• Supplier assessment forms</li> <li>• Visits</li> </ul>	<ul style="list-style-type: none"> <li>• Visits to premises</li> <li>• Filing of returns</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement with religious leaders</li> <li>• Workshops</li> <li>• Village festivals</li> <li>• Village Schools</li> <li>• Village Sundry buyers and sawdust suppliers</li> </ul>
Concerned Focus	<ul style="list-style-type: none"> <li>• Capacity</li> <li>• Timely payments</li> <li>• Constructive feedback</li> <li>• Social and environment conformity</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance with regulations</li> <li>• Timely payments</li> <li>• Environmental protection</li> </ul>	<ul style="list-style-type: none"> <li>• Employment</li> <li>• Livelihoods - Empowering youth and women</li> <li>• Water conservation</li> <li>• Waste management</li> <li>• Sponsorships</li> </ul>
How we managed	<ul style="list-style-type: none"> <li>• Established procurement committee</li> <li>• Shared sustainable social and environmental practices</li> </ul>	<ul style="list-style-type: none"> <li>• Finance division monitors compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Offered ancillary services to SME in the vicinity.</li> <li>• Operating responsibly and sustainably, and addressing issues that are material for our local communities</li> <li>• Identified philanthropic initiatives</li> </ul>
Outcomes	<ul style="list-style-type: none"> <li>• Social and environmental compliance throughout the supply chain</li> <li>• Good relationship with shareholders</li> </ul>	<ul style="list-style-type: none"> <li>• An opportunity to share the Hayleys Fabric PLC's commitment, policies and procedures towards sustainable operations</li> </ul>	<ul style="list-style-type: none"> <li>• Increased awareness of the Company's sustainability commitments</li> <li>• Increased trust and built stronger relationship with Hayleys Fabric PLC</li> </ul>
Report Reference	Advanced Technology and Strong Networks - pages 90 to 94 and 95 to 98	Corporate Governance - pages 34 to 49 Respect for the Environment pages 71 to 79	Community Advancement - pages 97 to 98 Respect for the Environment pages 71 to 79

# OPERATING ENVIRONMENT

Sluggish economic growth witnessed throughout 2019, both locally and globally, weighed on business sentiment. Amidst slower growth in key traditional markets, Sri Lanka's apparel and textile exports grew moderately by 5.2%. The industry leveraged its proven track record to capitalize on the growing fashion industry trend towards increased demand for sustainable sourcing and supply chain transparency.

## GLOBAL ECONOMIC ENVIRONMENT

Global growth continued to decline in 2019, falling to 2.9% from 3.6% in 2018. Rising trade barriers and associated uncertainty weighed on business sentiment and activity globally, lending to slowdowns already being experienced in some economies. Country-specific factors such as geopolitical tensions, social unrest and tighter financial conditions also impacted growth. By end 2019, the global economy reflected signs of stabilizing influenced by a bottoming out of manufacturing activity and trade, a broad-based shift toward accommodative monetary policy, improved signs of US-China trade negotiations and diminished fears of a no-deal Brexit.

USA, Sri Lanka's main apparel export market and China, the largest global exporter of apparel and textiles and Sri Lanka's key import market for fabric, both witnessed slower growth in 2019, attributed to the trade war between the two nations. Growth in the Eurozone and UK, Sri Lanka's other key apparel export destinations also declined, plagued by trade war tensions and political uncertainty.

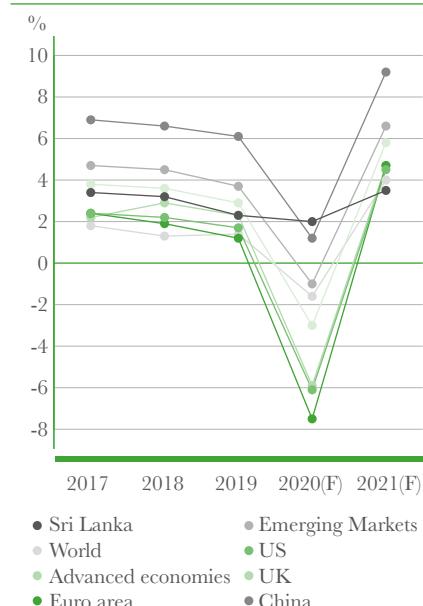
The mild recovery at end 2019 was set back following the pandemic outbreak of Covid-19 in December 2019 in China and subsequent outbreaks in

other countries. Containment measures including restrictions on movement and factory closures contracted manufacturing and domestic demand in China and had ripple effects on other economies given China's role in global supply chains, travel and commodity markets. Subsequent national lockdowns across the world has shocked global economic activity and financial markets, with the crisis predicted to be the worst financial downturn since Great Depression of 1929-1933. The IMF – World Economic Outlook April 2020 report has predicted global growth to drop to -3% in 2020 from 3.3% forecast before the crisis.

## Oil Prices, Interest Rates and the US Dollar

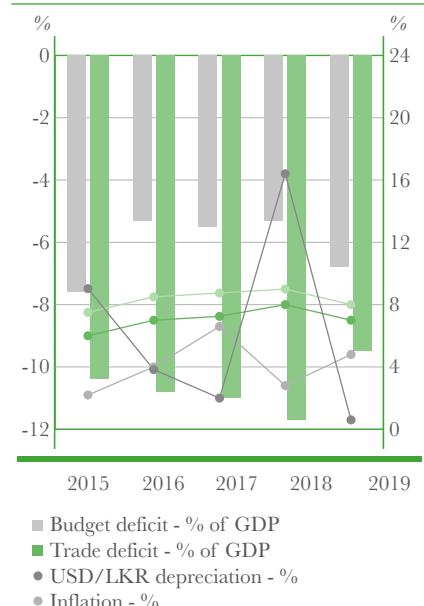
Crude oil prices remained lower than 2018 but volatile during the year, impacted by slower than expected global growth and rising non-OPEC supply, particularly from the US. Brent averaged \$64/b in 2019 (USD 71/b in 2018) and is expected to drop to 43/b in 2020. The USD also benefited from the slowing global growth, strengthening amidst a stronger U.S. economy relative to others. US Federal Reserve Monetary policy was maintained during the year and interest progressively reduced to stimulate growth.

## Global GDP Growth



Source: IMF World Economic Outlook, Jan 2020  
& CBSL Annual Report 2019

## Sri Lanka Economic Indicators



Source : CBSL Annual Report 2019

## SRI LANKAN ECONOMY

2019 was marked by political and policy uncertainty exacerbated by terror attacks on Easter Sunday. Economic growth continued to decelerate, with GDP reflected at 2.3% compared to 3.2% in 2018.

Industrial activities recorded the highest growth expanding 2.7% ( 2018 – 1.2%) while Services, which contributes the largest component to GDP, grew 2.3% and Agricultural activities 0.6%.

The economy showed signs of turnaround at the beginning of 2020 as a result of fiscal and monetary stimulus and the return of business confidence after the presidential election in November 2019. However, economic activity has since been severely impacted following the Covid-19 pandemic outbreak in the country in March 2020 and the imposing of an island wide curfew to contain the spread of disease. Please refer Way Forward - pages 99 to 100.

### Inflation

- NCPI based Headline inflation increased to 7.0 % at end March 2020 from 2.9% a year ago, largely due to an increase in food inflation driven by adverse weather conditions. Core Inflation was however contained within the 4-6% target range throughout much of the year, declining to 3.2% by end March (CBSL Annual Report 2019)

### Trade Account

- The trade deficit was contained to USD 8 Bn compared to USD 10.3 Bn as at 31st December 2018, following a sharp contraction in import expenditure by 10.3% to USD 19.9 Bn on measures taken to curtail import of motor vehicles. Exports grew marginally by 0.4% to USD 11.9 Bn in 2019. Textiles and garments were the main contributors, accounting for 47% of exports and valued at USD 5.6 Bn (5.2% growth from 2018)

### Exchange rate and Gross Reserves

- The Sri Lankan Rupee remained relatively stable appreciating 0.6% against the USD during 2019 and depreciating sharply by 9.1% YoY as at April 09,2020 following the COVID-19 crisis. Gross official reserves stood at US dollars 7.6 billion at end December 2019, equivalent to 4.6 months of imports.

### Interest rates

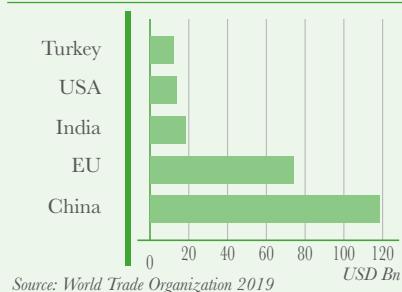
- The Government maintained its accommodative monetary policy stance during the year, in a bid to contain inflation in the 4-6 % range while supporting economic growth to reach its potential over the medium term. SDFR and SLFR Interest rates declined from 8% and 9% respectively at beginning of April 2019 to 6.25% and 7.25% by end March 2020.

# OPERATING ENVIRONMENT

## GLOBAL FASHION INDUSTRY

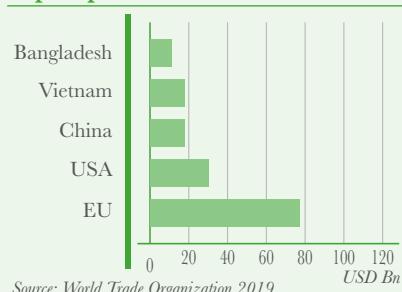
Global textile exports grew 6.4% to USD 315 Bn in 2018 while apparel exports grew 11.1% to USD 505 Bn. (Source: World Trade Statistical Review 2019, WTO).

### Top Exporters of Textiles - 2018



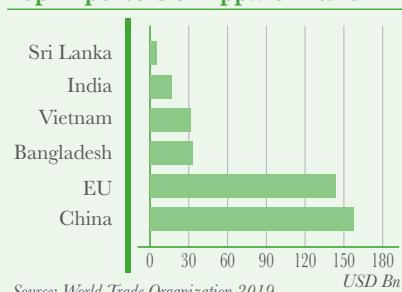
Top three account for 67% of world textile exports. China's market grew 8% (2017- 5%) to USD 118.5 Bn. Reflects China's rising role as a key textile supplier to many apparel manufacturing countries in Asia, including Sri Lanka.

### Top Importers of Textiles - 2018



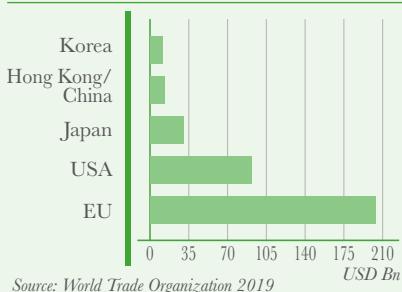
Top 3 importers have progressively lost market share attributed to fashion brands cost efficiency strategy to shift sourcing of textiles closer to the apparel manufacturing facilities.

### Top Exporters of Apparel - 2018



Although China remains the largest exporter, it has continuously lost market share over the past years, attributed to fashion brands and retailers' sourcing diversification strategy as well as China's own strategy of exporting less apparel and more textiles.

### Top Importers of Apparel - 2018



The expanded list includes several emerging market economies with increased purchasing power.

Top 2 importers are Sri Lanka's key buyers.

## Fashion Industry and Trends

Valued at USD 481.2 billion in 2018, the fashion industry is forecast to grow considerably between 3.5% to 4.5% in 2019 from expansions in emerging markets in Asia, particularly China and India. However, following the Covid-19 pandemic outbreak in December 2019 and subsequent spread of the virus across key markets, the fashion industry is expected to contract by 27% to 30 % in 2020 reflecting its reliance on consumer discretionary spending. A gradual recovery of 2 to 4 percent is forecasted for 2021. (The State of Fashion 2020 Corona Virus Update; McKinsey). Please refer-Way Forward - pages 99 to 100.

Key challenges faced by the fashion industry and their supply chains, prior to the pandemic outbreak and which shaped the Company's strategic plan in 2019/20, include the following.

### Consumer Shift

 Consumer shift towards more Transparency, Caring and Sustainability

### Sustainability

 73% of Millennials are willing to pay for more sustainable brands

### Material Revolution

 Innovative materials from natural fibers or harmful waste

### Social Responsibility

 Diversity, inclusion and ethical sourcing in the value chain

## 1. Consumer shifts

**Seeking out companies that employ socially and environmentally sustainable practices, millennial will purchase only from brands aligned to their values.**

Millennial represent the largest group of consumers and are the driving force behind the future of fashion, shaping the industry to meet their needs. They and Gen Z, are increasingly environmentally conscious and value-oriented, switching to and purchasing only from brands that align with their values. Digitally savvy, these generations are well connected and engage in extensive research to be comprehensively informed about the brands, fabric and styles they're interested in. To survive, industry players needed to respond to millennial needs and adopt a more transparent, caring and sustainable approach to business.

## 2. Environmental Sustainability

**According to a 2015 Nielsen Study, 73% of millennial are willing to pay more for sustainable brands.**

The global fashion industry is exceptionally energy-consuming, polluting and wasteful. The UN Conference on Trade and Development (UNCTAD) has considered the industry to be the second most polluting in the world. In its report, UNCTAD has identified that every year, the fashion industry, consumes 93 Billion M<sup>3</sup> of water – sufficient to meet the needs of five million people, dumps half a million tons of microfiber, equivalent of 3 million barrels of oil into the ocean and is responsible for carbon emissions exceeding all international flights and maritime shipping combined.

Consumers are demanded imminent change and a shift to more sustainable practices. Fashion players needed to engage in meaningful action and regulatory compliance. Opportunities arising from the transformation included material development, circular economy, upcycling, recycling, blockchain traceability of garments and new emerging business models such as rental and resale of garments.

## 3. Materials Revolution

As a growing commitment to sustainability, luxury brands have increasingly begun exploring the use of innovative sustainable materials in collaboration with textile companies, as an alternative to the standard and often harmful materials used widely in the industry. Although the absolute number of mass-market products made from sustainable materials remains low, there has been a significant increase over the past two years. Sustainable substitutes include re-engineered fabric such as recycled polyester, bio-degradable fabric and high-tech materials that deliver on aesthetics and function such as Piñatex, an alternative to leather made of pineapple leaf fibers and new polymers created from recycling of ocean plastic waste. The sustainability of cotton and its 'eco-friendlier' form organic cotton is largely disputed considering their excessive water footprint in cultivation and process. While these new fabric are costlier than their standard counterparts, many have gained traction as commercially viable options, with whole ranges being promoted by reputed retailers.

## 4. Social Responsibility

Consumers are calling for the industry to become more socially responsible. They seek brands who embody the values of diversity and inclusion and proactively advocate ethical sourcing. Within the supply chain, 80% of apparel is produced by young women between ages 18 to 24 and many of whom live in poverty and are often exploited. Consumers are

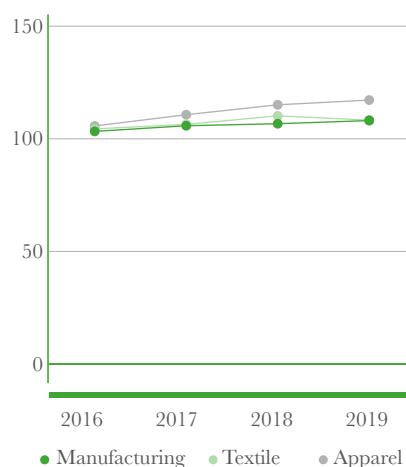
placing increasing pressure on fashion companies to ensure satisfactory wages, working hours and working conditions within their supply chains boycotting brands that do not comply.

## TEXTILE AND APPAREL INDUSTRY IN SRI LANKA

Apparel and textile leads Sri Lanka's exports, growing 5.2% to USD 5,596.5 Mn in 2019 and accounting for 47% of the country's total exports. (2018 – USD 5,318Mn, 45%) (CBSL – External sector performance Dec. 2019).

Sri Lanka's main apparel market is the USA, sourcing 45 % of total apparel exports, followed by the EU 27% and UK 15 %. Exports to EU grew by 5.0% (2018-3.9%) to USD 2.2 Bn as the country benefited from re-entry to the GSP plus scheme in May 2019.while exports to the United States slowed to 3.3% (2018-5.7%) attributed to lower consumer demand from trade tensions with China. Exports to nontraditional markets such as Canada, United Arab Emirates, Australia and Japan grew at a comparatively faster pace to 2018, as the country sought to diversify its export base.

## Index of Industrial Production (2015=100)



Source: Department of Census & Statistics 2019

**Index of Industrial Production (IPP) which represents the status of production in the industrial sector, reflected a marginal growth of 1.3%. IPP of textiles contracted 1.7% while apparels grew 1.9% respectively**

# OPERATING ENVIRONMENT

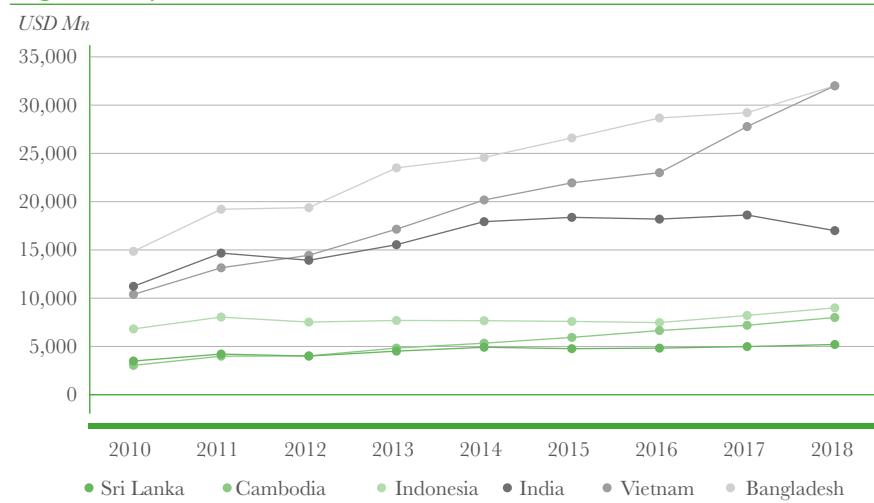
The industry comprises approximately 300 apparel manufacturers and 4 large scale fabric mills, of which Hayleys Fabric PLC was a pioneer. Fabric mills mainly supply local apparel manufacturers, partially substituting textile imports. The Sri Lankan apparel and textile industry has nurtured a reputation of being a strategic supply chain partner to reputed global brands including Nike, Victoria's Secret, Intimissimi, Next, Gap, Speedo and Tommy Hilfiger; building competitive edge on value-addition with greater emphasis on innovation and design, product quality, on time delivery and ability to manufacture niche products. Positioned as Garments Without Guilt, attention to sound social and environmental policies and practices has been a key differentiator

## Apparel Export Markets



Source: Sri Lanka Apparel Exporters Association 2019

## Regional Players

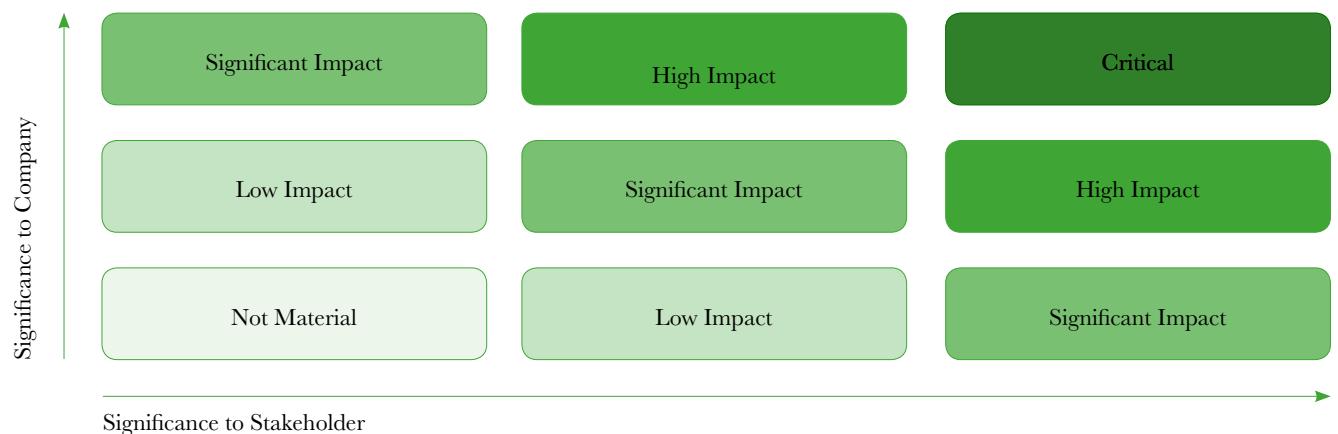


Source: World Trade Organization 2019

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

# DETERMINING MATERIAL ISSUES

Our material issues are those that matter most to our stakeholders and subsequently impact on Hayleys Fabric PLC's value drivers, competitive position and long-term value creation. We assess our material issues annually to fully understand how to manage the risks and opportunities they present. We believe the issues identified below are the most relevant and have been evaluated and prioritized as summarized in the heat map and table below, considering their significance to stakeholders and economic, social and environmental impact to the Company.



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

## REFLECTING CHANGES IN 2019/20

The heat map was reviewed to reflect the Company's current business operations and the impact from industry trends discussed under Operating Environment - pages 54 to 58

Factor	Shifted from	Shifted to	Reason
Emissions	Significant impact	High Impact	Strong industry call for climate action.
Product Responsibility	Critical	High Impact	Hayleys Fabric PLC's flexibility to select organics cotton or recycled polyester yarn is limited, given discretion is mainly with the ultimate buyer, the retail brand.

# FOCUS ON STRATEGY

## STRATEGY

Following a medium-term strategic plan, Hayleys Fabric PLC has successfully established itself as a niche supplier of innovative, bespoke fashion forward fabric to selective high-end retailers. Firmly ahead in technology, innovations, complexity, diversity, speed, quality, price and service levels, the Company was recognized last year by a distinguished American brand as the leading innovative fabric supplier in Sri Lanka. This year, the Company continued to build on its success, consolidating Company's position by strengthening relationships and fine tuning internal processes to cater to customer needs better.

### STRATEGIC DRIVERS: Includes Value Created from business model (Page 51)



**Sustainable Shareholder Value**  
(refer pages 63 to 66)



**Responsible Innovation**  
(refer pages 67 to 70)



**Respect for the Environment**  
(refer pages 71 to 79)

Goals	Drive Revenue growth and cost efficiency	Grow Inno brand	Improve Corporate Responsibility
Strategy	<ul style="list-style-type: none"> <li>• Increase penetration with existing buyers</li> <li>• Engage in lean manufacturing processes</li> <li>• Incentivize labour productivity through training, rewards</li> <li>• Invest in new technology, Improve cost efficiencies, productivity</li> </ul>	<ul style="list-style-type: none"> <li>• New Inno product developments</li> <li>• Invest in R&amp;D, dedicated R&amp;D centre</li> <li>• Stimulate learning culture</li> </ul>	<ul style="list-style-type: none"> <li>• Improve environmental impact</li> <li>• Increase accreditations</li> <li>• Compliance with CEA</li> </ul>
Key Performance Indicators (KPI)	Growth in Revenue from Inno and developments 	Product developments 	Accreditations 
	GP Growth 	Inno sales % of total sales 	Recycled Water 
	ROCE 	R&D expenditure 	Renewable energy 



Invest in smart technology, state-of-the art machinery	Focus on customer centricity	Nurture motivated and productive employees	Build mutually beneficial relations with industry partners
<ul style="list-style-type: none"> <li>• Invest in Training</li> <li>• Invest in and upgrade to new technology</li> </ul>	<ul style="list-style-type: none"> <li>• Close customer engagement to understand needs better</li> <li>• Enhance customer value proposition</li> <li>• Quality, speed, flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Fair remuneration</li> <li>• Employee engagement</li> <li>• Invest in training and development</li> <li>• Career progression</li> <li>• Health and safety</li> </ul>	<ul style="list-style-type: none"> <li>• Purchase from local suppliers</li> <li>• Employees from local communities</li> <li>• CSR initiatives</li> </ul>



# ECONOMIC VALUE ADDED - SUPPORTING ECONOMIC GROWTH

## VALUE ADDED STATEMENT

Total value added by the Company increased 2.16% driven by growth in volumes of new and innovative value added synthetic fabric. The highest amount of wealth generated was distributed amongst its employees accounting for 64% of total, an increase of 0.4% compared against the previous year. Distributions to employees increased by 1% reflecting business growth while distribution to lenders of capital decreased by 20%.

## FOREIGN EXCHANGE GENERATION TO THE COUNTRY, IMPORT SUBSTITUTE

As an exporter of fabric, the Company contributed USD 66.8 Mn to the national foreign reserves during the year, accounting for approximately 2.3% (2018/19 -2.4%) of the country's textile exports.

The Company's contribution as an import substitute, saving valuable foreign exchange to the country is equally poignant, particularly during periods the government placed policy measures to

curtail import expenditure and narrow a widening trade deficit. During 2019, import of national textiles and textile articles grew 1.8% to USD 2,909Mn (CBSL External sector Performance -Dec 2019)

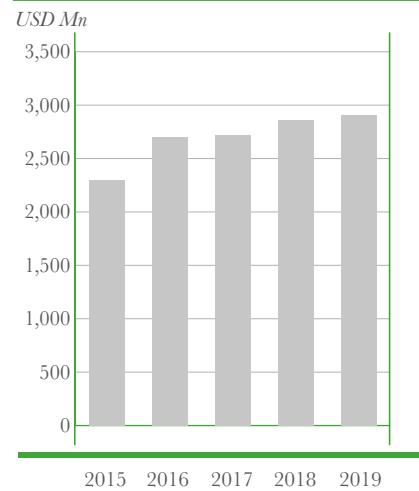
Our role in import substitution in strengthening Sri Lanka's position as a strategic apparel sourcing destination is significant, given the importance of the Apparel industry to the economy. Benefits to the overseas buyers is reflected in the potential saving in cost and lead time stemming from close proximity to the apparel manufacturers and the reliable supply of quality, innovative fabric produced under environmentally and socially sustainable practices.

## SOCIO ECONOMIC UPLIFTMENT OF LOCAL COMMUNITIES

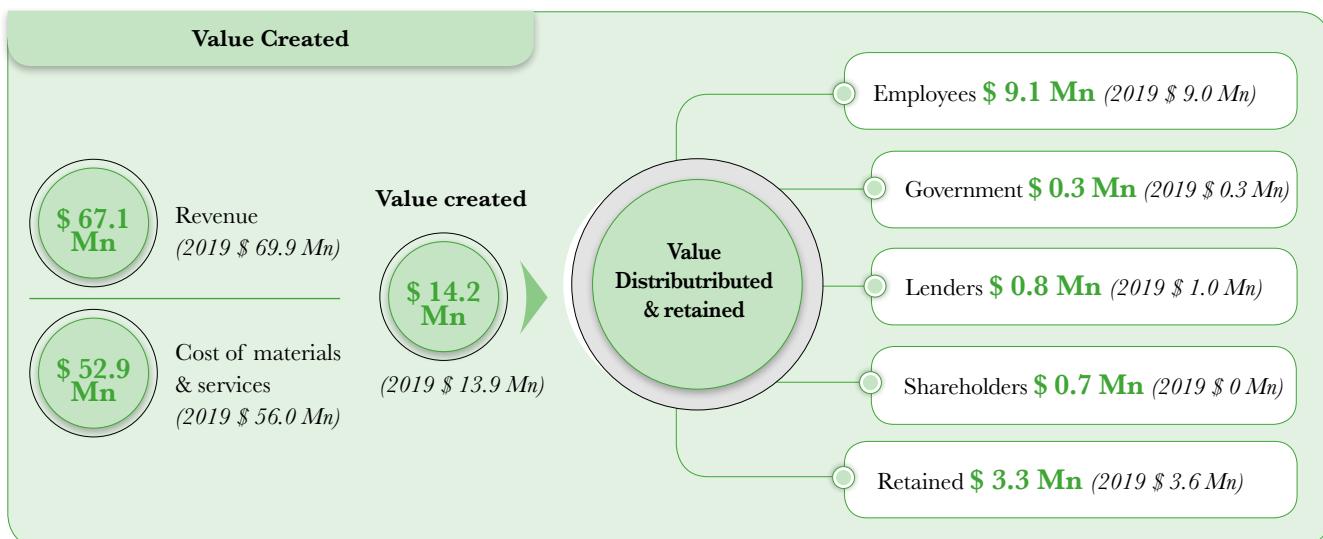
The Company contributes economically with a number of positive social impacts as well. As the main employer within a 15 km radius we provide employment directly and indirectly to over 3,000 persons. When recruiting, we give preference to persons

from the local community. Currently 66% of our employees are from within the area. We also contract with local suppliers whenever possible in sourcing materials and services, contributing to the empowerment of Small and Medium Enterprises (SME). Most of our local suppliers are SME to whom we made payment for USD 16 Mn, during the year.

## National Textile Imports



Source: CBSL External sector Performance -Dec 2019



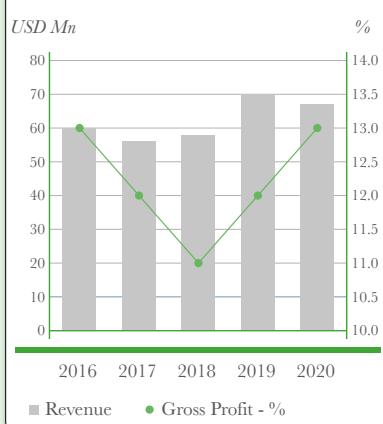
# SUSTAINABLE SHAREHOLDER VALUE

**Strategic Driver**  
page 60

Prior to the Covid-19 outbreak in March 2020, Hayleys Fabric PLC performed commendably in a challenging operating landscape, characterized by a weak domestic macro-economic environment and damped consumer confidence in key export markets. The Company's business model proved that it can be resilient and effective, in delivering sustainable shareholder value. Revenues from higher value-added fabric of Inno and new product developments grew 50% year on year, expanding profitability and generating a higher return on capital. However, factory closure in March 2020 on account of the island-wide curfew disrupted operations, resulting in loss in revenue, lower profits and increased gearing by year end.

## HIGHLIGHTS 2019/20

### Revenue & Profit



### GP Growth

+ 4%

### PBT – USD Mn

1.7

### Total Assets – USD Mn

49

### Gearing

● Equity

● Borrowings

48%  
52%

### ROCE

7%

### Managing Financial Capital

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

### Strategic Priorities

Drive top line growth of Inno

Drive cost management across the value chain

Optimize working capital & cash management

Optimize capital funding

Enhance shareholder returns

### Contribution to Sustainable Development Goals



We share our value-added with key stakeholders and contributes towards alleviating poverty.

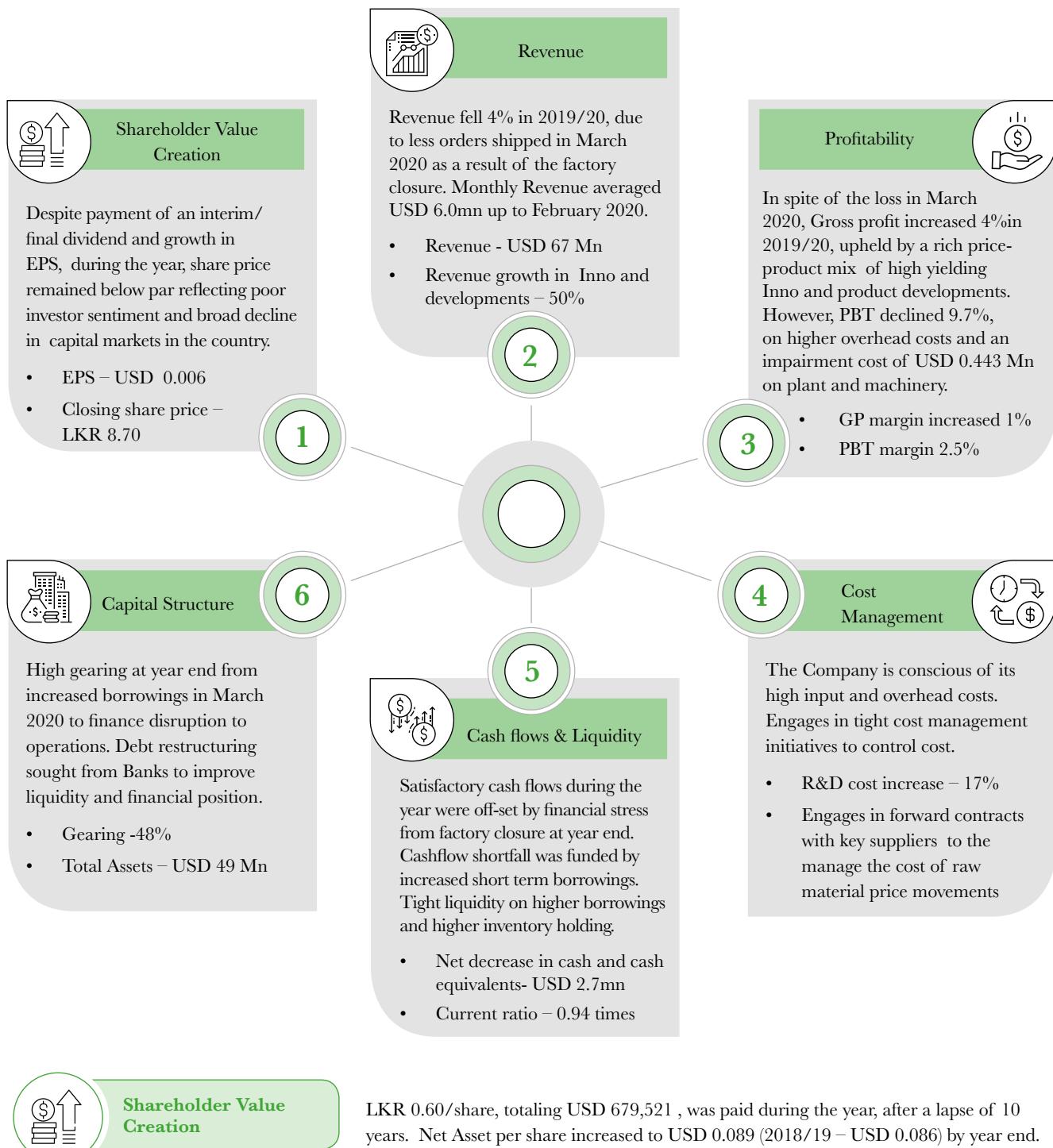
### Relevance to Capitals



Finance Capital

# SUSTAINABLE SHAREHOLDER VALUE

## HOW WE CREATED VALUE IN 2019/20



### Shareholder Value Creation

Despite the challenging industry landscape, Hayleys Fabric PLC continued to generate sustainable shareholder returns with earnings per share increasing to USD 0.006 (from USD 0.005) during the year. An interim and final dividend of

LKR 0.60/share, totaling USD 679,521, was paid during the year, after a lapse of 10 years. Net Asset per share increased to USD 0.089 (2018/19 – USD 0.086) by year end. However, the share remained below par during the year, reflecting the broad market decline and weak investor sentiments in the Colombo bourse.

Critical	2020	2019
Earnings per share - USD	0.006	0.005
Return on equity - %	7%	6%
Return on Capital Employed - %	7%	8%
Net assets per share - USD	0.09	0.09
Market price of share as at 31st March - LKR	8.70	8.50

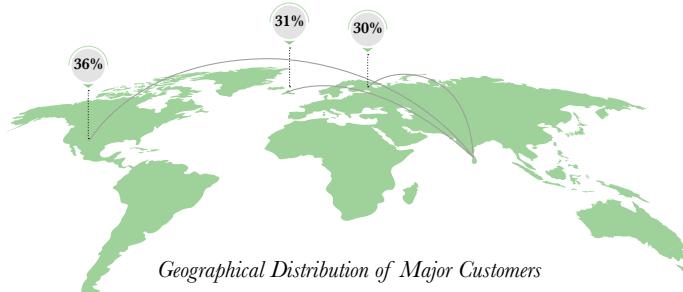


### Revenue

Total revenue declined by 4% to USD 67 Mn ( 2018/19- 70 Mn ), largely due to delayed shipment of over USD 4Mn worth orders in March 2020, on account of the closure of the factory stemming from the island-wide curfew to contain the Covid-19 outbreak. Enhanced earnings in 2018/19 from outsourced production of a portion of lower margin orders which was discontinued in 2019/20 as the Company moved to high value orders in line with the business strategy, also contributed to the reduction.

Over the past two years, we focused on aligning our customer centric business approach to the supply chain strategies of selected high-end retail brands and gaining their confidence by developing new and innovative product offerings of synthetic fabric that satisfied their requirements. This year, we capitalized on our efforts and successfully secured the customer base at the required volumes. Inno and new developments accounted for 62% of total revenue, a sharp increase from 40% a year ago.

Athleisure remained our Company's key product line and USA the largest market followed by UK and Europe. Synthetics accounted for 54% of revenue ( 2018/19 -42%).



### Profitability

Hayleys Fabric PLC's profitability strengthened during the year. Gross profit margin widened to 13.0% (2018/19 – 11.9%) upheld by a richer revenue product mix driven by increased sales of high yielding Inno and product developments. However, Pre-tax profit declined by 9.7% to USD 1.7 Mn on account of higher overheads and an impairment charge of USD 0.44 Mn ( 2018/19 – USD 0.10 Mn ) on plant and machinery. PAT increased to USD 1.3 Mn (2018/19 – USD 1.1 Mn) due to recognizing Economic Service Charge paid during the year as recoverable. Income tax expense in 2018/19 included irrevocable Economic Service Charge of USD 0.3 Mn.



### Cost Management

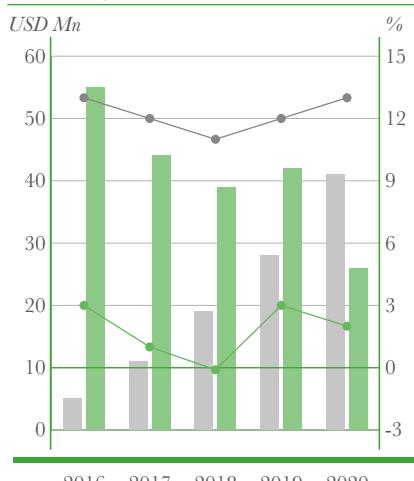
Raw materials comprising yarn, greige, chemicals and dyes account for approximately 71% of Cost of Sales. Reduction in raw material cost stemming from the progressive shift in product mix from cotton to polyester and an overall reduction in global cotton and polyester commodity prices during the year, mainly contributed to the lower Cost of Sales.

The Company is conscious of its input costs, critically managing materials through initiatives including;

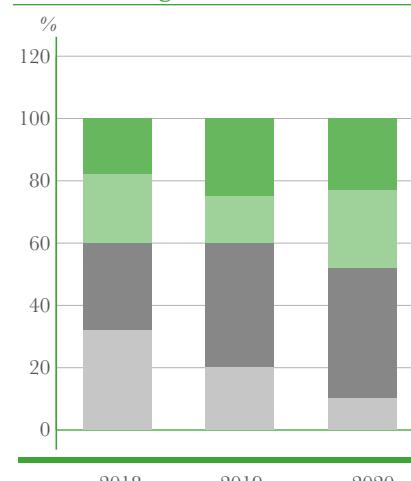
- Monitoring yarn global price movements and placing forward bookings, when required with key suppliers
- Collaborating with suppliers to develop substitute dyes without compromising quality
- Engaging in Research and development with suppliers to find cost effective substitutes

Forex gains on conversion of USD to LKR to settle local payments including energy and labour; energy saving initiatives and implementation of lean processes and productivity improvements across the factory also supported the reduction in cost

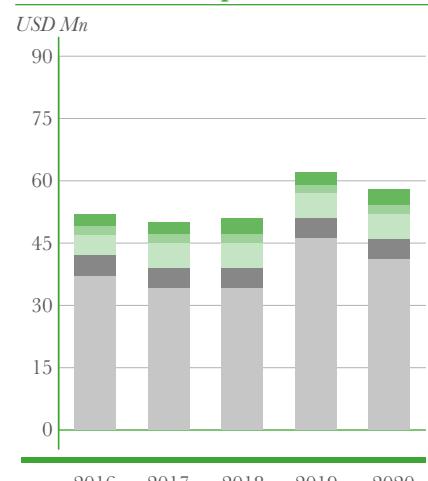
### Revenue, GP & PBT



### Product Categories



### Cost of Sales Composition



- Revenue from Inno & Developments - USD Mn
- Revenue from Other Products - USD Mn
- Gross Profit - %
- PBT - %

- Babywear
- Athleisure
- Lingerie (Intimates)
- Others

- Raw material
- Energy
- Labour
- Depreciation
- Others

# SUSTAINABLE SHAREHOLDER VALUE

of sales. The Wastage Monitoring Division continued to drive identification, monitor and control of production related wastage in all Departments while the TPM (Total Productive Maintenance) programme implemented in prior years benefited lower machine down time and productivity gains.

## Global Cotton & Synthetic Yarn Prices



Source: The United Nations, Comtrade database 2020

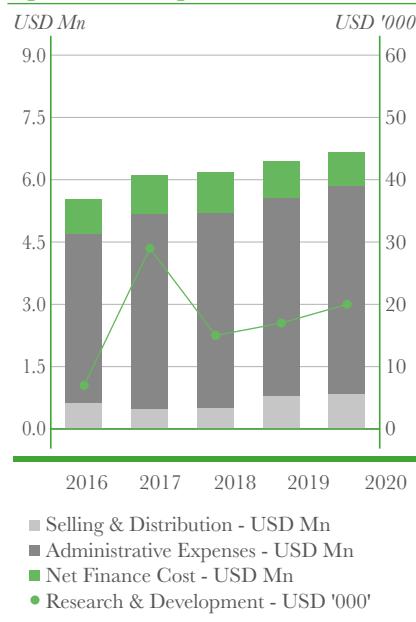
## Overheads

Investments in Research and Development costs expanded 17% year on year, reflected under Administration expenses, as we prioritized resources to drive strategy and expand our product portfolio. Consequently, Operating Expenses grew by 8%.

Net Finance Costs retracted by 10% due to an overall settlement of debt and lower USD interest rates on borrowings.

Spend across other areas was broadly unchanged, reflecting the high levels of cost consciousness and tight cost management exercised by the Company.

## Operational Expenses

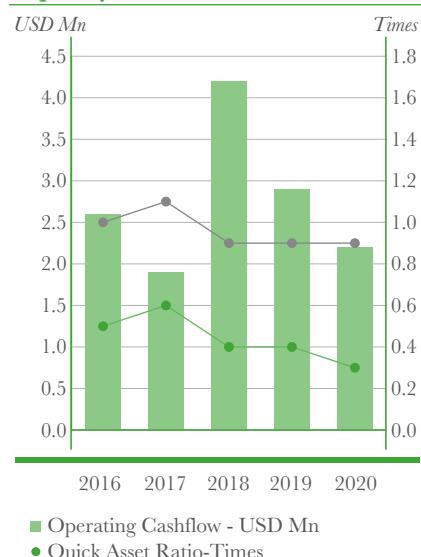


## Cashflows and liquidity

The Company maintained tight control of its working capital during the year. However, factory closure and disruption to operations in March 2020 resulted in the Company borrowing short term loans to finance overheads and other requirements. Net cash and cash equivalents were negative expanding USD 2.7 Mn from USD 0.94 Mn in 2018/19.

Current ratio improved to 0.94 times (2018/19 – 0.93 times) and Quick assets ratio declined to 0.33 times (2018/19- 0.39 times) by year end. High inventory holding over the past two years has impacted liquidity ratios. However, high inventory is inherent of an agile supply chain capable of delivering on speed orders from high end customers. Apart from factory closure, higher stock holding in March 2020 was also attributed to increased raw material imports towards year end. Considering past experience in disruption to supply chain on account of the Chinese New Year in February and spill-over effects to the Sinhala and Tamil New Year in April, this year, the Company imported higher but prudent quantities of raw materials sufficient to fulfill customer order pipeline up to May/ June 2020.

## Liquidity



- Selling & Distribution - USD Mn
- Administrative Expenses - USD Mn
- Net Finance Cost - USD Mn
- Research & Development - USD '000'

## Capital investments

Hayleys Fabric PLC regularly invests in plant and machinery to expand capacity and/ or upgrade technology. This year, investments were made in branded knitting machines for over USD 1 Mn, funded through a mix of equity and debt. Further, the Company is in the process of finalizing documentation to lease a land and factory building from the Board of Investment of Sri Lanka (BOI) on a 30 year term, for the expansion of the knitting line. Capacity is expected to increase by 18%. Asset turnover fell to 2.64 times (2019 – 2.82 times) attributed to the lower revenue.

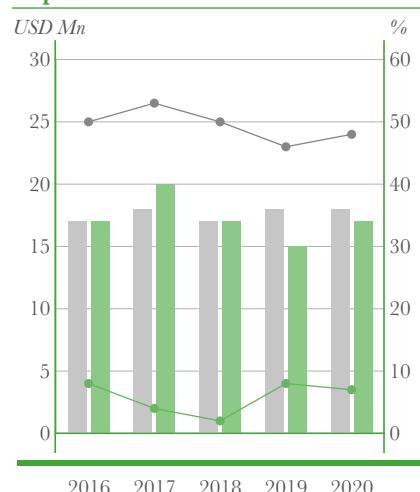


## Capital Structure

Capital structure which had strengthened on the back of higher profits and lower debt (from settlements), throughout the year, was shaken by the COVID-19 pandemic outbreak by year end. Gearing deteriorated to 48% (2018/19 – 46%) from increased short term borrowings, to finance working capital and overheads in March 2020 while Return on Capital Employed (ROCE) fell to 7% (2018/19 – 8%).

The Company will seek financial relief including debt moratoria offered by the Government via banks and financial institutions, to affected industries, to improve its liquidity and financial position. (Please refer Way Forward – pages 99 to 100)

## Capital Structure



- Equity - USD Mn
- Total Borrowings - USD Mn
- Gearing - %
- ROCE - %

# RESPONSIBLE INNOVATION

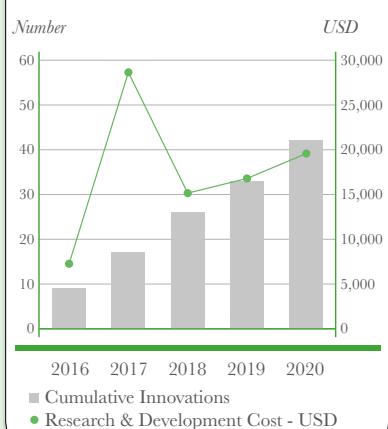
**Strategic Driver**  
page 60

*"When it comes to environmental impact, Materials Matter Most. About 60% of the environmental impact of a pair of Nike shoes is found in the materials used to make them." NIKE- Sustainability.*

As a textile manufacturer, our focus this year was to design and develop materials with sustainability in mind, as part of our responsibility towards creating a better future for all.

## HIGHLIGHTS 2019/20

### Innovations



### New Products

+ 9

### Cumulative Products

42

### Inno Revenue

3%

### Brand



### R&D Cost

+17%

### Management Approach

Innovation underpins the profitability and sustainability of our business. We invest in our R&D capabilities to develop new products which satisfies evolving customer requirements.

### Strategic Priorities

Design & Develop new concepts and products

Fast track products to market

Develop innovation capabilities and learning culture

Drive operational efficiencies through innovation

Innovate to reduce our environment footprint

### Contribution to Sustainable Development Goals



We are globally recognized as a niche supplier of innovative synthetic fabric to premium retail brands.



We drive fabric innovations that seeks to minimize our environmental impact.

### Relevance to Capitals



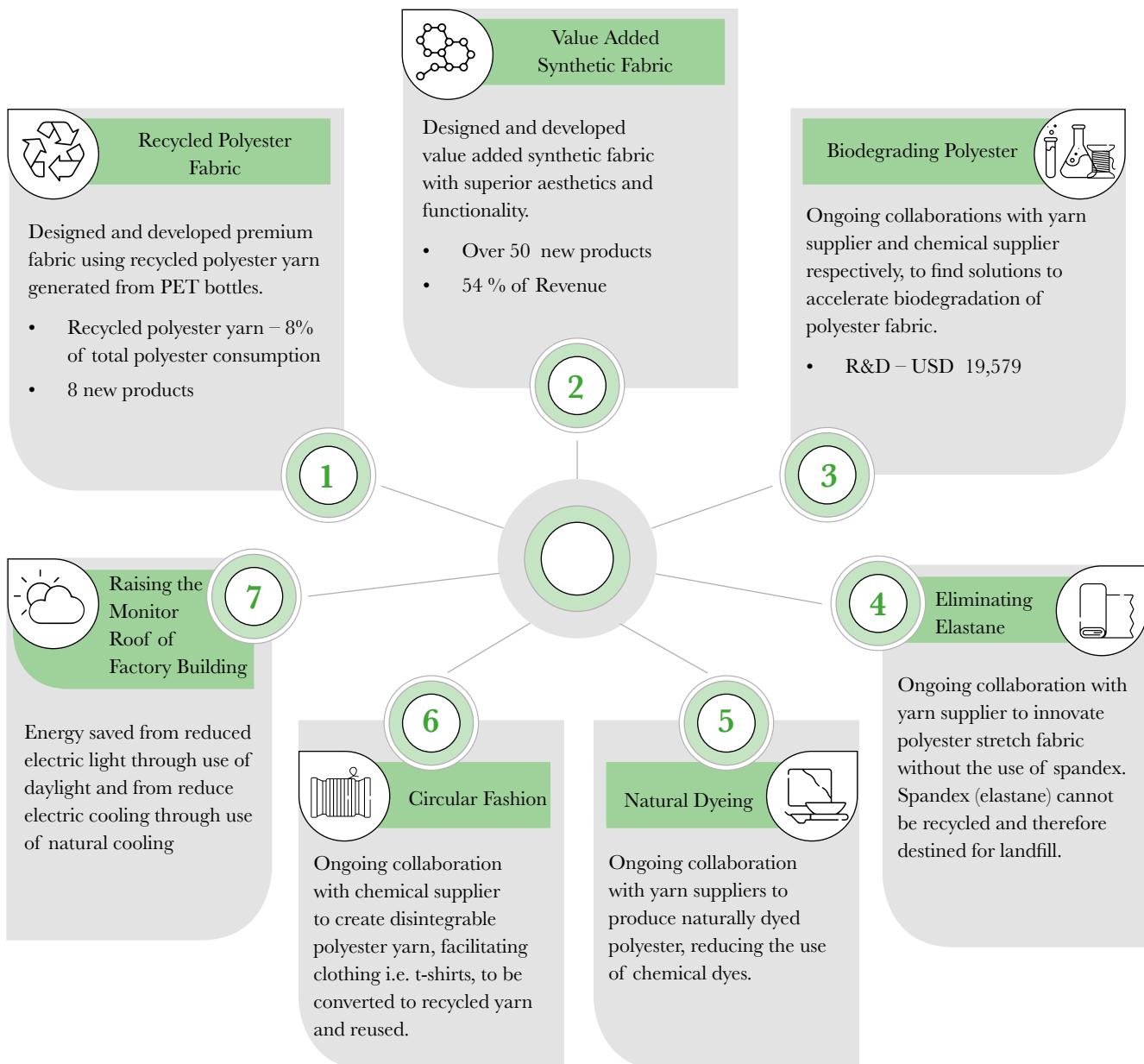
Intellectual Capital



Natural Capital

# RESPONSIBLE INNOVATION

## HOW WE CREATED VALUE IN 2019/20



Hayleys Fabric PLC has always been in the forefront of innovation. Its Innovation Centre is reputed for creating innovative and technologically advanced, fashion forward fabric since 2014, to premium retail brands. The Company is the first fabric mill in Sri Lanka to own a brand – Inno. Research and development has largely focused on replacing performance and sports inspired, expensive nylon based synthetic fabric with less expensive polyester based synthetics, that offered the same aesthetics and functionality as their superior counterparts. This year, with consumers demanding a higher level

Innovations & Developments	2020	2019	2018
Cumulative Innovations	42	33	26
Cumulative Product Developments	496	406	332
Research & Development Cost (USD)	19,579	16,793	15,153
Percentage of Sales from Inno & product developments	62%	40%	32%

Inno has launched 42 innovations and developed 496 products and innovations since its launch in 2014

Recognized as the best innovator in Sri Lanka for the past 5 quarters ended December 2019 by a top-end fashion brand

of sustainability in the clothes they wear and premium brands responding, the Company focused efforts on innovating and developing fabric that minimized environmental impact.



### Performance

During the year, 9 fabric innovations and 90 developments including variants of existing fabric to cater to specific customer requirements, were created under the Inno brand. Cumulative innovations and developments created over the past 6 years increased to 538. Revenue from innovations and developments grew by 50%, accounting for 62% of total revenue (2018/19 – 40%).



### Driving Innovation

We adopt a customer centric approach to fabric innovations. Our robust Inno team closely engages and collaborates with brand owners in developing fabric that suit their specific fashion palates, enabling products to be fast tracked to market and at a lower cost of development. A well-qualified team of account officers, project designers and project engineers have the industry insights and technical expertise to create cutting-edge designs, supported by state-of-the-art technology. Online access to daily trend intelligence, retail analytics and consumer insights, enables the team to continually track and monitor evolving consumer preferences, shifting market conditions and emerging futuristic trends. Collaborations with University of Moratuwa support fabric development and technology. We maintain strict customer confidentiality in the development of these products.

Innovation is driven across the value chain. Hayleys Fabric PLC collaborates with yarn, dye and chemical suppliers on value additions to product developments, as explained in Secured supply chain - pages 96 to 97, while innovative ideas are encouraged from employees for processes improvements towards achieving operational excellence.



### Learning Culture

A culture of learning and growth is nurtured to stimulate creative thinking. Employees are provided training and

development to learn new and advanced concepts and technologies, and immediate application of their learning facilitated at the factory. They are encouraged to think out of the box, empowered in their roles and responsibilities and rewarded and recognized for their efforts.

## RECYCLED POLYESTER FABRIC

*It is estimated that 63% of all fibers used in the fashion industry are made from a synthetic material, most commonly – polyester (55%), nylon (5%), and acrylic (2%). 98% of all future fiber growth is expected to be in synthetic fibers, 95% of which is expected to be polyester.*

*Source: [www.commonobjective.co](http://www.commonobjective.co)*

Hayleys Fabric PLC has initiated projects with international brands, since mid 2019, to design and develop premium polyester fabric using recycled polyester yarn made out of PET bottles collected specifically from the coastal areas of Sri Lanka. The polyester yarn is purchased from Eco Spindles (Pvt) Ltd, Poruwandanda, a leading manufacturer of recycled polyester yarn in Sri Lanka. Prior to 2019, recycled polyester yarn was sourced from foreign suppliers. Usage of recycled polyester yarn increased to 2.9% of total raw material consumption from 2.6% the year before, accounting for 8% of polyester raw material consumed during the year (refer pages 71 to 79 - Respect for Environment).

Eco Spindles has established community-driven collection centers around the country for sourcing PET bottles, and has the technology to trace manufactured yarn back to the respective collection centre. Making use of this facility, Hayleys Fabric PLC has developed a mobile application to allow each consumer to trace the level of sustainability of the garment purchased. The garments produced by the recycled polyester fabric are tagged with a QR code that indicates, among other things, the consumption of number of PET bottles recycled for the garment, the location from where the bottles were collected and the location of the factory where the garment was developed and produced.



Thirteen PET bottles yield sufficient fiber to produce one extra-large T-shirt.

# RESPONSIBLE INNOVATION



As a synthetic fabric, polyester negatively impacts the environment in many ways. Produced out of petrochemicals, the petrochemical industry itself is considered the most pollutant being emission intensive and environmentally degrading. Polyester does not biodegrade easily, taking 20-200 years at worst. Further, washing of polyester garments releases microfibers into waterways causing immense damage to marine life and vital eco-systems.

Recycling PET bottles will divert waste from landfill and reduce the production of virgin polyester. Apart from manufacturing recycled polyester fabric, Hayleys Fabric PLC is collaborating with partners to find innovative solutions to reduce the negative environmental impact of polyester, such as highlighted in the diagram above.

## INNO COLLECTION 2019/20

**ECOMATIC**  
LIVE WELL | BREATHE WELL

The race against time to preserve our planet for all life is real. Time has come to put a stop to the insensitive progress of humans that have brought chaos to all forms of life on earth and make amends to rectify the errors of our footprint.

Humanity across the world has now recognized that sustaining the mother planet is our No 1 priority – because there is no PlanB or PlanetB. A major portion of this responsibility falls to the fashion industry as the second most polluting industry in the world (UNCTAD March 2019).

Acknowledging this need, Inno 2020 – Phase 01 – ECOMATIC is unveiled as the first step of the multi-platform engagement program for sustainability at Hayleys Fabric – Inno Green. This latest Inno collection launch marks the engagement of three novel approaches to the journey of Hayleys Fabric sustainability under the Sustainable Strategy Plan – Inno Green.

Inno 2020 – Phase 01 – ECOMATIC aims to promote re-forestation with a new innovative touch and acts as the banner project to pitch novel sustainable fabrics and a strong call for sustainability both within and beyond Hayleys.

Hayleys Inno  
 Product Development & Innovation Centre,  
 Hayleys Fabric PLC, Sri Lanka  
[www.hayleysfabric.com/inno](http://www.hayleysfabric.com/inno)

**ME TO WE**

[We] nurtures a dream to be  
the force of inspiration  
that motivates those around us  
to  
dream big & strive harder  
to be the best version of ourselves.

We believe that every "Me" in this unique eco system  
has the singular strength and ability  
to make "We"  
achieve greater things and bigger destinies.

Inno 2019 - Phase 02 | Me to We  
celebrates the positive transactions between  
individuals  
that creates the combined success for all

Hayleys Inno  
 Product Development & Innovation Centre,  
 Hayleys Fabric PLC, Sri Lanka  
[www.hayleysfabric.com/inno](http://www.hayleysfabric.com/inno)

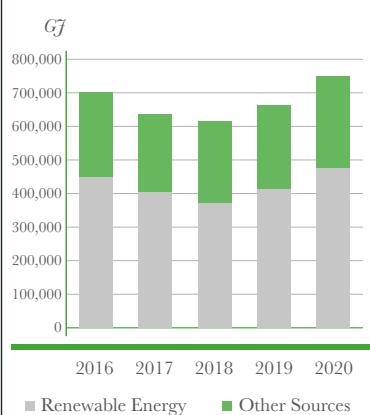
# RESPECT FOR THE ENVIRONMENT

**Strategic Driver**  
page 60

The UN Conference on Trade and Development (UNCTAD) considers the fashion industry to be the second most pollutant in the world. As a textile manufacturer, we believe that preserving the natural resources we rely on to operate our business is not only a green objective, but a license to operate that will define our future success and ability to create value.

## HIGHLIGHTS 2019/20

### Increase in Renewable Energy



### Recycled Yarn

**2.9%**

### Engagement with Recycling



### Trees Planted

**+525**

### Recycled Water

**+16%**

### Renewable Energy

**63%**

### Environment Policy

- Identify and comply with all legislation, standards and codes of practice which are relevant to our business activities.
- Committed to protection of environment including prevention of pollution and other specific commitments.
- Effective conservation of energy and natural resources

### Strategic Priorities

Continue investment in long-term renewable energy solutions

Explore water efficiency projects to reduce water consumption

Accreditations to validate overall environmental performance

Improve waste management efforts

Conserve nature

### Contribution to Sustainable Development Goals



100% of wastewater is treated to support aquatic life.  
Complied with ZDHC targets ahead of time.



Commitment to renewable energy.  
63% of energy consumed is from renewable sources.



Improving material efficiency  
Reducing waste  
Promoting recycled yarn  
Ethical sourcing



Decline in carbon intensity achieved through energy efficiency initiatives and increasing renewable energy



Contribute to reducing ocean plastic waste by collecting and recycling PET bottles to produce polyester yarn.



We maintain a 20-acre Green Belt adjacent to factory.  
Protects and rejuvenates an 8-acre wetland zone

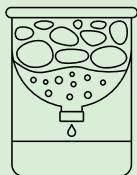
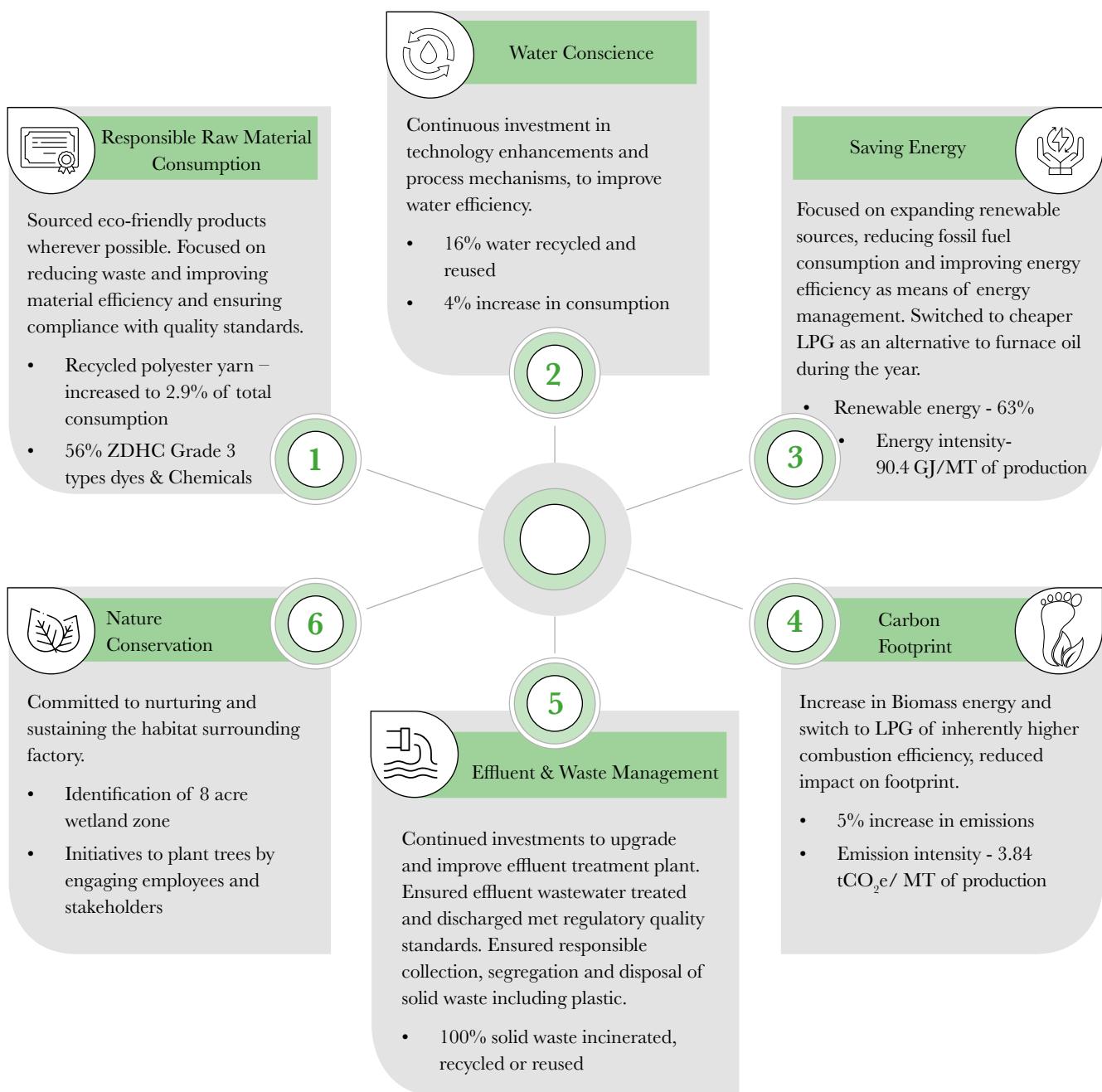
### Relevance to Capitals



Natural Capital

# RESPECT FOR THE ENVIRONMENT

## HOW WE CREATED VALUE IN 2019/20



100% of our wastewater is treated to a level that supports aquatic life.



We diverted more than 6 kg of PET bottles from landfills, in our first month of plastic waste collection in January 2020. The bottles were converted to recycled polyester yarn.

## OUR COMMITMENT TO ENVIRONMENTAL SUSTAINABILITY

### Awards and Certifications



Presidential Environment  
Awards 2019 Bronze,  
Textile & Textile Processing  
Industries Category



Environment Management  
System ISO 14001:2015,  
since December 2017



GREEN Certification in  
2016 for high standards in  
water quality management



GRS certified since  
November 2019  
Certificate No :  
CU821510GRS-2019-00023430



Carbon Conscious  
Manufacturer Since  
March 2017



GOTS certified since  
January 2012  
Certificate No :  
CU821510GOTS-2020-00017127



OCS certified since  
August 2008  
Certificate No :  
CU821510OCS-2020-00017128



Water Conscious  
Manufacturer Since  
April 2017

### Voluntary Memberships / Initiatives

#### Zero Discharge of Hazardous Chemicals

Voluntarily following the ZDHC Road map since December 2015



**RESPONSIBLE CARE**  
OUR COMMITMENT TO SUSTAINABILITY

Member since June 2017

#### Sedex Member

Member since March 2016



Higg FEM 3.0, active since 2017  
Higg FSLM, active since 2019



Signatory level supporter since  
November 2018

#### CLEANCHAIN™ AN ADEC INNOVATION

Clean Chain Chemical  
Inventory Management Tool  
active since May 2017

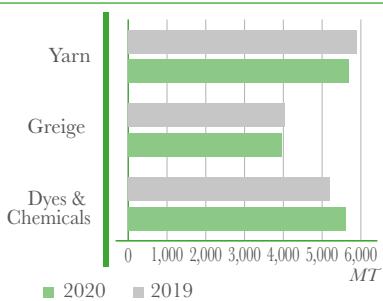
# RESPECT FOR THE ENVIRONMENT



## Responsible Raw Material Consumption

Our key raw materials are yarn, greige, dyes and chemicals. Polyester accounts for 55% (2018/19 – 51%) of yarn and greige consumed, stemming from the growth in production of high end, value added synthetic fabric. Remaining 45% is cotton yarn and greige. Total yarn and greige raw material consumption fell following the discontinuation of outsourcing of cotton-based orders.

### Raw Material Consumption



### Recycled Polyester

We are cognizant of the significant environmental impact of polyester. We strive to minimize impact by increasing material efficiency.

Throughout the manufacturing process, and when possible, sourcing recycled polyester yarn as an alternative to virgin polyester. However, our flexibility in selection of materials is limited given discretion is mainly with the ultimate buyer, the retail brand, as reflected in the low 8% share of recycled polyester as a percentage of total polyester consumed (2.9% of total material consumption).



Global Recycle Standard - GRS is an international, voluntary, full product standard that sets requirements for third-party certification of recycled content, chain of custody, social and environmental practices and chemical restrictions.

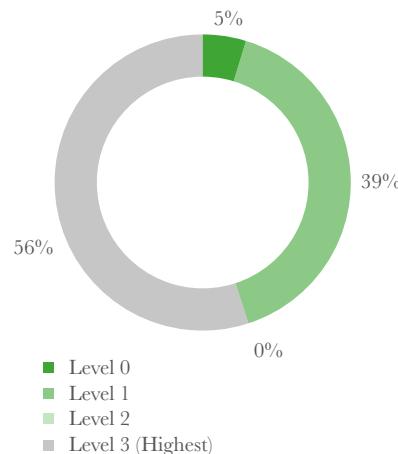
Going forward, we envisage a major scale up in consumption of recycled materials, driven by increased interest by retailers themselves and through our own initiatives.

- New Knitting Plant - The new plant to be commissioned in Horana in April 2020, will produce 150MT / month, exclusively for tier-1 customers
- Production of recycled polyester fabric in support of one of the top brands to source 100% sustainable fabric by 2025.
- Design and development of recycled polyester fabric under Inno-Hayleys Fabric PLC has initiated projects with retailers to supply recycled polyester fabric produced from recycled PET bottles sourced from Sri Lanka's coast, more fully described on pages 67 to 70 Responsible Innovation.

### Cotton

Hayleys Fabric PLC produces BCI Cotton Fabric, ensuring environmental and social standards are maintained throughout the cotton value chain. The Company is also a certified supplier for Organic cotton under the Global Organic Textile standard (GOTS) and Organic Content Standard.

## Quality of Dyes & Chemicals Consumed (ZDHC MRS Level Conformance Levels)



Organic cotton accounts for 9% of total cotton consumed.

### Dyes & Chemicals

Our dyes conform to stringent ZDHC MRS Level for Dyes & Chemicals, of which over 50% are of the highest quality, Level 3 grading. We strive to minimize the environmental impact of dyes and chemicals, by improving material efficiency through initiatives described below.

### Ethical Sourcing

We are committed to promoting environmental and socially sustainable practices across our supply chain, as described in Supply Chain Management – pages 96 to 97.

## Raw Materials - Initiatives to Minimise Environmental Impact

### Improving material efficiency

- Investment in state-of-the-art dyeing and recipe dispensing equipment
- Continuous product developments to improve dye and chemical recipes
- Sourcing of premium quality dyes to improve recipes
- Attraction of new suppliers for the procurement of dyes and chemicals at better quality and lower cost for existing dye recipes
- Monitor and minimize waste through Waste Management Department
- Sourcing of raw materials from suppliers certified for their product quality, environmental and ethical manufacturing processes
- Promoting the consumption of sustainable materials i.e. recycled yarn
- Engaging in Research and Development to produce sustainable materials or improve material efficiency (described under Responsible Innovation -pages 67 to 70)



## Water Conscience

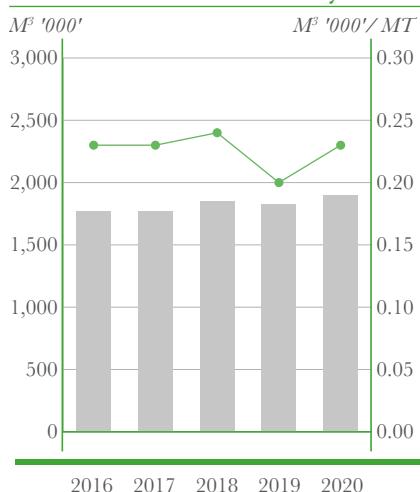
Hayleys Fabric PLC is conscious of its water footprint and responsibilities towards the sustainability of freshwater resources. We source water solely from the adjacent river "Kalu Ganga" which is abundant in supply of water with regular flooding occurring in many areas around the village. The river is of economic and social importance to the country as it has the highest water discharge of all the rivers in the country. It has projects for irrigation and supply of drinking water associated with it upstream from the location of the factory.

Every effort is taken to increase our water efficacy. Details regarding the quality of water discharged to the river is provided in the Effluents segment of this report on page 77.

### Water Footprint

Amid efforts to improve water efficiency through technology enhancements and process mechanisms, water footprint increased in 2019/20 largely stemming from the increase in application of 'water intensive' printing solutions for high end, value added synthetic fabric. Water intensity increased in 2019/20 reflecting the increase in application of 'water intensive' printing solutions stemming from the growth in high end, Inno value added synthetic fabric.

### Water Withdrawal & Intensity



■ Water withdrawal from Kalu Ganga -  $M^3 '000'$   
 ● Water Intensity -  $M^3 '000'/MT$

### Assessment of Water Footprint

Hayleys Fabric PLC's direct water footprint has been assessed in accordance with the ISO 14046:2014 standard and measures the organization's consumption of fresh water in volumes of water consumed (blue water) and polluted (grey water).

	2020	2019
Blue water – used in production - $M^3 '000'$	1784	1708
Blue water – used for overheads - $M^3 '000'$	239	239
Total blue water - $M^3 '000'$	2022	1947
Grey water - $M^3 '000'$	973	920
Total water footprint - $M^3 '000'$	2,995	2,867
Water used in production as a percentage of total water footprint	60%	60%

	2020	2019
Water withdrawal from Kalu Ganga - $M^3 '000'$	1,899	1,822
Water discharged as a percentage of river intake	83%	86%
Water recycled and reused - %	16%	9%
Water intensity ( $M^3 '000'/ MT$ of production)	0.23	0.20
Water footprint ( $M^3 '000'$ )	2,995	2,866
Water footprint / Fabric produced ( $M^3 '000'/ MT$ )	0.36	0.32



Water Conscious Certificate - 2020



## Saving Energy

Energy accounts for 6% of Company cost of production. Energy consumption and energy intensity increased by 13% and 23% respectively during the year, reflecting the increase in value added products and complexity of orders. Conscious efforts to improve energy efficiency through investments in new technology and process improvements, as described below, softened the increase.

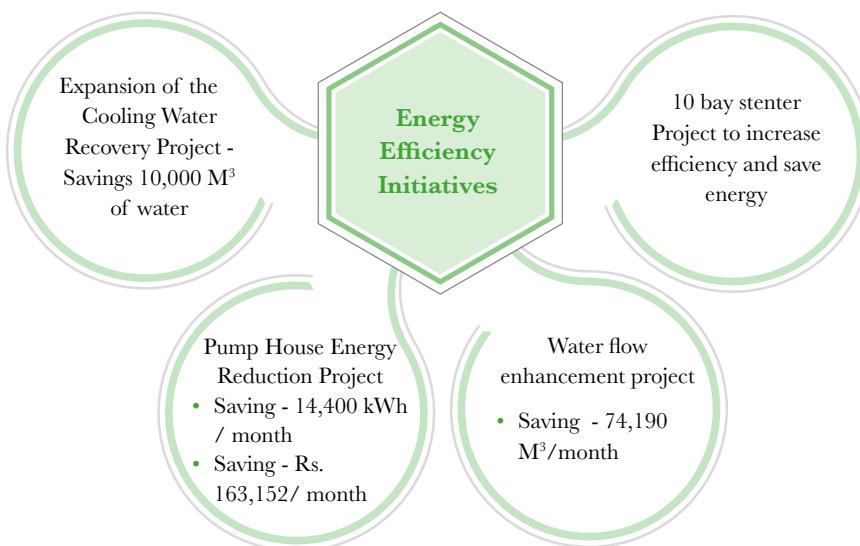
### Initiatives Implemented

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

	2020	2019
Total energy consumption (GJ)	749,722	663,174
Energy intensity (GJ/MT of production)	90.40	73.66
Renewable energy (Biomass)	63%	62%

This year, the Company increased the usage of LPG, as an alternative to furnace oil, gaining from lower market prices and higher combustion efficiency. In 2019/20 renewable energy generated from biomass (saw dust) accounted for 63% of total energy consumed, an increase of 15% over the previous year. Further expansion is constrained by the difficulty in sourcing saw dust in the required quantities.

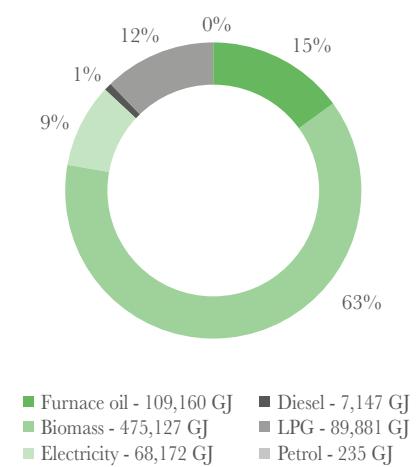
# RESPECT FOR THE ENVIRONMENT



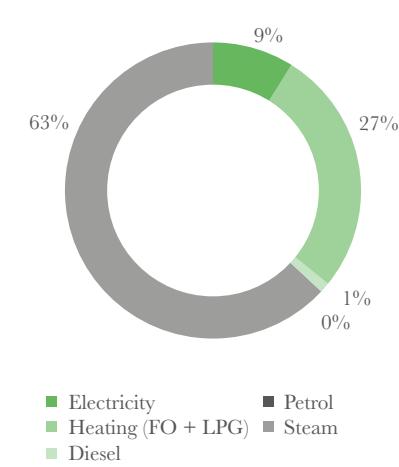
## Carbon Footprint

We are conscious of our impact on climate change, and focus on decreasing our carbon footprint by increasing energy from renewable sources. Energy from biomass increased to 63% in 2019/20 from 62% the previous year. However, total emissions continued to increase reflecting the shift to production of energy intensive value added synthetic fabric. We compute our carbon footprint in accordance with ISO 14064-1:2018 and the World Business Council for Sustainable Development and World Resources Institute, Green House Gas Protocol.

### Energy Sources

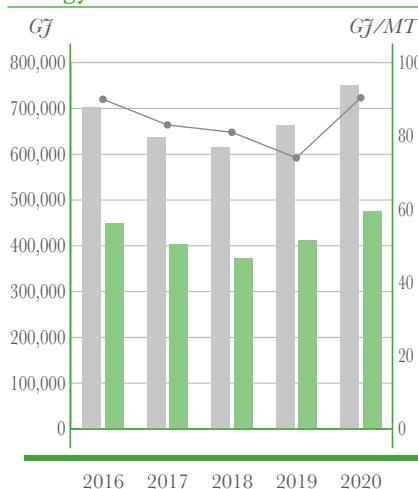


### Purpose of Energy Consumed



Emissions	2020	2019
	tCO <sub>2</sub> e	tCO <sub>2</sub> e
Furnace Oil	8,865	11,354
Grid Electricity	10,903	10,317
Sea Freight	3,451	3,004
LPG	5,498	2,748
Others	3,161	2,924
Total Carbon emissions	31,878	30,347
Direct Emissions	15,256	14,911
Indirect Emissions	16,622	15,436
Carbon emissions intensity (tCO <sub>2</sub> e/MT of production)	3.84	3.37

### Energy



Carbon Conscious Certificate - 2020

**FAST FASHION PRODUCES MORE CARBON EMISSIONS PER MINUTE THAN DRIVING A CAR AROUND THE WORLD SIX TIMES**

**TIMES – OXFAM**



Carbon Neutral Certificate - Annual Report 2020

## Solar Energy - Helping the National Grid through Solar

In pursuit of Hayleys Group sustainability, Hayleys Fabric PLC contracted with Hayleys Power Ltd to install a solar power plant within the factory premises by renting out its roof top. Hayleys Power Ltd will make a 10% payment from their annual income from the project to the Company up to 20 years. Total capacity of the project is expected to be 4 MW and at this capacity, Hayleys Fabric PLC will be able to offset 13% of its carbon footprint on the basis the Company has ownership of the generated carbon credits. Electricity generated through this project will be supplied to the main grid under the Net Plus scheme. Apart from receiving carbon credits, the panels will shield vast amounts of roof space from direct sun, leaving the building cooler and contributing towards lowering factory energy consumption. Installation of panels is expected to be completed by end 2020/21.

- Upon completion, will be the largest Solar roof top project in Sri Lanka
- 400kWh panels are being used
- First 1 MW will be commissioned in June 2020



### Effluent and Waste Management

Our modern water treatment plant utilizes enhanced purification methodology to ensure good quality water is consistently

discharged to the adjacent river, used by the villagers for their daily needs. All treated water is checked in house once in two hours and regular checks are carried out by external agencies such as the Central Environment Authority (CEA), the Water Board and the Board of Investment (BOI).

Our commitment to high standards is reflected in our ability to comply with the Zero Discharge of Hazardous Chemicals (ZDHC) Programme, by 2017, ahead of the granted timeline of 2020. ZDHC is a group of global apparel and footwear brands, chemical suppliers, manufacturers and other organisations working together to lead the industry towards zero discharge of hazardous chemicals by 2020, by driving responsible chemical management. Another accolade confirming the consistent maintenance of superior standards of water quality is the awarding of GREEN status by NIKE Since 2016, the highest rating for compliance with stringent NIKE Water Quality Guidelines under the NIKE Sustainable Water. There were no instances of significant spills or water bodies affected by water discharge during the year.



### Solid Waste

The total volume of waste generated during the year amounted to 2,520 MT, consisting mainly of sludge and balance non-hazardous waste. All solid waste is disposed according to Central Environment Authority (CEA) guidelines. Recyclable material and e-waste are disposed of through professionals in waste management approved by the CEA. Sludge from the operation is incinerated by INSEE Eco-cycle, the only approved agency by the CEA.

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

# RESPECT FOR THE ENVIRONMENT

Waste Type	Disposal Method	2020 MT	2019 MT	Discharge Water Quality	2020	2019	Standard
<b>Hazardous Waste</b>							
Sludge	Incineration	1,397	867	pH	7.80	7.85	6.5 - 8.5
<b>Non-hazardous Waste</b>							
Fluff	Reuse	24	12	Temperature °C	31.59	31.64	< 40
Fabric Strips, Off cuts, etc.	Reuse	530	437	BOD (mg /L)	27.57	22.05	< 30
Cardboards, Yarn Cones, etc.	Reuse	286	312	COD (mg /L)	121.43	157.10	< 250
Polythene	Recycling	109	102	Total Suspended Solids (mg/L)	28.43	22.67	< 50
Others	Reuse	175	174				
<b>Total Non-hazardous Waste</b>		<b>1,123</b>	<b>1,038</b>				
<b>Total</b>		<b>2,520</b>	<b>1,905</b>				



Hayleys Fabric PLC was invited to share their best practices at the 2019 ZDHC South Asia regional conference in Mumbai.

Further in 2020, the Company continued to attend this regional conference which was held in Bangladesh.

## OUR COMMITMENT TO REDUCING PLASTIC WASTE

Plastic pollution is one of today's most pressing environmental concerns. As a responsible corporate, the Company has initiated projects to curb plastic waste by advocating - reduce, reuse and recycle – of plastic, as follows;

- Development and manufacture of polyester fabric from recycled polyester yarn, produced using PET bottle waste collected from the shores of Sri Lanka. This project is explained further on pages 67 to 70 - Responsible Innovation.
- Encourage employees to collect PET bottles for recycling. Collection bins have been set up within factory premises for this purpose. 6kg of PET bottles were collected in the first month of launch.
- Conduct of awareness programs to educate employees on plastic pollution.
- Replacement of laminated sample hanger with a hanger produced out of recycled paper.
- Replacement of plastic sample bag with a reusable non-woven bag made out of recycled materials. Customers to return the bags within a reasonable time period, for re-use.
- Provide all employees and customers a reusable glass water bottle as an alternative to plastic bottle.
- Collaboration with an SME partner who recycles waste polythene packaging received with materials imported and sells back to Hayleys Fabric PLC for use as packaging material 109 MT of polythene was recycled during the year in this manner, saving USD 18,069.
- Plastic tubes used in fabric rolls are recovered from local customers and reused. 77% of tubes were reused, saving 88 MT of plastic waste.
- Use of cardboard tubes, not plastic tubes in delivery of fabric rolls to export customers.
- Replacement of polythene with eco-friendly taffeta in stillages /bins to protect raw fabric.





## Nature Conservation

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

### Green Belt and Wetland Biodiversity Zone

A 20-acre rubber land adjacent to the factory premises has been reserved by Hayleys Fabric PLC as a green belt. In addition to this, 8 acres has been designated a wetland biodiversity zone under the guidance of Biodiversity Division of the Ministry of Mahaweli Development and Environment. Large populations of fauna and flora have been

observed including indigenous flora, native plants, butterfly species, dragonfly species, other insect species, wetlands and other wet zone birds, few small mammals, reptiles and amphibian species. Evidence suggests the existence of number of other nocturnal species like fishing cat and other fauna which are inhabitant for this area. A Biodiversity Survey Report has been commissioned in collaboration with the Central Environment Authority (CEA) Forestry Department and is expected to be released early 2020/21.

### Reforestation Campaign

In collaboration with the Environment Protection Division of the Sri Lanka Police, CEA Kalutara & the Water Board, Hayleys Fabric PLC embarked on the fourth phase of its on-going reforestation

campaign in August 2019, by planting 500 'Kumbuk' saplings along the banks of the Kalu Ganga. The project initially commenced in 2015, and has since seen the planting of over 1,000 saplings within the vicinity of the factory water treatment plant, further along the Kalu Ganga river bed and along the Southern Expressway. The project extends to nurturing the sapling to become fully grown trees. Kumbuk has inherent ecological features that benefits a wet zone environment.

### Tree Planting

The Company has planted an additional 25 tree saplings, to coincide with the launch of each Inno Concept in 2019/20. Each concept has been named after a specific tree.



## Environmental Compliance

Hayleys Fabric PLC is compliant with all relevant environmental laws and regulations. Routine internal audit checks confirm licenses, certifications and permits are up to date and renewed on time.



# SATISFYING OUR CUSTOMERS

**Strategic Driver**  
page 61

We strive to evolve with the changing needs of our customers. Through our successful customer-centric business approach, we collaborate with customers to produce high quality, bespoke fashion forward fabric, creating joint value for long-term success.

## HIGHLIGHTS 2019/20

### Revenue from Inno & Developments



### Customers - Garments

**38**

### Customers - Brands

**10**

### Innovations & Product Developments

**>90**

### Products

- Cotton & Cotton Blends
- Polyester & Polyester Blends
- Others

40%  
56%  
4%



### Customer Returns

**<1.7%**

### Management Approach

We focus on sharpening the pillars of our customer value proposition - innovative products, sustainable production, reliability, unparalleled quality and reasonable cost to nurture our customer relationships and drive business growth.

### Strategic Priorities

Customer satisfaction

Creative and on trend portfolio of products for our customers

Increase value addition to customers

Expand our range of synthetic fabric

### Contribution to Sustainable Development Goals



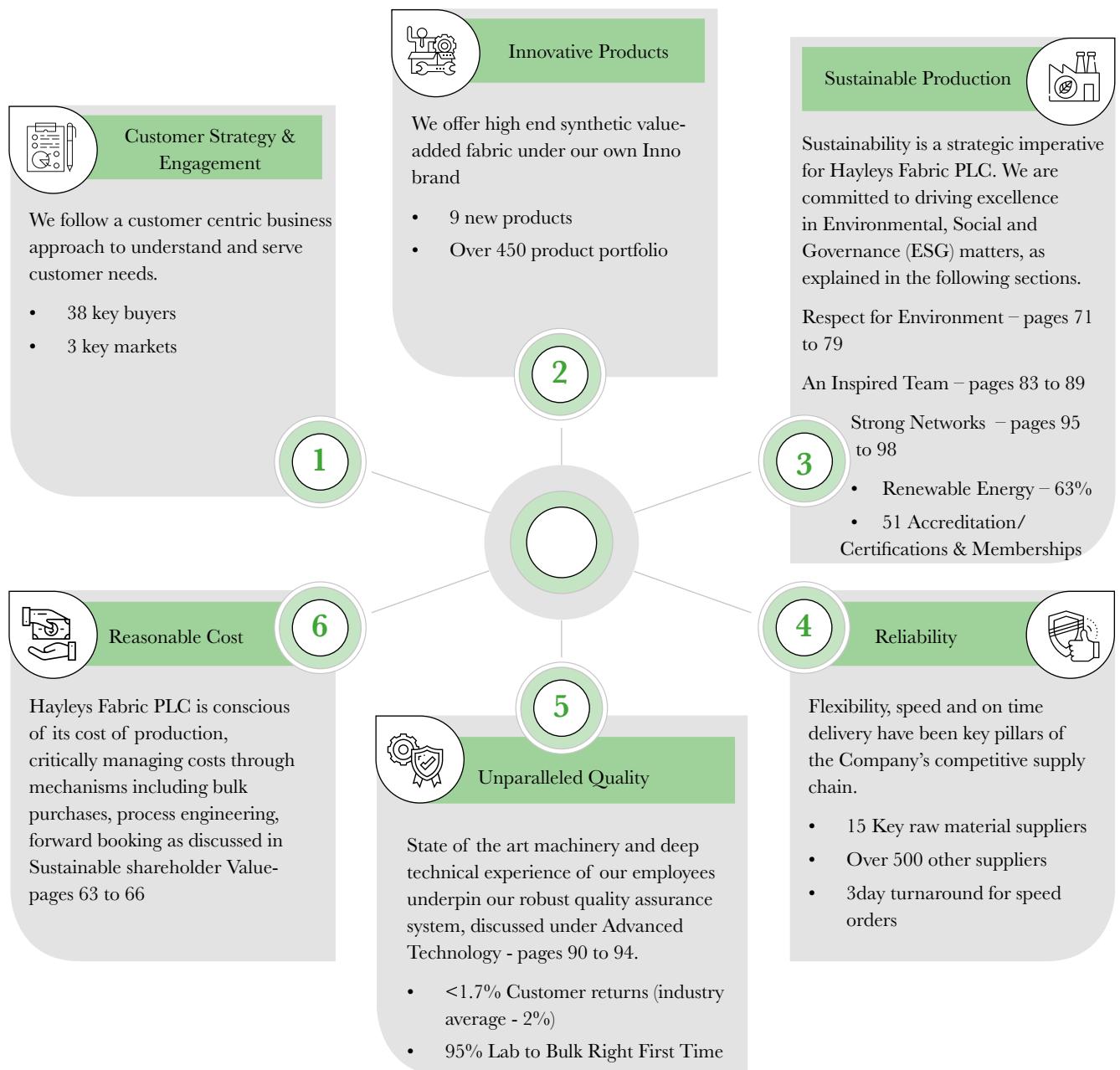
All fabric produced are tested and certified for harmful substances under the Oeko Tex 100 Standards, ensuring consumer health and safety.

### Relevance to Capitals



Social and  
Relationship  
Capital

## HOW WE CREATED VALUE IN 2019/20



This year our strategy took a two-pronged approach in building our synthetic fabric business.

1. To lock in and expand our volumes with selected tier 1 customers by aligning our customer centric business approach with that of the brand. We

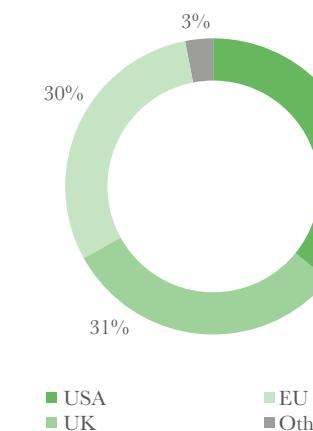
enhanced our customer engagement mechanisms, sensing and serving customer needs with greater agility through keener analytics and insights. We also commenced the replacement of old machinery such as knitting machines, with equipment that served the specific fabric requirements and trends of these customers. Our gross margin with these customers were increased by 4%..

**Hayleys Fabric PLC remains the designated synthetic fabric supplier in South Asia to a top global apparel brand, since 2018.**

# SATISFYING OUR CUSTOMERS

2. To seek new buyers in new markets and broad base our customer portfolio to avoid concentration risk. Nurturing a sustainable customer relationship that generates substantial value takes time and effort. It involves understanding and delivering to the specific needs of the high-end clients while complying with stringent assessments on innovation, production capabilities, reliability- in quality and speed and environmental, social and governance practices. We were successful in breaking into couple of new markets while establishing new customer relationships by December 2019, although our efforts were set back following the Covid-19 global pandemic outbreak by year end.

## Key Markets



## Innovative Products

We engage closely and collaborate with brand owners in developing innovative fabric of varied appliance and functionality. This year, the Inno team was successful in adding 9 new innovations and expanding the portfolio to 42 products, as detailed on pages 67 to 70 – Responsible Innovation. Leveraging on our experience gained over the past two years, we were able to fast track products to market more efficiently and effectively driving faster revenue growth and reducing cost of developments. Revenue generated from Inno amount to USD 2 Mn, which account for 3.05 % of total revenue.

## Customers Engagement

**We engage with the brand owners through regular visits to offices/ factories, dedicated account teams, joint business planning, joint product development initiatives and customer satisfaction surveys.**



## Unparalleled quality

Quality control checks span the entire length of our value chain from receipt of raw material to dispatch of finished goods, ensuring compliance with specifications and timely delivery. State of the art machinery and deep technical experience of our employees combine to ensure the high standards of uncompromised quality that our customers demand. A customer return ratio of <2% confirms our commitment to quality.

**INNO is the first brand owned by a fabric mill in Sri Lanka.**



## A reliable supply chain

We offer our customers an agile supply chain that meets their demands for speed, on time delivery, efficiency and flexibility.

Investments in state-of-the-art technology, advanced software, automation, enhanced warehouse facilities, reworking of processes flows to drive lean manufacturing and strong relationships with our suppliers have been critical pillars in developing our value chain. Departmental process flow champions coupled with a dedicated procurement committee have enhanced speed and efficiency. We have developed the flexibility to deliver small order quantities in a lead time of 3 days and are fully geared to provide high levels of transparency that the retail brands demand.

Please refer Advance Technology – pages 90 to 94 and Strong Networks – pages 95 to 98 on how our investments in technology and strategic suppliers' relationships, respectively, have supported our value chain.

Certification & Systems	Held Since
<b>Consumer Well being</b>	
OEKO Tex 100 (Cotton & Polyester)	Nov - 2006
<b>Environment Sustainability</b>	
ISO 14001:2015 Environment Management System	Dec - 2017
Carbon Conscious Certificate	Mar - 2017
Water Conscious Certificate	Apr - 2017
Global Recycled Standard (GRS)	Nov - 2019
Global Organic Textile Standard (GOTS)	Jan - 2012
Organic Content Standard (OCS)	Aug - 2008
Better Cotton Initiative (BCI) Active account	May - 2015
Zero Discharge of Hazardous Chemicals (ZDHC) Joint Road Map	Dec - 2015
Higg FEM 3.0 Active account access	Nov - 2017
Clean Chain Chemical Inventory Management Tool	May - 2017
Nike Sustainable Water Program - Green Certification	Sep - 2016
<b>Social Sustainability</b>	
OHSAS 18001:2007	Dec - 2017
Occupational Health and Safety Assessment Series	
SEDEX Membership	Mar - 2016
Disney Facility & Merchandising Authorization (FAMA) Approvals	Sep - 2016
George / Walmart Responsible Sourcing Program	Aug - 2017
United Nation's Global Compact (UNGCR) Signatory level supporter	Nov - 2018

# AN INSPIRED TEAM

**Strategic Driver**  
page 61

Our dynamic and multi-skilled team is a key strength and strategic differentiator. Their knowledge, skills, attitude and innovation are central to driving the sustainability and growth of our business. As such, we strive to ensure our team is engaged, inspired, connected through our values and aligned with our strategic goals. In an industry where retention is a key challenge, a below industry turnover rate of 5%, is testimony of our high levels of work ethics and practices, in driving employee satisfaction.

## HIGHLIGHTS 2019/20

### Rate of Injury



### Total Employees

**+1300**

### Remuneration - USD Mn

**7.8**

### Training & Development Hours

**+13%**

### Global Accreditations

**Sedex Member**

### Health & Safety



### Management Approach

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

### HR Strategic Priorities

Enrich employee engagement. Inspire corporate behaviour.

Improve worker conditions and HR practices.

Upskill team. Build critical skills.

Develop talent. Nurture future fit team.

Ensure healthy and safe work environment

### Contribution to Sustainable Development Goals



All our employees are entitled to a comprehensive range of health benefit.



We provide employment to over 1300 individuals. Total remuneration paid was USD 7.8Mn.



We seek to offer fair remuneration to employees and a conducive work environment.



We offer opportunities for lifelong learning and skill development.

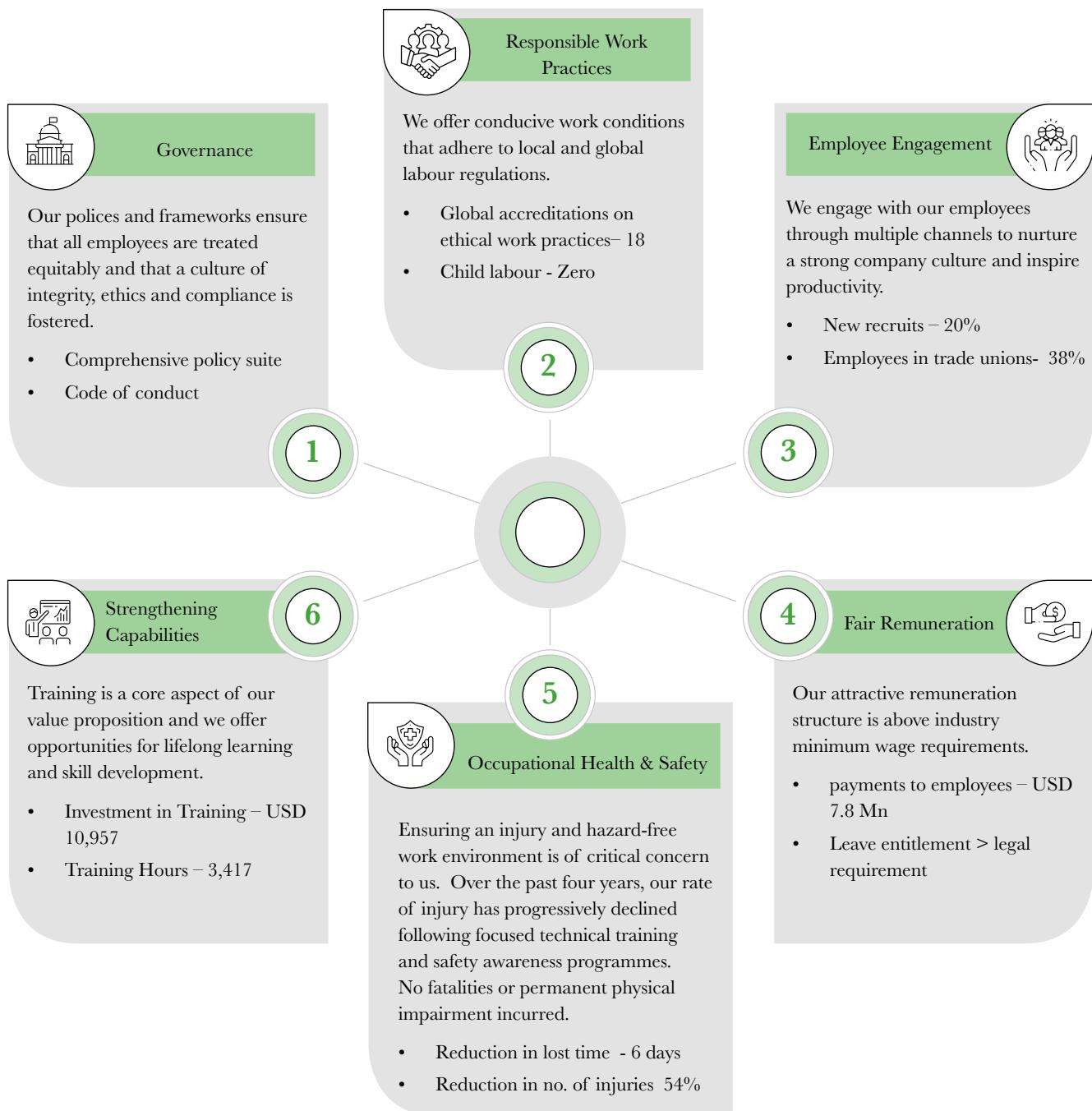
### Relevance to Capitals



Human Capital

# AN INSPIRED TEAM

## HOW WE CREATED VALUE IN 2019/20



**Our team comprises of 1,300 employees. We are an equal opportunity employer and do not discriminate on gender, age, religion or race. Employment preference is given to candidates from the vicinity, to nurture community relationships and drive economic empowerment. Given the manual nature of work involved, the workforce is predominantly young and male.**

	Recruitment			Turnover		
	2020	2019	2018	2020	2019	2018
<15 Kms	68	55	49	21	10	20
> 15 Kms	85	72	70	25	48	26
Male	146	116	112	43	53	40
Female	7	11	7	3	5	6
<30 years	130	102	104	16	22	21
30-50 years	20	23	13	24	27	18
>50 years	3	2	2	6	9	7

## Team Profile

	Total	<15 Kms	> 15 Kms	Male	Female	18-30	30-50	> 50
Executive & above	227	41	186	186	41	46	152	29
Manual Grade	475	387	88	473	2	83	377	15
Clerical, Supervisory & Allied Grades	246	205	41	238	8	21	195	30
Casual	352	228	124	349	3	313	39	-
<b>Total</b>	<b>1,300</b>	<b>861</b>	<b>439</b>	<b>1,246</b>	<b>54</b>	<b>463</b>	<b>763</b>	<b>74</b>



### Female

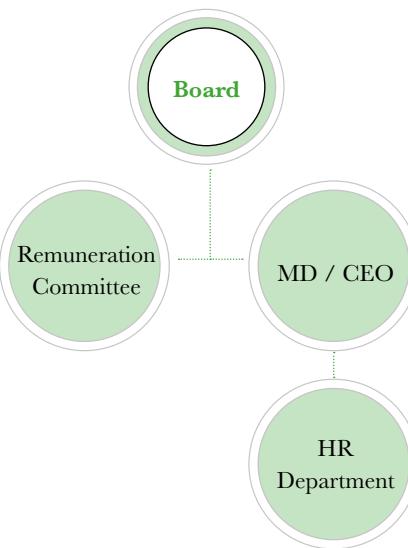
### Male

No.	%	2020	No.	%
<b>By Employment Contract</b>				
49	3.8%	Permanent	1,232	94.8%
5	0.4%	Contract	14	1.0%
<b>By Employment Type</b>				
54	4.2%	Full Time	1,246	95.8%
0	0%	Part Time	0	0%



### Governance

Hayleys Fabric PLC's HR governance framework seeks to promote inclusive and productive employment, in an environment conducive to dignity, mutual respect, wellbeing and safety. A suite of comprehensive policies, as given below, outlines the Company's approach to managing Human Capital while the Group code of business conduct -the Hayleys Way, described on page 43, communicates the employees' rights and obligations. Our



### Promoting Fair Work Practices

We are committed to ensuring that our business adheres to local and international labour regulations. Our stringent policies and ethical work practices ensure a safe and healthy work environment and promotes a culture of diversity, inclusivity and equal opportunity. There were no reported incidents of human rights violations, child labour, forced labour or discrimination during the year.

### 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
- Human Rights Policy
- Bribery & Corruption

In a global industry rife with labour violations, our international accreditations enhance transparency in our value chain and accountability for our practices, fostering the trust of all stakeholders.

# AN INSPIRED TEAM

As a member of Sedex, we are bound by the Ethical Trade Initiative Base Code, an internationally recognised code of ethical labour practice founded on the conventions of the International Labour Organisation (ILO), which seeks to improve employee working conditions in global supply chains. It encompasses a breadth of international labour rights such as working hours, health and safety, freedom of association and wages. Hayleys Fabric PLC's labour practices are audited annually to confirm compliance.

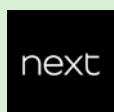
## UN GLOBAL COMPACT

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



## Brand Accreditation

We are an accredited supplier to several reputed retail brands and are subject to annual audits that confirm compliance with minimum social and environmental requirements. (Decathlon, Next, H & M, L Brand, Disney FAMA 8)



## Employee engagement

We are committed to engaging with our employees to nurture a strong Company culture and improve employee productivity. Formal and informal channels are used to address employee concerns, identify areas of improvement and foster a culture of camaraderie. We maintain dialogue through regular staff and team meetings whilst our open-door policy has proved to be an effective mechanism for handling grievances. Informal engagement is encouraged through numerous cultural, entertainment and sports activities.

New initiatives introduced during the year include a monthly competition in the Production Departments, to incentivize productivity and save costs by recognizing and rewarding the shift with the least reworking of customer order. Further, a Retirement Appreciation Day was introduced to recognize the contribution made by long standing, retiring employees.

## Recruitment policy

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. We give preference to employees from local communities and within the district. Our partnerships and collaborations with universities and technical institutes, facilitates attracting some of the best talent. During the year, we recruited 153 new employees to our team to support our growth aspirations.

A monthly induction programme was introduced during the year, to on-board the recruits faster. The new employees were briefed on the Company, code of conduct, health and safety procedures and trained in handling specific equipment, where relevant.

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

## Diversity and Gender parity

We believe in the power of diversity for spurring innovative thinking and continuous improvement and are committed to endorsing diversity in age, religion, race and gender through all levels of the organization. However, given the manual nature of work involved, the workforce is largely male. The organization strives to redress the gender balance by increasing the number of females recruited to administrative and operational departments. The organization has in place policies that ensure equal opportunity and a safe workplace for all employees. Our policies on parental leave are compliant with local labour laws. During the year, 4 female employees were entitled to parental leaves and all of them took these leaves during the period. One of them has returned to work during the year after fully utilizing the entitled number of leaves.

Female Representation	
Board of Directors	Nil
Management	6%
Executives	22%
Ratio of basic salary and remuneration of women to men	1:1

## Industrial relations

We maintain harmonious relations with three trade unions representing 38% of our employees. Open and effective dialogue is sustained through monthly meetings between the management and the unions. Discussions during the year included removal of certain trade union barriers towards increasing productivity in the Finishing and Knitting Departments.

We recognize and respect our employees' right to freedom of association and Collective Bargaining. The first collective agreement was negotiated and signed in April 2017, for a period of three years, with the main trade union the Sri Lanka Nidahas Sevaka Sangamaya

(SLNSS) and a further agreement for 3 years, commencing April 2020, was signed in February 2020. The agreement stipulates salary increments, bonuses and other worker conditions. There were no industrial disputes during the year under review.

## Employee grievance

The Company's open-door policy enables employees to come forward with their grievances. Employees are free to discuss any grievances with their line managers. They may also report any incidents to the HR Department or to the Managing Director. All the reported grievances have been resolved during the year under review.

## Fair Remuneration

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

Executive and clerical staff remuneration consists of a fixed component and a variable component of production incentive that is linked to the Company performance. Performance is assessed through an annual appraisal conducted for all employees, following a formal and transparent process. High performing employees are recognized with rewards linked to salary increments, annual bonuses and promotions, incentivizing productivity and growth. In 2019/20, 4% of employees were promoted.

## Annual Leave Allocation

Employee Category	Legal Requirement			Hayleys Fabric PLC			
	Annual	Casual	Total	Annual	Casual	Medical	Total
Executive & above	14	7	21	16	7	7	30
Clerical, Supervisory & Allied Grades	14	7	21	14	7	21	42
Manual Grade	14	0	14	14	7	7	28

## Occupational Health and Safety

### Types of Injuries

Year	* Rate of Injury	Occupational Diseases	Lost Days	Work Related Fatalities
2016	3.17	0	20	0
2017	6.64	0	43	0
2018	4.08	0	100	0
2019	3.48	0	83	0
2020	1.63	0	77	0

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

# AN INSPIRED TEAM

Safety is a top priority at the Company and we are guided by a comprehensive Health and Safety policy which details the Company standards, procedures and guidelines. 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. Implementation is monitored by the Environment, Health and Safety Committee.

Joint Worker Management Committees on Health and Safety represent an average of 2% workforce participation and facilitates a consultative process with practical solutions for their concerns. The Company is OHSAS 18001:2007 (Occupational health and safety) and EMS ISO14001: 2015 (Environment Management System) certified.

## FIRE PREVENTION & SAFETY

During the year, we focused on strengthening our fire prevention and safety procedures. Key activities included the following:

- Created fire teams for each shift. Designated personnel were provided with special identification uniforms.
- Conducted 8 training workshops for the teams in fire prevention and safety, to be continued annually
- Increased number of fire fighting equipment
- Conducted a Fire Safety Audit by an industry professional and implemented recommendations for fire detection and protection.
- Conducted 4 fire drills and practiced emergency evacuation.

In 2019/20, 27 injuries have been recorded in total of which, 17 injuries were categorized as first aid cases while the balance 10 injuries have been identified as loss time injuries. No fatalities or permanent physical impairment.

Progressive reduction in rate of injury the past 4 years reflects the effectiveness of technical training and safety awareness programmes conducted during the period. No incidents of non-compliance with health and safety regulations were reported. Workplace injuries are monitored in order to take preventive action.

**Safety mechanisms in place include the following:**

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



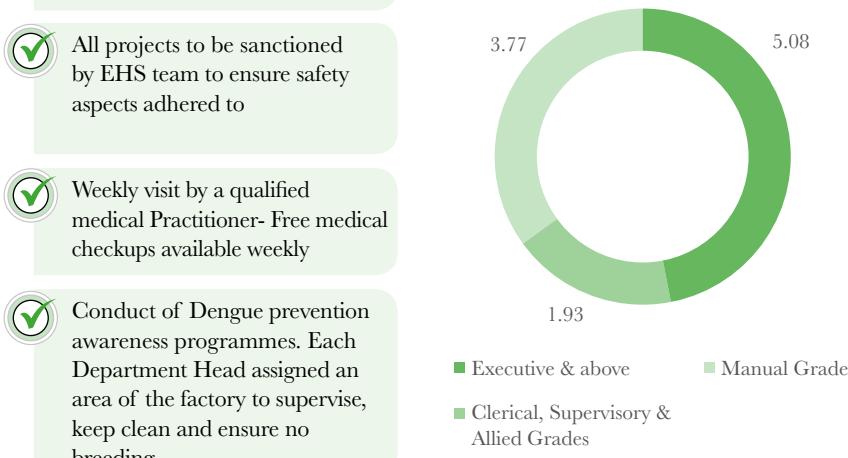
## Strengthening capabilities

Our skills and competencies play a pivotal role in delivering competitive and differentiated products to customers. In a dynamic and demanding industry, employees need to be agile and innovative to respond quickly and effectively to changing conditions.

We use a combined approach in developing talent, which includes on-the-job training, online learning, coaching, workshops, internships and study bursaries for tertiary education and industry relevant lifelong qualifications. Training initiatives in 2019/20 included leadership skills, soft skills, TPM, health and safety and team building.

More emphasis is given to on-the-job training, particularly of training in machine technology provided to Supervisors and Operators, considering the enhanced learning outcomes compared to course work. A total of 3,417 training hours were dedicated to employees, averaging 3.6 hours per employee for the

## Average Training Hours - By Employment Category



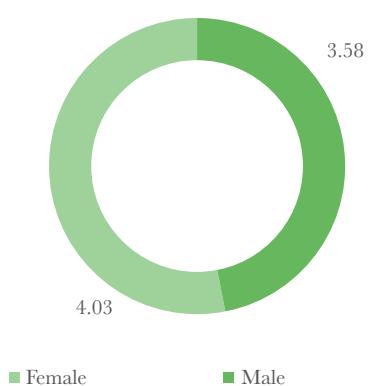
year (2018/19- 3,024 hours). Training coverage was 75%. However, this data does not capture on the job training, due to its inherent nature and therefore is largely limited.

### **Spurring innovation**

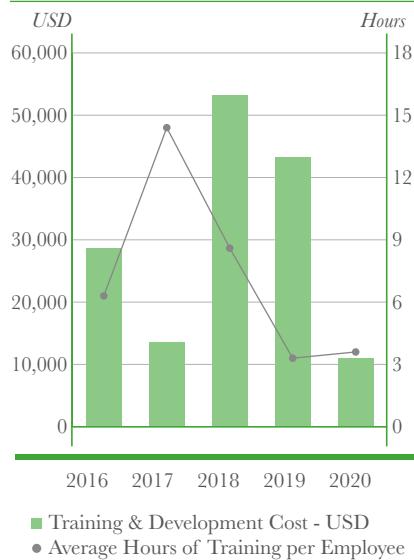
We are focused on stimulating innovation and nurturing a culture of learning and growth. Training and development is provided to employees to learn new and modern concepts and technologies and facilitate application of their learning at the factory. They are empowered in their roles and responsibilities,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



**Average Training Hours - By Gender**



**Training & Development**



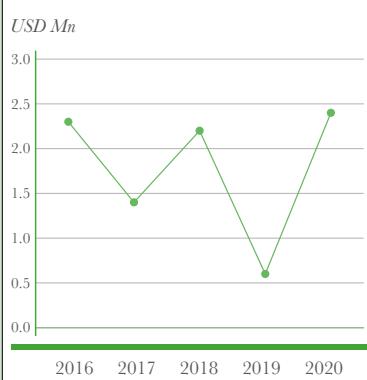
# ADVANCED TECHNOLOGY

**Strategic Driver**  
page 61

We believe in continued investments in technology, as an enabling platform to create superior value for our customers

## HIGHLIGHTS 2019/20

### Investment in Plant & Machinery



### Knitting Machines

**+250**

### Factory Capacity Meters/Month

**+3 Mn**

### Short Lead Time

**3 DAYS**

### Production & Planning Tool



### Management Approach

We continuously invest in best in class machinery and innovative technology, to drive quality, speed and efficiency, while improving our environmental footprint.

### Strategic Priorities

Enhance customer value proposition

Drive operational efficiencies

Invest in sustainable manufacturing methods

Drive innovation in fabric technology

### Contribution to Sustainable Development Goals



We are a state-of-the-art facility manufacturing innovative, high quality fabric for the global market.



We continuously invest in new technology to minimize our environmental footprint.



### Relevance to Capitals

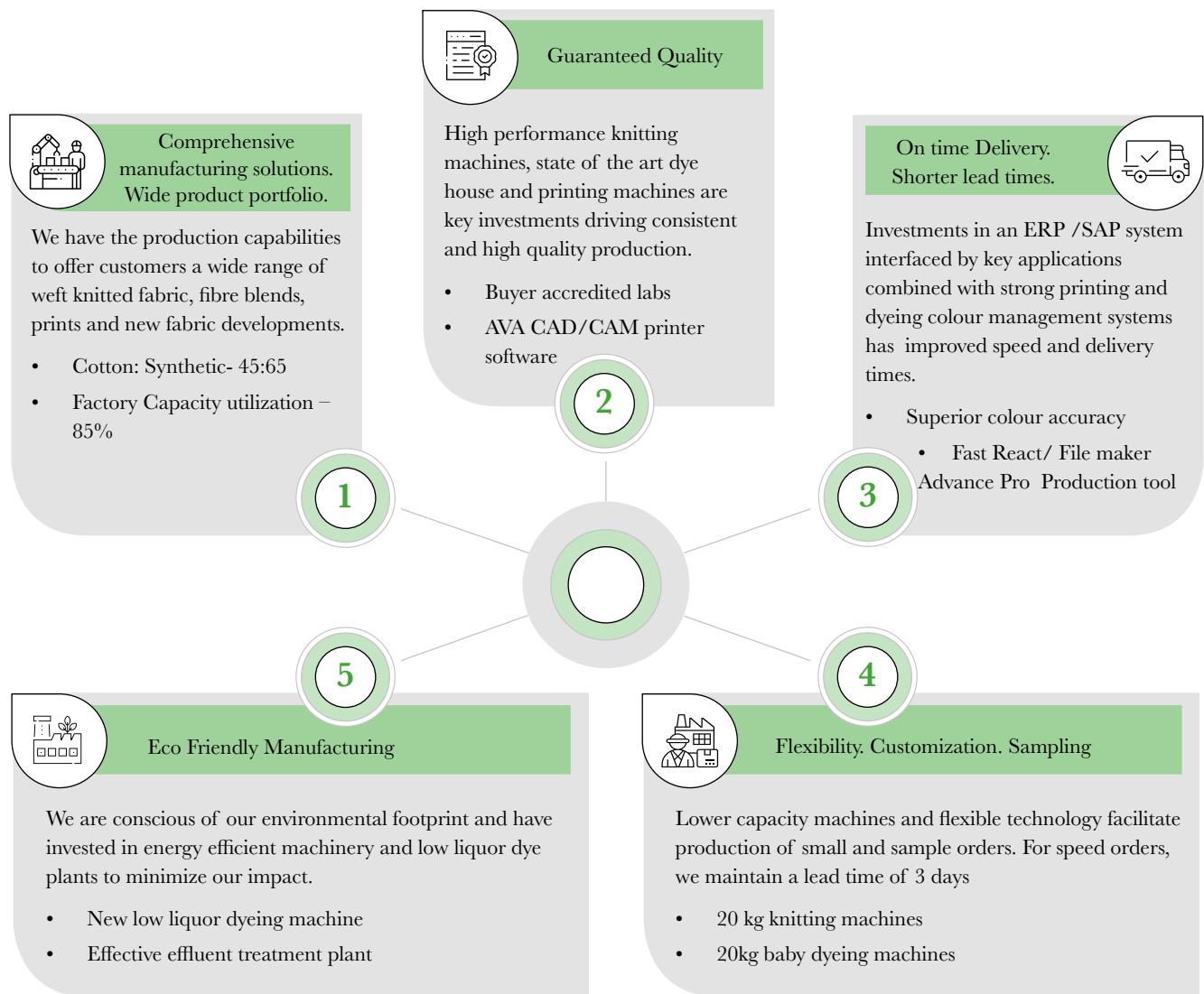


Manufactured Capital

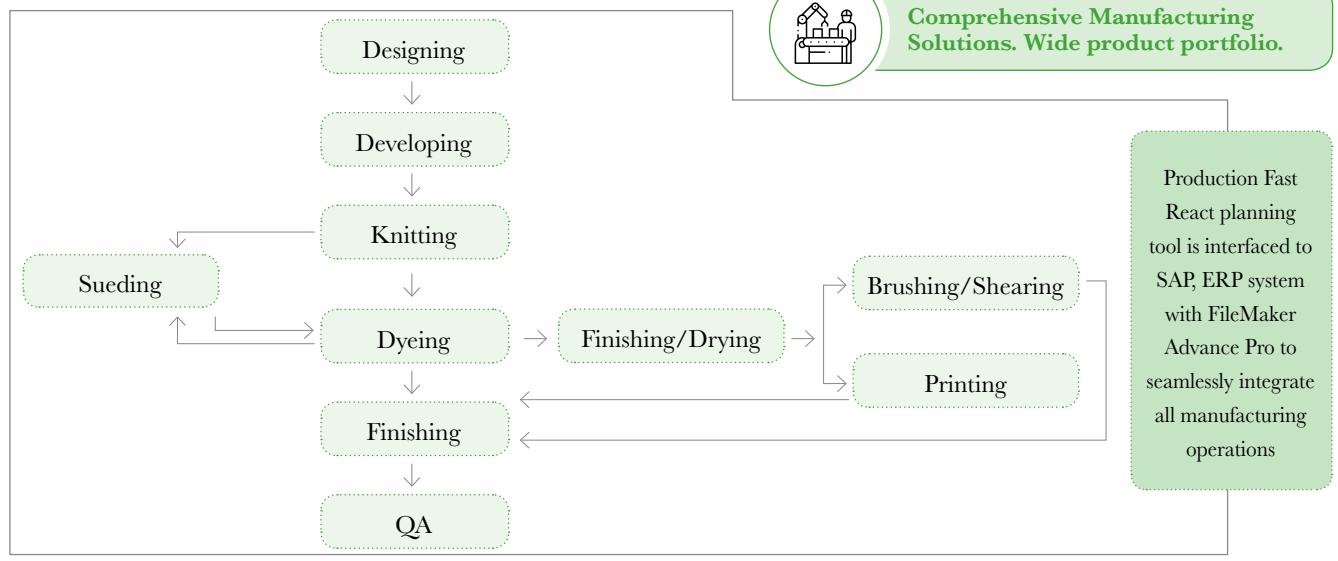


Intellectual Capital

## HOW WE CREATED VALUE IN 2019/20



### Our Manufacturing Facility



## ADVANCED TECHNOLOGY

Our state-of-the-art manufacturing facility, is one of the most diversified in South Asia, offering Knitting, Dyeing, Printing, Brushing, Sueding and Finishing capabilities at a single location. We have the flexibility to produce a wide range of fabric solutions ranging from high end synthetics to varieties of cotton bases. Our product range includes Single Jersey, Interlock, Pique, Rib, Fleece, Polar Fleece and Flat Knits, composed using pure and blend of cotton, polyester, viscose, modal yarns, in both solid colors and printed form. Factory capacity is 3 Mn meters/month. Capacity utilization averaged 85% during the year.

Technology	Features	Benefits
Knitting	<ul style="list-style-type: none"> <li>Over 250 branded knitting machines that draw on modern standards of knitting.</li> <li>Includes weft circular machines and flat knitting machine, from world reputed manufacturers</li> </ul>	<ul style="list-style-type: none"> <li>High knitting efficiency</li> <li>Stability in mass production</li> <li>Low defect rate</li> <li>Low running cost</li> <li>Quick creation of knitting programme</li> <li>Power saving</li> </ul>
Dyeing	<ul style="list-style-type: none"> <li>Mix of old and new dyeing plants.</li> </ul>	<ul style="list-style-type: none"> <li>Lower liquor ratio from new plants (contributing to lower water consumption and lower effluent discharge)</li> <li>High Colour accuracy</li> </ul>
Printing	<ul style="list-style-type: none"> <li>Includes a single, topend 16 colour rotary printer and a laser engraver with the capability of undertaking an array of printing</li> </ul>	<ul style="list-style-type: none"> <li>Wide array of printing solutions including emboss capabilities</li> <li>Superior colour accuracy</li> <li>Handles complex designs and prints.</li> </ul>
Finishing	<ul style="list-style-type: none"> <li>Wide range of sueding and brushing machines, stenters, and washers</li> </ul>	<ul style="list-style-type: none"> <li>Fine tunes final appearance and feel</li> </ul>



### Guaranteed Quality

Our quality inspections laboratories are accredited by reputed retailers including Decathlon, Next, Limited Brands, George, Tesco, Chico's and Marks & Spencer.

Technology	Features	Benefits
Top end knitting machines	<ul style="list-style-type: none"> <li>High knitting efficiency</li> <li>Stability in mass production</li> <li>Low defect rate</li> </ul>	<ul style="list-style-type: none"> <li>Superior knitting quality</li> </ul>
State of the art dyeing and printing machines using AVA CAD/CAM software.	<ul style="list-style-type: none"> <li>The software ensures superior colour accuracy; matching colours in complex designs from initial conception, through the sampling process, to bulk production. The software is capable of separating desired number of layers for re-colouring in complex designs and has powerful spot colour separation tools for accurate recipe dispensing.</li> </ul>	<ul style="list-style-type: none"> <li>Superior colour accuracy</li> </ul>
Fully Automated dye Dispensing System.	<ul style="list-style-type: none"> <li>Drives a Lab to Bulk Right First Time metric of over 95%</li> <li>Drives a Lab to Bulk Right First Time metric of over 95%</li> </ul>	<ul style="list-style-type: none"> <li>Clean, quick and accurate colour recipe preparation and dispensing</li> </ul>
Automatic defect inspection systems	<ul style="list-style-type: none"> <li>The machines use multiple smart visual sensors to detect defects including weft and warp defects, spots, stains, broken filaments, edge and other surface defects.</li> <li>Covers 100% of the fabric.</li> </ul>	<ul style="list-style-type: none"> <li>Checks surface quality of finished fabric.</li> <li>Improves detection efficiency of otherwise manual inspection.</li> </ul>



**On Time Delivery.  
Shorter Lead Times.**

Seamless integration of all business functions though automation has improved efficiency, speed of decision making and ultimately speed of delivery to customers.

Technology	Features	Benefits
SAP ERP system	<ul style="list-style-type: none"> <li>All business functions are seamlessly integrated to the SAP ERP system, maximizing efficiency across the value chain.</li> <li>Customer systems are also integrated to the system, streamlining sales and production and enabling customer tracking of progress on orders.</li> </ul>	<ul style="list-style-type: none"> <li>On time delivery</li> <li>Shorter lead time</li> <li>Production and Cost Efficiency</li> <li>Visibility &amp; Tracking</li> </ul>
Fast React Production Planning tool	<ul style="list-style-type: none"> <li>The ERP system is interfaced with Fast React Production Planning tool. Fast reacts co-ordinates all planning, manufacturing and procurement activities optimizing process and production flow and ensuring maximum factory productivity.</li> </ul>	<ul style="list-style-type: none"> <li>On time delivery</li> <li>Shorter lead time</li> <li>Production and Cost efficiency</li> <li>Smooth planning capability</li> </ul>
State of the art 16 colour printing machine using AVA CAD/CAM software	<ul style="list-style-type: none"> <li>Refer 'Guaranteed Quality' in page 92.</li> </ul>	<ul style="list-style-type: none"> <li>Quick and superior colour management system; drives</li> <li>Short lead times</li> <li>On-time delivery</li> <li>Higher productivity</li> </ul>
Fully Automatic dye Dispensing System	<ul style="list-style-type: none"> <li>Drives a Lab to Bulk Right First Time metric of over 95%</li> </ul>	<ul style="list-style-type: none"> <li>Clean, quick and accurate colour recipe preparation and dispensing drives</li> <li>Short lead times</li> <li>On-time delivery</li> <li>Higher productivity</li> </ul>

The ERP system is also interfaced with the latest version of Filemaker Pro Advanced, an application to design and develop customised apps faster and easier. In-house developed programmes include:

- Web access from remote locations
- Development of a Cloud Disaster Recovery System

Key staff utilized web access to work-from-home during the Covid 19 lockdown in Sri Lanka in March/April 2020

## ADVANCED TECHNOLOGY



### Flexibility, Customization, Sampling

We have the flexibility to produce within a lead time of 3 days for speed orders and we do have the capability to produce small order quantities of unique weft-knit fabric in the appliance and functionality that customers require. Using this technology, we are able to produce samples for customers within a short lead time, that support our Research & Development efforts.

Technology	Features	Benefits
Knitting machines	<ul style="list-style-type: none"> <li>20 kg, lower capacity machines that can be quickly programmed</li> </ul>	<ul style="list-style-type: none"> <li>Supports small orders and on-demand production</li> <li>Customization</li> </ul>
Baby & sample dyeing machines	<ul style="list-style-type: none"> <li>1 kg - 40 kg capacity</li> </ul>	<ul style="list-style-type: none"> <li>Supports small orders, sample developments</li> </ul>
<p>Printing and finishing machines have the flexibility to produce orders of any size. The printing machines are equipped with CAD system from AVA CAD/CAM (Refer 'Guaranteed Quality' above) that assists the design of fabric by our Research and Development team.</p>		



### Eco-friendly Manufacturing

We invest in technology to minimize the impact of our operations on the environment. The following two operations are key examples;

Technology	Features	Benefits
Dyeing	<ul style="list-style-type: none"> <li>Dyeing of fabric is a high-water intensive operation.</li> <li>Machines have a mix of liquor ratios (amount of water required per unit of dye)</li> </ul>	<ul style="list-style-type: none"> <li>Progressively replacing old machines with high liquor ratios with newer ones with low liquor ratios and transitioning to an operation that uses significantly less amount of water. These new machines are also more energy efficient.</li> <li>Water recycling percentage is 16% in 2019/20 (Refer page 75 – Respect for Environment)</li> </ul>
Effluent treatment plant	<ul style="list-style-type: none"> <li>Biological and chemical treatment of effluent.</li> <li>Treat 3,500,000 litres of effluent /day</li> </ul>	<ul style="list-style-type: none"> <li>Efficient and effective.</li> <li>Metrics are well within regulatory parameters. (Refer page 75 – Respect for Environment)</li> </ul>

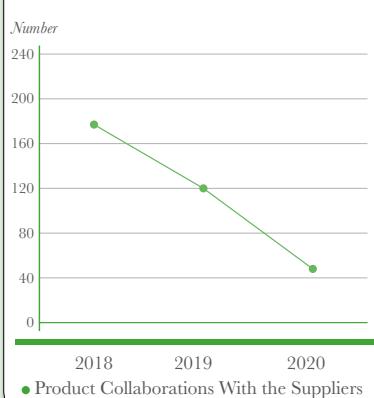
# STRONG NETWORKS

**Strategic Driver**  
page 61

Integral to the sustainability and growth of our business are the strong networks we have built with our supplier base, related companies of the Hayleys group, industry partners and local communities. We share our knowledge, expertise and resources to nurture mutually beneficial relationships.

## HIGHLIGHTS 2019/20

### Supplier Product Developments



### Key Raw Material Suppliers

**25**

### Total Payments made to suppliers USD Mn

**62**

### Other Suppliers

**>500**

### Suppliers with 'A' Level Grading

**+90%**

### Small & Medium Scale (SME) Suppliers

**>50**

### Payments to Local SME Suppliers USD Mn

**+16**

### Management Approach

We nurture meaningful and long-term relationships with related institutions and work towards the growth of the Textile and Apparel industry.

We are committed to building a secure and sustainable supply chain which can empower our local and foreign suppliers; vital in ensuring an uninterrupted supply of high-quality raw materials.

### Strategic Priorities

Rationalize supplier base for optimal value. Improve efficiency.

Engage in supplier development. Collaborate to minimize environmental impact.

Support and empower local suppliers including Small and Medium Enterprises (SME)s.

Support local community engagement and empowerment initiatives.

### Contribution to Sustainable Development Goals



We support SME development and rural empowerment by sourcing locally wherever possible.



We are committed to responsible sourcing of raw materials.

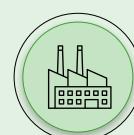


We contribute to the socio-economic development of local communities.



An industry leader, we contribute to sustainability of the textile industry.

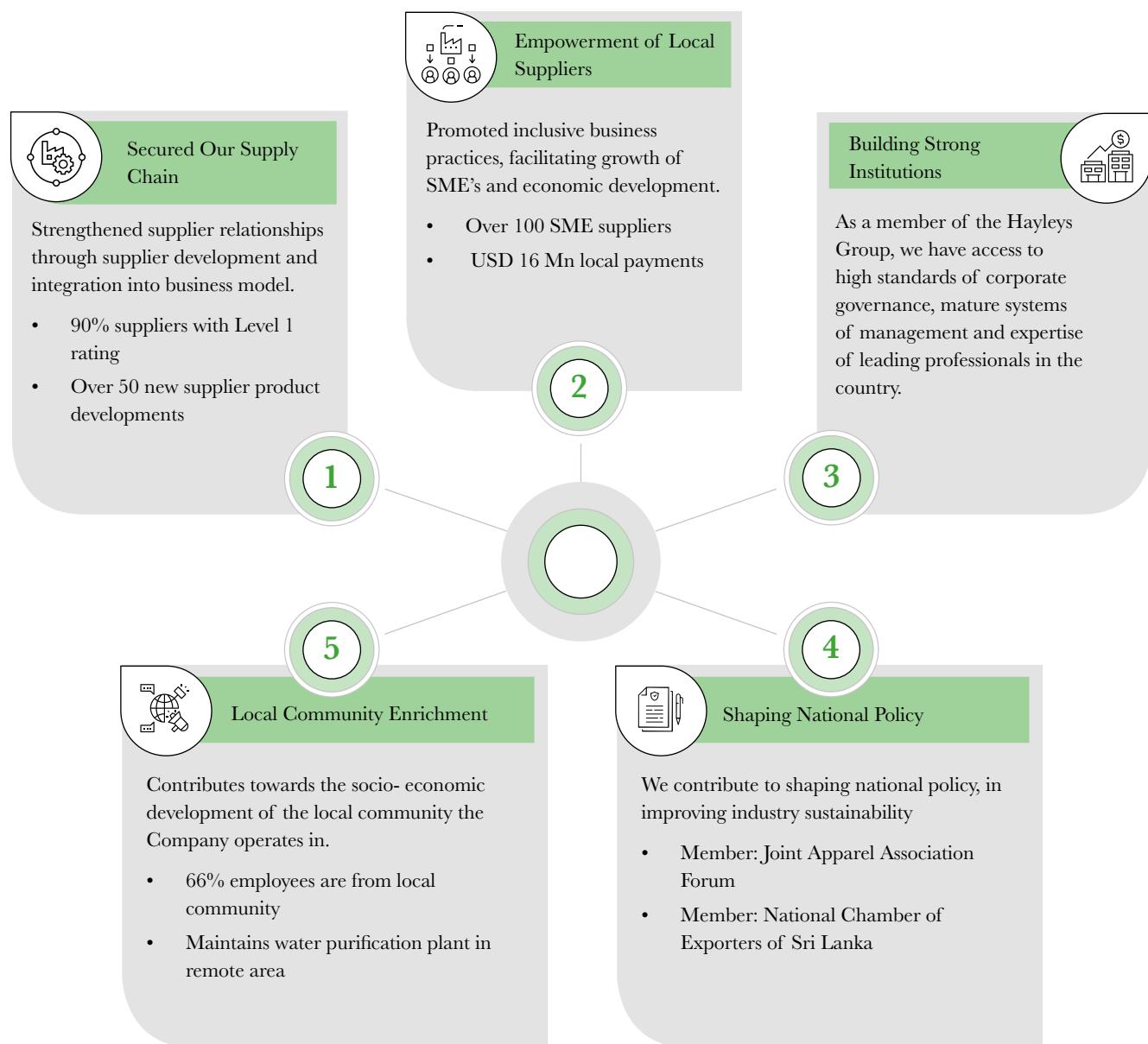
### Relevance to Capitals



Social and Relationship Capital

# STRONG NETWORKS

## HOW WE CREATED VALUE IN 2019/20

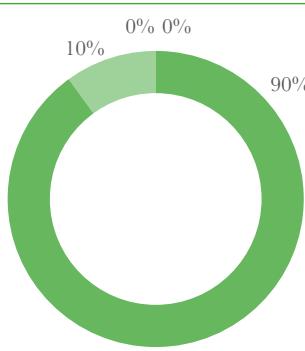


### Secured Our Supply Chain

Effective supply chain management is critical to ensuring an uninterrupted supply of high-quality raw materials. Hayleys Fabric PLC's priority is to develop a secure and sustainable supply base which is fit for the future – aligned to the Company's business strategy (that drives innovation), well spread and efficient. The Company strives to nurture meaningful and long-term relationships with its suppliers and regularly reviews its

supplier base seeking to improve efficiency and margins without compromising quality. Accordingly, potential raw material suppliers are evaluated through a rigorous and documented process which includes assessments on product quality, environmental and social criteria as graphically depicted alongside. No significant issues were identified during the year.

### Supplier Ratings



- Grade 1
- Grade 2
- Grade 3
- Grade 4

## Supplier network

The Company directly sources its key raw materials yarn, greige, dyes and chemicals from over 50 suppliers located in over 10 countries. Main countries of import are India, China, Vietnam and Korea. Hayleys Fabric PLC has developed secondary supplier relationships for critical raw materials, ensuring alternate sourcing in the event of disruption to the key supplier. The Company leveraged these relationships to source goods from India, Korea, Vietnam and other areas of China, in 4th quarter 2019/20 when material shipments from areas affected by the Covid -19 pandemic in China were delayed. The Company is however conscious of its country concentration risk on key supplies and had begun to broaden the supplier network during the year by acquiring 47 new raw material suppliers and rationalizing existing relationships.

## High Standards

Suppliers are required to uphold the Company's high sourcing standards. Potential suppliers are evaluated through a rigorous and documented selection process, which includes assessments on price, quality, delivery and environmental and social practices adopted.

The Company visits factories regularly and conducts supplier audits quarterly, to ensure expectations are being met. Constructive feedback is provided and follow up action taken on the results of any findings. By end March 2020, 90% of suppliers had been awarded the highest rating of 1, an improvement from 79% two years before. 7 factories were visited during the year.

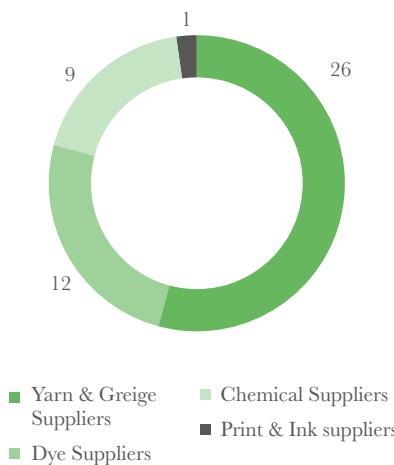
## Reduced Lead Times

Our raw material suppliers are our business partners. Strong relationships nurtured with key suppliers of yarn, dye and chemical have helped reap considerable gains from higher quality materials, greater supplier support, improved product development, shared risk taking and more favorable terms, thereby maximizing efficiencies in the supply chain and reducing lead times.

## Product Development

The R&D Inno team collaborates with selected suppliers to develop fabric solutions for customers, while the latter also independently designs and creates products for Company's development. During the year, 90 new products were developed. Current projects in progress are highlighted on pages 69 to 70 - Responsible Innovation. These collaborations facilitate the Company to market innovative fabric to customers, faster and cheaper, creating a stronger, more sustainable differentiation from competitors.

## Product Collaborations



## Empowerment of Small & Medium Enterprises (SME)

We source locally wherever possible to support growth of Small & Medium Enterprises (SME) and provide an anchor for boosting economic growth within the communities we operate in. In 2019/20 we sourced saw dust, janitorial and gardening services, manpower, transportation and canteen services from local suppliers for Over USD 3 Mn per annum. SMEs comprise over 20% of our suppliers.



## Building Strong Institutions

As a member of the Hayleys Group, we have access to high standards of corporate governance, mature systems of management and expertise of leading professionals in the country. Entrepreneurship and professionalism is combined to ensure strategic direction and resource allocation in building an effective, accountable and inclusive organizations.



## Shaping National Policy

As an active contributor at industry forums, we engage in matters of policymaking to improve industry sustainability. Key business associations in which we hold membership includes;

- The Ceylon Chamber of Commerce
- Joint Apparel Association Forum
- National Chamber of Exporters of Sri Lanka
- The Employers' Federation of Ceylon



## Local Community Enrichment

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

## STRONG NETWORKS



Planting of over 500 Kumbuk trees along the river banks of Kalu Ganga



2019 Annual Book Donation at Rathmalgahawewa in Anuradhapura District



Donated LKR 1.6 Mn to the Little Hearts national funds-raising project to build a Cardiac and Critical Care Complex at Lady Ridgeway Children's Hospital



Employees children with 9 As' in O/L examination were given study packs



Annual Blood Donation Campaign carried out at the factory premises for the 7th consecutive year with 162 Donors



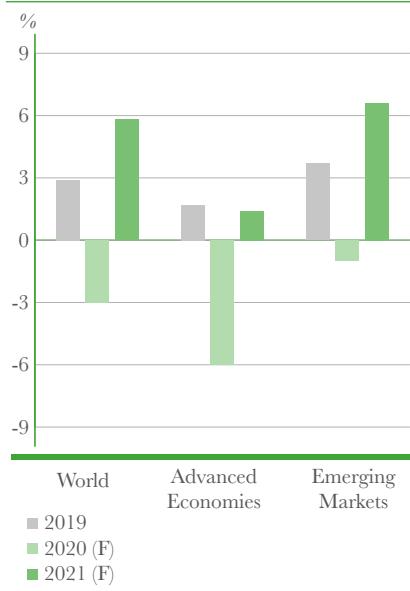
Ananda College A/L Science students Factory Visit

# WAY FORWARD

The Covid-19 pandemic's economic challenges are unprecedented. The virus has spread across the world, disrupting global financial markets, supply chains and consumer demand. The duration and ultimate severity of the pandemic on economies and markets remains uncertain.

## Global Economy

### Economic Growth



The IMF-World Economic Outlook (WEO) April 2020 report has projected the global economy to suffer severe recession, contracting sharply by - 3% in 2020) with Advanced economies recording - 6% (2021: 4.5%) and emerging economies -1% (2021: 6.6%). Emerging Asia, which includes China and India is the only region to forecast modest growth in 2020. Significant contraction is also recorded in Sri Lanka's key export markets USA, EU and UK in 2020, with positive growth forecast in 2021.

The global economy is projected to grow by 5.8% in 2021 on the assumption the pandemic fades in the second half of 2020 and economic activity normalizes, buoyed by policy support. However, there is heightened uncertainty concerning strength of the recovery, dependent on the pathway of the pandemic and the severity of the associated economic and financial consequences.

## Sri Lankan Economy

Economic activity in the country was stalled following the islandwide curfew imposed since March 2020 to contain the Covid-19 virus and spread of disease. The Sri Lankan Rupee has depreciated sharply since the beginning of January, declining 9.1% YoY against the US Dollar, as at April 9, 2020, while the capital market (ASPI) plunged by more than 20% as at 31 March 2020 to an all-time low recorded in the past five years from the date of the first confirmed case in Sri Lanka in late January 2020. (PWC-Sri Lanka; April 2020) PWC has predicted the economy to grow by less than 2% in 2020, assuming the pandemic is contained by mid-2020, and economic recovery begins towards the latter part of the year.

The effectiveness and efficiency of fiscal, monetary and financial market measures adopted by the Government will be a key determinant on how fast the economy recovers. The Government has already introduced several key measures to ease pressure on the economy and has announced economic stimulus packages including debt moratoria while seeking aid from multilateral agencies. However, economic recovery is dependent not only on the situation within the country, but also on policy responses and economic recovery of critical trade partners such as the United States, Europe and China.

## APPAREL AND TEXTILE INDUSTRY

The fashion industry is one of the most vulnerable to disruption from the Covid-19 outbreak given its reliance on discretionary spending. Recovery is slow and lags behind other retail businesses as evident when apparel stores re-opened in China, and footfall and purchases were yet 50% to 60% below pre-crisis levels by the end of the first month. (The State of Fashion 2020 Corona Virus Update; McKinsey) Evidence suggests it may take up to two years to fully restore consumer confidence. McKinsey has estimated global revenues from apparel and footwear to contract by 27% to 30% in 2020 and gradually recover to regain positive growth of 2% to 4% in 2021.

In response to poor demand, retailers have in magnitude, cancelled or postponed orders, reduced order volumes and requested for discounts and extended payment terms with suppliers in apparel producing countries. Resulting financial stress in many of these manufacturing companies, have led to unpaid wage bills and in worse situations, particularly in low-cost sourcing hubs such as Bangladesh and Vietnam, necessitated reduction in operations, close downs and layoffs of workers.

## Consumer trends

In the immediate aftermath of the Covid-19 crisis, a continued lull in consumer spend on apparel will result in inventory build-ups. Alternative business models not based on generating virgin products, such as resale, upcycling and recycling, may see a boost. Subsequently, within a recessionary market, consumers will be frugal in their purchases and seek discount pricing. There will be heightened focus on sustainability following discussions around materialism, over-consumption and irresponsible business practices leading to greater demand for ecologically and ethically produced clothing.

## Adapting to the 'new normal'

Beyond the recovery phase, industry players will need to rethink their strategies and adapt operating models to find new ways to infuse value to consumers, meeting

# WAY FORWARD

their needs while regaining lost corporate value. Speed and adaptability will be critical as retailers' race to gain competitive edge when the 'new normal' characterized by economic and consumer shifts emerges. Retailers will seek to strengthen their integrated supply chains and may explore near-shoring as a means to enhance flexibility and reduce unexpected disruptions to supply. Enhanced digitalization across the value chain will play a key role in customer interaction and collaboration.

## **Impact to Sri Lanka's Apparel and Textile Industry**

Sri Lanka's apparel sector has also witnessed large scale order cancellations, postponement and volume reductions from the US and Europe. Exports are projected to decline by USD 2 billion up to end-May. Order cancellations have caused significant financial stress to the manufacturing companies, who have initiated urgent internal measures to manage cash reserves and safeguard the business. Prolonged demand disruptions could substantially

impact companies with weaker balance sheets and limited scale.

The industry has also been facing raw material shortages following difficulties in procuring raw materials from China and India given factory closures on account of lock downs in those countries. However, this concern is expected to ease following the gradual upliftment of travel restrictions in China since late March 2020 and the progressive return to work.

## **WAY FORWARD**

Hayleys Fabric PLC has faced a mix of reactions. Amidst large order cancellations, postponements and volume reductions, few buyers have maintained contractual commitments while placing orders for the next quarter. The Company was able to secure permission from the respective authorities to open the factory by early April 2020, after almost three weeks of closure on account of the islandwide curfew and commenced operations on a limited scale. Orders processed and shipped have supported cash flows,

although insufficient to cover overheads. Wage payments are up to date and no employees have been laid off. Company has been able to secure the required raw materials through its strong and integrated supplier network spread across different countries and regions.

The US and Europe while being the worst hit geographies are also Company's major export markets. Until the 'dust settles', the severity of the financial impact on customers' businesses is uncertain and will delay the collaboration and development of strategic plans. In the short term, Hayleys Fabric PLC will seek opportunities wherever possible, to generate business and stabilize operations. The Company has already secured orders for the manufacture of face masks.

Hayleys Fabric PLC's strategic strengths in sustainable manufacture, innovation, short lead times and versatile and flexible production capabilities will very likely enable the Company to adapt its operating model to new customer requirements and the 'new normal', with relative ease.

Strategic Driver	Action
<b>Sustainable Shareholder Value</b>	<ul style="list-style-type: none"> <li>• Seek viable business opportunities that support cash flows</li> <li>• Leverage sharp depreciation of the LKR against the USD, to generate cash flows for local payments.</li> <li>• Manage incremental growth in working capital from higher inventory holding and extended debtor cycles, through decline in commodity prices</li> <li>• Avail the Company of relief packages offered by the Government to revive the economy including debt moratoria</li> <li>• Drive cost efficiencies through smart sourcing strategies and operational excellence</li> </ul>
<b>Responsible Innovation</b>	<ul style="list-style-type: none"> <li>• Leverage materials science technology to design and develop fabric that supports current needs and priorities: PPE i.e. face masks, medical gowns</li> <li>• Innovate products that appeal to emerging consumer trends such as concerns for health and safety i.e. anti-bacterial fabric</li> <li>• Continue innovations that support environment sustainability</li> </ul>
<b>An inspired and Engaged Team</b>	<ul style="list-style-type: none"> <li>• Reassure employees of the Company's commitment to their safety and wellbeing by implementing appropriate health and safety measures at the factory.</li> <li>• Engage support of trade unions in responding to the Covid-19 crisis</li> <li>• Maintain communication and inspire team to deliver corporate goals</li> </ul>
<b>Satisfied Customers</b>	<ul style="list-style-type: none"> <li>• Review the business model to adapt to economic and consumer shifts and respond to customer needs</li> </ul>
<b>Strong Networks</b>	<ul style="list-style-type: none"> <li>• Continue to strengthen the supply chain, integrating suppliers to Company's business model</li> <li>• Collaborate with industry peers to uplift the industry in responding to the pandemic</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>• Strengthen technology to support the potential digital escalation by customers across their supply chain, for example virtual sampling and AI-supported planning.</li> </ul>
<b>Respect for the environment</b>	<ul style="list-style-type: none"> <li>• Continue to drive responsible production practices and minimize environmental impacts through clean technology</li> </ul>

# MANAGING RISK & OPPORTUNITIES

In an increasingly challenging business landscape, we constantly monitor, manage and mitigate emerging and potential risks to ensure a stable path towards sustainable growth.

Risk management is a key function of the Board and they are supported in this by the Corporate Management Team who provide regular reports to the Board to ensure that potential threats are identified, measured, monitored and managed.

Our operating environment changed dramatically with the COVID-19 pandemic and the resultant closure of malls and lockdowns worldwide to curtail its spread. Demand for fashion has plummeted as a result reflected in the steep decline in market capitalization of fashion, apparel and luxury players globally. Consequential impacts throughout the lengthy supply chains are expected to create significant job losses and hardship to emerging market economies heavily dependent on apparel exports.

A key consideration in controlling the pandemic and minimizing its impacts will be the effectiveness and efficiency of measures taken by the governments together with the country's healthcare systems. Sri Lanka may be spared the worst as we are blessed with a sound healthcare system and swift action taken to close border for passenger travel and enforce a lockdown in the country may fast track restoration of normalcy in the country. However, recovery of the apparel sector will be dependent on the recovery of key markets and effective strategies of key players who will be dealing with shifts in consumer mindsets towards more frugal lifestyles and safer experiences.

The Company saw a possible lock down in Sri Lanka and India well in advance and

took a strategic decision to increase its raw material imports mainly from India. The Company also placed orders with China no sooner they opened up. This was done with the objective of re-bounding fast with raw materials in hand. At the same time, the Development team together with the Marketing team began developing fabric with Chemical treatment for Face Masks and Hospital clothing. This strategy was to create an opportunity for a different business model when there was a loss of demand for fabric for the fashion and sports clothing.

Considering the current risk environment, we have prioritized and listed the most significant risks for our business together with mitigating factors.

**A risk is defined as a factor that can become an impediment to the achievement of corporate goals.**

	Issue	Mitigants	Net Risk Assessment
Demand in Key Markets	Store closures in advanced economies and frugal consumer mindsets requires a shift in focus from high end fashion fabric to more relevant fabric for the current crisis such as those required for Personal Protective Equipment for the healthcare industry.	<ul style="list-style-type: none"> <li>As a fabric manufacturer, the transition to more basic fabric or those required by the healthcare industry is a relatively easy one</li> <li>Secured orders for fabric for surgical masks with viable margins</li> <li>Redoubling efforts to collaborate and rebuild the business with new norms</li> </ul>	High Risk
Inputs	There was significant concern about continued manufacture in industries due to availability of raw materials, particularly if they were imported.	<ul style="list-style-type: none"> <li>Alternative suppliers in India</li> <li>Chinese suppliers are slowly returning to work</li> </ul>	High Risk

# MANAGING RISK & OPPORTUNITIES

	Issue	Mitigants	Net Risk Assessment
Government Policy	Government policy will play a critical role in containing the spread of the pandemic, restoring economic activity and providing relief to industry and workers. However, the country's heavy debt burden may limit policy options, prolonging economic recovery.	<ul style="list-style-type: none"> <li>Early shut down, quarantine and contact tracing appears to be effective and in curtailing the community spread of the virus</li> <li>Moratoria and other relief measures for industries impacted by the pandemic</li> </ul>	High Risk
Employees	Located in a rural village, we are the largest employer in the vicinity and 66% of employees are from a radius of 15 km. Our employees also have freedom of collective bargaining and are members of 3 trade unions. Layoffs will be a last resort due to the above.	<ul style="list-style-type: none"> <li>Good industrial relations with trade unions</li> <li>Very high level of sanitization methods installed. Strict guidelines with the advice of the MOH has been implemented for the safety of our people</li> <li>Plans to secure orders that are relevant for the times as the manufacturing facilities in place are versatile</li> </ul>	High Risk
Liquidity	Cash flow will be a lifeline and all efforts will be made to forecast and manage the same.	<ul style="list-style-type: none"> <li>A strong performance during the reporting year provides a reasonably wide margin of comfort.</li> <li>Early focus on lucrative orders will support cash flows.</li> <li>Availability of moratoria for interest and capital repayments for 6 months</li> </ul>	High Risk
Innovation	Our ability to innovate to appeal to emerging consumer trends is key to growth and profitability	<ul style="list-style-type: none"> <li>Monitoring of fashion trends to anticipate customer needs in developing own portfolio</li> <li>Ability to attract and retain highly qualified and experienced talent to operate the Design Centre</li> </ul>	Moderate risk
Cost Efficiency	Within a recessionary market, cost efficiency provides a competitive edge	<ul style="list-style-type: none"> <li>Process improvements</li> <li>Lean processes</li> <li>Sourcing strategies</li> <li>Product re-engineering</li> </ul>	Moderate risk
Timely Delivery	Timely delivery is key to profitability as late delivery comes with penalties and loss of customer satisfaction	<ul style="list-style-type: none"> <li>Strengthening the planning system within the Company</li> <li>Production scheduling to maximize capacity utilization and ensure timely delivery</li> <li>Quality control checks at each stage of the process to ensure compliance with specifications and timely delivery</li> </ul>	Low risk
Speed of Delivery	Our ability to turn around an order within a few days is highly valued by customers	<ul style="list-style-type: none"> <li>Company has shortened the lead time of speed orders to 3 days</li> <li>Supply chain &amp; inventory geared to support the promise</li> </ul>	Low risk
Sustainable Production	Sustainable Production is critical to our reputation and growth	<ul style="list-style-type: none"> <li>Compliance with regulatory and certification requirements</li> <li>Investment in clean technology</li> <li>Supplier screening for financial, social and environmental criteria</li> </ul>	Low risk

# GRI INDEX

GRI Standard	Disclosure	Page number(s)	Remarks
<b>GRI 102: General Disclosures 2016</b>	102-1 Name of the organization	10	
	102-2 Activities, brands, products, and services	10 & 91	
	102-3 Location of headquarters	IBC	
	102-4 Location of operations		Operates only in Sri Lanka
	102-5 Ownership and legal form	10 & IBC	
	102-6 Markets served	82	
	102-7 Scale of the organization	13 - 15	
	102-8 Information on employees and other workers	85	We will not present a regional-wise classification
	102-9 Supply chain	95 - 97	
	102-10 Significant changes to the organization and its supply chain		No significant changes
	102-11 Precautionary Principle or approach	102	
	102-12 External initiatives	08	
	102-13 Membership of associations	73 & 82	
	102-14 Statement from senior decision-maker	17 - 19	
	102-16 Values, principles, standards, and norms of behaviour	11, 42 & 86	
	102-18 Governance structure	36	Sustainability comes under the purview of the Finance Director
	102-40 List of stakeholder groups	52 & 53	
	102-41 Collective bargaining agreements	87	
	102-42 Identifying and selecting stakeholders	52 & 53	
	102-43 Approach to stakeholder engagement	52 & 53	
	102-44 Key topics and concerns raised	52 & 53	
	102-45 Entities included in the consolidated financial statements		Hayleys Fabric PLC
	102-46 Defining report content and topic Boundaries	08 & 106	
	102-47 List of material topics	59 & 106	
	102-48 Restatements of information		No Restatements
	102-49 Changes in reporting	59	
	102-50 Reporting period	08	
	102-51 Date of most recent report	08	
	102-52 Reporting cycle	08	
	102-53 Contact point for questions regarding the report	08	
	102-54 Claims of reporting in accordance with the GRI Standards	08	
	102-55 GRI content index	103 - 105	
	102-56 External assurance	08, 107 & 108	

# GRI INDEX

GRI Standard	Disclosure	Page number(s)	Remarks
<b>Management Approach</b>			
<b>GRI 103: Management Approach 2016</b>	103-1 Explanation of the material topic and its Boundary	106	
	103-2 The management approach and its components	106	
	103-3 Evaluation of the management approach	106	
<b>Economic</b>			
<b>GRI 201: Economic Performance 2016</b>	201-1 Direct economic value generated and distributed	62	
	201-3 Defined benefit plan obligations and other retirement plans	147 & 151	
<b>GRI 204: Procurement practices 2016</b>	204-1 Proportion of spending on local suppliers	14 & 95	
<b>Environmental</b>			
<b>GRI 301: Materials 2016</b>	301-1 Materials used by weight or volume	14 & 74	
	301-2 Recycled input materials used	14 & 74	
<b>GRI 302: Energy 2016</b>	302-1 Energy consumption within the organization	14, 75 & 76	
	302-3 Energy intensity	14, 75 & 76	
	302-4 Reduction of energy consumption	75 - 76	Energy has increased due to the growth of the value added fabric production
<b>GRI 303: Water 2016</b>	303-1 Water withdrawal by source	14 & 75	
	303-2 Water sources significantly affected by withdrawal of water		No significant impact
	303-3 Water recycled and reused	14 & 75	
<b>GRI 305 Emissions: 2016</b>	305-1 Direct (Scope 1) GHG emissions	14 & 76	
	305-2 Energy indirect (Scope 2) GHG emissions	14 & 76	
	305-3 Other indirect (Scope 3) GHG emissions	14 & 76	
<b>GRI 306: Effluents and Waste 2016</b>	305-4 GHG emissions intensity	14 & 76	
	305-5 Reduction of GHG emissions		Emissions has increased due to the growth of the value added fabric production
<b>GRI 307: Environmental Compliance 2016</b>	306-1 Water discharge by quality and destination	14 & 75	
	306-2 Waste by type and disposal method	14 & 78	
<b>GRI 308: Supplier Environmental Assessment 2016</b>	307-1 Non-compliance with environmental laws and regulations	14 & 79	
	308-1 New suppliers that were screened using environmental criteria	96	
	308-2 Negative environmental impacts in the supply chain and actions taken	96	

GRI Standard	Disclosure	Page number(s)	Remarks
<b>Social</b>			
<b>GRI 401: Employment 2016</b>	401-1 New employee hires and employee turnover	84	We will not present a regional-wise classification
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	87	
<b>GRI 403: Occupational Health and Safety 2016</b>	403-1 Workers representation in formal joint management-worker health and safety committees	88	
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	15, 87 & 88	
<b>GRI 404: Training and Education 2016</b>	404-1 Average hours of training per year per employee	15, 88 & 89	
	404-2 Programs for upgrading employee skills and transition assistance programs	88 - 89	
	404-3 Percentage of employees receiving regular performance and career development reviews	15 & 87	
<b>GRI 405: Diversity and Equal Opportunity 2016</b>	405-1 Diversity of governance bodies and employees	85 & 87	
<b>GRI 408: Child Labor 2016</b>	408-1 Operations and suppliers at significant risk for incidents of child labor	15 & 85	
<b>GRI 409: Forced or Compulsory Labor 2016</b>	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour	15 & 85	
<b>GRI 413: Local communities 2016</b>	413-1 Operations with local community engagement, impact assessments, and development programmes	97 & 98	
<b>GRI 414: Supplier Social Assessment 2016</b>	414-1 New suppliers that were screened using social criteria	96	
	414-2 Negative social impacts in the supply chain and actions taken	96	
<b>GRI 416: Customer Health and Safety 2016</b>	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services		Nil
<b>GRI 417: Marketing and Labeling 2016</b>	417-2 Incidents of non-compliance concerning product and service information and labelling		Nil
	417-3 Incidents of non-compliance concerning marketing communications		Nil
<b>GRI 418: Customer Privacy 2016</b>	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data		Nil
<b>GRI 419: Socioeconomic Compliance 2016</b>	419-1 Non-compliance with laws and regulations in the social and economic area		Nil

**TABLE OF OUR MATERIAL MATTERS**

Material Topic	Management Approach (103-1, 103-2 and 103-3)	Topic Boundary (102-46)						
		Internal Stakeholders		External Stakeholders				
		The Company	Brand Owners & Apparel Manufacturers	Investors	Employees	Suppliers	Regulators	Community
Economic Performance (201)	63 - 66	√	√	√	√	√	√	√
Procurement Practices (204)	96 & 97	√	√	√		√		
Materials (301)	74	√	√				√	
Energy (302)	75 - 77	√					√	√
Water (303)	75, 77 & 78	√	√				√	√
Emissions (305)	76 & 77	√	√				√	√
Effluents and Waste (306)	77 & 78	√	√				√	√
Environmental Compliance (307) and Socioeconomic Compliance (419)	42 & 79	√	√	√			√	√
Supplier Environmental Assessment (308) and Supplier Social Assessment (414)	96	√	√			√		
Employment (401)	83 - 89	√			√		√	√
Occupational Health and Safety (403)	87 & 88	√	√		√		√	
Training and Education (404)	88 & 89	√			√			
Diversity and Equal Opportunity (405)	87	√	√		√		√	√
Child Labour (408) and Forced or Compulsory Labour (409)	85 & 86	√	√			√	√	
Local Communities (413)	97 & 98	√		√				√
Customer Health and Safety (416) and Marketing and Labelling (417)	80 - 82, 96 - 97 & 101 - 102	√	√					
Customer Privacy (418)	69 & 80 - 82	√	√					

# 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- 2019/20 Introduction and scope of the engagement**

The management of Hayleys Fabric PLC (“the Company”) engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2019/20 (“the Report”).

- Reasonable assurance on the information on financial performance as specified on page 62 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: ‘In accordance’ – Core guidelines.

## **BASIS OF OUR WORK AND LEVEL OF ASSURANCE**

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

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines (“GRI Guidelines”) and related information in particular, the requirements to achieve GRI Standards ‘In accordance’ - Core guideline publication, publicly available at GRI’s global website at “www.globalreporting.org”.

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

## **MANAGEMENT OF THE COMPANY'S RESPONSIBILITY FOR THE REPORT**

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

process in line with the GRI Sustainability Reporting Guidelines.

## **ERNST & YOUNG'S RESPONSIBILITY**

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: ‘In accordance’ - Core guidelines. This report is made solely to the Company in accordance with our engagement letter dated 02 May 2020. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence

requirements of the Code for Ethics for Professional Accountants issued by the CASL.

## **KEY ASSURANCE PROCEDURES**

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

- Interviewing relevant the Company's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Company on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Company's audited financial statements for the year ended 31 March 2020.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: ‘In accordance’ – Core guidelines.

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

## **LIMITATIONS AND CONSIDERATIONS**

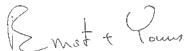
Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

# INDEPENDENT ASSURANCE REPORT

## CONCLUSION

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

- The information on financial performance as specified on page 62 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 March 2020.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Core.



**Ernst & Young**

Chartered Accountants

06 May 2020

Colombo

Partners: W R I Fernando FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, Ms. Y A De Silva FCA, W R H De Silva ACA ACMA, W K B S P Fernando FCA FCMA, Ms. K R M Fernando FCA ACMA, Ms. L K H L Fonseka FCA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (Lond), H M A Jayesinghe FCA FCMA, Ms. A A Ludewyke FCA FCMA, Ms. G S Manatunga FCA, Ms. P V K N Saleewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA  
Principal: G B Goudian ACMA, A A J R Perera ACA ACMA, T P M Ruberu FCMA FCCA

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# “Capable and Resourceful”

Financial & Statutory Reports

# REPORT OF THE AUDIT COMMITTEE

## PURPOSE OF THE COMMITTEE

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

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

## TERMS OF REFERENCE

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

The terms of reference comply with the requirements of the Section 7.10 of the Corporate Governance Listing Rules of the Colombo Stock Exchange (CSE).

## MEMBERS AND MEETINGS

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

The Chairman of the Audit Committee is a member of the Institute of Chartered Accountants of Sri Lanka and the profiles of the members are given on pages 26 to 29 of this report.

The Audit Committee of Hayleys Fabric PLC consists of Independent Non-Executive Directors (INEDs) and formally constituted as a sub-committee of the Main Board. The Audit Committee met four (4) times during the year and attendance by the Committee members at each of these meetings are given in the Corporate Governance Report on page 39. The Committee's composition met the requirements of the rule 7.10.6 of Listing Rules of the Colombo Stock Exchange. The members of the Audit Committee are as follows;

### Audit Committee Members

Chairman	• Mr. H. Somashantha*
Members	• Dr. N.S.J. Nawartne*
Secretary to the Committee	• Mr. A.S.J. Jayatilleka* (*Independent Non-Executive Director)
Attendance by Invitation	Hayleys Group Services (Pvt) Ltd <ul style="list-style-type: none"> <li>• Mr. A.M. Pandithage - Chairman - Hayleys Fabric PLC</li> <li>• Mr. E.R.P. Goonetilleke- Managing Director/CEO-Hayleys Fabric PLC</li> <li>• Mr. S.C. Ganegoda - Director - Hayleys Fabric PLC</li> <li>• Mr. R. Rohitha Bandara -Director Finance-Hayleys Fabric PLC</li> <li>• Mr. A. Mathangaweedra- Manager -(MA &amp; SRD)-Hayleys PLC</li> <li>• Mr. Choliya. De. Silva -Group CFO -Hayleys PLC</li> </ul>

## DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE DURING THE YEAR

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

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

(HMA and SRD) and they directly submit their findings to the Audit Committee and relevant reports are available to External Auditors.

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

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

## Risk management and Internal Controls

The Committee reviewed and assessed the Company's risk management process including the adequacy of the overall control environment and controls in areas

## FINANCIAL REPORTING DURING THE YEAR

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

### The review included;

- Appropriateness and changes in Accounting Policies

## INTERNAL AUDIT

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

The internal audit of the Company has been carried out by Hayleys Management Audit and System Review Department

of significant risk. Key risks that exceeded the Company's risk appetite are presented from page 101 to 102.

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

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

#### **External Audit**

The Committee has reviewed the independence and objectivity of the Independent External Auditors, Messrs Ernst & Young Chartered Accountants.

The Audit Committee has met with the External Auditors to review their audit plan and observation made by them.

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

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

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

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

There were no significant issues during the year under review.

The current auditors, Messrs Ernst & Young, was initially appointed as the External Auditors of the Company, and continue to hold that position at present. A partner rotation of the auditors take place at periodic intervals and last rotation took place in the year 2018/19.

The Committee has recommended to the Board that Messrs Ernst & Young be reappointed as the independent External Auditor and that the re-appointment be included in the agenda of the Annual General Meeting.

#### **COMPLIANCE WITH FINANCIAL REPORTING AND STATUTORY REQUIREMENTS**

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

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

#### **SUPPORT TO THE COMMITTEE**

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

#### **CONCLUSION**

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

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

**H. Somashantha**

*Chairman-Audit Committee*

Colombo

06 May 2020

# REPORT OF THE REMUNERATION COMMITTEE

## COMPOSITION OF THE COMMITTEE

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

The Members of the Remuneration Committee consist of as below;

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

## INDEPENDENCE OF THE COMMITTEE

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

## KEY OBJECTIVE

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

## RESPONSIBILITIES

The Remuneration Committee is responsible to the Board for;

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

## REMUNERATION POLICY

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

The remuneration packages which are linked to individual performances are aligned with the Company's short-term and long-term strategy.

The Committee makes every effort to maintain remuneration levels that are sufficient to attract and retain Executive Directors.

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

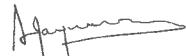
## MEETING

Remuneration Committee Met on 6th Feb 2020 and discussed Remuneration system of the Company and methods of evaluating each category of employees and method of setting KPIs for Executives of the Company.

Attendance of the committee members at the meeting are given in the Corporate Governance Report on page 39.

## DIRECTORS' EMOLUMENTS

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



**A.S. Jayatilleka**

*Chairman - Remuneration Committee*

Colombo

06 May 2020

# 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

## TASK OF THE COMMITTEE

The Committee re-reviewed 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*

Colombo

17 June 2020

## COMPOSITION OF THE COMMITTEE

The Related Party Transactions Review Committee comprises two Independent Non-Executive Directors and one Executive Director as shown below;

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

## MEETINGS & ATTENDANCE

Number of Meetings held in 2019/20

Name	15.05.2019	05.08.2019	05.11.2019	10.02.2020	Total
Dr. Harsha Cabral, PC.	✓	✓	✓	✓	4/4
Mr. M.Y.A. Perera	✓	✓	✓	✓	4/4
Mr. S.C. Ganegoda	✓	✓	✓	✓	4/4

## THE DUTIES OF THE COMMITTEE

- To review in advance all proposed related party transactions of the Group either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction
- Seek any information the Committee requires from management, employees or external parties to with regard to any transaction entered into with a related party.
- Obtain knowledge or expertise to assess all aspects of proposed related party transactions where necessary including obtaining appropriate professional and expert advice from suitably qualified persons.
- To recommend, where necessary, to the Board and obtain their approval prior to the execution of any related party transaction.
- To monitor that all related party transactions of the entity are

transacted on normal commercial terms and are not prejudicial to the interests of the entity and its minority shareholders.

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

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

The Section D 1.3 of the ‘Code of Best Practice on Corporate Governance 2017’ (The Code) issued by the Institute of Sri Lanka recommends that the Board should, before the Financial Statements are approved for the financial year, obtain a declaration in their opinion on Financial Statements and system of risk management and internal control from its Chief Executive Officer and Chief Financial Officer.

We confirm that the Financial Statements of Hayleys Fabric PLC are prepared in compliance with following requirements;

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

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

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

All applicable Sri Lanka Accounting Standards have been duly applied.

The significant Accounting policies and estimates involved a high degree of judgment and complexity have been informed discussed with the Audit Committee.

The Board of Directors and the Management of the Company accept the responsibility for the integrity and objectivity of Financial Statements.

The estimates and judgments relating to the Financial Statements were made in a prudent and reasonable basis, in order to reflect true and fair picture and the form and substance of transactions and reasonably present the Company’s State of affairs.

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

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

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

The Audit Committee of the Company meets periodically with Internal Auditors and where necessary with External Auditors to review the manner in which these Auditors are performing their responsibilities. In addition, internal control and financial reporting issues are also discussed.

In order to ensure the independence of the Internal and External Auditors they have been given full and free access to the members of the Audit Committee to discuss any matters they think important.

## CONCLUSION

We confirm that we have discharged our responsibilities on maintaining proper financial records and preparing Financial Statements in accordance with LKASs/ SLFRSs. To the best of our knowledge, we also confirm that the system of risk management and internal control was operating effectively during the year.

**E. R. P. Goonetilleke**

*Managing Director/CEO*

**R. Rohitha Bandara**

*Director – Finance*

Colombo

06 May 2020

# SENIOR INDEPENDENT DIRECTOR'S STATEMENT

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

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

Hayleys Fabric PLC is committed to principles of good governance and always strives to live by the Best Practices of good Corporate Governance. The conformance culture of the Company is strongly embraced by the Board of Directors. The Company follows a policy of strict

compliance with mandatory requirements while embracing voluntary adherence, in order to enhance stakeholder acceptance and making a positive impact on value creation.

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



**A.S. Jayatilleka**  
*Senior Independent Director*

06 May 2020

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

The Board of Directors of Hayleys Fabric PLC are pleased to present its Annual Report to the shareholders for the financial year ended 31st March 2020, together with the audited Financial Statements of the Company and the Auditor's Report on those Financial Statements, conforming to the requirements of the Companies Act No 7 of 2007 and Listing Rules of the Colombo Stock Exchange (CSE).

Hayleys Fabric PLC is a public limited liability company incorporated in Sri Lanka in 1993 under the previous Companies Act No 17 of 1982 and re-registered as required under the provisions of the Companies Act No 7 of 2007. The re-registration number of the Company is PQ 37.

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

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

The Financial Statements, together with the Reviews and other Reports which form part of the Annual Report were approved by the Board of Directors on 6th May 2020.

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

## MANDATORY PROVISIONS - FULLY COMPLIANT

Reference	Requirement	Complied	Reference (within the Report)	Page
Section 168 (1) (a)	The nature of the business of the Company	Yes	About Us	10
Section 168 (1) (b)	Financial Statements for the accounting period completed and signed in accordance with section 152	Yes	The Financial Statements of the Company for the year ended 31st March 2020 Signed on page 128	128 to 158
Section 168 (1) (c)	Auditor's report on the Financial Statements of the Company	Yes	Independent Auditors' Report.	124 to 127
Section 168 (1) (d)	Any change in accounting policies made during the accounting period	Yes	Note 4.4 to the Financial Statements - Changes in Accounting Policies	139
Section 168 (1) (e)	Particulars of entries in the interests register made during the accounting period	Yes	Directors' Interest in Contracts with the Company Details of the Directors' shareholdings. - Investor Information	155 165
Section 168 (1) (f)	Remuneration and other benefits of Directors during the accounting period	Yes	Note 22 to the Financial Statements - Profit/ (Loss) Before Tax	151
Section 168 (1) (g)	Total amount of donations made by the Company during the accounting period	Yes	Note 22 to the Financial Statements - Profit/ (Loss) Before Tax	151
Section 168 (1) (h)	Names of the persons holding office as Directors of the Company as at the end of the accounting period and the names of any persons who ceased to hold office as Directors of the Company during the accounting period	Yes	Board Profiles In terms of the Article 29 of the Articles of Association of the Company, Dr. S. J. Nawaratne, K. D. D. Perera and Haresh Somashantha retire by rotation and being eligible offer themselves for re-election	26 to 29
Section 168 (1) (i)	Amounts payable by the Company to the Person or firm holding office as auditor of the Company as audit fees and as a separate item, fees payable by the Company for other services provided by that person or firm	Yes	Note 22 to the Financial Statements - Profit/ (Loss) Before Tax	151

Reference	Requirement	Complied	Reference (within the Report)	Page
Section 168 (1) (j)	Particulars of any relationship (other than that of auditor) which the Auditor has with or any interests which the Auditor has in, the Company or any of its subsidiaries	Yes	The Company's Auditors during the period under review were Messrs. Ernst & Young, Chartered Accountants. The Auditors do not have any relationship or interest with the Company other than that of an Auditor. A resolution authorizing the Directors to fix the remuneration of the Auditors who are deemed re-appointed in terms of the section 158 of the Companies Act No 07 of 2007 will be proposed at the Annual General Meeting.	42
Section 168 (1) (k)	Signed on behalf of the Board by two Directors and the Company Secretary	Yes	Annual Report of the Board of Directors	120

**SECTION 7.6 OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE (CSE) REQUIRES THE FOLLOWING INFORMATION TO BE PUBLISHED IN THE ANNUAL REPORT PREPARED FOR THE YEAR UNDER REVIEW.**

**MANDATORY PROVISIONS - FULLY COMPLIANT**

Reference	Requirement	Complied	Reference (within the Report)	Page
(i)	Names of persons who were Directors of the Entity	Yes	Board Profiles	26 to 29
(ii)	Principal activities of the entity and its subsidiaries during the year, and any changes therein	Yes	About Us	10
(iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Yes	Investor Information	165
(iv)	The float adjusted market capitalisation, public holding percentage (%), number of public shareholders and under which option the listed entity complies with the Minimum Public Holding requirement	Yes	Investor Information	165
(v)	A statement of each Director's holding in shares of the Entity at the beginning and end of each financial year	Yes	Investor Information	165
(vi)	Information pertaining to material foreseeable risk factors of the Entity	Yes	Risk Management	101 to 102
(vii)	Details of material issues pertaining to employees and industrial relations of the Entity	Yes	An Inspired Team	15
(viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	Yes	Note 6 - Property plant and Equipment to the Financial Statements	142 to 143
(ix)	Number of shares representing the Entity's stated capital	Yes	Investor Information	164
(x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Yes	Investor Information	164
(xi)	Financial ratios and market price information	Yes	Investor Information & Ten year Summary	164 and 161
(xii)	Significant changes in the Company's or its subsidiaries' fixed assets, and the market value of land, if the value differs substantially from the book value as at the end of the year	Yes	Note 6.8 - Property plant and Equipment to the Financial Statements	143

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

Reference	Requirement	Complied	Reference (within the Report)	Page
(xiii)	Details of funds raised through a public issue, rights issue and a private placement during the year	Yes	Not Applicable	
(xiv)	Information in respect of Employee Share Ownership or Stock Option Schemes	Yes	No Such Scheme	
(xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules	Yes	Corporate Governance Report	38
(xvi)	Related Party transactions exceeding 10 per cent of the equity or 5 per cent of the total assets of the Entity as per audited Financial Statements, whichever is lower	Yes	Note 25 - Related Party Transactions, to the Financial Statements	154 to 155

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

Disclosure	Note Reference	Page
Principal Activities	About us	10
Vision, Mission and Values	The Company is committed to upholding high standards of business conduct and ethics in the work place at all times, paramount in retaining the trust of stakeholders. All employees abide by the Company's Code of Conduct and Ethics in achieving the vision and mission.	11 and 42
Review of business performance	Chairman's Message Managing Director's Review Managing Our Capitals & Impacts Measures taken to manage risks are given in the Risk Management Report	17 to 19 20 to 23 51 to 98 101 to 102
Financial Statements	The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and comply with the requirements of Companies Act No 7 of 2007. These Statements have been duly approved by the Directors and certified by the Chief Financial Officer.	128 to 158
Directors' Responsibility for Financial Reporting	The Statement of Directors' Responsibility for Financial Reporting	122
Auditors' Report	Independent Auditors' Report	124 to 127
Significant Accounting Policies	Notes 3 to the Financial Statements - Significant Accounting Policies	132 to 139
Going Concern	Note 5.1 to the Financial Statements - Going Concern	140 to 141
Revenue	Note 18 to the Financial Statements - Revenue	150
Financial Results and Appropriations	Statement of Profit or Loss and other Comprehensive Income Statement of Changes in Equity	129 130
Taxation	Notes 23 to the Financial Statements - Taxation	151 to 152
Corporate Donations	Note 22 to the Financial Statements - Profit Before Tax	151
Stated Capital and Reserves	Statement of Changes in Equity	130
Property, Plant and Equipment	Notes 6 to the Financial Statements - Property, Plant and Equipment	142 to 143
Intangible assets	Notes 7 to the Financial Statements - Intangible Assets	144
Capital Expenditure	The total capital expenditure on acquisition of property, property, plant and equipment and intangible assets of the Company amounted to USD 3,159,,426 and USD 113,809 respectively. Details are given in Note 6.5 and 7 to the Financial Statements. Capital expenditure approved and contracted for, and not contracted for, as at Reporting date are given in Note 26.1 to the Financial Statements - Commitments and Contingencies.	143 155

<b>Disclosure</b>	<b>Note Reference</b>	<b>Page</b>
Market Value of Freehold Properties	Note 6 to the Financial Statements - Property, Plant and Equipment.	143
Contingent Liabilities and Commitments	Note 26 to the Financial Statements - Commitments and Contingencies	155
Events after the Reporting Date	Note 28 - to the Financial Statements - Events After the Reporting Period	156
Risk Management	Disclosure of the different types of risks the Company activities were exposed to are given in Note 29- to the Financial Statements. The Company's risk management process.	156 to 158 101 to 102
Statutory Payments	The Directors, to the best of their knowledge are satisfied that all statutory payments in relation to the Government and the employees have been made up to date.	122
Internal Control	The Board is responsible for formulating and implementing sound internal control systems to safeguard shareholder interests and assets of the Company. Directors' Statement on Internal Control	110 to 111
Corporate Governance	Corporate Governance Report The Company has complied with the Listing Rules of the Colombo Stock Exchange (CSE) and the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) as described on pages 35 to 37.	
Environmental Protection	To the best of knowledge of the Board, the Company has not engaged in any activity that is harmful or hazardous to the environment and has complied with the relevant environmental laws and regulations. Specific measures taken to protect the environment are found in the Respect for the environment.	79 76 to 79
Compliance	To the best of their knowledge, the Board believes that the Company has not engaged in any activity which contravenes laws and regulations. There have been no irregularities involving management or employees that could have any material financial or other effect.	83 to 89
Stated Capital	Note 13 to the Financial Statements – Stated Capital	146
Share Information and Shareholdings	Share Information Investor information	164 to 165
Register of Directors and Secretaries	As required under Section 223 (1) of the Companies Act No 7 of 2007, the Company maintains a Register of Directors and Secretaries which contains the name, surname, former name (if any), residential address, business, occupation, dates of appointment and dates of resignation (if applicable) of each Director and the Secretary.	
Board of Directors	Board Profiles Board Composition- The Board, Corporate Governance Report	26 to 29 35
Board Committees	Board Committees - Corporate Governance Report	38
Board and Committee meeting attendance	Attendance at meetings - Corporate Governance Report	39
Directors' shareholdings	Investor Information	165
Directors' interest in transactions	The Directors declared in terms of the requirement of the listing rules of the Colombo Stock Exchange that the transactions carried out by the Company with its Related Parties during the financial year ended 31st March 2020 did not exceed 10% of equity or 5% of the total assets of the Company. Related party transactions are disclosed in Note 25 to the Financial Statements	155
Directors' Remuneration	Note 22 to the Financial Statements - Directors' Remuneration	151
Human Resources	An Inspired Team	83

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

<b>Disclosure</b>	<b>Note Reference</b>	<b>Page</b>
Insurance and Indemnity	A Corporate Guard has been taken from Orient Insurance Ltd for the Group by Hayleys PLC (parent company) to indemnify all past, present and future directors and officers liability of the Company	
	<b>Policy No</b>	<b>P/100/6020/2015/10</b>
	Limit of Liability	USD 5,000,000
	Policy premium	LKR 9,239,369.50
	Period	From 01.06.2019 to 31.05.2020
Material Foreseeable Risk Factors (As per Rule No. 7.6 (VI) of the Listing Rules of the Colombo Stock Exchange)	Risk Management Review	101 to 102
Material Issues Pertaining to Employees and Industrial Relations Pertaining to the Company (As per Rule No. 7.6 (VII) of the Listing Rules of the Colombo Stock Exchange)	No material issues occurred during the year	
Operational Excellence	Performance Highlights	14

## RELATED PARTY TRANSACTIONS

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

## NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of the Company is convened on 27th July 2020, Auditorium of the Registered Office of the Company, No 400, Deans Road, Colombo. The Notice of the Annual General Meeting appears on page 166.

## ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

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

For and on behalf of the Board of Directors.

**A.M. Pandithage**  
*Chairman*

Colombo  
06 May 2020

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

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

# BOARD OF DIRECTORS' STATEMENT ON INTERNAL CONTROL

The Section D1.5 of the ‘Code of Best Practice on Corporate Governance 2017’(The Code) issued by the Institute of Chartered Accountants of Sri Lanka recommends that the Board of Directors present a Statement on Internal Control in the Annual Report.

## RESPONSIBILITY

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

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

## BOARD COMMITTEE

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

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

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

The Board is confident that the internal controls are adequate to provide reasonable assurance regarding the reliability of financial reporting which are in accordance with acceptable accounting principles and the applicable regulatory requirements.

## INTERNAL AUDIT

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

## REVIEW ADEQUACY AND EFFECTIVENESS

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

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

## POLICIES, PROCEDURES AND BUDGETS

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

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

## CODE OF BUSINESS CONDUCT AND ETHICS

The Company Code of ethics which includes a strong set of corporate values and conduct, is circulated to Directors and all employees. The Board ensures that Directors and all employees strictly comply with the Company code of ethics in exercising their duties, communications, role modelling and in any other circumstances, so as to uphold the Company’s image. Strict disciplinary actions are initiated for any violation of the Company code of ethics.

## CYBER SECURITY

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

## CONFIRMATION

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

We have duly complied with all the requirements prescribed by the regulatory authorities including the Colombo Stock Exchange and the Registrar of Companies. The Company Financial Statements for the year ended 31st March 2020 have been audited by Messrs. Ernst & Young, Chartered Accountants.

By order of the Board

**E.R.P. Goonetilleke**

*Managing Director/CEO*

**H. Somashantha**

*Chairman-Audit Committee*

**R. Rohitha Bandara**

*Director - Finance*

Colombo

06 May 2020

# STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Companies Act No.7 of 2007 requires the Directors of the Company to be responsible for the preparation and presentation of the Financial Statements and other statutory reports. The responsibilities of the Directors, in relation to the Financial Statements of Hayleys Fabric PLC are set out in this report. The responsibility of the Auditors, in relation to the Financial Statements is set out in the Report of the Auditors on pages from 124 to 127.

The Financial Statements comprise of:

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

The Directors confirm that the Financial Statements and other statutory reports of the Company for the year ended 31st March 2020 incorporated in this report have been prepared in accordance with the Companies Act No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Listing Rules of the Colombo Stock Exchange.

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

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

Having considered the Company's business plans, and a review of its current and future operations, the Directors are of the view that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

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

The Board of Directors confirm that the Company's Statements of Financial Position as at 31st March 2020 and the Comprehensive Income Statements for the Company for the financial year ended 31st March 2020 reflect a true and fair view.

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

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

The Directors have confirmed that the Company satisfied the Solvency test requirement under Section 56 of the Companies Act No. 07 of 2007 for the interim Dividends paid for 2019/20.

The Directors further confirm that to the best of their knowledge, the Company has not engaged in any activity that is harmful or hazardous to the environment and has complied with the relevant environmental laws and regulations.

By Order of the Board,

**Hayleys Group Services (Pvt) Ltd**

*Secretaries*

Colombo

06 May 2020

# FINANCIAL CALENDAR 2019/20

1st Quarter Report	29th July 2019
2nd Quarter Report	06th November 2019
3rd Quarter Report	06th February 2020
4th Quarter Report	06th May 2020
Annual Report 2019/20	01st July 2020
28th Annual General Meeting	27th July 2020

# INDEPENDENT AUDITOR'S REPORT



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

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## TO THE SHAREHOLDERS OF HAYLEYS FABRIC PLC

### Report on the Audit of the Financial Statements

#### OPINION

We have audited the financial statements of Hayleys Fabric PLC ("the Company") which comprise the statement of financial position as at 31 March 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### BASIS FOR OPINION

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

#### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the opinion thereon, and we do not

provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

**Key Audit Matter****Valuation of Inventories**

Inventories amounted to USD 15,263,061 as at the reporting date and represented 31% of the Company's total assets.

The Company has applied judgment in the determination and valuation of inventories that are second grade and slow moving; having taken into consideration factors such as quality assessments performed, age of inventories and possible effects the COVID-19 outbreak may have on the Company's business and product lines.

Management has also made estimates in determining net realizable values of second grade inventories.

The significance of the balance coupled with the judgments applied by management has resulted in the valuation of inventories being identified as a key audit matter.

**How our audit addressed the Key Audit Matter**

To validate the valuation of inventories, we;

- checked inventory ageing reports and production quality reports to determine whether management has appropriately identified second grade and slow-moving inventories;
- checked the reasonability of assumptions applied by management on the possible effects that the COVID-19 outbreak may have on the Company's business and product lines specifically in relation to expectations of customer orders as well as the usability and marketability of inventories maintained by the Company; and
- checked the reasonableness of estimates made by management towards the determination of net realizable value for second grade inventories, comparing such against sales prices secured for similar products and offers obtained subsequent to the reporting date.

We also assessed the adequacy of disclosures made in relation to the valuation of inventories in Notes 5.3 and 8 to the financial statements.

# INDEPENDENT AUDITOR'S REPORT

## OTHER INFORMATION INCLUDED IN THE 2020 ANNUAL REPORT

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

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

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

## RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable,

matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from

error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 4107.

#### **Chartered Accountants**

06 May 2020  
Colombo

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

Principal: G B Goudian ACMA, A A J R Perera ACA ACMA, T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

# STATEMENT OF FINANCIAL POSITION

As at 31 March	Note	2020 USD	2019 USD
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	6	25,406,917	24,819,631
Intangible assets	7	120,110	64,117
		25,527,027	24,883,748
<b>Current Assets</b>			
Inventories	8	15,263,060	13,299,520
Trade receivables	9	6,301,050	8,394,207
Other receivables	10	549,719	373,932
Advances and prepayments	11	763,128	373,499
Cash and cash equivalents	12	533,469	284,635
		23,410,426	22,725,793
<b>Total Assets</b>		48,937,453	47,609,541
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Stated capital	13	17,561,761	17,561,761
Revaluation reserve		1,415,280	1,415,280
Retained losses		(570,995)	(1,117,816)
<b>Total Equity</b>		18,406,046	17,859,225
<b>Non-Current Liabilities</b>			
Interest bearing loans and borrowings	14	700,670	1,054,778
Deferred tax liabilities	23.2	2,159,088	1,768,003
Retirement benefit obligations	15	2,745,877	2,534,443
		5,605,635	5,357,224
<b>Current Liabilities</b>			
Trade and other payables	16	7,424,741	8,729,229
Interest bearing loans and borrowings	14	16,070,954	14,130,063
Amounts due to Hayleys PLC		119,034	62,018
Other non financial liabilities	17	1,311,043	1,471,782
		24,925,772	24,393,092
<b>Total Equity and Liabilities</b>		48,937,453	47,609,541

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

**Ruwan Rohitha Bandara**

*Director- Finance*

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

**A.M. Pandithage**

*Chairman*

Colombo

06 May 2020

**E.R.P.Goonetilleke**

*Managing Director/CEO*

The accounting policies and notes on pages 132 through 158 form an integral part of these financial statements.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March	Note	2020 USD	2019 USD
<b>Revenue from contracts with customers</b>	18	67,115,723	69,940,639
Cost of sales		(58,416,125)	(61,601,834)
<b>Gross Profit</b>		8,699,598	8,338,805
Other operating income	19	60,336	67,049
Administrative expenses		(5,021,481)	(4,779,539)
Distribution expenses		(826,097)	(781,286)
Other expenses	20	(443,026)	(103,757)
Net financing costs	21	(800,428)	(892,404)
<b>Profit before tax</b>		1,668,902	1,848,868
Income tax expense	23	(398,291)	(790,533)
<b>Profit for the year</b>		1,270,611	1,058,335
Other Comprehensive Income not to be reclassified to profit or loss			
- Surplus on revaluation of land	6.8	-	203,386
- Income tax effect on revaluation of land	23.2	-	(28,475)
- Actuarial loss on defined benefit plans	15	(51,476)	(477,896)
- Income tax effect on actuarial loss on defined benefit plans	23.2	7,207	66,905
<b>Total Comprehensive Income, Net of Tax</b>		1,226,342	822,255
Basic / Diluted Earnings per Share	24	0.006	0.005

The accounting policies and notes on pages 132 through 158 form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

Year ended 31st March 2020	Stated capital USD	Revaluation reserve USD	Retained earnings/ (losses) USD	Total USD
<b>Balance as at 1st April 2018</b>	17,561,761	1,240,369	(1,765,160)	17,036,970
Profit for the year	-	-	1,058,335	1,058,335
<b>Other comprehensive income</b>				
Surplus on revaluation of land	-	203,386	-	203,386
Income tax effect on surplus on revaluation of land	-	(28,475)	-	(28,475)
Actuarial loss on defined benefit plans	-	-	(477,896)	(477,896)
Income tax effect on actuarial loss on defined benefit plans	-	-	66,905	66,905
Total other comprehensive income	-	174,911	(410,991)	(236,080)
Total comprehensive income	-	174,911	647,344	822,255
<b>Balance as at 31st March 2019</b>	<b>17,561,761</b>	<b>1,415,280</b>	<b>(1,117,816)</b>	<b>17,859,225</b>
Profit for the year	-	-	1,270,611	1,270,611
<b>Other comprehensive income</b>				
Actuarial loss on defined benefit plans	-	-	(51,476)	(51,476)
Income tax effect on actuarial loss on defined benefit plans	-	-	7,207	7,207
Total other comprehensive income	-	-	(44,269)	(44,269)
Total comprehensive income	-	-	1,226,342	1,226,342
Dividends to equity holders			(679,521)	(679,521)
<b>Balance as at 31st March 2020</b>	<b>17,561,761</b>	<b>1,415,280</b>	<b>(570,995)</b>	<b>18,406,046</b>

The accounting policies and notes on pages 132 through 158 form an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

Year ended 31 March	Note	2020 USD	2019 USD
<b>Cash flows from / (used in) operating activities</b>			
Profit before income tax expense		1,668,902	1,848,868
<b>Adjustments for</b>			
Depreciation on property, plant and equipment	6	2,126,025	2,020,888
Amortization of intangible assets	7	57,816	93,538
Provision for retiring gratuity	15	430,405	362,013
Net unrealised gain on translation of foreign currency		(186,962)	(227,873)
Finance costs	21	805,619	991,393
(Profit)/loss on disposal of property, plant and equipment	19	(35,792)	13,738
Loss on impairment of idle property, plant and equipment	20	443,024	90,019
Creditors write back		(24,544)	(47,044)
Impairment charge / (reversal) for bad and doubtful debts		(2,363)	26,397
Impairment for slow moving inventories		335,299	84,282
Operating profit before working capital changes		5,617,429	5,256,219
(Increase)/decrease in trade and other receivables		1,944,277	(185,867)
(Increase)/decrease in advances and prepayments		(389,629)	115,659
Increase in inventories		(2,298,839)	(1,859,139)
Increase/(decrease) in trade and other payables and other non financial liabilities		(1,440,597)	991,780
Cash generated from operations		3,432,641	4,318,652
Retiring gratuity paid	15	(83,484)	(110,608)
Interest paid		(774,945)	(955,178)
Economic service charge paid		(369,012)	(325,316)
Net cash flows from operating activities		2,205,200	2,927,550
<b>Cash flows from / (used in) investing activities</b>			
Purchase and construction of property, plant and equipment		(2,788,702)	(1,469,566)
Proceeds from disposal of property, plant and equipment		38,883	8,375
Purchase of intangible assets		(113,809)	(5,625)
Net cash flows used in investing activities		(2,863,628)	(1,466,816)
<b>Cash flows from / (used in) financing activities</b>			
Proceeds from new term loans	14	1,194,670	310,000
Repayment of term loans	14	(2,587,833)	(2,710,509)
Net movement of import & short term loans		2,920,591	633,380
Dividend paid to equity holders		(679,521)	-
Net cash flows from / (used in) financing activities		847,907	(1,767,129)
<b>Net increase / (decrease) in cash and cash equivalents</b>		189,479	(306,395)
<b>Cash and cash equivalents at the beginning of the year</b>	12	(555,433)	(249,038)
<b>Cash and cash equivalents at the end of the year</b>	12	(365,954)	(555,433)

The accounting policies and notes on pages 132 through 158 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Corporate Information

### 1.1 Reporting Entity

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

### 1.2 Nature of Operations and Principal Activities of the Company

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

### 1.3 Parent Enterprise

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

### 1.4 Approval of Financial Statements

The financial statements of Hayleys Fabric PLC were authorized for issue in accordance with a resolution of the Board of Directors on 6th May 2020

### 1.5 Responsibility for Financial Statements

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

## 2. Basis of Preparation

### 2.1 Statement of Compliance

The Financial Statements have been prepared in accordance with the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, which requires compliance with Sri Lanka Accounting Standards promulgated by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), and with the requirements of the Companies Act No. 07 of 2007.

### 2.2 Basis of Measurement

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

Policies and Notes to the financial statements.

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

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

### 2.3 Functional and Presentation Currency

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

### 2.4 Materiality and Aggregation

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

### 2.5 Comparative information

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

### 2.6 Offsetting

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

## 3. Summary of Significant Accounting Policies

### 3.1 Foreign Currency

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

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in Statement of Profit or Loss. Tax charges and credit attributable to

exchange differences on those monetary items are also recognized in other comprehensive income. Non-monetary assets and liabilities which are measured in terms of historical cost in a foreign currency are translated using exchange rates at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

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

### 3.2 Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

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

### **3.3 Fair value measurement**

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

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

The principal or the most advantageous market must be accessible to the Company.

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

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

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

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

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

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

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

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

### **3.4 Property, plant & equipment**

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

#### **3.4.1 Basis of recognition**

Property, plant and equipment is recognised if it is probable that future economic benefit associated with the assets

will flow to the Company and cost of the asset can be reliably measured.

#### **3.4.2 Basis of measurement**

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

#### **3.4.3 Owned assets**

The cost of property, plant & equipment includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and includes the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of that equipment.

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

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

Any revaluation surplus is recorded in Other Comprehensive Income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in the Statement of Profit or Loss, the increase is recognised in the Statement of Profit or Loss. A revaluation deficit is recognised in the Statement of Profit or Loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

# NOTES TO THE FINANCIAL STATEMENTS

## 3.4.4 Subsequent costs

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

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

## 3.4.5 Derecognition

The carrying amount of an item of property, plant & equipment is derecognised on disposal; or when no future economic benefits are expected from its use. Any gains and losses on derecognition are recognised (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) in the Statement of Profit or Loss. Gains are not classified as revenue.

## 3.4.6 Depreciation

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

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

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or is derecognised. The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year end and adjusted prospectively, if appropriate.

## 3.5 Intangible assets

### 3.5.1 Basis of recognition

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

### 3.5.2 Basis of measurement

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

### 3.5.3 Useful economic lives and amortisation

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

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with finite useful lives are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Profit or Loss in the expense category that is consistent with the function of the intangible assets.

### 3.5.4 De-recognition of intangible assets

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

### 3.5.5 Subsequent expenditure

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

### 3.5.6 Amortisation

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

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

## 3.6 Financial instruments

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

### 3.6.1 Financial assets

#### 3.6.1.1 Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price as disclosed in Note 18 - Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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

#### **3.6.1.2 Subsequent measurement**

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

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

Financial assets at amortised cost (debt instruments)

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

The Company measures financial assets at amortised cost if both of the following conditions are met:

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

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

#### **3.6.1.3 Derecognition**

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

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either
  - (a) the Company has transferred substantially all the risks and rewards of the asset, or
  - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither

transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

#### **3.6.1.4 Impairment of financial assets**

Further disclosures relating to impairment of Trade receivables is provided in the note 9.2 to the Financial Statements. For trade receivables and contract assets, the Company applies a simplified approach in calculating Expected Credit Loss (ECLs). Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

#### **3.6.2 Financial liabilities**

##### **3.6.2.1 Initial recognition and measurement**

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

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

All financial liabilities of the Company represent loans and borrowings in the

# NOTES TO THE FINANCIAL STATEMENTS

form of trade and other payables, bank overdrafts, loans and borrowings,.

## 3.6.2.2 Subsequent measurement

### Loans and borrowings

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

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

## 3.6.2.3 Derecognition

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

## 3.6.3 Offsetting of financial instruments

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

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

## 3.7 Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows;

- All inventory items, except manufactured inventories and work-

in-progress are measured at weighted average directly attributable cost.

- Manufactured inventories and work-in-progress are measured at weighted average factory cost which includes all direct expenditure and appropriate share of production overhead based on normal operating capacity but excluding borrowing costs.

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

## 3.8 Impairment of non-financial assets

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

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

## 3.9 Cash and cash equivalents

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

## 3.10 Employee benefits

### 3.10.1 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into

a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Provident and Trust Funds covering all employees are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

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

### 3.10.2 Defined benefit plans

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

Provision has been made for retirement gratuities from the beginning of service for all employees, in conformity with LKAS 19 on employee benefit. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded. The settlement of the liability is based on legal liability method or the following basis as applied by the respective entities.

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

### 3.10.3 Short-term benefits

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

### 3.11 Provisions

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

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

### 3.12 Ordinary shares

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

### 3.13 Revenue from Contracts with Customers

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

entitled in exchange for those goods or services.

#### 3.13.1 Sale of goods

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

#### 3.13.1.1 Variable consideration

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

#### 3.13.2 Assets and liabilities arising from rights of return

##### 3.13.2.1 Right of return assets

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

### 3.14 Other income and gains

#### 3.14.1 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the

expected life of the financial assets or liability (or, where appropriate a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

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

#### 3.14.2 Gains and losses

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

#### 3.14.3 Other income

Other income is recognised on an accrual basis.

### 3.15 Expenses

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

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

#### 3.15.1 Borrowing costs

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

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

## 3.15.2 Finance income and finance cost

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

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

## 3.16 Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the Statement of Profit or Loss except items recognised directly in Other Comprehensive Income.

### 3.16.1 Current tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date

Current tax relating to items recognised directly in Other Comprehensive Income is recognised in Other Comprehensive Income and not in the Statement of Profit or Loss. Management periodically evaluates positions taken in the tax

returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

## 3.16.2 Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, equity accounted investee and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the

accounting profit nor taxable profit or loss

- In respect of deductible temporary differences associated with investments in subsidiaries, equity accounted investee and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside the Statement of Profit or Loss is recognised outside the Statement of Profit or Loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to

realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

#### **4. General 4.1 Events Occurring After the Reporting Date**

All material post reporting date events have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the Financial Statements.

#### **4.2 Earnings Per Share**

The Company presents basic earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

#### **4.3 Statement of Cash Flows**

The Statement of Cash Flows has been prepared using the “indirect method”.

Interest paid is classified as operating cash flow. Interest income is classified as cash flows from investing activities.

Dividends paid are classified as financing cash flows.

#### **4.4 Changes in Accounting Policies and Disclosures**

##### **4.4.1 New and amended standards and interpretations**

Several Accounting Standards amendments and interpretations apply for the first time in 2019/20, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

###### **4.4.1.1 SLFRS 16 Leases**

SLFRS 16 supersedes LKAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets

out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.

No restatements were made to comparative Information as a result of the Company's adoption of SLFRS 16.

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

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

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

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments and it assessed whether the Interpretation had an impact on its financial statements.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The

Company's tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Company determined, based on its tax compliance and transfer pricing study that it is probable that its tax treatments be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Company.

##### **4.4.1.3 Amendments to SLFRS 9:**

Prepayment Features with Negative Compensation Under SLFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to SLFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the financial statements of the Company

##### **4.4.1.4 Amendments to LKAS 19: Plan Amendment, Curtailment or Settlement**

The amendments to LKAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to re-measure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment,

# NOTES TO THE FINANCIAL STATEMENTS

curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the financial statements of the Company as it did not have any plan amendments, curtailments, or settlements during the period.

## 4.4.1.5 Annual Improvements 2015–2017 Cycle

### • LKAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Company's current practice is in line with these amendments, they had no significant impact on the financial statements of the Company.

### • LKAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies

those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Company's current practice is in line with these amendments, they had no significant impact on the financial statements of the Company.

## 4.5 Standards Issued but not yet effective

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

### 4.5.1 Amendments to LKAS1 and LKAS 8: Definition of Material

The Institute of Chartered Accountants of Sri Lanka issued amendments to LKAS 1 Presentation of Financial Statements and LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material are not expected to have a significant impact on the Company's financial statements.

## 5. Critical Accounting Estimates and Judgements

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

policies and the reported amounts of assets, liabilities, income and expenses. Judgements and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence actual experience and results may differ from these judgements and estimates.

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes.

## 5.1 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern taking into consideration the current and expected effects of COVID-19 on the Company. The directors have prepared projected cash flow information for the twelve months from the year end 31 March 2020 taking into consideration the estimation of the continued business impacts of COVID-19. In response to the uncertainty arising from this, the Directors have considered a wide range of factors taking account of reasonably possible downsides.

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

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

### **5.2 Taxation**

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

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

### **5.3 Valuation of Inventories**

The Company manufactures and sells fabric based on customized specifications made by its customers. The price of fabric manufactured by the Company varies based on the Company's determination of whether the stock items are 1st Grade or 2nd Grade Stocks. Judgement is required to assess whether

finished goods can be resold as 1st or 2nd Grade stocks as well as to determine the appropriate level of impairment for items which may not be resold or which would be sold in the local market at a nominal price. Such judgements include managementch expectations of repeat orders to utilize the finished goods in stock and the price that would be recovered through a sale in the local market.

### **5.4 Determination of Useful Lives 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. Assessing the useful lives of the plant and machinery, especially in relation to items of Plant and Machinery which are idle requires judgment. Such judgments include the evaluation of the production capabilities of items of plant and machinery also considering the possibility of utilizing items of plant and machinery in producing marketable fabric in the future. In making this determination, management has also taken into account possible effects that the COVID-19 outbreak may have on the Company's business and product lines. Refer Note 3.4.6 for useful lives used in depreciating Property, Plant and Equipment in the Company

# NOTES TO THE FINANCIAL STATEMENTS

## 6. PROPERTY, PLANT & EQUIPMENT

### 6.1 Gross Carrying Amounts

	As at 01.04.2019 USD	Additions/ Transfers USD	Disposals/ Transfers/ USD	As at 31.03.2020 USD
<b>At valuation</b>				
Freehold Land	2,977,194	-	-	2,977,194
<b>At cost</b>				
Buildings	7,421,974	-	-	7,421,974
Water Treatment Plant	2,221,729	-	-	2,221,729
Plant and Machinery	33,293,591	2,404,104	(2,119,019)	33,578,676
Motor Vehicles	1,101	-	(1,101)	-
Furniture and Fittings	1,915,596	132,231	-	2,047,827
Office Equipment	273,660	2,874	-	276,534
Computers	434,363	91,202	-	525,565
Factory Equipment	3,767,317	286,227	-	4,053,544
Safety and Medical Equipment	178,508	1,615	-	180,123
Bungalow Equipment	7,853	-	-	7,853
<b>Total Value of Depreciable Assets</b>	<b>52,492,886</b>	<b>2,918,253</b>	<b>(2,120,120)</b>	<b>53,291,019</b>

### 6.2 In the course of construction

	As At 01.04.2019 USD	Incurred during the year USD	Transfers USD	As At 31.03.2020 USD
Work in Progress	417,677	2,884,873	(2,643,700)	658,850
<b>Total gross carrying amount</b>	<b>52,910,563</b>	<b>5,803,126</b>	<b>(4,763,820)</b>	<b>53,949,869</b>

### 6.3 Accumulated depreciation and impairment

	Balance As at 01.04.2019 USD	Impairment of Idle Plant & Machinery USD	Charge for the Year USD	Disposals/ Transfers USD	Balance As at 31.03.2020 USD
<b>At Cost</b>					
Buildings	2,497,064	-	185,561	-	2,682,625
Water Treatment Plant	1,550,307	-	68,452	-	1,618,759
Plant and Machinery	19,138,747	443,024	1,453,817	(2,115,928)	18,919,660
Motor Vehicles	1,101	-	-	(1,101)	-
Furniture and Fittings	1,217,849	-	143,471	-	1,361,320
Office Equipment	247,110	-	7,341	-	254,451
Computers	291,331	-	45,609	-	336,940
Factory Equipment	3,022,752	-	211,222	-	3,233,974
Safety and Medical Equipment	116,818	-	10,552	-	127,370
Bungalow Equipment	7,853	-	-	-	7,853
<b>Total Depreciation</b>	<b>28,090,932</b>	<b>443,024</b>	<b>2,126,025</b>	<b>(2,117,029)</b>	<b>28,542,952</b>

**6.4 Net Book Values**

As at 31st March	2020 USD	2019 USD
<b>At Cost</b>		
Freehold Land	2,977,194	2,977,194
Buildings	4,739,349	4,924,910
Water Treatment Plant	602,970	671,422
Plant and Machinery	14,659,016	14,154,844
Furniture and Fittings	686,507	697,747
Office Equipment	22,083	26,550
Computers	188,625	143,032
Factory Equipment	819,570	744,565
Safety and Medical Equipment	52,753	61,690
Bungalow Equipment	-	-
	24,748,067	24,401,954
<b>In the course of construction</b>		
Work in Progress	658,850	417,677
<b>Total carrying amount of property, plant and equipment</b>	<b>25,406,917</b>	<b>24,819,631</b>

- 6.5** During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of USD 3,159,426 (2019 - USD 1,733,345). Cash payments amounting to USD 2,788,702 (2019 - USD 1,469,566) were made during the year for the purchase of Property, Plant and Equipment.
- 6.6** Property, plant and equipment includes fully depreciated assets having gross carrying amounts of USD 10,526,008 which are still in use. (2019 - USD 10,108,634).
- 6.7** 25 permanent buildings are located in Narthupana Estate, Neboda where the principle place of the business is operated.
- 6.8** The Company revalued its land (extent of 54.3 Acres) during the financial year 2018/19. The fair value of the land was determined by using market comparable methods which mean that valuation performed by the valuer are based on market prices, significantly adjusted for difference in the nature, location or condition of the specific property.  
The fair value of land is based on valuations performed by Messrs P.B Kalugalgedara and Associates., an accredited independent valuer, on 31 March 2019.  
The significant unobservable valuation input used for Revaluation of Land, is the estimated market price of a perch of land, which was estimated as follows:  
Land extent of 34.1 acres of Land in Anguruwatota demarcated by survey plan - Rs. 85,000 a perch.  
Land extent of 20.2 acres of Land in Anguruwatota demarcated by survey plan - Rs. 18,750 a perch.  
Significant increase/(decrease) in estimated price per perch in isolation would result in a significantly higher/(lower) fair value.  
The surplus arising from the revaluation ,was transferred to a revaluation reserve.  
If land was measured using the cost model, the carrying amounts would be USD 1,331,519 (2019 - USD 1,331,519)
- 6.9** The Company recorded an impairment loss of USD 443,024 relating to items of idle plant and machinery during the year. The impairment was recognised based on specific identification of assets which are unlikely to be brought back into use by the Company.

# NOTES TO THE FINANCIAL STATEMENTS

## 7. INTANGIBLE ASSETS

	2020 USD	2019 USD
<b>Software</b>		
<b>Cost</b>		
At beginning of the year	1,303,134	1,297,509
Acquisitions	113,809	5,625
<b>At end of the year</b>	<b>1,416,943</b>	<b>1,303,134</b>
Amortization		
At beginning of the year	(1,239,017)	(1,145,479)
Amortization	(57,816)	(93,538)
At end of the year	(1,296,833)	(1,239,017)
<b>Net Book Value</b>	<b>120,110</b>	<b>64,117</b>

## 8. INVENTORIES

	2020 USD	2019 USD
<b>Raw materials</b>		
Less : Impairment for slow moving items	(339,676)	(247,480)
	4,315,097	4,835,693
<b>Work-in-progress</b>		
Less : Impairment for slow moving items	(138,967)	(124,460)
	5,925,759	4,352,703
Finished goods (8.1)	3,057,553	2,041,008
Less : Impairment for slow moving items	(651,657)	(423,061)
	2,405,896	1,617,947
<b>Stock consumables</b>		
	2,616,308	2,493,177
	2,616,308	2,493,177
	15,263,060	13,299,520

8.1 Second grade finished goods amounting to USD 181,611 (2019- USD 98,697) are carried at net realizable value.

## 9. TRADE RECEIVABLES

	2020 USD	2019 USD
<b>Trade receivables</b>		
Less : Impairment loss recognised (9.2)	(146,721)	(149,084)
	6,301,050	8,394,207

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

	Neither past due nor impaired	0 - 60 days	61-120 days	121-180 days	181-365 days	> 365 days	Total
As at 31/03/2020	1,230,366	3,660,613	558,298	793,140	58,633	-	6,301,050
As at 31/03/2019	4,881,802	3,165,670	221,575	96,314	28,846	-	8,394,207

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:

	2020 USD	2019 USD
<b>Balance as at the beginning of the year</b>	149,084	205,854
Impairment loss/(reversal) recognized during the year	(2,363)	26,397
Written off of previously recognized impairment loss	-	(83,167)
<b>Balance as at the end of the year</b>	146,721	149,084

**10. OTHER RECEIVABLES**

	2020 USD	2019 USD
VAT recoverable	168,271	248,746
Claim receivable	17,323	10,746
WHT recoverable	8,081	8,738
ESC receivable	258,147	-
Staff loans & advances	205	4,799
Deposits	97,692	100,903
	549,719	373,932

**11. ADVANCES AND PREPAYMENTS**

	2020 USD	2019 USD
Advances paid to suppliers	621,538	240,604
Other prepayments	141,590	132,895
	763,128	373,499

**11.1** No advances/prepayments have been made to related parties.

# NOTES TO THE FINANCIAL STATEMENTS

## 12 CASH AND CASH EQUIVALENTS IN CASH FLOW STATEMENT

Components of Cash and Cash Equivalents

### 12.1 Favorable Cash and Cash Equivalent Balances

	2020 USD	2019 USD
<b>Cash and Bank Balances</b>	533,469	284,635
	<b>533,469</b>	<b>284,635</b>

### 12.2 Unfavorable Cash and Cash Equivalent Balances

	2020 USD	2019 USD
Bank Overdraft	(899,423)	(840,068)
	<b>(899,423)</b>	<b>(840,068)</b>
<b>Total cash and cash equivalent balance for the purpose of cash flow statement</b>	<b>(365,954)</b>	<b>(555,433)</b>

## 13. STATED CAPITAL

	2020 Number	2020 USD	2019 Number	2019 USD
Ordinary shares (13.1)	207,740,888	17,561,761	207,740,888	17,561,761

### 13.1 Fully Paid Ordinary Shares

	2020 Number	2020 USD	2019 Number	2019 USD
Balance at beginning of the year	207,740,888	17,561,761	207,740,888	17,561,761
Balance at the end of the year	207,740,888	17,561,761	207,740,888	17,561,761

### 13.2 Nature and Purpose of Reserve

#### Revaluation Reserve

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

## 14. INTEREST BEARING LOANS AND BORROWINGS

	2020					2019
	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)	1,486,278	700,670	2,186,948	2,525,333	1,054,778	3,580,111
Short term loans	4,087,738	-	4,087,738	1,902,500	-	1,902,500
Import loans	9,597,515	-	9,597,515	8,862,162	-	8,862,162
Bank overdraft (12.2)	899,423	-	899,423	840,068	-	840,068
	<b>16,070,954</b>	<b>700,670</b>	<b>16,771,624</b>	<b>14,130,063</b>	<b>1,054,778</b>	<b>15,184,841</b>

**14.1 Term loans**

		2020 USD	2019 USD
Balance at the beginning of the year		3,580,111	5,980,620
New loans obtained		1,194,670	310,000
Repayments		(2,587,833)	(2,710,509)
Balance at the end of the year		2,186,948	3,580,111

**14.2 Aging Analysis for Interest -bearing loans and borrowings**

	On demand USD	Less than 3 months USD	3 to 12 months USD	1 to 5 years USD	>5 years USD	Total USD
Total Interest bearing borrowings	899,422	5,588,700	9,582,832	700,670	-	16,771,624
- As at 31.03.2020						
Total Interest bearing borrowings	993,898	10,644,803	2,491,362	1,054,778	-	15,184,841
- As at 31.03.2019						

**15. RETIREMENT BENEFIT LIABILITY**

		2020 USD	2019 USD
Retirement Benefit Obligation - Gratuity			
At beginning of the year		2,534,443	2,033,015
Effects of movement in exchange rate		(186,963)	(227,873)
Benefits paid by the plan		(83,484)	(110,608)
Current service cost		176,522	169,561
Interest cost		253,883	192,452
Actuarial loss recognized directly in Other Comprehensive Income		51,476	477,896
At end of the year		2,745,877	2,534,443

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

		2020 USD	2019 USD
Current service cost		176,522	169,561
Interest cost		253,883	192,452
		430,405	362,013

**15.2 Legal Liability as at 31st March**

		2020 USD	2019 USD
Legal Liability		2,084,357	1,860,206

# NOTES TO THE FINANCIAL STATEMENTS

- 15.3** The Gratuity liability as at 31st March 2020 is based on an actuarial valuation carried out by Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries.

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

	2020 USD	2019 USD
Rate of discount	10%	11%
Salary increase	9%	10%
Retirement age	60 Years	60 Years
Weighted average remaining working life	6.92 Years	6.95 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 2020 is as follows:**

	Salary increment rate		Discount rate	
	1% Increase	1% decrease	1% Increase	1% decrease
	USD	USD	USD	USD
As at 31st March 2020	232,899	(209,301)	(194,961)	220,197
As at 31st March 2019	218,637	(196,249)	(182,986)	206,864

- 15.5 Maturity Profile**

	2020 USD	2019 USD
Within the next 12 months	237,634	197,589
Between 1 to 5 years	915,319	827,055
Between 5 to 10 years	713,846	652,926
More than 10 years	879,078	856,873
	<b>2,745,877</b>	<b>2,534,443</b>

- 16. TRADE AND OTHER PAYABLES**

	2020 USD	2019 USD
Trade Payables		
- Related Parties (16.2)	107,682	111,104
- Others	7,155,962	8,388,538
Other Payables	161,097	229,587
	<b>7,424,741</b>	<b>8,729,229</b>

**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
31.03.2020	Related party	47,048	39,964	19,906	764	-	107,682
	Others	1,186,594	5,705,801	138,585	172,510	113,569	7,317,059
	Total	1,233,642	5,745,765	158,491	173,274	113,569	7,424,741
31.03.2019	Related party	49,146	59,508	2,450	-	-	111,104
	Others	1,350,468	6,591,303	511,731	46,820	117,803	8,618,125
	Total	1,399,614	6,650,811	514,181	46,820	117,803	8,729,229

**16.2 Payable to related parties**

Name of the Company	Relationship	Nature of Transaction	2020 USD	2019 USD
Puritas (Pvt) Ltd	Fellow Subsidiary	Purchase of oxypura products	1,691	-
Hayleys Agriculture Holdings Limited	Fellow Subsidiary	Dividend payable	505	-
The Kingsbury Hotel PLC	Fellow Subsidiary	Entertainment facility	554	-
Hayleys Travels (Pvt) Ltd	Fellow Subsidiary	Reservations, ticketing and other travel related services	13,485	12,216
Hayleys Tours (Pvt) Ltd	Fellow Subsidiary	Reservations and travel related services	15,418	3,246
Hayleys Aventura (Pvt) Ltd.	Fellow Subsidiary	Purchase spare parts and obtained technical support	9,305	7,222
Haycolor (Pvt) Ltd	Fellow Subsidiary	Purchases of dyes & chemicals	-	9,625
Energynet Pvt. Ltd.	Fellow Subsidiary	Service charge of electrical equipment's	763	8,145
MIT Cargo (Pvt) Ltd	Fellow Subsidiary	Logistic service	25	9,396
Hayleys Advantis Ltd	Fellow Subsidiary	Dividend payable	733	-
Logiwiz Limited	Fellow Subsidiary	Logistic service	115	134
Advantis Projects & Engineering (Pvt) Ltd	Fellow Subsidiary	Logistic service	-	12,307
Expelogix (Pvt) Ltd.	Fellow Subsidiary	Logistic service	3,320	4,085
Agility Logistics (Pvt) Ltd	Fellow Subsidiary	Logistic service	3,011	295
Hayleys Business Solutions Int. (Pvt) Ltd	Fellow Subsidiary	Payroll charges	6,059	3,090
Delmege Forsyth & Co.(Pvt) Ltd	Affiliate Company	Purchases of mechanical items	-	519
Fentons Ltd.	Fellow Subsidiary	Instillation of fire solutions & cabling	30,026	23,892
Singer Sri Lanka PLC.	Fellow Subsidiary	Purchases of electrical items	6,822	16,932
Advantis Freight (Pvt) Ltd	Fellow Subsidiary	Logistic service	15,850	-
			107,682	111,104

**17. OTHER CURRENT NON FINANCIAL LIABILITIES**

	2020 USD	2019 USD
Accrued Expenditure	758,594	1,006,995
Advances Received	552,449	464,787
	1,311,043	1,471,782

# NOTES TO THE FINANCIAL STATEMENTS

## 18. REVENUE FROM CONTRACTS WITH CUSTOMERS

### 18.1 Disaggregated revenue contracts

	2020 USD	2019 USD
Sales of Fabric	66,820,704	69,616,351
Sundry Sales	295,019	324,288
	<b>67,115,723</b>	<b>69,940,639</b>

### 18.2 Geographical Sales

	2020 USD	2019 USD
Direct exports	5,834,324	8,078,153
Indirect exports	60,104,867	60,750,732
Local sales	1,176,532	1,111,754
	<b>67,115,723</b>	<b>69,940,639</b>

18.3 In relation to Indirect exports and sundry sales, the performance obligation is satisfied upon delivery of the goods.

In relation to Direct exports, the performance obligation is satisfied upon shipment of the goods considering the terms under which the shipment has been carried out.

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

18.5 Contract assets from advances received amount to USD 552,449 (2019-USD 464,787) and are reflected in Note 17

## 19. OTHER OPERATING INCOME

	2020 USD	2019 USD
Profit on disposal of property, plant and equipment	35,792	-
Creditors write back	24,544	67,049
	<b>60,336</b>	<b>67,049</b>

## 20. OTHER EXPENSES

	2020 USD	2019 USD
Loss on disposal of property, plant and equipment	-	13,738
Impairment of idle property, plant and equipment	443,026	90,019
	<b>443,026</b>	<b>103,757</b>

## 21. NET FINANCING COST

### 21.1 Finance income

	2020 USD	2019 USD
Gain on translation of foreign currency	(5,191)	(98,989)
	<b>(5,191)</b>	<b>(98,989)</b>

**21.2 Finance cost**

	2020 USD	2019 USD
Interest on short term borrowings	649,649	723,367
Interest on long term loans	155,970	268,026
Finance cost	805,619	991,393

**21.3 Net finance cost**

	2020 USD	2019 USD
Net finance cost	800,428	892,404

**22. PROFIT BEFORE TAX**

	2020 USD	2019 USD
Profit before tax is stated after charging all expenses including the following:		
Staff cost (Note 22.1)	7,771,528	7,765,053
Directors' fees	16,976	13,910
Directors' emoluments	277,730	232,533
Depreciation of property, plant and equipment	2,126,025	2,020,888
Impairment of idle property, plant and equipment	443,024	90,019
Amortization of intangible assets	57,816	93,538
Legal fees	20,276	49,071
Audit fees	13,468	15,059
Non-audit professional services	7,712	5,006
Donations	8,815	5,076
Impairment charge for slow moving inventories	335,299	84,282
Impairment charge / (reversal) for receivables	(2,363)	26,397
Research & development	19,579	16,793

**22.1 Staff cost**

	2020 USD	2019 USD
Salaries and other personnel cost	6,675,559	6,758,917
Defined contribution plan cost- EPF and ETF	665,564	644,123
Defined benefit plan cost- Retiring gratuity	430,405	362,013
	<b>7,771,528</b>	<b>7,765,053</b>

**23. INCOME TAX**

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

	2020 USD	2019 USD
Irrecoverable Economic service charge (ESC) (Note 23.3)	-	344,283
Provision for deferred tax (Note 23.2)	398,291	446,250
Income tax expense reported in the Statement of profit or loss	398,291	790,533

# NOTES TO THE FINANCIAL STATEMENTS

## 23.1 Reconciliation of Current Tax Expenses and product of Accounting Profit

	2020 USD	2019 USD
Profit before tax	1,668,902	1,848,868
Disallowable expenses	3,497,295	2,777,482
Tax deductible expenses	(1,302,053)	(2,366,785)
Tax loss set-off	(3,864,144)	(2,259,565)
Taxable income/(loss)	-	-
Income tax @ 14%	-	-
<b>Details of Tax Losses carried forward</b>		
Tax Loss brought forward	5,233,769	7,960,214
Add: incurred during the year	-	-
Less: Set off against the current income tax liability	(3,864,144)	(2,259,565)
Effects of movement in exchange rate	(152,227)	(466,880)
<b>Tax Loss carried forward</b>	<b>1,217,398</b>	<b>5,233,769</b>

Company's profit from exports is taxed at 14%.

## 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	
	2020 USD	2019 USD	2020 USD	2019 USD
<b>Deferred Tax Liabilities</b>				
Capital allowances for tax purposes	2,662,335	2,757,331	(94,996)	71,695
Tax on re-valuation of land	230,395	230,395	-	28,475
	<b>2,892,730</b>	<b>2,987,725</b>	<b>(94,996)</b>	<b>100,170</b>
<b>Deferred Tax Assets</b>				
Tax effect of tax loss carried forward	170,436	732,727	562,292	381,702
Defined Benefit Plans	384,423	354,822	(29,601)	(70,201)
Impairment for Slow Moving Inventories	158,242	111,300	(46,942)	(11,799)
Impairment for Doubtful Debts	20,541	20,872	331	7,948
	<b>733,642</b>	<b>1,219,722</b>	<b>486,080</b>	<b>307,650</b>
<b>Net Deferred Tax Liability</b>	<b>2,159,088</b>	<b>1,768,004</b>		
Deferred Income Tax Charged to Profit or Loss			398,291	446,250
Deferred Income Tax Charged to Other Comprehensive Income- Land re-valuation			-	28,475
Deferred Income Tax Reversal to Other Comprehensive Income- Defined benefit plan			(7,207)	(66,905)
Charge to Statement of Profit or Loss and Other Comprehensive Income			391,084	407,820

**23.3** With the enactment of the Inland Revenue Act No.24 of 2017, the Company is able to claim all taxable losses to the extent of taxable income in an entity. Considering that Economic Service Charge (ESC) paid is recoverable only during the year of payment and two subsequent years. Management has made an assessment of ESC recoverable and an amount of USD nil. (2019-USD 344,283) has been provided for in these Financial Statements.

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

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

The following reflects the income and share data used in the earnings per share computations.

**24.1 Amount Used as the Numerator:**

	2020 USD	2019 USD
Earnings attributable to Ordinary Shareholders of the Company for Earnings per Share	1,270,611	1,058,335
	<u>1,270,611</u>	<u>1,058,335</u>

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

	2020 Number	2019 Number
Weighted Average Number of Ordinary Shares in issue applicable to Basic Earnings per Share	207,740,888	207,740,888
	<u>207,740,888</u>	<u>207,740,888</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 25. RELATED PARTY DISCLOSURES

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

a)

Name of the Company	Relationship	Nature of Transaction	2020 USD	2019 USD
Hayleys PLC	Parent	Providing finance, data processing, secretarial, personnel and administration services	645,716	633,775
Puritas (Pvt) Ltd	Fellow Subsidiary	Purchase oxypura products	1,888	210
Hayleys Agriculture Holding Ltd	Fellow Subsidiary	Purchases of chemicals	98	104
Quality Seed Company (Pvt) Ltd.	Fellow Subsidiary	Landscaping charges	1,200	-
Hayleys Electronics Lighting (Pvt) Ltd	Fellow Subsidiary	Purchase of electronic items	-	469
The Kingsbury Hotel PLC	Fellow Subsidiary	Entertainment facility	3,971	1,717
Hayleys Travels (Pvt) Ltd	Fellow Subsidiary	Reservations, ticketing and other travel related services	123,576	98,805
Hayleys Tours (Pvt) Ltd	Fellow Subsidiary	Reservations and other travel related services	38,193	9,634
Hayleys Aventura (Pvt) Ltd.	Fellow Subsidiary	Purchase spare part items and obtained technical support	49,236	94,255
Haycolour (Pvt) Limited	Fellow Subsidiary	Purchase of dyes & chemicals	928	10,255
MIT Cargo (Pvt) Ltd	Fellow Subsidiary	Logistic service	73,705	58,518
Hayleys Advantis Ltd	Fellow Subsidiary	Cost of intangible assets/Service	-	16,365
Agility Logistics (Pvt) Ltd	Fellow Subsidiary	Logistic service	23,712	8,944
Advantis Freight (Pvt) Ltd	Fellow Subsidiary	Logistic service	18,368	5,004
Logiwiz Limited	Fellow Subsidiary	Logistic service	760	840
Advantis Projects & Engineering (Pvt) Ltd	Fellow Subsidiary	Logistic service	19,788	12,673
Expelogix (Pvt) Ltd.	Fellow Subsidiary	Logistic service	16,924	21,334
Hayleys Business Solutions Int.(Pvt) Ltd	Fellow Subsidiary	Payroll charges	39,709	39,913
Royal Ceramics Lanka PLC.	Affiliate Company	Purchase of tiles	2,803	-
Lanka Tiles PLC	Affiliate Company	Purchase of tiles	337	-
Fentons Ltd.	Fellow Subsidiary	Instillation of fire solutions & cabling	94,889	66,440
Delmege Forsyth & Co.(Pvt) Ltd	Affiliate Company	Purchase of mechanical items	7,688	2,440
Energenet Pvt. Ltd.	Fellow Subsidiary	Service charge of electrical equipment's	2,995	13,268
Mabroc Teas (Pvt) Ltd.	Fellow Subsidiary	Purchase of tea	282	134
Hayleys Lifesciences (Pvt) Ltd.	Fellow Subsidiary	Purchase of Stationery	377	4,189
Singer Sri Lanka PLC	Fellow Subsidiary	Purchase of electrical equipment	54,791	55,507
Haymat Private Ltd.	Fellow Subsidiary	Purchase of mats	52	-

b) Transactions with all related parties have been carried out under relevant commercial terms and conditions. All transactions are settled in cash in the short term and are non-interest bearing

c) Amounts due from /to related parties are reflected in these Financial Statements within notes 9 &16 and directly in the Statement of Financial Position.

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

Facility	2020			2019		
	Facility	Outstanding amount	Interest & charges incurred during the year	Facility	Outstanding amount	Interest & charges incurred during the year
	Amount USD	USD	USD	Amount USD	USD	USD
Pan Asia Bank Trade facility	3,000,000	2,415,075	97,804	3,000,000	2,119,385	106,177
Overdraft facility	-	(5,951)	-	-	(5,749)	-

## 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

	2020	2019
	USD	USD
Short term employment benefits	277,730	232,533

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 5,905,405. (2019-USD nil)

26.2 Contingent liabilities as at 31 March 2020 was nil. (2019 - USD 273,510).

## 27. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount		Included under
		2020	Pledged	
		USD	USD	
Plant & Machinery, Water Treatment Plant	Primary Mortgage for Loans and Borrowings	15,261,986	14,826,266	Property, Plant & Equipment
Land & Buildings	Primary / Concurrent mortgage for Loans and Borrowings	7,716,543	7,902,104	Property, Plant & Equipment
Inventories	Primary / Concurrent mortgage for Loans and Borrowings	12,646,752	10,806,343	Inventories
Trade Receivables	Primary / Concurrent mortgage for Loans and Borrowings	6,301,050	8,394,207	Trade Receivable

# NOTES TO THE FINANCIAL STATEMENTS

## 28. EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after the date of Statement of Financial Position 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 2020 and 2019. 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 2020 and 2019.

### **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 +2.9 % 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:

2020		2019	
Increase/Decrease in basis points	Effect on profit before tax -USD	Increase/Decrease in basis points	Effect on profit before tax -USD
0.47	(76,009)	0.61	(90,188)
-0.47	76,009	-0.61	90,188

### **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.

	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%	28,681	3%	32,346
	-3%	(30,455)	-3%	(34,347)
	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%	3,115	3%	1,146
	-3%	(3,308)	-3%	(1,217)

#### **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.

The possible delay in getting past due receivables from the customers and request for extended credit periods as a result of COVID-19 are being managed through negotiations with customers on settlements and invoicing /Letter of Credit discounting arrangements with Banks.

#### **Financial instruments and cash deposits**

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Company's policy. However, currently the Company does not hold any cash deposits or any other financial instrument other than those disclosed and is not affected by any credit risk emanating from such balances.

# NOTES TO THE FINANCIAL STATEMENTS

## **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 96% of the Company's debt will mature in less than one year at 31 March 2020 (2019: 93%) 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.

Liquidity risk arising from extending credit periods to customers due to COVID -19 is being managed through negotiating additional overdraft /short term financing facilities with Banks and in addition , discounting customers' invoices and Letters of Credit through which 80%-90% advances expected to take upfront from the Banks.

## **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	2020 LKR '000	2019 LKR '000
<b>ASSETS</b>		
<b>Non-Current Assets</b>		
Property, plant and equipment	4,890,832	4,418,391
Intangible assets	23,121	11,414
	4,913,953	4,429,805
<b>Current Assets</b>		
Inventories	2,938,139	2,367,581
Trade receivables	1,212,952	1,494,337
Other receivables	105,821	66,567
Advances and prepayments	146,902	66,490
Cash and cash equivalents	102,693	50,671
	4,506,507	4,045,646
<b>Total Assets</b>	<b>9,420,460</b>	<b>8,475,450</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and Reserves</b>		
Stated capital	1,968,193	1,968,193
Revaluation reserve	272,441	251,948
Retained earnings	275,055	51,673
Exchange fluctuation reserve	1,027,475	907,485
<b>Total Equity</b>	<b>3,543,164</b>	<b>3,179,299</b>
<b>Non-Current Liabilities</b>		
Interest bearing loans and borrowings	134,879	187,772
Deferred tax liabilities	415,624	314,740
Retirement benefit obligations	528,581	451,182
	1,079,084	953,693
<b>Current Liabilities</b>		
Trade and other payables	1,429,263	1,553,977
Interest bearing loans and borrowings	3,093,659	2,515,434
Amounts due to Hayleys PLC	22,914	11,040
Other current non financial liabilities	252,376	262,007
	4,798,212	4,342,458
<b>Total Equity and Liabilities</b>	<b>9,420,460</b>	<b>8,475,450</b>

The financial statements prepared and presented in US Dollars reflect the economic substance of underlying events and circumstances of the enterprise. The supplementary information in SL Rupees is presented for convenience purposes only. The statements presented in Sri Lankan Rupees (LKR) are not a full set of financial statements and are not purported to comply with Sri Lanka Accounting Standard. They represent selected information taken from the US Dollar financial statements, translated into LKR 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 its original LKR value.

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

	31.03.2020	31.03.2019
Statement of Profit or Loss and Other Comprehensive Income	182.15	171.33
Statement of financial position	192.50	178.02

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

Year ended 31 March	2020 LKR '000	2019 LKR '000
<b>Revenue from contracts with customers</b>	12,225,353	11,982,988
Cost of sales	(10,640,692)	(10,554,294)
<b>Gross Profit</b>	1,584,661	1,428,694
Other operating income	10,990	11,488
Administrative expenses	(914,680)	(818,882)
Distribution expenses	(150,476)	(133,858)
Other expenses	(80,699)	(17,777)
Net financing costs	(145,801)	(152,896)
<b>Profit before tax</b>	303,995	316,768
Income tax expense	(72,550)	(135,443)
<b>Profit for the year</b>	231,445	181,325
Other Comprehensive Income not to be reclassified to profit or loss		
- Surplus on revaluation of land	-	34,846
- Income tax effect on revaluation of land	-	(4,879)
- Actuarial loss on defined benefit plans	(9,377)	(81,878)
- Income tax effect on actuarial loss on defined benefit plans	1,313	11,463
<b>Total Comprehensive Income, Net of Tax</b>	223,381	140,878
Basic / Diluted Earnings per Share	1.11	0.87

# TEN YEAR SUMMARY

	10-year compound growth %	2020 USD	2019 USD	2018 USD	2017 USD	2016 USD	2015 USD	2014 USD	2013 USD	2012 USD	2011 USD
<b>Results</b>											
Net turnover	2	67,115,723	69,940,639	57,686,803	55,537,401	59,924,103	65,031,509	61,252,088	44,193,490	45,936,097	58,322,307
Profit after tax	(183)	1,270,611	1,058,335	(679,516)	490,267	1,845,409	679,920	(1,388,400)	(3,642,771)	(7,581,712)	(7,078,596)
<b>Funds Employed</b>											
Stated capital	12	17,561,761	17,561,761	17,561,761	17,561,761	17,561,761	17,561,761	17,561,761	13,563,304	13,563,304	6,534,102
Reserves	(24)	844,285	297,464	(524,791)	23,706	(494,262)	(2,052,032)	(2,875,191)	(1,508,395)	2,012,633	9,594,346
Shareholders' fund	1	18,406,046	17,859,225	17,036,970	17,585,467	17,127,499	15,509,729	10,688,113	12,054,909	8,546,735	16,128,448
Borrowings (both short & long term)	(4)	16,771,624	15,184,841	16,706,671	19,686,731	16,818,660	18,951,491	16,866,448	12,655,851	19,996,108	23,706,118
	35,177,670	33,044,066	33,743,641	37,272,198	33,946,159	34,461,220	27,554,561	24,710,760	28,542,843	39,834,566	
<b>Assets Employed</b>											
Non current assets	(1)	25,527,027	24,883,748	25,167,948	24,833,016	23,096,764	22,610,098	22,622,634	24,304,984	25,750,288	27,616,395
Current assets	2	23,410,426	22,725,793	20,921,177	21,942,322	19,649,659	22,507,145	19,490,701	11,753,515	13,006,227	18,987,220
Current liabilities net of borrowings	9	(8,854,818)	(10,263,029)	(8,952,285)	(6,112,839)	(5,555,020)	(7,535,519)	(11,615,635)	(8,632,504)	(7,453,474)	(3,954,781)
Provisions	6	(4,904,965)	(4,302,446)	(3,393,199)	(3,390,301)	(3,225,244)	(3,120,504)	(2,943,139)	(2,715,235)	(2,760,198)	(2,814,569)
Capital Employed	(1)	35,177,670	33,044,066	33,743,641	37,272,198	33,946,159	34,461,220	27,554,561	24,710,760	28,542,843	39,834,566
<b>Cash Flow</b>											
Net cash inflow/(outflow) from operating activities		2,205,200	2,927,550	4,235,513	1,916,117	2,606,119	(1,392,458)	(3,763,827)	589,410	5,660,679	(4,837,120)
Net cash outflow from investing activities		(2,863,628)	(1,466,816)	(2,375,774)	(4,521,131)	(2,734,731)	(1,712,927)	(401,501)	(507,460)	(1,339,693)	(2,485,654)
Net cash inflow/(outflow) from financing activities		847,907	(1,767,129)	(2,572,428)	2,939,367	(2,420,540)	10,185,800	1,291,588	5,654,647	(1,827,919)	897,130
Increase / (decrease) in cash & cash equivalents		189,479	(306,395)	(712,690)	334,353	(2,549,151)	7,080,416	(2,873,740)	5,736,597	2,493,067	(6,425,644)
<b>Key Indicators</b>											
Earnings/(Loss) per share (basic) USD		0.006	0.005	(0.003)	0.002	0.009	0.004	(0.008)	0.075	0.07	(0.120)
Net assets per share USD		0.089	0.086	0.082	0.085	0.082	0.075	0.07	0.08	0.08	(0.1394)
Dividend per share Rs.		0.60	-	-	-	-	-	-	-	-	-
Gearing %		48	46	50	53	50	55	61	51	70	60
Turnover to capital employed (times)		1.91	2.12	1.71	1.49	1.77	1.89	2.22	1.79	1.61	1.46

# GLOSSARY OF FINANCIAL TERMINOLOGY

## ACCOUNTING POLICIES

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

## ACCRUAL BASIS

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

## ACTUARIAL GAIN/LOSS ON DEFINED BENEFIT PLAN

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

## AMORTIZED COST

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

## ASSETS TURNOVER

Revenue divided by average total assets.

## BORROWINGS

Bank loans and overdrafts.

## CAPITAL EMPLOYED

Shareholders' funds plus debt.

## CASH EQUIVALENTS

Liquid investments with original maturities of three months or less.

## CONTINGENT LIABILITIES

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

## CURRENT RATIO

Current Assets divided by Current Liabilities.

## DEBT/EQUITY RATIO

Debt as a percentage of Shareholders' funds.

## DEFERRED TAXATION

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

## DIRECT EMPLOYMENT

The workers employed by the Company.

## DISCOUNT RATE

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

## DILUTED EARNINGS PER SHARE

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

## EARNINGS PER SHARE (EPS)

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

## EBIT

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

## EBITDA

Earnings before interest, tax, depreciation and amortization.

## EFFECTIVE RATE OF TAXATION

Income tax including Deferred tax over Profit before tax.

## ENERGY INTENSITY

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

## EQUITY

Shareholders' funds

## FAIR VALUE

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

## FINANCIAL INSTRUMENT

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

## INTEREST COVER

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

## MARKET CAPITALIZATION

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

## MARKET VALUE ADDED

Market capitalization minus shareholders' funds.

## NET ASSETS

Total assets minus long term and current liabilities.

## NET ASSETS PER SHARE

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

## NET PROFIT RATIO

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

## NET WORKING CAPITAL

Current assets minus current liabilities.

## ORGANIC WASTAGE

Bio-degradable waste.

## PRICE EARNINGS RATIO

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

**PUBLIC HOLDING**

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

**QUICK ASSET RATIO**

Current Assets other than inventory divided by Current liabilities.

**RETURN ON ASSETS (ROA)**

Profit after tax divided by average total assets.

**RETURN ON CAPITAL EMPLOYED (ROCE)**

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

**RETURN ON EQUITY (ROE)**

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

**RECYCLE**

The process of converting waste into reusable materials.

**RISK MANAGEMENT**

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

**SHAREHOLDERS' FUNDS**

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

**STEWARDSHIP**

The role of supervising or taking care of the organization.

**TOTAL ASSETS**

Non- current assets plus current assets.

**TOTAL DEBT**

Long term loans plus short term loans and overdrafts.

# INVESTOR INFORMATION

## ORDINARY SHAREHOLDERS AS AT 31ST MARCH,2020

No. of shares held	Residents			Non-Residents			Total		
	No. of share-holders	No. of shares	%	No. of share-holders	No. of shares	%	No. of share-holders	No. of shares	%
1	1,000	1,896	0.315	9	3,850	0.002	1,905	657,267	0.316
1,001	10,000	1,244	2.500	4	23,700	0.011	1,248	5,217,436	2.512
10,001	100,000	543	8.642	12	523,654	0.252	555	18,477,563	8.895
100,001	1,000,000	85	10.494	8	1,659,851	0.799	93	23,459,715	11.293
Over 1,000,000		12	76.434	1	1,143,912	0.551	13	159,928,907	76.985
		3,780	98.385	34	3,354,967	1.615	3,814	207,740,888	100.000

## ORDINARY SHAREHOLDERS AS AT 31ST MARCH,2020

Categories of shareholders	Residents			Non-Residents			Total		
	No. of share-holders	No. of shares	%	No. of share-holders	No. of shares	%	No. of share-holders	No. of shares	%
Individuals	3,571	35,991,128	17.325	31	1,598,618	0.770	3,602	37,589,746	18.095
Institutions	209	168,394,793	81.060	3	1,756,349	0.845	212	170,151,142	81.905
	3,780	204,385,921	98.385	34	3,354,967	1.615	3,814	207,740,888	100.000

## MARKET VALUE

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

Year ended 31 March	2020		2019	
	LKR		LKR	
Highest		19.00 (on 05th Dec. 2019)		13.70 (on 26th Apr. 2018)
Lowest		7.40 (on 14th May 2019)		8.40 (on 4th July 2018)
Year end		8.70		8.50

## Share Trading

	2020		2019	
No. of transactions		29,871		7,911
No. of shares traded		138,910,057		24,782,369
Value of shares traded (LKR)		2,024,251,747		241,563,086

## MAJOR SHAREHOLDING

The twenty major shareholders and the percentage held by each is as follows :

### First twenty shareholders as at 31 March 2020

		No. of Shares As at 31/03/20	No. of Shares		
			%	As at 31/03/19	%
1	HAYLEYS PLC NO 3 SHARE INVESTMENT ACCOUNT	122,487,023	58.96	122,487,023	58.96
2	THE CEYLON GUARDIAN INVESTMENT TRUST PLC A/C # 02	5,575,613	2.68	8,417,992	4.05
3	EMPLOYEES PROVIDENT FUND	5,540,727	2.67	5,540,727	2.67
4	THE CEYLON INVESTMENT PLC A/C # 02	5,126,810	2.47	8,247,810	3.97
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	SEYLAN BANK PLC/ARRC CAPITAL (PVT) LTD	2,395,877	1.15	80,112	0.04
8	SRI LANKA INSURANCE CORPORATION LTD-LIFE FUND	2,124,044	1.02	-	-
9	HATTON NATIONAL BANK PLC - ASTRUE ALPHA FUND	2,119,396	1.02	1,000,000	0.48
10	MRS.V.SARASWATHI	2,000,000	0.96	650,535	0.31
11	MR.A.M.WEEERASINGHE	1,850,000	0.89	1,850,000	0.89
12	MELLON BANK N.A-ACADIAN FRONTIER MARKETS EQUITY FUND	1,143,912	0.55	-	-
13	BANK OF CEYLON NO.01 ACCOUNT	1,056,398	0.51	774,098	0.37
14	COMMERCIAL CREDIT AND FINANCE PLC	945,969	0.46	4,549	0.00
15	MR.R.E. RAMBUKWELLA	871,330	0.42	543,850	0.26
16	MR.K.A.S.R NISSANKA	674,450	0.32	700,000	0.34
17	MR.D.K.A.K. WEERATHUNGA	651,000	0.31	-	-
18	BANK OF CEYLON A/C NDB WEALTH GROWTH FUND	600,000	0.29	774,565	0.37
19	ALLNATT INVESTMENTS (PRIVATE) LIMITED	565,844	0.27	565,844	0.27
20	PEOPLE'S LEASING & FINANCE PLC/L.P.HAPANGAMA	561,681	0.27	556,681	0.27
	Total	164,799,181	79.33	160,702,893	77.36

### The issued number of shares of the company

as at 31.03.2019 - 207,740,888

as at 31.03.2020 - 207,740,888

	2020	2019
Registered Shareholders as at 31 March	3,780	3,589
The percentage of shares held by public as at 31 March	36.88%	36.92%
No.of shareholders representing Public Holding as at 31 March	3,806	3,582
Float adjusted Market Capitalization as at 31 March	LKR 666,549,103.60	LKR 651,932,454.72

The Company complies with option 5 of the Listing Rules 7.13.1 (a) which requires a minimum public holding of 20% for a company having a Float Adjusted Market Capitalisation of less than Rs. 2.5 Bn.

### DIRECTORS' SHAREHOLDING

Directors' shareholding as at 31 March	Direct holding	
	No. of Shares 2020	No. of Shares 2019
Mr. A.M.Pandithage	Nil	Nil
Mr. K.D.D.Perera **	4,090	4,090
Mr. S.C.Ganegoda	50,000	Nil
Mr. H.Somashantha	20,000	20,000
Mr. R.N.Samaratne	50,000	25,000
Mr. E.R.P.Goonetilleke	Nil	Nil
Dr. N.S.J.Nawaratne	Nil	Nil
Mr. A.S.Jayatilleka	Nil	Nil
Mr. R.Rohitha Bandara	5,000	5,000
Mr.M.H.Jayasinghe	Nil	Nil
Mrs. Y.Bhaskaran	Nil	Nil
( alternate Director to Mr.K.D.D.Perera )		

\*\* Mr.K.D.D.Perera holds 51.01% directly and indirectly of the total issued shares of Hayleys PLC which has 122,487,023 shares in Hayleys Fabric PLC.

# NOTICE OF MEETING

Notice is hereby given that the Twenty Eighth 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 27th July 2020 at 12.00 Noon 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, 2020 with the Report of the Auditors thereon.
2. To re-elect Dr.N.S.J. Nawaratne, who retires by rotation at the Annual General Meeting, a Director.
3. To re-elect Mr.K.D.D. Perera, who retires by rotation at the Annual General Meeting, a Director.
4. To re-elect Mr.H. Somashantha, who retires by rotation at the Annual General Meeting, a Director.
5. To authorise the Directors to determine contributions to charities.
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 2020/21.
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 12.00 Noon on 25th July 2020.

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

Colombo  
1st July 2020

# 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 Eighth Annual General Meeting of the Company to be held on Monday 27th July 2020 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 2020, with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2	To re-elect Dr.N.S.J. Nawaratne, who retires by rotation at the Annual General Meeting, a Director	<input type="checkbox"/>	<input type="checkbox"/>
3	To re-elect Mr.K.D.D. Perera, who retires by rotation at the Annual General Meeting, a Director	<input type="checkbox"/>	<input type="checkbox"/>
4	To re-elect Mr.H. Somashantha, who retires by rotation at the Annual General Meeting, a Director	<input type="checkbox"/>	<input type="checkbox"/>
5	To authorise the Directors to determine contributions to charities.	<input type="checkbox"/>	<input type="checkbox"/>
6	To authorize the Directors to determine the remuneration of the Auditors, Messrs. Ernst & Young, Chartered Accountants who are deemed to have been reappointed as Auditors for the year 2020/21.	<input type="checkbox"/>	<input type="checkbox"/>

(\*\*\*) The proxy may vote as he thinks fit on any other resolution brought before the Meeting of which due Notice has been given.

As witness my/our\* hands this ..... day of ..... 2020.

Signature of Shareholder

**Witness (\*\*);**

Name .....

Signature .....

Notes:

(a) \* Please delete the inappropriate words.

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

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

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

(d) Instructions are noted 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 12.00 Noon. on Saturday 25th July 2020.
2. In perfecting the Form of Proxy, please ensure that all details are legible
3. If you wish to appoint a person other than the Chairman of the Company (or failing him, one of the Directors) as your proxy, please insert the relevant details at 1 overleaf and initial against this entry.
4. Please indicate with an X in the space provided how your proxy is to vote on each resolution. If no indication is given, the proxy in his discretion will vote as he thinks fit. Please also delete (\*\*\* ) if you do not wish your proxy to vote as he thinks fit on any other resolution brought before the Meeting.
5. In the case of a Company / Corporation, the proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
6. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.
7. In case of Marginal Trading Accounts (slash accounts), the form of Proxy should be signed by the respective authorised Fund Manager/Banker with whom the account is maintained.

# CORPORATE INFORMATION

## NAME OF COMPANY

Hayleys Fabric PLC

## LEGAL FORM

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

## COMPANY REGISTRATION NUMBER

PQ 37

## ACCOUNTING YEAR END

31st March

## PRINCIPAL ACTIVITY

Manufacturing of knitted fabric

## DIRECTORS

A.M. Pandithage - Chairman

E.R.P. Goonetilleke - Managing Director

K.D.D. Perera

S.C. Ganegoda

H. Somashantha

R.N. Somaratne

Dr. N.S.J. Nawaratne

A.S. Jayatilleka

I.B.R.R. Bandara

M.H. Jayasinghe (*Appointed w.e.f. 1st April 2019*)

Ms. Yogadinusha Bhaskaran (*Alternative Director to K.D.D. Perera*)

## SECRETARIES

Hayleys Group Services (Pvt) Ltd.

400, Deans Road, Colombo 10.

Telephone: (94-11) 2627650/51/52/53

## REGISTERED OFFICE

400, Deans Road ,

Colombo 10.

Telephone: (94-11) 2627000

## MAIN OFFICE & FACTORY

Narthupana Estate , Neboda.

Telephone: (94-34) 4297100, 2242055

## BANKERS

Standard Chartered Bank

Hongkong and Shanghai Banking Corporation

Hatton National Bank PLC

Bank of Ceylon

National Development Bank PLC

Sampath Bank PLC

Deutsche Bank AG

Citibank, N.A.

Seylan Bank PLC

Pan Asia Banking Corporation PLC

People's Bank

DFCC Bank

## AUDITORS

Ernst & Young

Chartered Accountants,

201, De Saram Place,

Colombo 10.



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