

THE ICEBERG PRINCIPLE

Hayleys



HAYLEYS PLC

ANNUAL REPORT

2011/12

ABOUT HAYLEYS

Hayleys PLC is one of Sri Lanka's largest multinational business conglomerates with a history spanning 134 years. The Company's subsidiaries and equity accounted investees in Sri Lanka as well as overseas, drive a globally competitive business portfolio spanning 12 defined sectors of enterprise. These sectors fall under the broader ambit of 7 categories - Global Markets and Manufacturing, Agriculture and Plantations, Transportation and Logistics, Leisure and Aviation, Consumer Products, Power and Energy, Investments and Services.

Commencing commercial operations in 1878 as Chas P. Hayley and Company, we were incorporated as Hayleys Ltd. 60 years ago.

Hayleys today accounts for 2.51% of Sri Lanka's export income and 4.5% of tea and 2.5% of rubber production.

VISION

To be Sri Lanka's corporate inspiration at all times.

MISSION

Delivering superior shareholder value by unleashing the full potential of our people and achieving leadership in all our domestic and global businesses.

VALUES

Integrity - ethical and transparent in all our dealings

Enduring Customer Value - enhancing experiences for every customer, from the rural farmer to the global consumer

A Will to Win - exhibiting the will to win that which is important to Hayleys and its shareholders

Respect for People - treating everyone with respect and dignity, providing for the development of our people and rewarding them for good performance

Good Citizenship - caring for the communities in which we work, actively supporting their growth and being environmentally responsible in all we do

Teamwork - working with each other and with our partners across boundaries, to make things happen

Accountability - holding ourselves responsible to deliver what we promise

The Iceberg Principle

‘Above the waterline’ the Hayleys you see is substantial in size and scope. But this is just the ‘tip of the iceberg’ story all over again. The potential for growth that lies within our uniquely diverse portfolio of businesses as a premier multi-national conglomerate is tremendous... it profiles Hayleys in its truest light and gives insight into the substantial resources the Company possesses to leverage synergies and grow and expand its businesses well into the future. The report in your hands helps clarify the ‘iceberg principle’ through its revelatory disclosures for the year 2011/12.

CONTENTS

04	_	Financial Highlights
06	_	Chairman and Chief Executive's Message
10	_	Management Review and Preview
10	_	Our Portfolio of Businesses
12	_	Operating Environment
36	_	Goals & Strategies
37	_	Our Strategies in Action
41	_	Outlook
42	_	Financial Review
48	_	Board of Directors
52	_	Group Management Committee
56	_	Sustainability Report
113	_	Annual Report of the Board of Directors on the Affairs of the Company
119	_	Governance at Hayleys
143	_	Risk Management
151	_	Financial Reports
152	_	Statement of Directors' Responsibilities
153	_	Chairman/Chief Executive's and Group Chief Financial Officer's Responsibility Statement
154	_	Audit Committee Report
155	_	Remuneration Committee Report
156	_	Independent Auditors' Report
157	_	Income Statements
158	_	Balance Sheets
159	_	Statements of Changes in Equity
160	_	Cash Flow Statements
162	_	Notes to the Financial Statements
222	_	Ten Year Summary
224	_	Value of Real Estate
225	_	Country Report
227	_	Milestones
228	_	Glossary of Financial Terms
229	_	Notice of Meeting
Enclosed	_	Form of Proxy
Inner Back Cover	_	Corporate Information



views



FINANCIAL HIGHLIGHTS

	2011/12 Rs. mn	2010/11 Rs. mn	Change %	2009/10 Rs. mn
Gross turnover*	62,465	54,370	15	38,103
Group turnover including associates*	63,054	55,724	13	38,169
Group profit before tax*	4,806	2,041	136	3,293
Group profit after tax*	3,845	1,137	238	2,609
Profit for the period	3,845	1,128	241	2,581
Profit attributable to equity holders of the Company	2,520	677	272	1,731
Dividends	300	300	0	300
Shareholders' funds	18,159	15,646	16	15,214
Company market capitalisation	27,000	28,658	(6)	16,875
Group market capitalisation	49,361	54,092	(9)	36,691
Group investments	5,039	2,899	74	918
Group value addition	18,744	13,825	36	11,090
Revenue to Government (including associates)	3,132	2,601	20	1,523
Group employment (persons) (including associates)	33,201	31,651	5	30,177

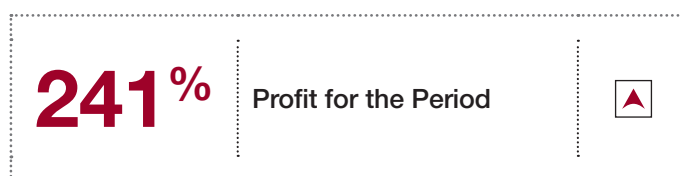
Per Share

Earnings (basic) (Rs.)	33.60	9.03	272	23.67
Market value (year end) (Rs.)	360.00	382.10	(6)	225.00
Net assets (year end) (Rs.)	242.13	208.61	16	202.86
Dividend (Rs.)	4.00	4.00	0	4.00
Price earnings (year end) (times)	10.72	42.32	(75)	9.51

Ratio

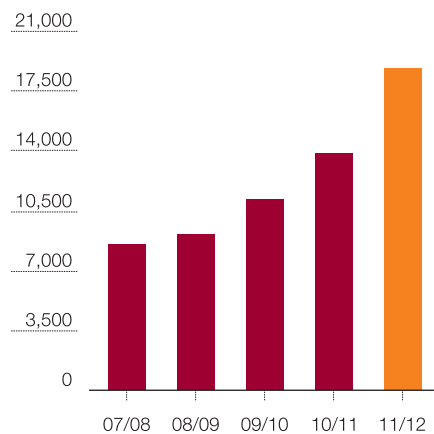
Gross profit (%)*	21.3	20.8		24.7
Interest cover (times)*	3.1	2.5		5.6
Dividend yield (%)	1.1	1.0		1.8
Dividend payout (%)	11.9	44.3		17.3
Current ratio (times)	1.1	1.1		1.2

* Continuing Operations



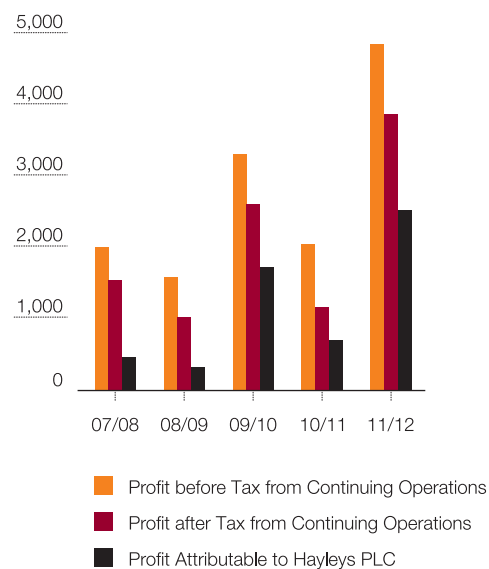
Group Value Addition

Rs. mn



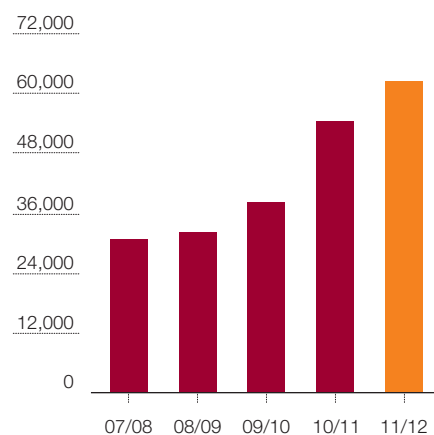
Profit Growth

Rs. mn



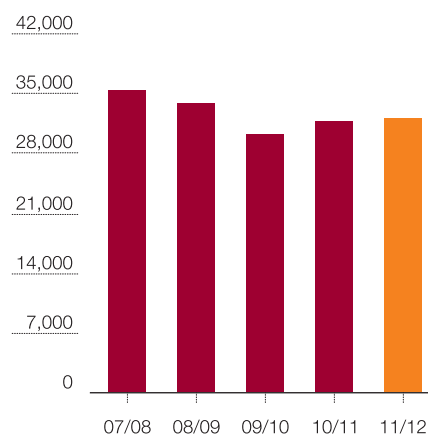
Turnover Growth

Rs. mn



Total No. of Employees

Nos.



36%

Group Value Addition



20%

Revenue to Government



CHAIRMAN AND CHIEF EXECUTIVE'S MESSAGE

OUR BROAD STRATEGY IN RECENT YEARS HAS BEEN TO DRIVE INNOVATION AND VALUE ADDITION IN OUR CORE BUSINESSES AND STRATEGICALLY ENTER INTO NEW GROWTH AREAS THAT HAVE EMERGED IN POST WAR SRI LANKA.



- Hayleys PLC recorded the highest earnings during the year under review.
- A number of strategic actions have enabled the Group to achieve these outstanding results.
- The Group has laid the foundation for future growth by aligning itself to the high growth sectors in the economy and is confident that this will add strength and stability to the Group

I welcome you to the 61st Annual General Meeting of Hayleys PLC and I am pleased to present to you the Annual Report and Audited Financial Statements for the financial year ended 31st March, 2012. It is with great pleasure that I am announcing that in the financial year 2011/12 your Company achieved its highest earnings. These results have been achieved despite a challenging operating environment both locally and internationally. Majority of the sectors made positive contributions to the Group's earnings this year with particularly strong performance by the Hand Protection, Agriculture, Purification and Transportation sectors. It is satisfying to note that our performance is a reflection of a number of strategic actions taken in recent years, which I will elaborate upon shortly. For the most part of the year we enjoyed domestic economic stability with low interest rates, low inflation and a strong economic growth performance. The measures taken by the Government to address some constraints such as high credit growth and a wider current account deficit have resulted in short-term challenges due to higher interest rates, Rupee volatility and higher costs of energy, but we believe these policy reforms are important to secure longer term macroeconomic stability. Having a substantial export portfolio, developments beyond our shores have important consequences on our performance. The global economy had another volatile year with a number of issues ranging from the European debt crisis, weak growth in the USA, Euro Zone and Japan resulting in major challenges for some of our exports in terms of demand stability and

credit risks and political turmoil in the Middle East leading to spiraling oil prices. Despite these constraints, Hayleys was able to secure its position as one of the top export companies in Sri Lanka with an export turnover of around USD 360 mn (equivalent Rs. 40 bn). This is a reflection of our strategy to add value to our exports and to be aggressive in our marketing efforts in both traditional and emerging markets, in order to be competitive with a better value proposition to our loyal customers.

Given this background, it is pleasing to note that turnover of your Company grew 15% to reach Rs. 62.5 bn. Group profit before tax for the year was a record Rs. 4.8 bn. Whilst this included capital gains of Rs. 2.3 bn reflected mainly in the earnings of DPL, Investments and Services and the Fibre sector, when capital gains are excluded, profit before tax has grown 30% in the current year compared to the previous year. Whilst the key sectors mentioned earlier contributed significantly to this higher profitability, the pre-tax losses of the textile sector (Rs. 856.48 mn) significantly eroded the overall Group performance.

A number of strategic actions have enabled us to achieve the strong results that we see today. A fundamental change that was implemented in 2009 was the policy that Hayleys will focus on investments in which we have management and ownership control and exit passive stakes. This was done to exercise more control over our income streams, and this approach is now reaping rewards. In the last 3 years we secured controlling interest in the tea exporting company Mabroc, hybrid seed manufacturer Quality Seed, obtained 100% control of our fertilizer business and enhanced ownership in the Plantation Sector. We also exited passive minority stakes in Tropical Villas and Jetwing Hotels.



Our broad strategy in recent years has been to drive innovation and value addition in our core businesses and strategically enter into new growth areas that have emerged in post war Sri Lanka. This is reflected in our performance this year. Major contributions to earnings have been from Agriculture (17.6% of PBT), Hand Protection (39.1% of PBT), Purification (14.7% of PBT) and Transport (13.8% of PBT). This reflects a stable core portfolio that has grown due to our continued emphasis on value addition, expansions in capacity, innovation and new technology, diversification of markets and our customer centric approach to business.

In Hand Protection we have continually developed new products to cater to demands of a dynamic industry. Complex value added gloves such as electricians gloves, cut resistant gloves and chemical resistant gloves have been developed at DPL, giving an edge over competition despite the challenges of managing rising cost of production. At the same time new markets have been penetrated in recent years. We are cognizant of the fact that our traditional markets in Europe and the United States are facing economic constraints, and therefore all Group companies have made a conscious decision to diversify export markets. DPL now has significant sales in key emerging economies such as Brazil and India. These measures helped this sector record a PBT of Rs. 1.8 bn this year. As a culture of industrial safety permeates the developing economies, DPL has entrenched itself in a strong position in a growing market.

The Purification sector recorded a PBT of Rs. 706 mn this year. In this sector, significant attention has been paid to research and development to develop complex activated carbons serving the increasingly sophisticated

requirements of a range of industries from air and water purification to electrical energy storage. A significant emphasis has been placed on securing the key raw material, Coconut Shell Charcoal, through strategic initiatives. The other key priorities and strategies in motion include the expansion of capacity overseas in setting up new manufacturing locations and diversification of international markets targeting new markets outside our traditional customer base. Our purification systems arm, Puritas (Pvt) Ltd., will move aggressively to expand its business in the medium to large raw and waste water systems backed by our strong international partnership with Veolia Water. We have recognised the key global demand drivers for purification technology as pollution and the resultant climate change which will give rise to more stringent legislations on air and water emission standards. Whilst this is a major challenge for most industries, it will be a key opportunity for our Purification Sector. Haycarb has also developed the industry's first green carbon 'Neutrocarb', utilising patented carbon regeneration technology, Recogen. This emphasis on sustainability and ethical operations is symbolic of the entire Hayleys ethos.

With the end of the war we saw significant opportunities in the agriculture sector, particularly in mechanisation of agriculture. We enhanced our exposure to the Agri-inputs sub-sector, providing Sri Lanka's rural farmers with the world's best technology and grass roots level agricultural extension services. We connect farmers with global markets through our out grower networks for gherkins and jalapeno peppers - serving end markets such as McDonalds and Heinz. Hayleys

Hayleys will focus on investments in which we have management and ownership control and exit passive stakes.

We have a stable core portfolio that has grown due to our continued emphasis on value addition, expansions in capacity, innovation and new technology, diversification of markets and our customer centric approach to business.

CHAIRMAN AND CHIEF EXECUTIVE'S MESSAGE

In all our core business areas, we have mastered the business, grown organically and become leaders on the national stage and also in global industry.

The advantage of having a diverse portfolio is that a weak performance in one or two sectors is easily outweighed by the strong performance of others - this enables the Group as a whole to provide consistent returns to our shareholders and other stakeholders.

We would continue to play a major role in the Corporate Responsibility arena as part of our business philosophy.

also provides animal health services and nutrition supplements for a key growth area - the dairy industry. This year our Agriculture Sector turned in PBT of Rs. 846 mn. In recent years we have successfully turned around performance of the Biotech sub-sector, and companies within the sector such as HJS Condiments and Sunfrost. Today, Hayleys has a world class bio-technology facility that produces tissue cultures and hybrid seeds for the international market. We continue to work with SLINTEC to develop slow release fertilizer using nano-technology with rights for marketing in Sri Lanka. In addition to application of nano-fertilizer in tea, trials are being conducted for use in paddy, which has even greater potential. The Agriculture Sector of the Group has embarked on a series of new initiatives to fully exploit the emerging opportunities in all areas of the sector, including development of high-yielding planting materials, plant extracts for food, industrial and commercial use, high quality inputs for the dairy sector and commercial farming of identified perennial crops via a nucleus farm and outgrower model. These are expected to synergise our strong involvement in the agricultural sector in Sri Lanka and enable robust growth in the coming years.

Sri Lanka has always enjoyed the comparative advantage of location. Historically we have been a mid-point for trade between East and West. Today this advantage has been further enhanced by the fact that Sri Lanka is in close proximity to the fastest growing economic giants in the world - China and India. Intra-Asian trade is expected to grow rapidly in coming years as the emerging economies take their place at the centre stage of the global economy. The Transport Sector, Hayleys Advantis, has begun to take advantage of this tremendous potential. At present the Company provides a range of logistical services,

providing high value added third party logistics services to multinational companies, represents major global shipping lines, and has more recently provided logistical support services to the ongoing oil exploration off the coast of Mannar. We have also rekindled our ship owning and operating activities, targeting certain niche markets, with a view to future expansion. As the country is being positioned as a transport hub for the region, the opportunities in this sector will continue to grow. Despite a weak global economy, which had dampened global trade and forced a reduction in freight rates, the Transport Sector brought in profits of Rs. 661 mn. As the global economy recovers after the current instability, we are confident that this sector will become one of the largest contributors to Group profit.

In all our core business areas, we have mastered the business, grown organically and become leaders on the national stage and also in global industry. We have very consciously taken strong positions in industries that have tremendous future growth potential based on long-term economic and socio-political trends. At the same time, the management is well aware that with a paradigm shift in the Sri Lankan economy since 2009, there are new growth areas in the economy that your Company ought to have exposure to. It is well established that the Leisure sector will be a major growth area in Sri Lanka in the next decade. Our exposure to the leisure sector is holistic, ranging from hotel ownership, management, travel agency and tour operations. Our recent acquisition of the Amaya Group has already brought in significant earnings and also brings in synergies in resort management. With the refurbishment of the Continental Hotel, your company will have a modern and diverse leisure portfolio, well positioned to take advantage of the impending tourism boom. Hayleys investments in wind power (10 MW plant in Kalpitiya which is ready for commissioning) and mini-hydro power is also expected to add to the Group's bottom line in years to come as renewable energy takes on ever increasing significance in a growing

economy which demands energy. The entry into the Construction Material Sector through the acquisition of Alumex Group was with a view to gain exposure to the construction sector which is another significant growth sector in Sri Lanka's economy.

Our local distribution operation covering the Consumer Sector and the Industrial Solutions Sector continued to strengthen their presence in the market by adding more outlets and products. We expect the Consumer Sector and the Industrial Solutions Sector to contribute significantly to our bottom line in coming years as disposable incomes and the Industrial sector continues to grow in Sri Lanka. We also expect our Business Process Outsourcing unit to add a great deal of value in the future as this sector has shown exceptional growth at the national level.

This year we have faced setbacks in our Textile Sector where turn around has taken longer than expected. With time it became clear that the operational constraints at Hayleys MGT ran very deep and required substantial reform of practices and policies. We also had to make further write downs of assets which added to losses in the sector. We have substantially rationalised our labour force, despite facing some impediments in industrial relations, and reformed our procurement and transport processes. At present we are implementing a number of international best practices such as the ERP SAP, which we believe will help the Company turn around in the near future. The performance of the Fibre Sector was boosted by capital gains and improved performance amongst the value added fibres. The future for this sector is positive given the growing global demand for the environmentally friendly natural products that the Fibre Sector offers.

The plantations of the Group also faced difficulties this year due to the wage increases in April 2011. Our strategy in the tea sector is to leverage upon the long standing brand equity of Ceylon Tea, focus on quality and ethical practices of Hayleys

Plantations, and aggressively market our teas whilst managing costs through a number of innovative strategies. We are confident that the tea sector has a bright future and we will continue our investments in this sector. It is pleasing to note that despite the challenges in plantations, the Plantation Sector of your company achieved a PBT of Rs. 437 mn. This performance has been supported by strong earnings of the rubber sector, where we have made concerted investments in re-planting and upgrading factories. We see future growth potential in rubber, driven by demand for natural rubber in emerging economies.

The advantage of having a diverse portfolio is that a weak performance in one or two sectors is easily outweighed by the strong performance of others - this enables the Group as a whole to provide consistent returns to our shareholders and other stakeholders.

Hayleys commitment to sustainability practices remains strong. Our Corporate Responsibility initiatives have been adjudged as the industry standard for many years. We would continue to play a major role in this arena as part of our business philosophy. Winning the pinnacle award in this sphere in Sri Lanka as the Best Corporate Citizen on each of the four occasions we participated, is a testimony that Corporate Responsibility is in our DNA.

In the last two years your company has made a number of strategic investments in key future growth sectors of the economy. We are now entering a period of consolidation and we expect to see a strong return on the investments that we have made. We have laid the foundation for future growth of your Company by gaining exposure in

leisure, power and energy and the construction sector. I am confident that these sectors will provide the strength and stability in the Group portfolio that we see in our core business areas today. Our performance this year has been very encouraging, but I believe this is the 'tip of the iceberg' considering our full potential.

Mr. A.M. Senaratna, who served as an Independent Non-Executive Director, retired by rotation on 29th June 2011. Please join me in thanking Mr. Senaratna for his valuable service and in wishing him and his family well.

Mr. K.D.D. Perera was appointed Deputy Chairman of the Board with effect from 20th July, 2011. Mr. L.T. Samarawickrama was appointed to the Board as an Independent Non-Executive Director with effect from 30th June, 2011 and subsequently was made an Executive Director following the acquisition of Amaya Group. Mr. R.P. Pathirana and Mr. M.D.S Goonatilleke were appointed to the Board as Independent Non-Executive Directors with effect from 30th June, 2011. Please join me in welcoming these gentlemen who bring with them valuable expertise to the Board.

My appreciation is extended to our loyal customers locally and internationally for the continued confidence placed in our products and services. I would like to express my gratitude to the staff of Hayleys who have worked tirelessly to achieve these results whilst appreciating the support extended by all our other stakeholders. I also would like to place on record special appreciation for the support and inputs provided by the Deputy Chairman and the Board of Directors of Hayleys.

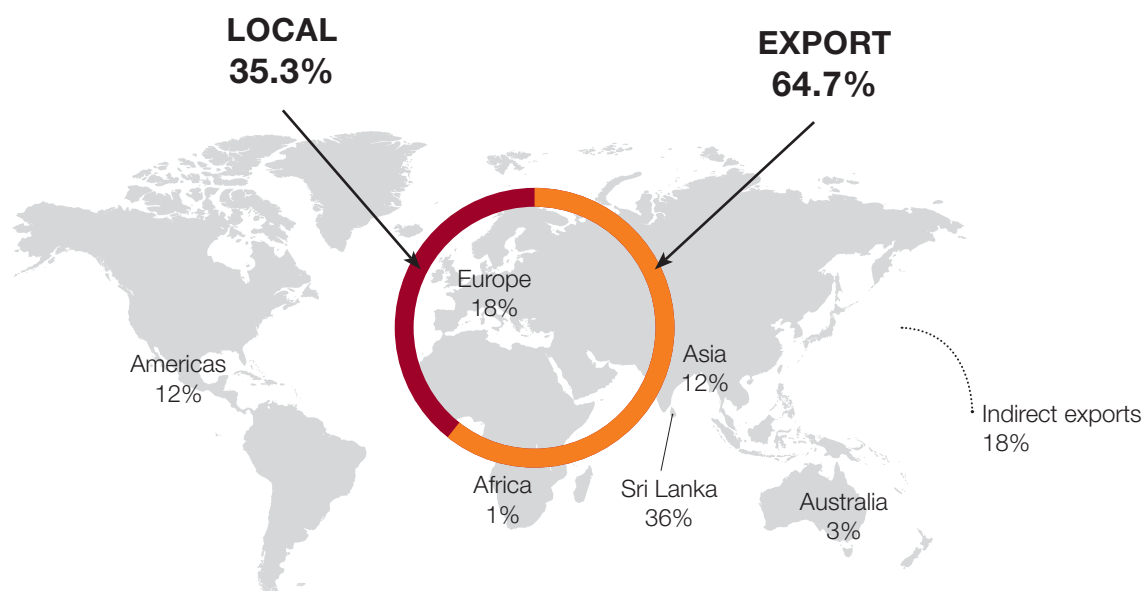


A.M. Pandithage
Chairman & Chief Executive

17th May, 2012

MANAGEMENT REVIEW AND PREVIEW

OUR PORTFOLIO OF BUSINESSES



Turnover (Rs. mn)	62,465
EBIT (Rs. mn)	6,381
Assets (Rs. mn)	64,800
ROCE (%)	14.25
Average Capital Employed (Rs. mn)	44,782
Employees (Number)	33,201



Our Portfolio of Businesses

MANAGEMENT REVIEW AND PREVIEW
OUR PORTFOLIO OF BUSINESSES

Global Markets & Manufacturing

Fibre



Carbon footprint obtained for Bonterra Lanka.

The product range of the Hayleys Fibre Sector includes coir and rubber based floor mats, industrial and household brushware, twisted fibre, bedding and cushioning as well as horticultural and erosion control products such as geo textiles, stitch blankets; coir pots, poles, weed control mats and coir fibre pith.



Market



TURNOVER (Rs. mn)	5,420
EBIT (Rs. mn)	164
ASSETS (Rs. mn)	5,347
ROCE (%)	5
CAPITAL EMPLOYED (Rs. mn)	3,107
EMPLOYEES	602

Hand Protection



5% global market share of industrial and general purpose rubber gloves

The Hand Protection sector manufactures latex gloves for household, industrial and medical uses. In this field, Dipped Products PLC (DPL) and its subsidiaries are internationally renowned for quality and value, offering a comprehensive range of products that caters to a variety of applications.

DPL is a global leader in hand protection solutions and its products are distributed in 70 countries, most of which are in Europe and America. Its capability to develop innovative products that meet the hand protection requirements in any industry coupled with its ethical business practices positions the Company as a unique player in the global glove industry.



Market



TURNOVER (Rs. mn)	13,499
EBIT (Rs. mn)	1,990
ASSETS (Rs. mn)	9,081
ROCE (%)	28
CAPITAL EMPLOYED (Rs. mn)	7,047
EMPLOYEES	1,456

Purification



Haycarb is the world's largest manufacturer of coconut shell - derived activated carbon accounting for approximately 17% of global production

Haycarb, with an annual manufacturing capacity of 27,000 MT manufactures high quality standard and tailor-made activated carbon granular, fines, powders and pellets for a wide spectrum of applications.

In addition, Haycarb Group offers a range of value added services including Activated Carbon Regeneration as a key business segment through its Thailand operation. Its subsidiary, Puritas (Pvt) Ltd., has significant presence in the design, build and operation of turnkey, raw and waste water treatment plants in Sri Lanka and Maldives.



Market



TURNOVER (Rs. mn)	8,469
EBIT (Rs. mn)	807
ASSETS (Rs. mn)	6,051
ROCE (%)	16
CAPITAL EMPLOYED (Rs. mn)	5,189
EMPLOYEES	858

Textiles

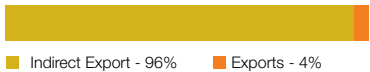


Annual capacity exceeds 12,000 MT of Single Jersey, Interlock, Rib, Pique, Fleece, Polar Fleece, Pointelle Fabric and Flat Knits.

Hayleys MGT Knitting Mills PLC is a BOI approved subsidiary of Hayleys PLC manufacturing weft knitted fabrics. The Company supplies to world renowned brands such as M&S, Decathlon, NEXT, Intimissimi, George, Nike and Tesco .

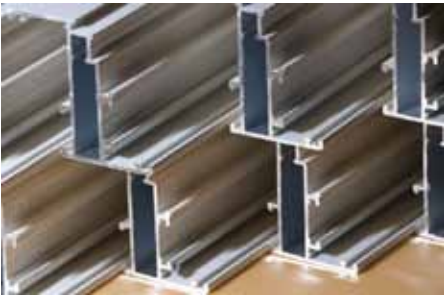


Market



TURNOVER (Rs. mn)	5,207
EBIT (Rs. mn)	(741)
ASSETS (Rs. mn)	4,899
ROCE (%)	(20)
CAPITAL EMPLOYED (Rs. mn)	3,751
EMPLOYEES	915

Construction Material



Undisputed market leader with over 50% market share in Sri Lanka.

Alumex Group is Sri Lanka's foremost Aluminium Extrusion manufacturer with sound industry expertise spanning two and half decades.

Alumex's product portfolio offers a wide range of innovative high quality extrusions in over 700 designs and covers a broad spectrum of products for fabrication of windows (Sliding, Casement, Top Hung, Pivoted, Tilt, Fixed), Curtain Rails, Sky Lights, Tubes, Pipes, Partitions Shop fronts and a range of hardware items.



Market



TURNOVER (Rs. mn)	2,255
EBIT (Rs. mn)	180
ASSETS (Rs. mn)	1,559
ROCE (%)	21
CAPITAL EMPLOYED (Rs. mn)	868
EMPLOYEES	389

Agriculture

Agriculture



90% of the country's Agri-input-supply retail outlets covered by inland distribution network

The Agriculture Sector offers a wide range of agricultural inputs and value-added agri products for the domestic and global markets.

The Sector is also becoming a major producer of tissue culture plantlets in Sri Lanka and is already producing fruits, flowering, foliage and forestry plantlets for local as well as export markets. Other export products include processed fruits and vegetables, flower seeds, vegetable seeds, plant splits, cut flowers and young plants.



Market



TURNOVER (Rs. mn)	7,656
EBIT (Rs. mn)	1,223
ASSETS (Rs. mn)	3,421
ROCE (%)	35
CAPITAL EMPLOYED (Rs. mn)	3,504
EMPLOYEES	672

Plantations



The plantations account for 4.5% of Sri Lanka's Tea and 2.5% of its Rubber production and employs over 25,000 people.

The Plantations Sector consists of mainly two regional plantation companies, Kelani Valley Plantations PLC and Talawakelle Tea Estates PLC. The companies together own and manage 44 Tea and Rubber estates, with a total extent of nearly 19,500 hectares. The Sector also includes Mabroc Teas (Pvt) Ltd., a leading mainly tea exporter from Sri Lanka supplying a wide range of value added teas to over 50 countries.



Market



TURNOVER (Rs. mn)	8,793
EBIT (Rs. mn)	589
ASSETS (Rs. mn)	8,629
ROCE (%)	12
CAPITAL EMPLOYED (Rs. mn)	4,910
EMPLOYEES	25,200

Transportation & Logistics



This sector has pioneered support services for the Oil and Gas industry in Sri Lanka.

Hayleys Advantis has been the pioneer in the local shipping and freight forwarding agency business with over 50 years of expertise in the transportation and logistics sector in Sri Lanka. The Group today controls a truly international network offering: integrated end-to-end logistics solutions for clients, from packing personal effects to involvement in national infrastructural projects to the global movement of cargo. We represent some of the world's foremost Shipping Lines and International Freight Forwarders.



Market



TURNOVER (Rs. mn)	5,285
EBIT (Rs. mn)	596
ASSETS (Rs. mn)	4,240
ROCE (%)	23
CAPITAL EMPLOYED (Rs. mn)	2,623
EMPLOYEES	899

Consumer Products



Opening of Hayleys Lightcraft and Hayleys Café Pixel Showrooms to showcase and act as a consumer touch point to experience the product and service range offered by the Lighting Division and Imaging Division of the Company

Consumer Products focuses on bringing world renowned brands to Sri Lanka. Representing a wide and diverse portfolio of products, the Company is the Sole Distributor for reputed brands such as Proctor & Gamble, Philips Lighting, Fujifilm and Blue Cross Pharmaceuticals.



Market



TURNOVER (Rs. mn)	4,285
EBIT (Rs. mn)	279
ASSETS (Rs. mn)	1,885
ROCE (%)	34
CAPITAL EMPLOYED (Rs. mn)	818
EMPLOYEES	225

Leisure & Aviation



Hayleys Group invested in Amaya Leisure PLC with a stake of 64.7%. The Company also expanded its holding in Eastern Hotels increasing its stake to 94%.

'Hayleys Hotels' is involved in the ownership and management of city hotels and holiday resorts.

'Hayleys Aviation' represents international airlines as their General Sales Agent (GSA) in Sri Lanka and the Maldives and offers flight handling supervision at the Colombo International Airport.

'Hayleys Travels' is an IATA accredited travel agency which provides ticketing, hotel reservations, visa assistance and other travel formalities.

'Hayleys Tours' is a Destination Management Company which represents several renowned tour operators. It specialises in inbound tour management services and MICE (Meetings, Incentives, Conferences and Exhibitions).



Market



TURNOVER (Rs. mn)	1,570
EBIT (Rs. mn)	95
ASSETS (Rs. mn)	6,228
ROCE (%)	2
CAPITAL EMPLOYED (Rs. mn)	4,148
EMPLOYEES	1,063

Power & Energy/Industry Inputs



Commissioning of 10 MW wind power plant in North West Coast.

The Industry Inputs sector is a key player in the supply of raw materials and auxiliaries to Sri Lankan manufacturers. A significant part of its business lies in the supply of dyes and chemicals to the textile industry mainly as exports to the region. The sector is also engaged in supplying and supporting diesel power generating units and electronic systems and also provides medical imaging equipment and related consumables for the healthcare industry. In these fields of activity the sector represents some renowned principals. Power and Energy Sub-Sector is mainly engaged in renewable energy generation, supplying to the national electricity grid. It consists of wind, hydro and biomass based power plants.



Market



TURNOVER (Rs. mn)	1,620
EBIT (Rs. mn)	286
ASSETS (Rs. mn)	4,403
ROCE (%)	8
CAPITAL EMPLOYED (Rs. mn)	3,418
EMPLOYEES	195

MANAGEMENT REVIEW AND PREVIEW

OPERATING ENVIRONMENT

The financial year 2011/12 was characterised by a mixed operating environment. Whilst Sri Lanka's economy continued to grow at a healthy pace in the year 2011, the latter part of the year saw the emergence of some macroeconomic imbalances which have since been addressed by Government policy. The global economy faced a period of turbulence with a number of crises emerging in various parts of the world, disrupting economic activity. Hayleys has operating interests and markets across the globe in a range of diverse sectors, and is therefore exposed to a gamut of opportunities and challenges as a result of these changes.

Sri Lankan Economy

The growth momentum achieved since 2009 was sustained in 2011 with Sri Lanka's GDP being estimated to have grown by 8.3% in the year. Growth was driven by the services sector (8.6%) and the industrial sector (10.3%) whilst the agricultural sector (1.5%) was hampered in the first half of the year due to adverse weather conditions. The continued growth of incomes has supported domestic consumption, with private consumption reaching 69.8% of GDP. Investment also increased during the year as total investment reached 29.9% of GDP, including record Foreign Direct Investment of over US\$ 1 bn. The increase in investment is a positive development in terms of setting the foundation for future growth as well.

Whilst the growth performance in the economy was strong, there was a degree of macroeconomic volatility that emerged during the Financial Year. The first half of the year witnessed a continuation of the stable macroeconomic conditions that were experienced since 2009

with low interest rates, low inflation and improving fiscal indicators. Monetary growth (broad money supply grew 19.1%), which had been slow to take off since 2009, accelerated above Central Bank targets during the year as the demand for credit increased significantly (credit to the private sector grew 34.5%). The growth in money supply led to a degree of excess demand in the economy that was manifest in a surge in demand for imports leading to a widening current account deficit and pressure on the balance of payments, which was exacerbated by elevated global oil prices. This had a number of implications for the exchange rate, interest rates and overall macroeconomic stability.

Interest Rates

After a benign first half of the year, where the prime lending rate fell to a low of 8.96%, domestic interest rates began to increase in the second half of the year. As the Balance of Payments came under pressure during the second half of the year, the Central Bank defended the value of the Rupee by selling down accumulated foreign reserves. This extracted Rupee liquidity from domestic markets causing market interest rates to increase sharply from around October 2011 with year-end Prime Lending rate reaching 11.95%. In February 2012, the Central Bank increased policy lending rates by 50 basis points and also instituted lending limits for commercial banks. Accordingly, interest rates have been on an upward trajectory during 2012. This has naturally had an impact on the Hayleys Group finance costs. Global interest rates have in general remained moderate as advanced economies continue to provide monetary stimulus to support economic recovery. However, LIBOR gradually increased through the Financial Year (6 month LIBOR increased from 0.44% in April 2011 to 0.74% in March 2012) reflecting an increase in global risk due to adverse developments in Europe.

Exchange Rates

The Rupee continued to appreciate against the US Dollar in the first quarter of the financial year. Since July 2011, there was depreciation pressure on the Rupee influenced by both a global strengthening of the US Dollar as global investors sought safe havens in US Dollar denominated assets such as US Treasuries, and also a weakening of Sri Lanka's balance of payments. Until November 2011, the Central Bank continued to defend the value of the Rupee however, during the budget speech the Rupee was devalued by 3%. In February 2012, the Central Bank halted the use of trading bands on the Rupee value and limited their currency interventions to quantity based intervention when oil import payments came due. Accordingly, the Rupee depreciated against the US Dollar since February to reach LKR 128 to the US Dollar by the end of the financial year. The depreciation of the Rupee has helped revenues of Hayleys export companies but at the same time has increased costs for import companies and of raw material imports. Overall Hayleys suffered an exchange loss of Rs 320 Mn. The Euro was also volatile as the value of the Euro tracked developments in the European debt crisis. During the first half of the financial year the Rupee appreciated against the Euro, hurting Hayleys exports to Europe, but subsequently depreciated following the policy to allow the Rupee to depreciate.

Inflation

Domestic price levels during the year remained moderate. Annual average inflation in 2011 was 6.7% whilst point to point inflation in December 2011 was 4.9%. These historically low inflation levels in Sri Lanka were supported by improved agricultural supply which held down food prices, a significant component of Sri Lanka's inflation index. Nonetheless, even core inflation (that

excludes more volatile food and energy items) was 4.7% reflecting moderate demand driven inflation. However, in the final quarter of the financial year a number of policy changes were instituted which changed the inflation outlook. In February the Government took steps to reduce subsidies given for fuel and electricity in order to improve financial viability of key state corporations - the Ceylon Petroleum Corporation and the Ceylon Electricity Board. Accordingly, inflation increased to 5.5% in March 2012 after falling to 2.7% in February.

Commodity Prices

Global commodity prices declined due to a weakening global demand outlook. Prices of natural rubber, aluminium, cotton and most other key commodities of interest to Hayleys as raw materials all declined during the financial year. However, oil prices remained elevated due to political tensions in the Middle East. At the same time, Rupee depreciation and a significant revision in domestic energy pricing in February 2012 also contributed to an increase in energy costs in Sri Lanka. The reduction of energy subsidies in Sri Lanka resulted in a 9% increase in petrol prices, a 37% rise in diesel prices, a 49% rise in kerosene prices and an 80% increase in furnace oil price. The higher energy prices affected operating costs due to higher electricity cost and transport costs whilst manufacturing companies utilising furnace oil also faced a significant cost increase. In anticipation of such price increases the Group has instituted various measures to rationalise usage of energy.

Global Economy

The global economy continued to experience tremendous volatility in 2011/12. Europe's debt crisis further deteriorated as the troubles in peripheral economies such as Greece, Portugal and Ireland spread to core economies such as Italy and Spain. The European policy response to the crisis failed to resuscitate the economy and in fact worsened the situation by initial tightening of monetary policy and implementing fiscal austerity. As a result, GDP growth in the Euro zone was just 1.4% in 2011 and unemployment reached 10.9%. The IMF projects a 0.3% contraction of Euro zone GDP in 2012. The United States economy continued to grow at a very sluggish pace (1.7% in 2011), hampered by higher energy prices and an adverse shock to the manufacturing sector due to the earthquake and tsunami in Japan. However, towards the end of the financial year there was some positive data coming out of the US including improvements in the labour market and domestic consumption. However, overall, the major export markets for Hayleys Group experienced a highly constrained economic environment during this financial year. It is therefore creditable that the performance of Hayleys export companies such as Haycarb and Dipped Products remained strong during this adverse period. The major emerging economies such as China, India and Brazil also experienced a controlled cooling of economic growth as governments tightened monetary and fiscal policy to prevent inflation and asset price bubbles from developing.

Outlook

The macroeconomic policy reforms implemented in Sri Lanka in February 2012, particularly the tightening of monetary policy, allowing flexibility in exchange rates and market based energy pricing, were important measures in terms of ensuring longer term macroeconomic stability. Whilst the operating environment in 2012 will see some short-term constraints such as higher interest rates and higher inflation (but below historical averages), the longer term outlook for the Sri Lankan economy is positive. Sri Lanka's geographic proximity to key global growth engines such as India and China create tremendous opportunities for the economy.

The increase in FDI in 2011 and the gradual increase in private investment are positive developments. Furthermore, the Government's commitment to fiscal targets such as a reduced budget deficit and overall debt to GDP ratio will help create a strong foundation for macroeconomic stability from which the Sri Lankan economy can grow in the longer term.

MANAGEMENT REVIEW AND PREVIEW

FIBRE



HAYLEYS FIBRE SECTOR CONTAINS PRODUCTS RANGING FROM COIR & RUBBER BASED FLOOR MATS TO EROSION CONTROL PRODUCTS SUCH AS GEO TEXTILES AND STICH BLANKETS.



- 01. Coco Fibre products to World Market
- 02. Brushes and bannisters from Ravi

MANAGEMENT REVIEW AND PREVIEW

HAND PROTECTION



THE HAND PROTECTION SECTOR MANUFACTURE NATURAL AND SYNTHETIC LATEX GLOVES FOR HOUSEHOLD, INDUSTRIAL AND MEDICAL USE. DPL IS A GLOBAL LEADER IN HAND PROTECTION SOLUTIONS WITH DISTRIBUTION IN 70 COUNTRIES.



1



2

01. Glove manufacturing at Dipped Products factory in Kottawa
02. Sorting and packing of gloves

MANAGEMENT REVIEW AND PREVIEW

PURIFICATION



01. Kiln used for activated carbon production in Badalgama

02. Water purification plant at Passikudah



HAYCARB IS THE WORLD'S LARGEST
MANUFACTURER OF COCONUT SHELL DERIVED
ACTIVATED CARBON ACCOUNTING FOR OVER
17% OF GLOBAL PRODUCTION. THE SECTOR
ALSO OFFER REGENERATION OF SPENT CARBON
AND TURNKEY SOLUTIONS FOR RAW &
WASTE WATER TREATMENT.

MANAGEMENT REVIEW AND PREVIEW

TEXTILES



WITH AN ANNUAL CAPACITY EXCEEDING
12,000 MT OF SINGLE JERSEY, INTERLOCK, RIB,
PIQUE, FLEECE, POLAR FLEECE, POINTELLE FABRIC
AND FLAT KNITS. HAYLEYS MGT KNITTING MILLS PLC
IS A BOI APPROVED SUBSIDIARY OF HAYLEYS PLC.





01. Stenter machine in the finishing section at textile factory in Neboda
02. Dyeing machine in the dye house

MANAGEMENT REVIEW AND PREVIEW

CONSTRUCTION MATERIAL

ALUMEX GROUP IS SRI LANKA'S FOREMOST ALUMINIUM EXTRUSION MANUFACTURER AND THE UNDISPUTED MARKET LEADER WITH OVER 50% OF THE LOCAL MARKET SHARE. THE SECTOR OFFER A WIDE RANGE OF INNOVATIVE HIGH QUALITY EXTRUSION IN OVER 700 DESIGNS.





Alumex factory in Makola

MANAGEMENT REVIEW AND PREVIEW

AGRICULTURE



THE SECTOR REACHES OVER 500,000 FARMERS AND GROWERS DIRECTLY
ISLAND-WIDE WITH A RANGE OF EXTENSION SERVICES AND FARMER ENGAGEMENTS



1. Quality Seed Green House Pelargonium Seed production at Boralanda
2. Bottling of Gherkins at the HJS Condiments factory in Biyagama

MANAGEMENT REVIEW AND PREVIEW

PLANTATION



HAYLEYS PLANTATION SECTOR CONSISTS OF TWO REGIONAL
PLANTATION COMPANIES, KVPL & TTEL. THESE COMPANIES TOGETHER OWN
& MANAGE 44 TEA AND RUBBER ESTATES WITH A TOTAL EXTENT OF
NEARLY 22,000HA. MABROC TEAS EXPORT 140 SKU'S TO OVER 50 COUNTRIES.



- 01. Rubber Plantations
- 02. Mabroc Specialities

MANAGEMENT REVIEW AND PREVIEW

TRANSPORTATION & LOGISTICS



- 01. Vessel Docking at the Colombo Port
- 02. Container operations at logistics international



THE TRANSPORTATION AND LOGISTICS SECTOR
PROVIDES COMPREHENSIVE END TO END LOGISTICS
SOLUTIONS, BY INTEGRATING FREIGHT MANAGEMENT,
MARINE, TERMINAL AND ENGINEERING SERVICES.

MANAGEMENT REVIEW AND PREVIEW

CONSUMER PRODUCTS



CONSUMER PRODUCTS AT HAYLEYS FOCUS ON BRINGING THE WORLD RENOWNED BRANDS TO SRI LANKA, THE BEST IN QUALITY & SAFETY FOR OUR CUSTOMERS, REPRESENTING A WIDE AND DIVERSE PORTFOLIO OF PRODUCTS AND ARE SOLE DISTRIBUTORS FOR PHILIPS LIGHTING, P&G, FUJIFILM, CAMLIN, BLUE CROSS PHARMACEUTICALS AND HAYPLUS.

01. 'Haymart' showroom situated at Deans Road

02. New Fujifilm X-series



MANAGEMENT REVIEW AND PREVIEW

LEISURE & AVIATION



THE GROUP'S INVESTMENT IN THE LEISURE SECTOR
HAS INCREASED WITH THE ACQUISITION OF AMAYA
AND MANAGES OVER 500 ROOMS.





- 01. Amaya Hills in Kandy
- 02. Amaya Lake in Dambulla

MANAGEMENT REVIEW AND PREVIEW

POWER & ENERGY



THIS SECTOR REPRESENTS RENOWNED PRINCIPALS IN POWER GENERATING, ELECTRONIC AND MEDICAL EQUIPMENT. POWER & ENERGY SUBSECTOR IS ENGAGED IN DEVELOPING AND MANAGING RENEWABLE ENERGY CONSISTING OF WIND AND HYDRO POWER PLANTS.

- 01. Standby generator for an apartment complex
- 02. Power generation machinery at lower Neluwa Hydro Plant



MANAGEMENT REVIEW AND PREVIEW

GOALS AND STRATEGIES

Understanding the Iceberg

There is much more to Hayleys than would be immediately apparent. It's the tip of the iceberg that is on view - a mere fraction of the capacities and capabilities that Hayleys can and does command.

Strategy development is our ongoing commitment to long-term growth and stability. The table shows our Group targets from last year.

Planning Phase	Parameter	Indicator	Target
Short Term	Profitability	ROCE (excluding real estate)	>20%
		EBITDA/assets	>10%
	Liquidity	Operating cash flow/PAT	>100%
		Current ratio	1.5x - 2x
		Debt/EBITDA	<2.5
Long Term	Growth	Domestic turnover growth (>inflation)	>6%
		Export turnover growth (>SLR depreciation)	>4%
		Capital growth	>13%
	Stability	External credit rating	≥ AA
		Gearing	35-40%

As the figures in this Report will show, Hayleys met its short-term growth targets and goals in the year under review and is on track to achieve our long-term growth targets. Only in one area, that of gearing, did the Group fall short of target, due to investments and capital expansion opportunities that arose during the course of the year: this also had an effect on our external credit rating. However, the Group is confident that these investments would give the anticipated return in the near future.

In 2010/11, we followed a cluster of key strategies at portfolio level and across our portfolio of businesses in order to achieve the stated goals and targets. The success of these strategies must ultimately be measured on whether or not we met the targets shown in the foregoing table; an important weighting factor, however, is the degree of management and equity control executed by Hayleys with respect to each of our portfolio of businesses.

Strategies at Portfolio Level

- Redeploy or liquidate underperforming assets of the Group.
- Develop existing, profitable businesses both horizontally and vertically.
- Invest in new businesses and restructure existing ones based on their strategic fit to the portfolio.

Strategies Across the Portfolio

- Enhance value addition.
- Move up the value chain.
- Improve products and services.
- Maintain high, consistent quality in all we do.
- Focus on developing people and leaders.
- Expand our global footprint.
- Improve energy efficiency and environmental performance through the use of alternate fuels, green products, practices and processes.
- Implement lean manufacturing, process efficiency and waste minimisation.

MANAGEMENT REVIEW AND PREVIEW

OUR STRATEGIES IN ACTION

At Portfolio Level

1. Redeploy or Liquidate Underperforming Assets of the Group

- The Agriculture sector of the Group was restructured to create seven customer-focused business units serving local and global markets. Controlling stakes in HJS Condiments and Sunfrost were transferred to Hayleys Agriculture from the Fibre sector.
- In the Construction sector, we have begun looking at setting up a separate vertical in die tools business in order to complement the capacity utilisation of this activity.
- The Fibre sector is being extensively rationalised. This includes the ongoing relocation of the Rileys factory to Katana, while the Ekala factory premises was leased to Hayleys Advantis. Haylex USA was totally reorganised. The Fibre sector will continue to rationalise its portfolio and move towards a more leaner organisation whilst focusing on higher value-added products.
- The group disposed of its associate stakes in Jetwing Hotels and Tropical Villas.

2. Develop Existing, Profitable Businesses Both Horizontally and Vertically

- The Agriculture sector made several investments in the rapidly-growing North and East of the country.
- The Hand Protection sector implemented new capital projects in both Sri Lanka and Thailand.
- The Purification sector moved to expand production by investing in the expansion of capacity in all factories through increasing productivity whilst adding further capacity in overseas manufacturing to reach 27,000 MT per annum globally. The sector also expanded its Water Systems business through Puritas (Pvt) Ltd., primarily through the strategic partnership with Veolia Water.
- Hayleys MGT announced a 2:1 rights issue, seeking to infuse Rs. 914 mn of additional capital into its Balance Sheet.
- Amaya PLC took over the management of Coral Rock.

3. Invest in New Businesses and Restructure Existing Ones Based on Their Strategic Fit to the Portfolio

- Hayleys Group acquired a 64% stake in Amaya Leisure, while Carbotels acquired a further 47% stake in Eastern Hotels from Jetwing. These two acquisitions substantially increased our stake in the expanding tourism sector.
- Further synergies in Agriculture were gained by streamlining business processes and expanding into new areas such as pest control, household insecticides and homecare products.
- Hayleys Advantis, in collaboration with Hayleys Agriculture, are in the process of setting up a fertilizer bagging and transshipment facility at Hambantota Port in partnership with Dragon Fertiliser. This is the first approved local investment in the Hambantota Port Industrial Zone.

Across the Portfolio

1. Enhance Value Addition

Value-Added Products

The Agriculture sector now produces hardened young plants from tissue-cultured plantlets for the domestic and global markets. These are marketed in value-added forms such as seedling trays, jiffy and small pots. The year also saw Hayleys Agro Biotech enter an agreement with Fitzgerald, a nursery in Ireland, to develop new flower and fruit varieties. Prefabricated products such as doors and windows in standard sizes, popular abroad but rare in Sri Lanka, are being introduced to the domestic market in the Construction sector. In Purification, our research-and-development efforts in pursuit of new value-added carbon products continued as we strove to retain our position among the global leaders in this market. Purification sector has further entered into a number of new value adding applications and products including the manufacture of specialised carbon for the energy storage segment.

In fibre, we introduced a new line of bedding products under the brand name Toyo Cushion Lanka.

Value-Added Services

The Equipment division of Hayleys Agriculture now provides an islandwide network of after-sales service centres for the products it markets, including combine harvesters, tractors, spray equipment and other agricultural machinery.

Value-Added Marketing

Re-branded in 2009/10, our destination-management company Hayleys Tours augmented its former business model in the year under review. Besides face-to-face negotiations with tour operators at international trade fairs and through international agency partnerships, the Company now takes a direct approach to retail customers on its own Facebook page and dedicated web site, www.hayleystours.com.

2. Move Up the Value Chain

Building Our Brands

The various agribusiness-related elements of the Hayleys portfolio were subsumed under a single sectoral identity, Hayleys Agriculture. This will benefit our mutual image reinforcement in the Agriculture sector, enhancing Hayleys' reputation as a provider of innovative and effective solutions across to agriculturists of all kinds from individual smallholders to large plantation companies. In the allied Plantations sector, Kelani Valley Plantations PLC, Talawakelle Tea Estates PLC together with Mabroc Teas (Pvt) Ltd. unveiled a new corporate identity, adding value to our business portfolio. Further at Mabroc, a project is underway to revitalise and harmonise Mabroc brand packaging which presently comprise of 140 SKUs.

In the Fibre sector, "Hayleys Fibre" brand was launched to the domestic and international markets with a strong publicity campaign in support.

MANAGEMENT REVIEW AND PREVIEW

OUR STRATEGIES IN ACTION

Adding Value to Our Processes

Efforts to move our businesses upwards in the value chains involved such varied operations as customer education, supplier integration and strategic alliances. In Construction, we began offering training courses for aluminium fabricators. The courses were designed to help the sector introduce value added products to the market by alleviating the current shortage of trained fabricators in the industry. In Hand Protection, we were engaged in ongoing efforts to strengthen integration of the supply chain for latex through the 'First Light' programme, implementing fair-trade practices at farmer level, as well as applying international best practices for the latex industry to our own operations. In Purification, Haycarb has invested significantly in new product development and value-added products and applications. Haycarb PLC is currently seeking strategic alliances with key customers and major industry players to consolidate its position. Puritas and Veolia Water joint venture that successfully commissioned the first BOT project in waste water treatment for Passikudah National Holiday Resort was a key milestone. Ravi Industries, a member of the Fibre sector contributed to the establishment of a fully-automated fibre manufacturing unit creating a strategic partnership within the sector.

Meanwhile, the year saw the launch of Eliza Agnew BPO Services Centre, the first BPO centre in the Northern region by HBSI, which could also be used as a disaster-recovery site. This is the first women only BPO in the country

3. Improve Products and Services

Improved Products

Hayleys Agriculture helped ramp up domestic production with high-quality inputs such as seed paddy, early-generation seed potatoes, B-onion and vegetable seeds, plant splits, cut flowers and young flowering and foliage plants. Meanwhile, the Animal Health Division introduced an improved range of poultry, cattle and pet vaccines to cater to growing demand for high-quality products in this sector. Agriculture also launched a new environment-friendly method of

termite control known as a 'bait station' that will enhance their reputation as an innovative pest control operator.

In Plantations, KVPL and TTEL secured rain forest alliance accreditation to 25 tea gardens, which will position our tea to be sought after by premium quality packers. In Construction, the year saw the introduction of 'kit' products such as composite panels and high-quality accessories that offer customers an integrated construction solution. The Group plans to make 'Alumex', its brand of aluminium construction products, the leader in top-of-mind awareness among customers in this category through intensive advertising and marketing.

Chas P. Hayley a member of the Fibre sector introduced a range of new erosion-control products to the international market, while Riley's commenced the manufacture of industrial mats. In Textiles, Hayleys MGT introduced reactive printing techniques to move up the value chain. Hayleys Tours successfully introduced a series of eco-friendly special-interest group tours out of Europe. These tours were marketed in partnership with four reputable European agencies.

Industrial and Technological Innovation

The Power Engineering Division at Hayleys Industrial Solutions broadened its already substantial portfolio to include Carrier air conditioning systems and also installed an IP CCTV surveillance system for the Southern Highway using Bosch technology. Hayleys Life sciences installed the first Shimadzu Sonial Vision safire, a fluoroscopy x-ray system with a tomo-synthesis and slot radiograph in the South East Asian region at a leading hospital. The Company is also strengthening its presence in the cardiac market with Shimadzu Cathlabs with its patent features.

Enhancing Our Services

Hayleys Agriculture will become a supplier of production inputs to dairies in the near future, thus entering a whole new service area. Consumer Products during the year launched

Hayleys Light Craft offering world class lighting solutions and Hayleys Café Pixel offering photographic inputs and advice to amateurs and professionals. Hayleys Construction is substantially broadening its distribution and service network in the Northern and the Eastern Provinces of the country. Haycarb is in the process of doubling its regeneration capacity to strengthen its service offering.

4. Maintain High, Consistent Quality in All We Do

Quality Processes and Products

In the year under review, Haycarb instituted continuous quality-improvement programmes at facilities across the region. In the Aviation and Leisure Sector, all SBUs were provided with Standard Operational Manuals detailing working processes for optimal quality and all staff members given a thorough understanding of the operational procedures to be followed. New recruits are familiarised with these procedures prior to confirmation in their posts. In Transport, Hayleys Advantis continued its successful programme of quality benchmarking through certification. In Consumer Products, we continued with our policy of distributing only products of the highest quality, with service standards to match.

Quality Certificates Obtained or Effective in 2011/12

A number of quality certificates were obtained by our sectors and divisions during the course of the year, while some divisions continued the process of working towards final certification. Please refer page 66 of the Sustainability Report for a full list of certifications obtained.

5. Develop People and Leaders

Human Resource Development

Nearly every business in the Hayleys portfolio made a substantial investment in human resource development during the course of the year. These included both local and international programmes such as 5S, Lean Manufacturing, TQM, Six Sigma and a range of industry specific trainings. Please

refer page 95 of the Sustainability Report for a more detailed analysis of our Human Resource Development Programmes.

Reward and Recognition

Hayleys Advantis launched a new employee recognition and reward scheme, 'Saluting Our Stars', based on the Company's statement of values, that will recognise contributions made in seven specified areas. In the Agriculture sector, too, an incentive system was put in place to recognise and reward employees for outstanding performance. Hayleys long service awards scheme recognises its long standing employees. for their service & commitment towards the organisation.

Employee Welfare

The Plantation sector saw its efforts to improve the quality of life of estate employees recognised with a number of awards. Indola Estate won the Quality of Life of Residents Award for Low-Country RPCs at a competition held by the Plantation Housing Development Trust, while Bearwell Estate was placed Top in the Quality Healthcare Services category for Hill-Country Estates in the same contest. Deniyaya Estate was Runner-up for the Quality Healthcare Services Award in the Low-Country category. These awards were earned through ongoing programmes in health awareness and preventive care, nutrition, antenatal and postnatal care for mothers and early childhood development, coupled with the supply of auxiliary medical services for estate employees.

KVPL continuing its 'A Home for Every Plantation Worker' programme was adjudged the winner for Outstanding Achievement at Dewalakanda Estate, whilst Kiriporuwa was the First Runner-up for Outstanding Achievement in Settlement Development Enhancing Quality Life of the Residents. KVPL Estates were also recognised for its outstanding achievement in Child Development Centre in We Oya Estate and Health Care in Kelani Estate.

Succession Planning and Leadership Development

Hayleys launched a Group Management Trainee Programme during the year. The young graduates selected are subjected to a group wide orientation programme with exposure to all the diverse business across the Hayleys portfolio. The aim of the programme is to develop young business leaders.

6. Expand Our Global Footprint

International Ventures

The Non-Foods Export Division of Hayleys Agriculture launched its Africa initiative with the commencement of exports of cut flowers from Kenya to customers in the Middle East. The Construction sector commenced a move into its first international distribution territory, the Maldives. Mountain Hawk Express, part of the Transportation sector, also moved into the Maldives with Federal Express awarding the GSA for Federal Express for that territory.

Haycarb continues to be involved in negotiations on new manufacturing centres in India and Indonesia, while additional marketing resources in France have strengthened the Company's marketing activities in Europe. The Company is concurrently building distribution channels in China and Russia. Further, employees of Mabroc participated in 9 international trade fairs in a bid to increase value added/Mabroc branded teas and expand its reach to 27 new customers.

HBSI, the Hayleys BPO embarked on a joint venture with an Australian partner to launch Haydea, a new firm which will enable us to move beyond shared services to full BPO operations.

International Connections

Hayleys Tours increased its agent base, which now consists of 120 tour operators in Europe, the Middle East and the Indian subcontinent. Meanwhile, in an exciting return to the business of operating vessels, Hayleylines commenced a container-shipping service between Colombo and Malé in August. This service was launched with the experience and expertise of Hayleys

Advantis Group, Transworld Group and The Silver Company. Further Mabroc expanded its global reach from 35 to 50 countries.

Hayleys MGT is currently working with the US lingerie retailer Victoria's Secret to be qualified to supply to their pink brand.

7. Improve Energy Efficiency and Environmental Performance

Saving Energy

A concern for greenness and conservation is visible right across our portfolio. Nowhere is this more apparent than in the area of energy conservation, where green interests and business interests coincide. A few examples from 2011/12:

- The Food Export Division facilities of Hayleys Agriculture at Biyagama reduced their dependency on fossil fuels by switching to biomass energy.
- The Textiles sector also uses biomass in the form of carbon-neutral sawdust to power boilers.
- The Construction Sector has instituted an energy audit, to identify opportunities for improvement in energy efficiency.
- The manufacturing process at Haycarb's Recogen plants has been improved to allow for the dry discharge of charcoal, resulting in significant savings in energy and costs since the charcoal does not have to be dried in a separate operation.
- Haycarb also instituted a continuous improvement programme to reduce the use of furnace oil at all its factories.
- Consequent to the installation of firewood boilers at Kelani Valley Plantations PLC Tea Processing Centres, in the use of firewood furnaces, no fossil fuel was used in any of the Company's production units except in the case of standby power generators which were bare minimum. This helped the Company to make a saving of Rs. 18 mn in the year.

MANAGEMENT REVIEW AND PREVIEW

OUR STRATEGIES IN ACTION

Many other sectors, among them Consumer Products, have adopted conservation measures such as installing energy-saving light bulbs and LCD computer monitors, adopting policies on effective resource use, keeping vehicles and machinery running at peak efficiency, etc.

Carbon Credits and Clean Energy

Hayleys works actively to reduce its carbon footprint by making its operations green and offsetting carbon debt through international credits and clean energy generation. Following are some of the carbon-conservation highlights of the year under review.

- At Talawakelle Tea Estates PLC (TTE), plucked tea was dried using wood-fired boilers, saving an estimated 1.5 mn litres on diesel fuel every year, while further savings were gleaned from efficient, well-maintained machinery and energy-saving light bulbs. Wood is a fuel in which TTE is nearly self-sufficient, and its use helps minimise the Company's carbon footprint. As a result of its fuel-wood use, TTE is contracted to sell 16,000 VCU's under international carbon-trading agreements.
- Haycarb, also commenced the carbon credits certification through the operations of its innovative and highly-commended 'green carbon' division, Recogen.
- HBSI was certified as carbon-neutral company during the year by CarbonNeutral®, UK. The first BPO company to be accredited as 'Green BPO' in Sri Lanka.
- Hayleys Industrial Services installed a wind-powered generating plant at Kalpitiya with a capacity of 10 MW during the year under review.
- Bonterra Lanka, a member of the Fibre sector, recently completed an exercise to calculate its carbon footprint. Information obtained will become the basis of future sustainability initiatives.

Conserving the Environment

KVPL was adjudged the winner of the special projects on Corporate Social Responsibility under environment category at the 'BEST CORPORATE CITIZEN 2011' Awards organized by the Ceylon Chamber of Commerce. Mattakelle Estate became the only plantation to receive a bronze Award from the Central Environmental Authority. The Company has identified high-biodiversity areas on its properties amounting to a total of 244 ha and has implemented conservation measures to ensure their preservation. TTE has adopted a number of agricultural practices that promote sustainability, such as integrated pest management, soil conservation, fuel-wood planting and reforestation. In addition, the Company limits the use of agricultural chemicals on its estates.

Consumer Products sector has begun installing equipment that will safely dispose of used fluorescent lamps, by extracting and safely disposing Mercury and other hazardous materials.

A Policy Milestone

Hayleys Advantis launched a formalised Environment, Health and Safety (EHS) policy. Keeping in line with the rest of the Group's mission to build and maintain a positive, proactive corporate culture that recognises the importance of health, safety and environmental sustainability.

8. Implement Lean Manufacturing, Process Efficiency and Waste Minimisation

- In Agriculture, the Food Export Division, the Hand protection sector and the Purification sector have initiated a major drive towards Lean manufacturing.
- The Fibre and Construction Material sectors implemented a 5S philosophy in all its factories.
- Together with initiatives to improve throughput and yield and reduce process wastage, the Purification sector achieved a successful implementation of the SAP ERP system in 2011/12. Emboldened by this success, Hayleys MGT and Advantis also commenced the implementation of SAP as an ERP. It is expected that this step will enhance information visibility, speed up decision-making, and ultimately enable greater process efficiencies. The project is scheduled to go live during the current financial year.
- At Mabroc, Rs. 58.6 mn was invested in new machinery, conveyor systems, racking facilities etc. including a new laboratory for product testing with the view to streamline operations, reduce waste and improve productivity. Further, Investments were also made on revamping the IT system and developing a custom written software for 'Order Management'.

MANAGEMENT REVIEW AND PREVIEW OUTLOOK

HAYLEYS IS WELL-POISED TO ACHIEVE ITS SHORT-TERM AND LONG-TERM GOALS AND TARGETS IN THE ENSUING YEARS

Planning Phase	Parameter	Indicator	Target
Short-Term	Profitability	ROCE (excluding real estate)	>20%
		EBITDA/assets	>10%
	Liquidity	Operating cash flow/PAT	>100%
		Current ratio	1.5x-2x
		Debt/EBITDA	<3
Long-Term	Growth	Domestic turnover growth (>inflation)	>6%
		Export turnover growth (>SLR depreciation)	>4%
		Capital growth	>18%
	Stability	External credit rating	≥AA
		Gearing	35-40%

Being a primarily export-driven conglomerate with a diversified portfolio, Hayleys is well-poised to achieve its short-term and long-term goals and targets in the ensuing years. All sectors are expected to continue with their growth momentum. The underperforming sectors, Fibre and Textile too are expected to recover. With the re-structuring coupled with the depreciating Rupee the Fibre sector especially with its high content of local value additions is expected to register a turnaround. Further, several steps have been taken to resuscitate and revive performance in the Textile sector through capital infusion and restructuring of operations. Therefore, we believe that the future is promising. The measures in place will undoubtedly enable the Group to improve its stability factor and deliver greater shareholder value.

FINANCIAL REVIEW

The financial year 2011/12 witnessed Hayleys' continue expansion of operations through new ventures and acquisitions. Hayleys Group recorded an unprecedented growth in Profitability and Turnover for the year under review.

The Group delivered a strong performance in profitability, recording Profit Before Tax (PBT) of Rs. 4.8 bn, a 136% increase YoY. Group turnover also improved by 15% YoY to Rs. 62.5 bn during the financial year in review, which includes the consolidated results of the new acquisition Amaya Group in September 2011 under the Hayleys Leisure and Aviation sector.

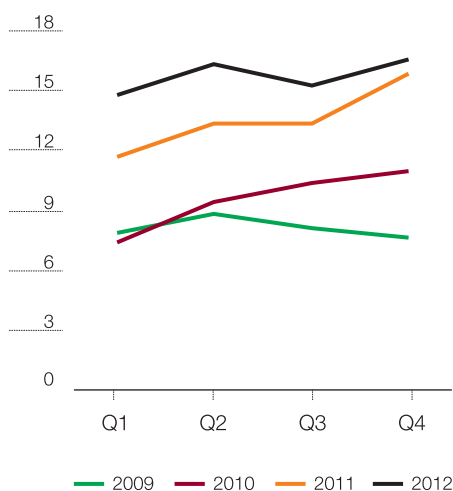
The following provides an overview of the financial performance of the Group for the year.

Turnover

Group recorded an increase in turnover of Rs. 8.1 bn from the previous financial year, a growth of 15% for 2011/12. Global Markets and Manufacturing sector, comprising of Hand Protection, Purification, Fibre, Construction Materials and Textiles, continued to be the dominant sector within the Group with a combined 55% contribution to the turnover.

Group Turnover

(Quarter Wise)
Rs. bn



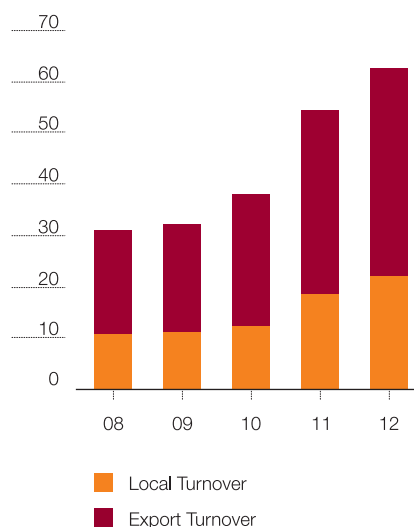
Rationalising its portfolio to provide a balanced mix of Manufacturing, Agriculture and Services, the Group continued its investments in the Agriculture and Services sectors, which contributed 25% and 20% respectively to the Group Turnover.

Hand Protection sector continued to be the largest contributor to Group Turnover accounting for 22%, followed by Purification and Plantation sectors which contributed 13% each. Although Agriculture performed well during the year, the sector only recorded a marginal increase in Turnover. This was due to the change in the method of recognition of the subsidy scheme provided for fertilizer.

Macroeconomic conditions in the western economies continued to be turbulent; however, the Group increased its export revenue by exploring new markets in order to diversify its export portfolio. Export turnover recorded an increase of 19% to Rs. 40.4 bn, contributing to 2.51% of Sri Lanka's exports. Export companies expanded operations to new countries and will continue to explore new markets in order to effectively manage country risks.

Composition & Growth in Group Turnover

Rs. bn



Cost of Sales and Expenses

The Hayleys conglomerate, mainly concentrated in manufacturing was adversely affected due to the increases in price of fuel and exchange rate volatility. Energy management initiatives undertaken by the Group in the past helped offset the impact from these challenges to some extent. The increase in cost of materials for sectors such as Purification and Hand Protection continued to impact margins. The increase in wages for plantation workers, effective April 2011, contributed to an increase in cost of production in the Plantation sector. The Group was able to curtail the rise of cost of sales to 14% compared to a revenue growth of 15%, through rationalisation of resource utilisation and waste minimisation. This resulted in the Group recording a healthy increase in its Gross Profit to Rs. 13.3 bn, an increase of 18% over last year.

During the year, the Group was faced with a non-recurring expense of Rs. 156 mn which is reflected under other expenses, for de-recognition of fixed assets in Hotel Services Ceylon PLC as a result of the extensive refurbishment of the hotel.

Regardless of the recent inflationary pressures, the Group managed to reduce its distribution expenses by 4% while maintaining its administrative expenses at 12% of turnover.

Other Income

The consolidation of Group investments resulted in the sale of holding company shares by several group companies, the proceeds were mainly utilised for the acquisition of Amaya Leisure PLC. The group realised substantial capital gains of Rs. 2,197 mn due to the disposal. Other divestments such as the disposal of Tropical Villas resulted in a capital gain of Rs. 55 mn whilst the strategic investments in Quality Seeds and Eastern Hotels saw the Group benefitting from negative goodwill of Rs. 24 mn and Rs. 57 mn respectively.

Net Finance Cost

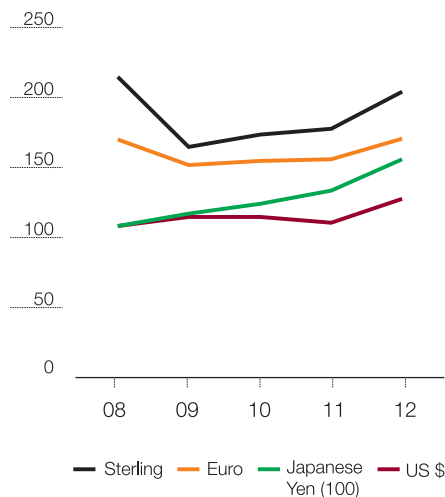
The Group's net finance cost increased by 86% to Rs. 1.575 bn due to a combination of reasons.

As the financial year began with low interest rates, Treasury negotiated and obtained competitive term facilities for most of the subsidiaries at lower cost, for strategic acquisitions, working capital requirements and capital expenditure during the financial year. However, gradual tightening of the monetary policy regime was seen during 2011 with the Central Bank increasing the statutory reserve ratio for the banks by 1.0% to 8.0% in April 2011 and an increase in policy rates in February 2012 by 50 basis points to close the year at 7.5% and 9.0% for Repurchase and Reverse Repurchase rates respectively. This resulted in the rise of Group's interest costs due to the increase in both the rates and quantum of borrowings.

The increase in net finance cost was also due to the exchange loss of Rs. 320 mn recorded by the Group in comparison to the exchange gain recorded in the previous year.

Month End Exchange Rates

Rs.



2011 exchange rate policy of the Central Bank of Sri Lanka (CBSL), focused mainly on reducing pressure on the domestic currency to avoid undue fluctuations. The Rupee appreciated by 1.23% in the first half of the year when compared to first half of the previous year, due to healthy inflows from remittances and inflows to the capital and financial account. However, there was significant pressure on the Rupee due to the general weakening of Asian currencies against the USD, and due to the sharp rise in import demand in the country. CBSL intervened in the domestic market as a measure to maintain a stable currency. While gross official reserves recorded a high of USD 8.2 bn by mid-August, due to the inflows through the Sovereign Bond Issue and receipts under the IMF standby facility, the reserves declined to USD 5.96 bn at the close of 2011 due to interventions by the CBSL. Continued pressure on the Rupee forced a devaluation of the Rupee against the USD by 3.0% to Rs. 113.90 during the budget presentation in November in order to curtail import pressure and strengthen export competitiveness. As a result of limited intervention by CBSL and in a decision to float the local currency the Rupee depreciated further, based on market demand and supply.

The depreciation of the Rupee had a negative impact on sectors such as Agriculture, Purification, Consumer Products and Power as their trade payables and borrowings were required to be converted at higher exchange rates. Although many sectors entered into hedging agreements in an attempt to mitigate the loss, the extent of the depreciation was beyond forecasted levels.

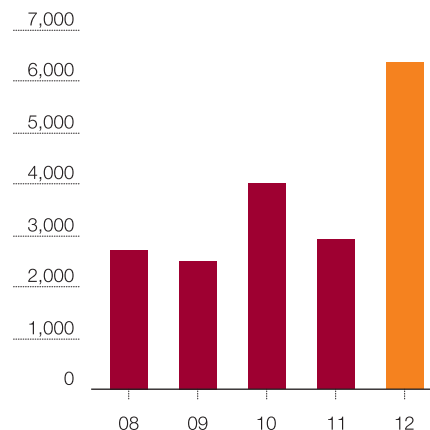
Sector Performance and Strategy

Global Markets and Manufacturing contributed to 37% of the Groups' profit before tax; however the Textile sector diluted overall results. The impact of the dilution was offset by the capital gains realised as a result of the sale of holding company shares by the Hand Protection and fibre sectors. Services sectors contributed to 36% of Group profit while Agriculture sector contributed to 27% of the Group profit before tax.

Hand Protection sector recorded a PBT of Rs. 1.8 bn, boosted by the capital gains. The sector results, excluding capital gains, were strong during the financial year despite challenges in its Thailand operation and the fluctuation in the price of latex throughout the year. Both the local operations as well as its subsidiary in Italy performed exceptionally well recording healthy profits.

Operating Profit

Rs. mn



The Purification sector contributed to 15% of Group profits before tax which improved marginally by Rs. 24 mn to Rs. 706 mn. Despite shortage of raw material in Sri Lanka the sector was able to record an increase in profits. This was due to its focus on higher value added products which is highlighted by the sector decision to introduce specialised-carbons under its product portfolio.

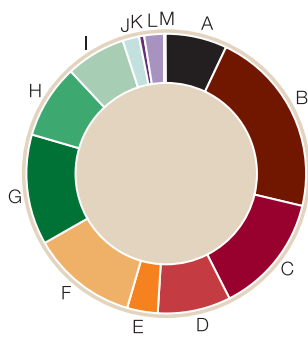
Construction Materials Sector, which saw the first full year of operations under the Hayleys Group, recorded a PBT of Rs. 113 mn for the financial year, down from the previous year. This was primarily due to the increase in fuel prices and Rupee depreciation. However, the Group is confident of the Company's performance given the renewed interest in the construction industry.

FINANCIAL REVIEW

Fibre sector recorded profit before tax of Rs. 25 mn, which included capital gains on the sale of shares. The sector will continue its focus on consolidation of operations and improving efficiencies in order to uplift their performance. The depreciation of the currency will help this sector to be competitive in the global market.

The turnaround in the Textiles sector has taken longer than anticipated. The sector recorded a loss of Rs. 856 mn. Further, write down of assets were required during the year which added to the negative results in the sector. The sector has substantially rationalised its labour force and reformed its procurement and transport processes in a measure to improve sector performance.

Segmental Contribution to Group Turnover



- A Fibre 7%
- B Hand Protection 21%
- C Purification Products 14%
- D Textiles 8%
- E Construction Materials 4%
- F Agriculture 12%
- G Plantations 13%
- H Transportation & Logistics 8%
- I Consumer Products 7%
- J Industry Inputs 2%
- K Power 1%
- L Leisure and Aviation 3%
- M Investments & Services 0%

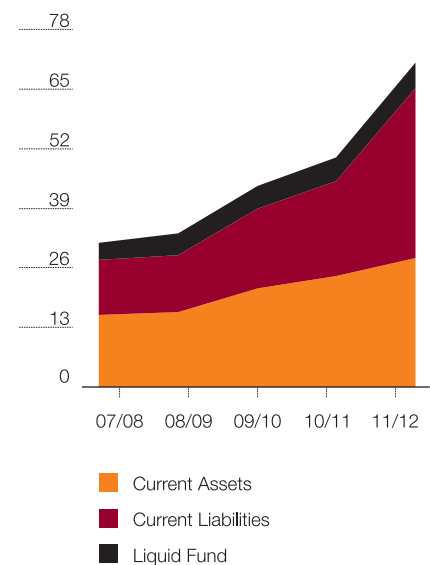
During the financial year, Agri Inputs and Agri Products sectors were consolidated under Hayleys Agriculture to realise their synergies. This resulted in an exceptional year for the Agriculture sector, although it was hampered by the Rupee depreciation toward the latter part of the year. Agriculture, the second major contributor (18%) to Group profits, recorded a PBT of Rs. 846 mn compared to Rs. 641 mn recorded in the previous year, an increase of 32% YoY. The re-integration of the Northern and the Eastern regions to the country's economy has contributed to the expansion of the sector where the Agri Equipment division and Agri Fertilizer division recorded significant performance. However, the rise in the subsidy receivable from the Government Treasury of Sri Lanka has constrained the growth of this sector which resulted in an increase in borrowings to fund working capital which also resulted in an increase in finance cost.

Plantation sector experienced a difficult period due to the increase in labour cost and fluctuations in tea prices due to the unstable economic conditions in the Middle East and Europe. However, this was alleviated through strong performance of the rubber plantations driven by increased prices. The sector reported profit before tax of Rs. 437 mn which was a decline of 33% over the previous year. Plantations will continue to focus its efforts on increasing crop yield in order to improve the profit margins whilst developing a strong brand name backed by the two plantation companies. Financial year under review saw the first full year of contribution from Mabroc Teas as a fully-owned subsidiary which showed significantly improved performance supporting the Group strategy of value addition and vertical integration of its existing portfolio of businesses. Mabroc Teas contributed Rs. 37 mn to sector profits.

The recent acquisition of Amaya Group improved the performance of the Group's Leisure and Aviation sector. Ceylon Continental Hotel closed its operations in February for refurbishment and will reopen toward the beginning of the 4th quarter of the coming financial year. As indicated previously, the one-off expense of derecognition of assets at Continental affected the bottom line.

Working Capital

Rs. bn



The sector reported a profit before tax of Rs. 117 mn compared to the Rs. 242 mn reported in the previous financial year. On a positive note the Amaya Group took over the management of the Hunas Falls Hotel, and Amaya Coral Rock during the financial year realising synergies within the Group. This brought the sectors total room count, including the Ceylon Continental, to 516. The Aviation division faced a challenging year with decrease in cargo volumes and prices. However, this too improved towards the latter part of the year and the sector is expected to record positive results in the next financial year.

The Consumer sector of Hayleys, which represents some of the world's leading consumer brands was affected by the Rupee depreciation and the increase in fuel prices but showed improved results with profit before tax increasing to Rs. 209 mn from Rs. 193 mn in 2010/11. Given the accelerated economic growth in Sri Lanka, the Group is confident the sector performance will further improve in the coming years and will continue to invest in improving the product portfolio.

Transportation and Logistics sector continued to improve its performance even under lackluster global economic conditions that affected shipping operations. Profits increased to Rs. 661 mn from Rs. 589 mn during the financial year. However, the Group expects a turnaround in the global economic environment in the coming years and will continue its investments in expanding the services portfolio of Transportation and Logistics. The sector's re-entrance to ship chartering was in line with these initiatives.

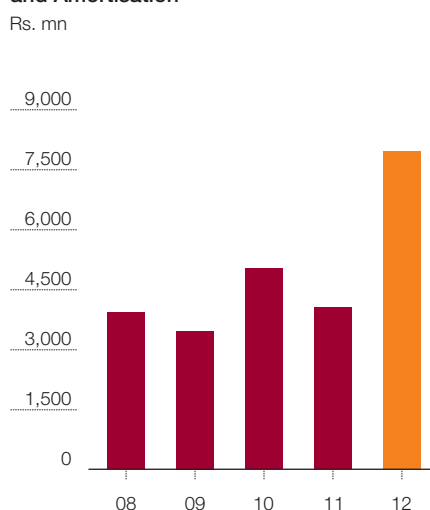
Power and Energy sector was adversely affected by the Rupee depreciation experienced toward the latter part of the year and reported a profit before tax of Rs. 2 mn. Poor rainfalls experienced throughout the year affected hydro energy generation. Construction of the 10 Mw wind power plant at Nirmalapura in Kalpitiya was completed and is currently awaiting grid connection. Further, this project incurred an exchange loss from the borrowings due to the exchange rate depreciation. The project is expected to significantly enhance the sector profitability in the coming year.

The Industry Inputs sector performed well recording a PBT of Rs. 145 mn. This sector is expected to perform well as Sri Lanka's industrial sector expands.

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)

Group EBITDA increased to Rs. 8.0 bn, a 93% increase over the previous year which was supported by the strong performance of the sectors as well as the contribution realised through the capital gains.

Earnings Before Interest, Tax, Depreciation and Amortisation



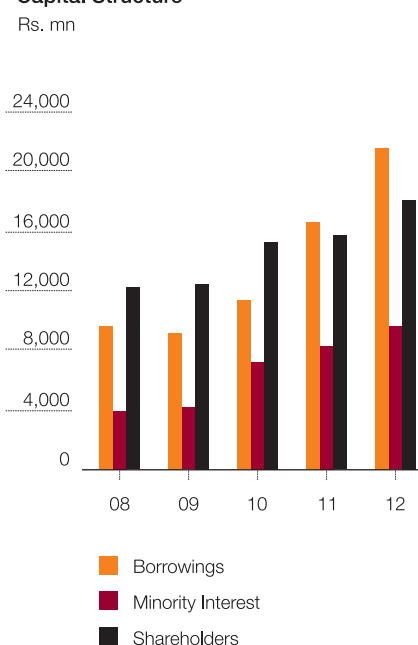
Tax

The Groups' effective tax rate decreased to 20% from 44% in the previous year, primarily due to the capital gains. The realisation of a lower effective tax rate was limited due to the negative results recorded by Hayleys MGT and the Fibre sector of the Group. A rationalisation of investments is being carried out as a measure to achieve a lower effective tax rate. Tax exempt companies of the Group and information on their tax holidays, are stated in pages 175 to 176.

Capital Structure

Group assets are mainly funded through equity of Rs. 27,742 mn and Rs. 5,655 mn long-term borrowings, representing 52% of the Group asset base, while short-term borrowing amounted to Rs. 15,882 mn. Group total assets increased significantly to Rs. 65 bn from Rs. 53 bn during the year primarily due to the consolidation of Amaya Group together with capital expenditure in Nirmalapura, Hand Protection and Purification sectors. In tandem with the Group revenue growth, through both acquisitions and organic growth; Group's working capital requirement increased to Rs. 15,521 mn from Rs. 12,846 mn in 2011, a 21% increase over the previous year.

Capital Structure



As a measure to improve the capital structure of Hayleys MGT, a 2 to 1 rights issue, a total share issue of 101,562,212 amounting to Rs. 914 mn was carried out during the financial year. The proceeds were mainly utilised for the settlement of debt, and for the implementation of SAP ERP system for Hayleys MGT.

Borrowings

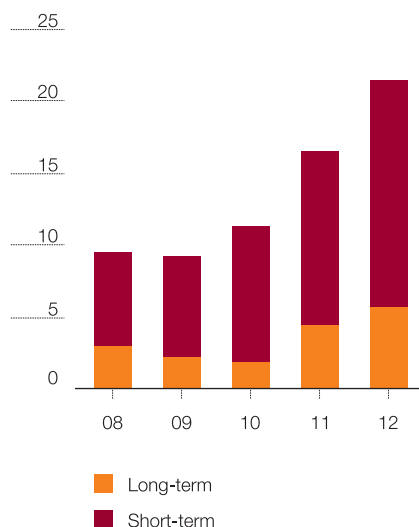
To fund its acquisition, capital expansion and working capital the Group has increased its borrowing from Rs. 17 bn to Rs 21 bn at the end of the period. Hayleys PLC increased its borrowings from Rs. 3.4 bn to Rs 4.1 bn which was mainly to fund the acquisition of Amaya Group. Other sectors such as Purification and Hand Protection also increased their borrowings for capital expenditure purposes whilst the Agriculture sector primarily increased short-term borrowings to fund its working capital requirements. The Leisure and Aviation division increased its borrowings towards the latter part of the year to fund the refurbishment of Ceylon

FINANCIAL REVIEW

Continental Hotel. Overall gearing levels have increased from 41% to 44%. However, interest cover has reduced at the Group level due to the capital gains during the year.

Borrowings

Rs. bn



The Group has both local and foreign currency borrowing; Long-term foreign currency borrowings are mainly in USD. Short-term foreign currency borrowings include borrowings in USD, Thai Bhat, Euro and Bangladesh Taka.

Investments

During the second quarter, Hayleys PLC and its Group Companies acquired 51% of equity stake in Amaya Leisure PLC. Hayleys PLC acquired 12,785,861 shares (26.62%) of the Amaya Group whilst the remaining shares were purchased by Hayleys Group Companies. Post the acquisition Hayleys PLC made a mandatory offer to purchase the remaining shares of Amaya Leisure PLC from existing shareholders of which 61% was accepted. With this investment the Group recognised a goodwill of Rs 1.4 bn. The Group is currently in the process of carrying out a purchase price allocation through which it will try to identify

intangible assets such as a customer list and Brand name. This will reduce the goodwill thereby reducing a risk of impairment at each year end.

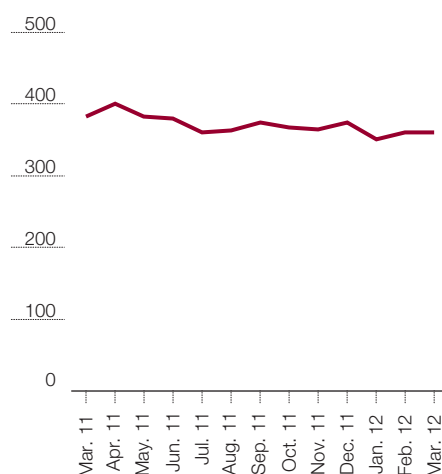
Further, the Group also divested its investments in Tropical Vilas and Jetwing Hotels and acquired further stakes in Eastern Hotels and Quality Seeds.

Share Price

Hayleys shares significantly outperformed the All Share Price Index, which declined by 25% during the financial year, highlighting investor confidence in the Company's future. Despite the improved earnings, the Company share price declined by 6% during the financial year due to lackluster market sentiment. Company earnings per share fared well compared to last year improving by 272% to Rs. 33.60 per share. Similarly consolidated net assets per share improved to Rs. 370/- per share while the net assets per share applicable for the equity holder of the Parent Company improved by 16% to Rs. 242/- per share.

Share Price

Rs.



Above conditions contributed to improved price earnings ratio of Hayleys shares which was 10.72 times at the end of the financial year.

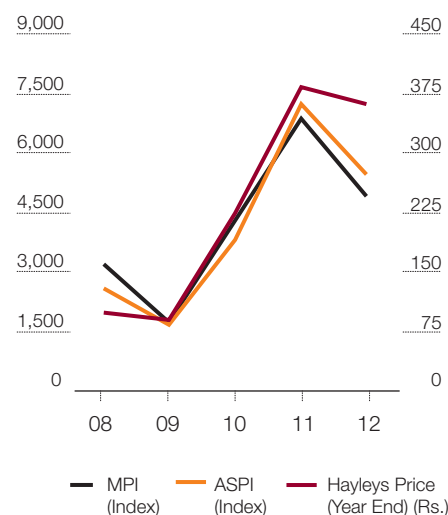
All Share Price Index which performed exceptionally well during the previous financial year recorded a significant loss despite improved corporate earnings and closed at 5420 on 30th March, 2012, 1959 points below the previous year.

Company market capitalisation was recorded as Rs. 27 bn as of 30th March, 2012 which was 1.34% of total market capitalisation of Colombo Stock Exchange. All listed companies of Hayleys Group accounted for 2.5% of the market capitalisation of the Colombo Stock Exchange. A total of 18,938,893 shares were traded during the financial year generating a market turnover of Rs. 7,189 mn. All listed companies of Hayleys Group reported a total market capitalisation of Rs. 49 bn as at 30th March, 2012.

Ensuring a steady cash flow for its investors, Company announced a dividend of Rs. 4/- per share.

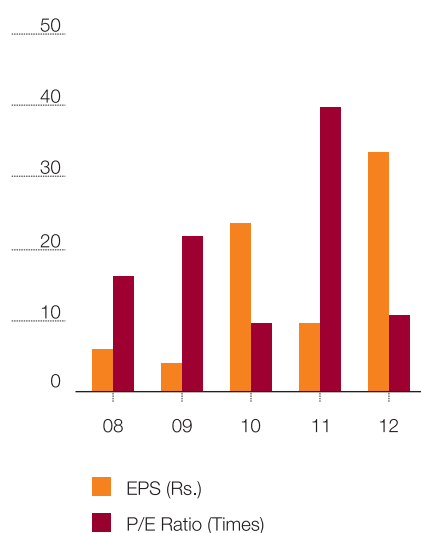
Movement in Share Price Indices

Index Rs.



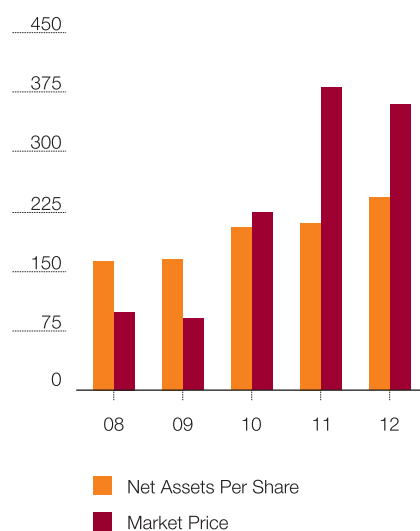
EPS & P/E Ratio

Rs./Times



Market Price and Net Assets Per Share

Rs.



Financial Reporting

The Group is committed to adopt best practices for financial reporting and to maintain a close watch on new developments in the financial reporting environment. The financial reports on pages 151 to 221 have been prepared in compliance with Sri Lanka Accounting Standards and every attempt is made to provide the reader with a clear and comprehensive understanding of these financials.

Hayleys prides itself on its comprehensive financial reporting which has been recognised over the years both in Sri Lanka and internationally. This year, the Hayleys Annual Report of 2010/11 was awarded a Gold Medal at the ARC Awards in New York for Best Financial Data – Diversified Business. The Annual Report also won the Gold Award in the category of Diversified Group Companies at the Competition organised by The Institute of Chartered Accountants of Sri Lanka and Joint Winner for Best Presented Accounts in the Service Sector at the SAFA (South Asian Federation of Accountants).

Sri Lanka is adopting International Financial Reporting Standards (IFRS) in 2012 and Hayleys has taken the necessary initiatives to adopt these changes and our annual reporting starting with the financial year 2012/13 will be 100% IFRS compliant.

Financial Risk Management

As a diversified multinational organisation, Hayleys Group is exposed to varying level of financial risk including domestic and international credit risk, foreign currency risk, interest rate risk and liquidity risk. Group has taken the necessary mitigatory action to manage these risks which are elaborated in this report's Risk Management Section.

BOARD OF DIRECTORS



Laws



2

4

6

9

10

7

BOARD OF DIRECTORS

01. A.M. Pandithage

Chairman & Chief Executive

Joined Hayleys Group in 1969. Appointed to the Board in 1998. Chairman and Chief Executive of Hayleys PLC since July 2009. Honorary Consul of United Mexican States (Mexico) to Sri Lanka. Fellow of the Chartered Institute of Logistics & Transport. Member of the Presidential Committee on Maritime Matters. Committee Member of the Ceylon Chamber of Commerce. Council Member of the Employers' Federation of Ceylon. Member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka. Director, Sri Lanka Port Management & Consultancy Services Ltd. Former Chairman of the Ceylon Association of Ships' Agents. Former Director of both the Sri Lanka Ports Authority and Jaya Container Terminals Ltd.

02. K.D.D. Perera

Deputy Chairman

Appointed to the Board in 2008. Appointed Deputy Chairman in July 2011. He is a quintessential strategist and business specialist with 24 years of business experience. Secretary to the Ministry of Transport, Sri Lanka and well-known prominent entrepreneur and investor whose business interests include Hydropower generation, Manufacturing, Hospitality, Entertainment, Banking & Finance. He serves as the Chairman of Sampath Bank PLC, Vallibel One PLC, Vallibel Finance PLC, Vallibel Power Erathna PLC, The Fortress Resorts PLC, Lewis Brown & Company (Pvt) Limited and Greener Water Ltd. He is the Deputy Chairman of Royal Ceramics Lanka PLC & LB Finance PLC. He also serves on the Boards of Amaya Leisure PLC, Haycarb PLC, Hayleys MGT Knitting Mills PLC, Hotel Services (Ceylon) PLC, Dipped Products PLC, Orit Apparels Lanka (Pvt) Limited, Nirmalapura Wind Power Pvt Ltd, Alutec Anodising & Machine Tools (Private) Ltd and Sri Lanka Insurance Corporation Ltd. Member of the Board of Directors of Strategic Enterprise Management Agency (SEMA).

03. M.R. Zaheed

Joined Hayleys in 1981. Appointed to the Group Management Committee in 2001. Appointed to the Board in August 2004. Holds a BA (Hons.) Degree from the University of Kelaniya and a MBA Degree from the University of Colombo. Member of the Agri Cluster of the National Council for Economic Development. Represents Hayleys on the Board of Sri Lanka Institute of Nanotechnology (NANCO). Serves on the National Committee on Biotechnology of the National Science Foundation and is a member of the University Grants Commission Standing Committee on Agriculture and Livestock. Council member of the Sri Lanka Council for Agricultural Policy Research (CARP) and member of the main committee of the Ceylon Chamber of Commerce while having served as Vice-Chairman of the Imports Section, Ceylon Chamber of Commerce. Has responsibility for the Agriculture sector.

04. J.A.G. Anandarajah

Joined DPL in 1980. Director of DPL since 1989. Appointed to the Hayleys Group Management Committee in 2001 and to the Board in January 2007. Holds a BSc (Hons.) Degree in Chemistry from the University of Peradeniya. Member of the Board of Management, Industrial Technology Institute, Sri Lanka. Has responsibility for the Plantations Sector including Mabroc Teas (Pvt) Ltd. and the Textile Sector.

05. S.C. Ganegoda

Rejoined Hayleys in March 2007. Appointed to the Group Management Committee in July 2007. Appointed to the Board in September 2009. Fellow Institute of Chartered Accountants of Sri Lanka and Member, Institute of Certified Management Accountants of Australia. Holds an MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura. Worked for Hayleys and Diesel & Motor Engineering Co. between 1987 and 2002, ultimately as an Executive Director of the latter. 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 Consumer Sector.

06. H.S.R. Kariyawasan

Joined Hayleys Group in January 2010. Appointed to the Group Management Committee in February 2010. Appointed to the Board in June 2010. Holds a B Sc Eng. (Electronics and Telecommunications) from the University of Moratuwa, Sri Lanka. Fellow Member (FCMA) of the CIMA, UK. Also a Six Sigma (Continuous Improvement Methodology) Black Belt, certified by the Motorola University, Malaysia. Before joining Hayleys, held the position of Director/General Manager of Ansell Lanka (Pvt) Ltd. Served as the Chairman of the Manufacturing Association of Export Processing Zone, Biyagama. Has responsibility for the Purification Products sector.

07. DR. K.I.M. Ranasoma

Joined in August, 2010 as an Executive Director and took over as Managing Director of DPL from April 2011. Appointed to Hayleys Group Management Committee in January 2011 and to the Board on 1st April, 2011. Former Country Chairman/Managing Director of Shell Gas Lanka Ltd. and Shell Terminal Lanka Ltd. Holds First Class Honours Degree in Engineering from the University of Peradeniya, a Doctorate from Cambridge University, UK and an MBA with Distinction from Wales University, UK. Has responsibility for the Hand Protection Sector. He is also a Director of Kelani Valley Plantations PLC and Talawakelle Tea Estates PLC

08. Dr. Harsha Cabral, PC

Independent Non-Executive Director

Dr. Harsha Cabral is a President's Counsel with twenty-four years experience in the field of Company Law, Intellectual Property Law, International Trade Law & Commercial Arbitration. He holds a Doctorate in Corporate Law from the University of Canberra, Australia. He is one of the architects of the new Companies Act of Sri Lanka. He serves as Independent Non-Executive Director on the Boards of DIMO PLC, Union Bank PLC, Tokyo Cement PLC, Richard Pieris Distributors Ltd., Lanka ORIX Finance PLC, Tokyo Super Cement Co. (Lanka) Ltd. & Fuji Cement Co. Commercial Leasing & Finance Ltd., Tokyo Power (Lanka) Ltd., Hambana Petrochemicals Ltd. He serves on several Audit Committees, Nomination Committees and Remuneration Committees, chairing some of them. Dr. Cabral is the author of several books on Corporate Law and Intellectual Property Law.

09. W.D.N.H. Perera

Non-Executive Director

Appointed to the Board in July 2009. He counts over 30 years experience in Finance, Capital Market Operations, Manufacturing, Marketing and Management Services. Managing Director of Royal Ceramics Lanka PLC, Executive Deputy Chairman of Vallibel One PLC, Chairman of Pan Asia Banking Corporation PLC, Don Wilbert Capital Ltd, N Sports (Pvt) Ltd, N Capital (Pvt) Ltd, Director of Amaya Leisure PLC, LB Finance PLC, Vallibel Finance PLC, Haycarb PLC, Hotel Services (Ceylon) PLC, Talawakele Tea Estates PLC, Vallibel Power Erathna PLC.

10. L.T. Samarawickrama

Appointed to the Board and the Group Management Committee in June 2011. He is an Internationally qualified Hotelier having gained most of his Management experience in the UK, working for large international hotel chains over a long period of time. First Sri Lankan Manager to be appointed by the Beaufort International Chain of Hotels to run the first seaside boutique resort. Member of the Institute of Hospitality, UK (formerly HCIMA) and of the Royal Society of Health, London. He has several years of experience in the trade. Having specialised in Hotel designs and development, he has been responsible for the careful planning and execution of Amaya Resorts & Spas refurbishment and rehabilitation programmes. He is also a Director of The Fortress Resorts PLC, Hunas Falls Hotels PLC, Hotel Services Ceylon PLC, Royal Ceramics Lanka PLC and Kelani Valley Plantations PLC.

11. R.P Pathirana

Independent Non-Executive Director

Appointed to the Board in June 2011. Finance Director of Hirdaramani Group and is a Director of Hirdaramani Apparel Holdings Pvt Ltd., Hirdaramani Leisure Holdings Pvt Ltd., Hirdaramani Investments Holding Pvt Ltd. which are the holding companies of the group. Also a Director of Star Packaging Pvt Ltd., Windforce Pvt Ltd. and a non- Executive Director of Sampath Bank. PLC, Asian Alliance PLC, Alumex Group and Nirmalapura Wind Power Pvt Ltd.

12. M.D.S. Goonathilake

Independent Non-Executive Director

Appointed to the Board in June 2011. He is a Finance professional with over 25 years of post-qualification experience. He has held senior managerial positions in leading Public, Multinational and Private Companies during his career. He is an Associate Member of the Institute of Chartered Management Accountants (U.K.), passed finalist of the Institute of Chartered Accountants (Sri Lanka) and has a Postgraduate Diploma in Management from PIM of University of Sri Jayawardenapura. Currently serves as a Group Executive Director of DSL Group of Companies, independent Director of Colombo Land Development Company PLC, Pan Asia Bank, Royal Ceramics Lanka PLC and Vallibel Finance Ltd.

GROUP MANAGEMENT COMMITTEE



100 Years



GROUP MANAGEMENT COMMITTEE

01. A.M. Pandithage

Please refer profile in Board of Directors

02. M.R. Zaheed

Please refer profile in Board of Directors

03. J.A.G. Anandarajah

Please refer profile in Board of Directors

04. S. C. Ganegoda

Please refer profile in Board of Directors

05. H.S.R. Kariyawasan

Please refer profile in Board of Directors

06. Dr. K.I.M. Ranasoma

Please refer profile in Board of Directors

07. L.T. Samarawickrama

Please refer profile in Board of Directors

Refer pages 50 and 51

08. M.M.M. De Silva

Joined Hayleys in 1983 as an Accountant. Appointed to the Group Management Committee in 2001 taking over the functions of the CFO of the Group. In 2003, he took over the present responsibility as the Managing Director of Hayleys Industrial Solutions Ltd. and he has also been overlooking the Fibre Sector and Talawakelle Tea Estates Ltd. during 2006-2011. He is a Science graduate from the University of Ceylon, Peradeniya and holds a Diploma in Business Management from the University of Sri Jayawardenapura. He is also a Fellow of the Institute of Chartered Accountants of Sri Lanka and an Associate of the Chartered Institute of Management Accountants, UK. Has responsibility for the Industry Inputs sector, which serves the many manufacturing companies in Sri Lanka, the supplies of medical equipment for diagnosis, and the Power and Energy Sector which primarily supply electricity generated by wind and hydro projects to the National Grid.

09. H.C.S. Mendis

Joined Hayleys in 1983. Appointed to the Group Management Committee in 2001. Holds a BSc (Hons.) Degree from the University of Colombo. Fellow, Chartered Institute of Management Accountants, UK. Member, Chartered Institute of Marketing, UK and a Chartered Marketer. Currently based in the UK and has responsibility for the marketing network of the Fibre Sector in the UK and Europe.

10. G.K. Seneviratne

Joined DPL Plantations in 1992 and appointed to its Board in 1995. Director of DPL since 1998. Appointed to the Group Management Committee in 2007. Chief Executive of Kelani Valley Plantations since 1994 and its Managing Director since May 2004. Past Chairman of the Planters' Association of Ceylon and former Director, Sri Lanka Tea Board, Rubber Research Board, Plantations Trust Board and the Tea Association of Sri Lanka. Has responsibilities within KVPL in the Plantation Sector.

11. S.P. Dissanayake

Joined Hayleys in July 2007. Appointed to the Group Management Committee in the same month. Graduate in Hotel Management. Was awarded the Life Time Gold Award in 2011 and Honourary Membership in 2004 by the Institute of Personnel Management, in recognition of his contribution to Human Resources activities in Sri Lanka. Is a Non-Executive Director of Hotel Services (Ceylon) PLC, Director of Hayleys Group Services (Pvt) Ltd. and Director of Hayleys Foundation (Guarantee) Ltd. Is the Co-Patron of the Hayleys Group Toastmasters Club and Vice Patron of Hayleys Group Recreation Club. Prior to joining Hayleys, he held several senior management positions in large private sector entities in Sri Lanka and abroad in Human Resources Management and previously in Hotel Management. Has held significant honorary and advisory positions in Human Resources and the Hotel industry. Is a former President of the Hotel School Graduates Association and a former Member of the Hotel Classification Committee of Sri Lanka Tourism Development Authority. Is a member of the Ceylon Chamber of Commerce Steering Committee for HR and Education and is also a Steering Committee Member of the Lanka Business Coalition (LBCH) for prevention of AIDS. Is the Sector Head for Group Human Resources, Corporate Communications/Sustainability and Group Security at Hayleys.

12. L.R.V. Waidyaratne

Joined Hayleys Advantis Group in 1985. Was appointed a Director to a Subsidiary Company in 1996 and a Director of Hayleys Advantis Ltd. in July 2002. He was appointed as the Deputy Managing Director of Hayleys Advantis Group in January 2010 and went on to be appointed to the Hayleys Group Management Committee in February 2011. He was appointed as the Managing Director of Hayleys Advantis Ltd. in April 2011. He is a former Chairman of the Sri Lanka Freight Forwarders' Association (SLFFA) and currently functions as a member of the Advisory Council of the Association. He was appointed a Member of the Steering Committee on Ports, Shipping, Aviation and Logistics affiliated to the Ceylon Chamber of Commerce in September 2011. He holds an MBA from the Edith Cowan University of Western Australia.

13. S.J. Wijesinghe

Joined Hayleys in October 2008 as CEO of Civaro International. Appointed Head of the Leisure and Aviation sector in 2009 and was appointed to the Group Management Committee in 2011. Holds an MBA from the University of Leicester (UK) and is a Member of the Chartered Institute of Marketing (UK). Holds over 20 years experience in the Aviation industry with the National Carrier SriLankan Airlines. Prior to joining Hayleys, he was the Head of Worldwide Cargo at SriLankan Airlines responsible for the entire air freight business sector of the organisation. He also held several senior positions for the airline including management positions in Europe, Middle East and the Far East and the Head Office in Colombo. Possesses over 5 years experience in the Hotel industry, having served as the Director, Marketing and Sales at The Lanka Oberoi.

14. G.M.P. De Silva

Joined Hayleys in May 2011, appointed to the Group Management Committee in June 2011 and appointed as Managing Director of all fibre sector companies in August 2011.

A fellow member of the Chartered Institute of Management Accountants (UK) and a Green Belt in Six Sigma and holds a Graduate certificate in Human Resource Management from TAFE (NSW) Australia. Before joining Hayleys, he held the position of Director Finance at the office of Aboriginal and Torres Strait Islander Health, Department of Health, Australia. Prior to that, he was the Vice President – Personal Healthcare Operations of Ansell Inc, based in Thailand with responsibilities for Thailand, India and South Africa. He also served as CEO of Coirtex Ltd., Lanka Walltiles and Ansell Lanka before proceeding to Australia.

15. Dr. A. Sivagananathan

Joined Hayleys in January 2011 as the Managing Director of Hayleys Business Process Outsourcing and Shared Services sector. Has overall responsibility for Hayleys Group Information Technology Services. Appointed to Hayleys Group Management Committee in June 2011. Prior to joining Hayleys, held a senior management position in a BPO company listed in the NYSE and overlooked operations across Chennai and Sri Lanka. Holds an Honours Degree in Civil Engineering from the University of London, MBA from Cranfield University (UK), Doctorate from USA and is a Fellow Member of the Chartered Institute of Management Accountants (FCMA-UK) and CGMA.

16. Dr. E. Fernando

Joined Hayleys PLC in June 2011 as CEO Hayleys MGT Knitting Mills PLC. Appointed to Hayleys Group Management Committee in July 2011 and was appointed to the Board of Hayleys MGT Knitting Mills PLC in February 2012. Prior to joining Hayleys PLC, he served as the CEO of Brandix Innovation Centre and prior to that, as CEO of Brandix Intimate Apparel Ltd. He was an Executive Director of Haycarb Ltd. in 2004/2005 and has wide exposure across multiple industries over a period of 24 years in Sri Lanka and the United States. He holds a PhD from Princeton University, USA and is a graduate of the Indian Institute of Technology, Chennai, India".

17. L.D.E.A. De Silva

Joined Hayleys PLC in November 2011 as Group Chief Financial Officer. Appointed to Hayleys Group Management Committee in January 2012. Prior to joining Hayleys PLC, he had served Delmege Forsyth as Group Finance Director and progressed to the position of Group Chief Executive Officer. He counts over 20 years of experience in numerous industries and is a Member of the Chartered Institute of Management Accountants (UK), Institute of Chartered Accountants of Sri Lanka, Certified Management Accountants of Sri Lanka, Certified Management Accountants of Australia and Certified Practicing Accountants of Australia

SUSTAINABILITY REPORT

Message from the Chairman

Today, sustainability has become an imperative for all kinds of organisations. Hence, it is essential that both the Government and the Private Sector give due consideration to conducting their activities sustainably.

It is heartening to note that the Government has already taken certain initiatives in this regard at a macro-level over the past several years. These measures include enacting necessary legislation, establishing required organisational structures (such as setting up the Sustainable Energy Authority, National Nanotechnology Initiative, Environmentally Sustainable Transport Initiative etc.), and granting of fiscal incentives, with a view to adapting to climate change, prudent use of natural resources, addressing rising cost of energy, safeguarding bio-diversity, promoting responsible tourism, ensuring food security and minimising air pollution.

Correspondingly, large Private Sector organisations have taken noteworthy steps and devoted a fair share of their resources to integrate sustainability into their business activities. Notable initiatives have been taken by companies in the plantations, tourism and apparel sectors.

I am pleased that the Hayleys Group, one of Sri Lanka's premier diversified conglomerates, has demonstrated over 134 years, that an emphasis on corporate sustainability is no barrier to progress, but instead an indication of it. Hayleys in fact reported its best ever results in 2011/12, as detailed in the financials.

We are fully aware and proud of the role we play in the private sector. Our export income benefits the nation's coffers and fosters entrepreneurialism and innovation in outreach communities and within our own teams.

Our commitment to excellence in all aspects of our operations deliver value to those that invest in us. At the same time, we have held firm to our commitment towards the 'health' of our triple bottom line in our business operations, ensuring the long-term sustainability of the Group.

Whether we create, transport, power or build, sustainability is integrated into all we do. The year under review has been a period of tremendous activity and achievement for corporate sustainability at Hayleys.

The foundation for a well-structured, aligned and inbuilt sustainability system was set in place. The credit for this achievement lies with the vision, professionalism, energy and ingenuity of the Hayleys Corporate and Group Companies.

A Sustainability Gap Analysis was conducted through a process of interviews and fact-finding audits, in order to identify current sustainability practices and opportunities for improvement. To take this forward, a proficient sustainability team representing the entire Group was formed and trained through capacity building workshops.

The measure of success of this enterprise was proven through our ability to identify the material topics and issues derived from the entire diversified conglomerate and its stakeholders, and through inculcating policies and systems to address them.

I note the full impact and success of this initiative through the coherence and accuracy of this year's Sustainability Report. The quality of information that is currently available to our stakeholders undoubtedly surpasses previous reporting efforts.

In addition, for the first time, our Report is externally assured, which is an indication of the importance we attach and the commitment we have to sustainability across the Group.

Last year, we set ourselves an ambitious goal of working towards measuring the carbon footprint of the Hayleys Group. I am pleased to report that this initiative has been successful, and a preliminary study has been successfully conducted. Going forward, we set ourselves the challenge of further increasing the depth of our scope of analysis, and identifying initiatives to reduce our environmental impact, waste and ultimately our cost base. We still have a long way to go. Due to the diverse nature of our businesses, systems and processes still need to be improved.

Being a signatory to the United Nations Global Compact underlines our respect for, and commitment to international standards. We continue to be guided by these principles, which seek to promote responsible corporate citizenship to surmount challenges posed by globalisation – the same principles that earned Hayleys the title of Sri Lanka's Best Corporate Citizen on four separate occasions.

I am immensely proud of the hard work and commitment shown in achieving our sustainability targets. I thank our customers, suppliers, business partners and most importantly our employees who are integral stakeholders in this commitment. As our 135th year dawns, we continue to build on the robust foundation we have put in place, and retain our emphasis on concerted, structured corporate sustainability in our pursuit of growth.



A.M. Pandithage
Chairman and Chief Executive

Hayleys - In the Context of Sustainability

In operating a viable and sustainable business enterprise, Hayleys is challenged to evaluate, understand and mitigate impacts and risks that its business activities may exert on the overarching goals of sustainability. It is similarly challenged to comprehend and leverage opportunities arising from its drive to attain true sustainability.

In this segment we examine this subject in a high-level, concise and objective manner.

Risk and Impact

General

Hayleys maintains close relationships with public and regulatory bodies, which require effective management and consistently fruitful dialogue and engagement. Falling short in this area could compromise the Company's ability to fully benefit from potential business opportunities.

Parity and consonance of view in values of sustainability, do not always exist amongst the buyer community. This factor, as well as a prevalent market slowdown could negatively impact business by constraining leeway for major projects to flourish and be availed of in a sustainable manner.

The withdrawal of the GSP in Europe was highlighted as a risk by all export industries.

Sector Specific Risks

Global Markets and Manufacturing

Climate changes affect supply of fibre and also impact the quality standards of stocks in hand for the Fibre sector.

Changing weather patterns in natural rubber producing regions make supply forecasting difficult for the Hand Protection sector. Floods, in rubber producing countries, also affects supply of natural rubber.

Increasing shortages of the key raw material coconut shell charcoal can negatively impact the manufacture of our Purification products.

High cost of energy and escalating prices of other raw materials causes an increase in the cost of production of manufacturing industries thereby making our products less competitive in export markets.

Agriculture

Adverse weather conditions that prevail at critical periods create difficulties in catering to buyers' requirements on time.

Increased pest resistance to traditional crop protection products and disruptions to weather patterns could result in reduction in the overall extent of cultivation. This in turn reduces demand for the Company's agricultural inputs. In addition, weather influenced changes impact the demand for certain products such as flower seeds and can lead to loss in revenue.

Further, crop diseases could affect supplies of fruits and vegetables thereby affecting the financial performance of our value added agricultural exports.

A further risk encountered is the looming shortage of labour in the Agriculture Sector.

SUSTAINABILITY REPORT

Plantations

Disruption of normal weather patterns and temperature change encourage the growth of pests and diseases which impact the quality of the final product.

Transportation and Logistics

Fluctuations in oil prices and resulting fluctuations in freight rates create a risk for our bunkering business.

Poor climatic conditions can affect oil exploration activities and similarly cause route cancellations and deviations, forcing alterations on shipping and freight forwarding activities, resulting in additional costs.

Adverse climate can negatively impact our businesses by curtailing operations, delaying vessel calls, inland transportation of goods, etc.

Introspective Risk Review

Any inadequacies in terms of awareness and understanding of the elements of sustainable business at the highest echelons of Hayleys could affect the cascading of desired sustainability values and culture across the Group. An associated risk factor could be posed if the desired corporate culture and approach to sustainability across the rank and file is not maintained and employee understanding and participation is not adequately forthcoming.

The commitment to reductions in terms of cost of energy and resource consumption, whilst a desirable trait in the context of sustainability, could also challenge business, should it lead to difficulties in achieving overall targets.

The considerable diversity that exists within Hayleys, in terms of systems, processes, and customer and staff demographics among many other factors, has made sustainability tracking from a Group perspective, a challenging task. Whilst Hayleys is proactively tackling this task, risks could arise from shortfalls in internal

processes that could lead to inadequacies in result reporting, thereby compromising the overall sustainability process of Hayleys.

Opportunities Do Exist

General

Sri Lanka's major drive to effect infrastructural development, and towards tourism including eco-tourism, is widely publicised both locally and internationally.

This positive publicity generates opportunity by way of attracting more foreign direct investment and offering more projects and joint ventures for business communities. In this regard, Sri Lanka is in search of a diverse mix of reliable, affordable energy resources. Opportunity lies in meeting this rising demand in a safe and environmentally responsible manner.

Sector Specific Opportunities

Global Markets and Manufacturing

There are instances when Hayleys benefits from regulations and legislation. Stronger environmental and health/safety legislation in our buyers' markets and development of specialised applications such as use of activated carbon for energy storage put us at an advantage. The emergence of the regeneration of activated carbon as an attractive business line will benefit the Group.

Haycarb's Recogen plant is the world's only pollution-free charcoaling plant registered and trading carbon credits under the Kyoto Protocol. Our environment-friendly coconut shell charcoaling process reduces greenhouse gas emissions and also generates electricity that is supplied to the National Grid, contributing towards reducing fossil fuel driven power generation in the country.

Increasing awareness and demand for eco-friendly products will certainly benefit the Group. Hayleys' portfolio of eco-friendly products constitutes an opportunity to further the Company's sustainability agenda. In like manner, the existing brand equity we enjoy with Group

brands that have inculcated sustainability in their business model, tangibly support a responsible and emancipated sustainability initiative.

Agriculture

We look to leverage weather patterns and expand cultivation of fruits and vegetables in the North and the East. This also provides the Sector with an opportunity to search for crops that can grow all season round.

Agriculture companies in the Group have the opportunity of marketing drought resistant plant material and catering to the increasing demand for new generation, low toxic, target specific crop protection products. They can also leverage the potential for drip irrigation, improved water management processes, and look to increase levels of mechanisation. Products that cater to public health and termite protection systems are also on offer.

Plantations

In the event of dry spells, the yield could increase. In addition, our replanting programmes and usage of alternative energy provides opportunities for new business ventures.

Power and Energy

The drive to stabilise growth in CO2 emissions and rising cost of power and energy offers the opportunity to explore alternative, renewable energy resources such as wind and mini-hydro power projects. Although hydro-power projects are vulnerable to adverse climatic conditions, Hayleys recognises the opportunities in this area, amidst growing concern across the globe to look for sustainable power generation resources. Hayleys has invested heavily in eco-friendly green energy (wind and hydro power) and will continue to focus on feasibility and business development relating to activities on wind, solar and bio-diesel projects.

Investments and Services

Today, Business Process Outsourcing (BPO) is seen as a preferred option for international companies to curb their overheads.

Hayleys Business Solutions International (HBSI) has played a decisive role towards branding Sri Lanka as a sustainable outsourcing destination by obtaining Carbon Neutral certification, having reduced and offset CO2 emissions to net zero in accordance with The CarbonNeutral Protocol. As a result, the Company is Sri Lanka's first and only CarbonNeutral® certified BPO business, as verified by an independent organisation. The certification makes a clear and credible statement about the action HBSI has taken on climate change and is expected to meet growing demand for climate-friendly solutions. Clients stand to benefit immensely from the fact that the work they outsource is CarbonNeutral.

An Integrated Perspective

At a holistic perspective, our close working relationships with international bodies such as UNGC, USAID, INSEAD, IUCN and Fair Trade amongst others, have enhanced the standing of the Hayleys brand vis-à-vis sustainability. Several Hayleys companies are signatories to these Initiatives.

Enhanced management systems are in place to support businesses, including Quality, Food Safety, Occupational Health and Safety, Environmental and Information Security Management. A full list of certifications received and renewed during the reporting period is found on pages 066-067, although this is in no way an exhaustive list of those currently held by Group Companies.

Both the world's first Fair-Trade rubber gloves and the first Ethical Tea Brand of the world have emerged from respective businesses within the Hayleys Group. Thus, the outlook of the Hayleys Group, illustrated by these certifications, ventures and attention to international mandates, provides immense opportunities in a world where focus on sustainability is paramount.

Our Approach

At Group level, our Corporate Sustainability team looks to spearhead corporate sustainability projects, whilst individual business units are

permitted to manage their own projects. Several policies are in the process of revision and will be launched and communicated over the course of the year 2012. Energy management and waste minimisation strategies will meet the strategic direction of cost minimisation. These will come into effect on the back of the carbon footprint identification, which will highlight areas of priority. Hayleys is actively pursuing the generation of renewable energy via wind and mini-hydro power projects.

The Company pursues accreditation of its systems and processes thus generating sustainable competitive advantage, with associated advantages to be had of a regulatory and legal nature. We have put in place a far reaching group of functions in the cause of sustainability including mapping of issues, internal consultation and support for sustainability issues, intra-Company knowledge sharing and training including the understanding of GRI, its reporting format and sustainability reporting.

We have scaled back impromptu social initiatives of donations and sponsorships, unless they are identified as part of a larger project or investment. Instead, we focus on material areas and investments identified by businesses to have sustainable implications.

Managing Impact and Risk

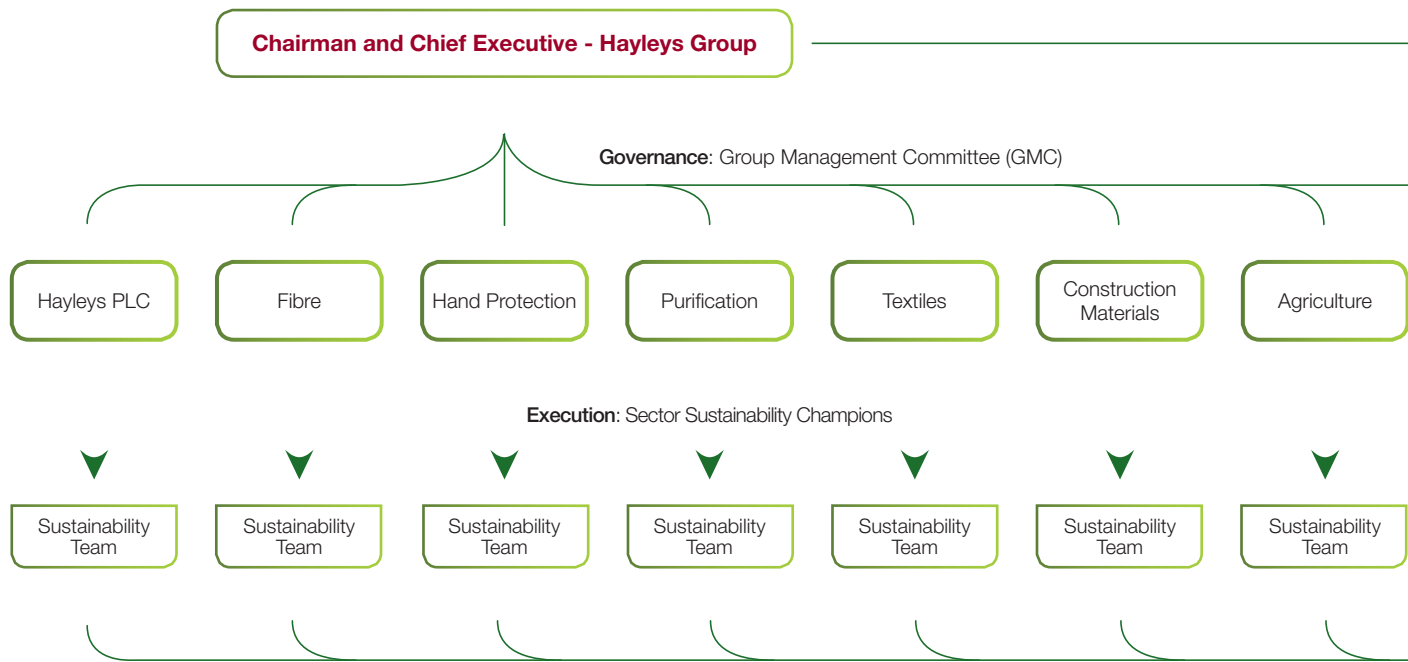
A Sustainability Governance Structure has been set up with channel access reaching the Chairman and Chief Executive.

The appointment of a Sustainability Champion has also taken place at each sector. Within the particular sector, the Head or the Group Management Committee member in charge would need to manage the specific risks and opportunities.

A risk assessment structure is in place at Hayleys, which looks into sustainability risks as well. The structure appears in the Risk Management chapter on page 143 to 150 of this report.

SUSTAINABILITY REPORT

Hayleys Sustainability Governing Council Structure



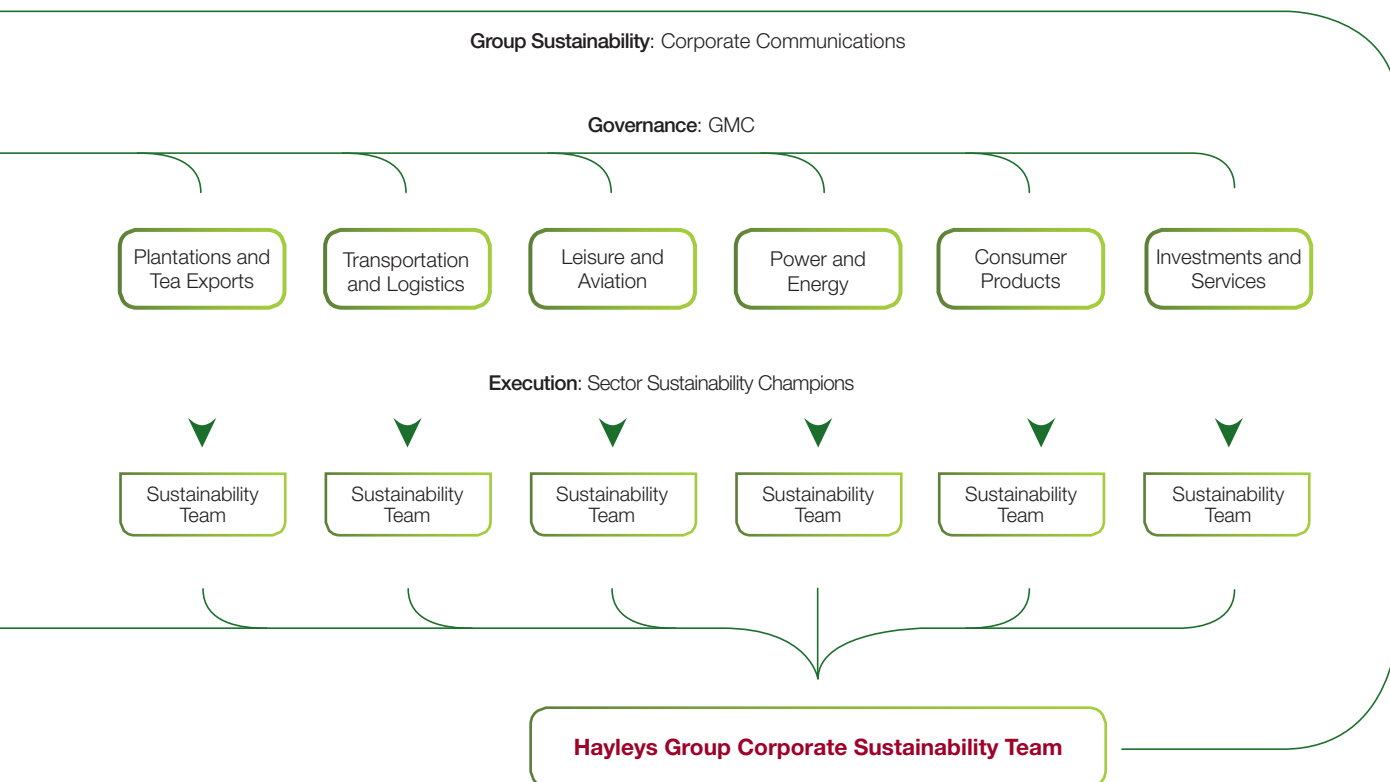
We set ourselves the following targets last year.

- To identify the existing gaps and thereafter align our Group companies by bringing in a clear structure to address any and all sustainability issues.
- To work towards measuring the carbon footprint of the Hayleys Group across our diverse sectors of business in order to set ourselves targets - a daunting yet surmountable task.

We successfully achieved these targets during the year.

Targets Established for Future Reporting

- The newly acquired business of Amaya Leisure PLC and the Mabroc Group will be brought within our reporting format in the Sustainability Report 2012/13.
- According to the topics and concerns raised through stakeholder engagement, Hayleys will respond through the following changes in policies and systems.
- Policies mentioned earlier that are developed will be communicated and driven across the Group by end 2012, in order to strengthen internal systems and processes.
- A Group level Integrated Management System on Environment, Health, Safety and Quality will be developed by end of the fourth quarter 2012/13.
- Group-wide Waste Management/ Minimisation and Energy Management campaigns will be implemented by end of first half 2012/13 in line with the conglomerate's strategy to control the cost base.
- The plotting and adaptation of our Materiality Matrix will continue, to cover the period 2012/13 in order to monitor the significant areas of sustainability within the Group.



- Our carbon footprinting initiatives will be expanded to capture data from over 90% of our businesses across the Group, yet limited to Scope 1 and 2 activities and certain Scope 3 activities.
- We plan to improve processes through the usage of an IT Tool for information gathering, plotting and calculation within the ambit of sustainability programmes, to ensure more inclusive reporting, whilst generating increased productivity.

Hayleys PLC in Profile



Hayleys' enterprise cuts a wide swathe in terms of diversity and scope. Our interests have been grouped into eight main clusters - Global Markets and Manufacturing, Agriculture, Plantations and Tea Exports, Transportation and Logistics, Leisure and Aviation, Power and Energy, Consumer Products and Investments and Services.






More information on business sectors, subsidiary companies and the nature of business within each cluster can be retrieved from our website, www.hayleys.com

A comprehensive insight into the Products and Services of Hayleys PLC appears in the section titled 'Our Portfolio of Businesses' on pages 10 and 11 of this Annual Report.

SUSTAINABILITY REPORT

The information we present below details the business sectors, subsidiary companies and the nature of business within each cluster.

Sector	Name of Company	Nature of Business
 Global Markets & Manufacturing		
Fibre	Hayleys Exports PLC	Value added coir-based products
	Bonterra Lanka Ltd.	Value added coir-based products
	Chas P. Hayley & Company (Pvt) Ltd.	Coir and treated rubber timber products
	Ravi Industries Ltd.	Industrial and household brushware
	Rileys (Pvt) Ltd.	Cleaning devices
	Creative Polymats (Pvt) Ltd.	Moulded rubber products
	Haymat (Pvt) Ltd.	Coir fibre mats
	Volanka Exports Ltd.	Coir-based products and essential oil
	Toyo Cushion Lanka (Pvt) Ltd.	Needled and rubberised coir products
	Lignocell (Pvt) Ltd.	Coir fibre pith
	Haylex BV	Marketing
Hand Protection	Dipped Products Group	General purpose and specialty rubber gloves
Purification Products	Haycarb Group	Activated Carbon and Environmental Purification Solutions
Textiles	Hayleys MGT Knitting Mills PLC	Knitted fabric
Construction Materials	Alumex Group	Aluminium extrusions
 Agriculture		
Agriculture	Hayleys Agriculture Holdings Ltd.	Crop production and protection materials, agricultural equipment and animal health products
	Hayleys Agro Fertilisers (Pvt) Ltd.	Fertiliser
	Haychem (Pvt) Ltd.	Crop protection, household and public health chemicals
	Agro Technica Ltd.	Agricultural machinery and equipment
	Haychem (Bangladesh) Ltd.	Crop protection chemicals
	HJS Condiments Ltd.	Retailled-packed, processed vegetables
	Sunfrost (Pvt) Ltd.	Fresh/processed vegetables
	Quality Seed Company (Pvt) Ltd.	Hybrid flower seeds
	Hayleys Agro Farms (Pvt) Ltd.	Planting material
	Hayleys Agro Biotech (Pvt) Ltd.	Horticultural tissue culture products
Plantations & Tea Exports	Kelani Valley Plantations PLC	Processed tea and rubber
	Talawakelle Tea Estates PLC	Processed black and green tea
	DPL Plantations (Pvt) Ltd.	Plantation Management
	Hayleys Plantation Services (Pvt) Ltd.	Plantation Management
	Kelani Valley Green Tea (Pvt) Ltd.	Manufacture of green tea
	Kelani Valley Instant Tea (Pvt) Ltd.	Manufacture of ready to drink tea powder
	Mabroc Group	Export of bulk and retail packed tea

Sector	Name of Company	Nature of Business
	Transportation & Logistics	
	Transportation & Logistics	Hayleys Advantis Group
		Shipping agency, international freight forwarding, express freight, bunkering, husbanding and port agency, ship chartering, ocean container repairing and conversion, container yard operation, inland logistics, energy logistics, warehousing and third-party logistics
	Leisure & Aviation	
	Leisure & Aviation	Hotel Services (Ceylon) PLC
		Leisure
		Amaya Leisure Group
		Leisure
		Hunas Falls Hotels PLC
		Leisure
		Carbotels (Pvt) Ltd.
		Hotel Investment
		Hayleys Leisure Holdings (Pvt) Ltd.
		Hotel Management
		Negombo Hotels Ltd.
		Leisure
		Eastern Hotels (Pvt) Ltd.
		Leisure
		Millennium Transportation (Pvt) Ltd.
		Airline representation
		Air Global (Pvt) Ltd.
		Airline representation
		North South Lines (Pvt) Ltd.
		Airline representation
		Hayleys Travels & Tours (Pvt) Ltd.
		Travel Agency and Destination Management
	Power & Energy	
	Industry Inputs	Hayleys Industrial Solutions (Pvt) Ltd.
		Engineering and projects, power generation, pigments and industrial raw materials
		Haycolour (Pvt) Ltd.
		Textile dyestuff and binders
		Hayleys Life Sciences (Pvt) Ltd.
		Supplying health care equipment
	Power	Recogen (Pvt) Ltd.
		Charcoal and power generation
		Bhagya Hydro (Pvt) Ltd.
		Hydro power
		Hayleys Hydro Energy (Pvt) Ltd.
		Hydro power
		Kalupahana Power Company (Pvt) Ltd.
		Hydro power
		Neluwa Cascade Hydro Power (Pvt) Ltd.
		Hydro power
		TTEL Hydro Power Company (Pvt) Ltd.
		Hydro power
		TTEL Somerset Hydro Power (Pvt) Ltd.
		Hydro power
		Nirmalapura Wind Power (Pvt) Ltd.
		Wind power
		Power Engineering Solutions (Pvt) Ltd.
		Marketing of power generating equipment
	Consumer products	
	Consumer	Hayleys Consumer Products Ltd.
		Lighting products and solutions, photo imaging, health care, FMCG products
		Hayleys Electronics Lighting (Pvt) Ltd.
		Lighting products and solutions
	Investments & Services	
	Investments & Services	Dean Foster (Pvt) Ltd.
		Investments
		Hayleys Business Solutions International (Pvt) Ltd.
		Business Process Outsourcing and Centralised Shared Services
		Hayleys Group Services (Pvt) Ltd.
		Secretarial/Investments
		Volanka (Pvt) Ltd.
		Investments
		Volanka Insurance Services (Pvt) Ltd.
		Insurance broking

SUSTAINABILITY REPORT

Awards received during the reporting period

National Agri Business Awards - 2011 - Awarded by National Agri Business Council

Hayleys Agriculture Holdings Ltd.

- Gold (Large Category) - Input Suppliers (Agro Chemical)
- Gold (Large Category) - Extension Services
- Silver (Large Category) - Import and Supply of Farm Machinery, Equipment and Tools
- Silver (Medium Category) - Veterinary Care Products

Hayleys Agro Fertilizer (Pvt) Ltd.

- Bronze (Large Category) - Fertilizers

Agro Technica Ltd.

- Silver (Medium Category) - Manufacture of Machinery, Equipment and Tools

Quality Seed Company Ltd.

- Silver (Small Category) - Seed Farm/Producers

Hayleys Agro-Biotech (Pvt) Ltd.

- Bronze (Small Category) - Retail/Wholesale Marketing of Agricultural Produce

HJS Condiments Ltd.

- Gold (Large Category) - Export of Fruits and Vegetables

Sunfrost Ltd.

- Gold (Large Category) - Extension Services

Montgomery Black Box Culinary Competition - Champion 2011

Hotel Services (Ceylon) PLC (Ceylon Continental Hotel)

Chef's Guild Culinary Art Competition - 2011

Hotel Services (Ceylon) PLC (Ceylon Continental Hotel)

- 4 Gold; 6 Silver; 4 Bronze Medals

Outstanding Achievement in Quality Health Care Services - 2010 Awarded by Plantation Human Development Trust

Talawakelle Tea Estates PLC

- Winner - (High Grown Estates Category) - Health Team 2010 - Bearwell Estate
- 1st Runner Up - (Low Grown Estates Category) - Health Team 2010 - Deniyaya Estate

Outstanding Achievement in Settlement Development (Housing 2010) - Awarded by Plantation Human Development Trust

Talawakelle Tea Estates PLC

- Winner - (Low Grown Estates Category) - Indola Estate

Outstanding Achievement in Settlement Development Enhancing Quality of Life of the Residents - Awarded by Plantation Human Development Trust

Kelani Valley Plantations PLC

- All Island - 1st Runner up - Kiriporuwa Estate

Outstanding Achievement in Estate Worker Housing co-operative for improving Quality of Members - Awarded by Plantation Human Development Trust

Kelani Valley Plantations PLC

- All Island - Dewalakanda Estate

Outstanding Achievement - Best Manager - Awarded by Plantation Human Development Trust

Kelani Valley Plantations PLC

- Kegalle Region - 1st Place - Dewalakanda Estate

Outstanding Achievement - Child Development Centre - Awarded by Plantation Human Development Trust

Kelani Valley Plantations PLC

- Kegalle Region - 1st Place - We Oya Estate

Outstanding Achievement in Health - Awarded by Plantation Human Development Trust

Kelani Valley Plantations PLC

- Kegalle Region - 2nd Place - Kelani Estate

Highest Sales Average (High and Low Elevations) at Colombo Auctions - Awarded by Forbes & Walker Tea Brokers (Pvt) Ltd.

Talawakelle Tea Estates PLC

National Green Awards 2011 - Awarded by Central Environmental Authority

Talawakelle Tea Estates PLC

- Bronze (Food and Beverage Category) - Mattekelle Estate (for Environmental/ Sustainability Initiatives)

Specialty Teas - Awarded by the Russian Tea & Coffee Association

Talawakelle Tea Estates PLC

- Silver (Pekoe Category - Dimbula Region) - Somerset Estate
- Merit Award (BOP & BOPF Category - Dimbula Region) - Somerset Estate

Kelani Valley Plantations PLC

- Silver - (OP - Nuwara Eliya Region) Pedro Estate
- Bronze - (BOP1 - Sabaragamuwa Region) - Kelani Estate
- Merit (BOP & Pekoe - Nuwara Eliya Region) Pedro Estate

Vision Awards Annual Report Competition 2010 - Awarded by League of American Communications Professionals (LACP)

Hayleys PLC

- Gold (Joint Winner) - Conglomerates & Holding Companies

Talawakelle Tea Estates PLC

- Bronze - Agri Business

Haycarb PLC

- Bronze - Chemicals

Kelani Valley Plantations PLC

- Gold - Agri Business

**ICASL Strategic Level Training Certification
- Awarded by The Institute of Chartered
Accountants of Sri Lanka**

Hayleys Business Solutions
International (Pvt) Ltd.

**Sri Lanka National Quality Award -
Awarded by Sri Lanka Standards Institute**

Logiwiz Ltd.

- Merit (Medium Service Category)

**Awards from Institute of Chartered Ship
Brokers (UK)**

Hayleys Advantis Group

- Best Shipping Agent (Customer Service - Colombo-Mediterranean sector) - Award received for 3rd year in succession and 5 times overall
- Best Customer Service (Colombo-USA Sector) - Award received for 8th consecutive year
- Best Customer Service (Colombo-Australasia Sector)

ARC Annual Report Awards - 2011

Hayleys PLC

- Gold for Financial Data - Diversified Business Category
- Honours for Overall Annual Report - Diversified Business Category

Dipped Products PLC

- Honours for Non-Traditional Annual Report - Manufacturing and Distributing Category

**Institute of Chartered Accountants' Annual
Report Awards - 2011**

Hayleys PLC

- Gold - Diversified Holdings (Groups above 05 Subsidiaries) Sector

Hayleys Advantis Group

- Silver - Services Category

Kelani Valley Plantations PLC

- Silver - Plantation Companies Category

**South Asian Federation of Accounts
Award for Annual Reports
'Best Presented Accounts Awards 2010' in
the Agriculture Sector**

Kelani Valley Plantations PLC

- 1st Runner Up

**National Business Excellence Awards -
2010 conducted by National Chamber
of Commerce**

Lignocell (Pvt) Ltd.

- First Runner-Up (Medium Category)

Lignocell (Pvt) Ltd.

- Runner-Up - (Manufacturing - Non-Traditional Export Sector)

Bonterra Lanka Ltd.

- Second Runner-Up - (Small Category)

Bonterra Lanka Ltd.

- Merit Award - (Agriculture Value Added Category)

**National Business Excellence Awards -
2011 Conducted by National Chamber
of Commerce**

Kelani Valley Plantations PLC

- Winner (Agriculture and Plantations Category)

Lignocell (Pvt) Ltd.

- Merit (Manufacturing Other)

**NCE Export Awards 2010 - National
Chamber of Exporters, Sri Lanka**

Lignocell (Pvt) Ltd.

- Bronze - (Agriculture Value Added - Medium Category)

Bonterra Lanka Ltd.

- Silver - (Agriculture Value Added - Small Category)

Haycolour (Pvt) Ltd.

- Merit - (Large Scale Exporters Category)

**Presidential Export Award -
2007 and 2008 (Awarded in 2011)**

- Ravi Industries Ltd. and Rileys (Pvt) Ltd.

**Remarkable Achievement Award 2011 -
Awarded by Shimadzu, Japan**

Hayleys Life Sciences (Pvt) Ltd.

**Best Corporate Citizen Award 2011 -
Awarded by Chamber of Commerce**

Kelani Valley Plantations PLC

- Special Project on Corporate Social Responsibility - Environmental Category

LMD Top 50 (2010/11)

Hayleys PLC

- Ranked 2nd

LMD - Most Respected Entities (2010/11)

Hayleys PLC

- Ranked 9th

**LMD - Business Person of the Year 2011
(Ranked amongst Top 10)**

- Mr. Mohan Pandithage - Chairman and Chief Executive
- Mr Dhammika Perera - Deputy Chairman

Business Today - Top 20 (2010/11)

Hayleys PLC

- Ranked 14th

SUSTAINABILITY REPORT

Accreditations received or renewed during the reporting period



ISO 9001:2008 Quality Management System Certification

HJS Condiments Ltd.
Haychem Ltd.
Hayleys Agro Bio Tech (Pvt) Ltd.
Hayleys Agro Fertilizer (Pvt) Ltd.
Alumex (Pvt) Ltd.
Hayleys Advantis Group Company
Logistics International Ltd.
Hayleys Energy Services Lanka (Pvt) Ltd.
Hayleys Energy Services
Mountain Hawk (FedEx)
Logiwiz Ltd.
Ravi Industries Ltd.
Hayleys Exports PLC
Bonterra Lanka Ltd.
Toyo Cushions Ltd.
Chas P. Hayley (Pvt) Ltd.
Haycarb Group



ISO 14001:2004 Environmental Management System Certification

HJS Condiments Ltd.
Haychem Ltd.
Hayleys Agro Fertilizer (Pvt) Ltd.
Hayleys Energy Services Lanka (Pvt) Ltd.
Ravi Industries Ltd.
Haycarb Group



ISO 22000:2005 Food Safety Management System

HJS Condiments Ltd.
Talawakelle Tea Estates PLC



OHSAS 18001:2007 Certification

HJS Condiments Ltd.
Hayleys Energy Services Lanka (Pvt) Ltd.



Kosher Certification

HJS Condiments Ltd.



Halal Certification

HJS Condiments Ltd.



FDA Approval from USA

HJS Condiments Ltd.

GLOBAL G.A.P.

Global GAP Certification

Hayleys Agro Biotech (Pvt) Ltd.
Kelani Valley Plantations PLC
(all tea estates - recertified)



BRC Global Standard for Food Safety

HJS Condiments Ltd.



Australian Quarantine and Inspection Service

Hayleys Agro Biotech (Pvt) Ltd.



USDA NOP Certification of Organic Production Methods

HJS Condiments Ltd.



Organic EU Certification of Organic Production Methods

HJS Condiments Ltd.



SA 8000

HJS Condiments Ltd.
Hayleys Energy Services Lanka (Pvt) Ltd.



Ethical Tea Partnership Certification

Talawakelle Tea Estates PLC
Kelani Valley Plantations PLC



Rainforest Alliance Certification

Talawakelle Tea Estates PLC
Kelani Valley Plantations PLC



UTZ Certification

Talawakelle Tea Estates PLC



NSF 42 Certification Renewal

Haycarb Group



ISO 27001 - Information Security Management Certification

Hayleys Business Solutions International (Pvt) Ltd.



BRC Global Standard for Consumer Products

Issue 3: Feb 2010, Achieved Grade - A

Dipped Products Group



Forest Stewardship Council

Ravi Industries Ltd.



International Air Transport Association

Hayleys Travels and Tours (Pvt) Ltd.

SUSTAINABILITY REPORT

Our Report Parameters, Scope and Boundary

This Report covers the period 1st April, 2011 to 31st March, 2012.

Hayleys adopts an annual reporting cycle; hence the last published Sustainability Report appeared in the Hayleys Annual Report of 2010/11.

Any inquiries or clarifications pertaining to this Sustainability Report may be directed to the Corporate Communications/Sustainability team at corporate.communications@ccu.hayleys.com.

The Report covers the performance of constituent businesses of the Hayleys Group, based in Sri Lanka. Amaya Leisure PLC and Mabroc Group were not included this year, as the systems and processes are not yet fully in place post-acquisition.

Due to the ongoing restructuring at Hayleys MGT Knitting Mills PLC, the processes for capturing information at this company are not fully in place. Therefore, it is envisaged that the re-inclusion of Hayleys MGT will occur within the parameters of the Sustainability Report for the year 2013/14.

This year we report sustainability data measurement techniques, basis of calculations and assumptions as per the GRI 3.1 framework. In the case of partially reported indicators, we have provided timelines for when these can be improved.

In 2010/11, we presented 75 indicators, some of which were partially reported. This year, we consciously decided to report fully on 22 indicators identified as material areas. We have obtained external assurance for this report and we present the same at a B+ level. The reasons for any deviations have been clearly stated wherever applicable. In the case of partially reported indicators, where timelines are not specifically indicated, we commit to report fully on these in the subsequent report.

Hayleys applies a precautionary principle across all Group Companies with regard to social and environmental sustainability. We are aware of the social and environmental impact of our actions. Before embarking upon new ventures and initiatives we take necessary steps to assess any impacts through adequate risk management processes. This is further explained on page 143 to 150.

Process of Reporting

Guided by the GRI process of reporting, the following process was followed in order to determine materiality of topics and issues of Hayleys and its Group Companies.

A gap assessment of Hayleys' sustainability processes was conducted amongst a representation of Hayleys companies, in the course of which current sustainability practices were evaluated with particular relevance to the triple bottom line.

Concurrently a team of Sustainability Champions was formed, the members of which represent each major business sector of the Hayleys Group. Internal capacity building sessions further honed the skills and understanding of the Team.

The Group's stakeholders were identified and prioritised using a Weighted Matrix, after which a sector-wide process of identification and weightage of material issues and subsequent collation took place. This allowed us to plot a Materiality Matrix for the Hayleys Group - a framework that prioritises issues and areas of sustainability at Hayleys.

This exercise has allowed Hayleys to home in on the most relevant and material areas to report on and the corresponding map of key GRI indicators for application across the Group.

Engaging Our Key Stakeholders

Conducting business successfully across the diversity and scope of the Hayleys Group requires constant engagement and dialogue with our stakeholders. Understanding the impacts and implications of our enterprise on these groups, both internal and external and how they think and respond to issues of importance to them is vital to the long-term prosperity and well-being of both Company and stakeholder.

This year, we formally began the process of identifying and prioritising stakeholder groups sector wise. This process will help us to better identify the challenges and issues faced by various stakeholders within the Group and in turn lend impetus to the channelling of our efforts towards addressing these issues and challenges and identify which issues are most material for our business operations.

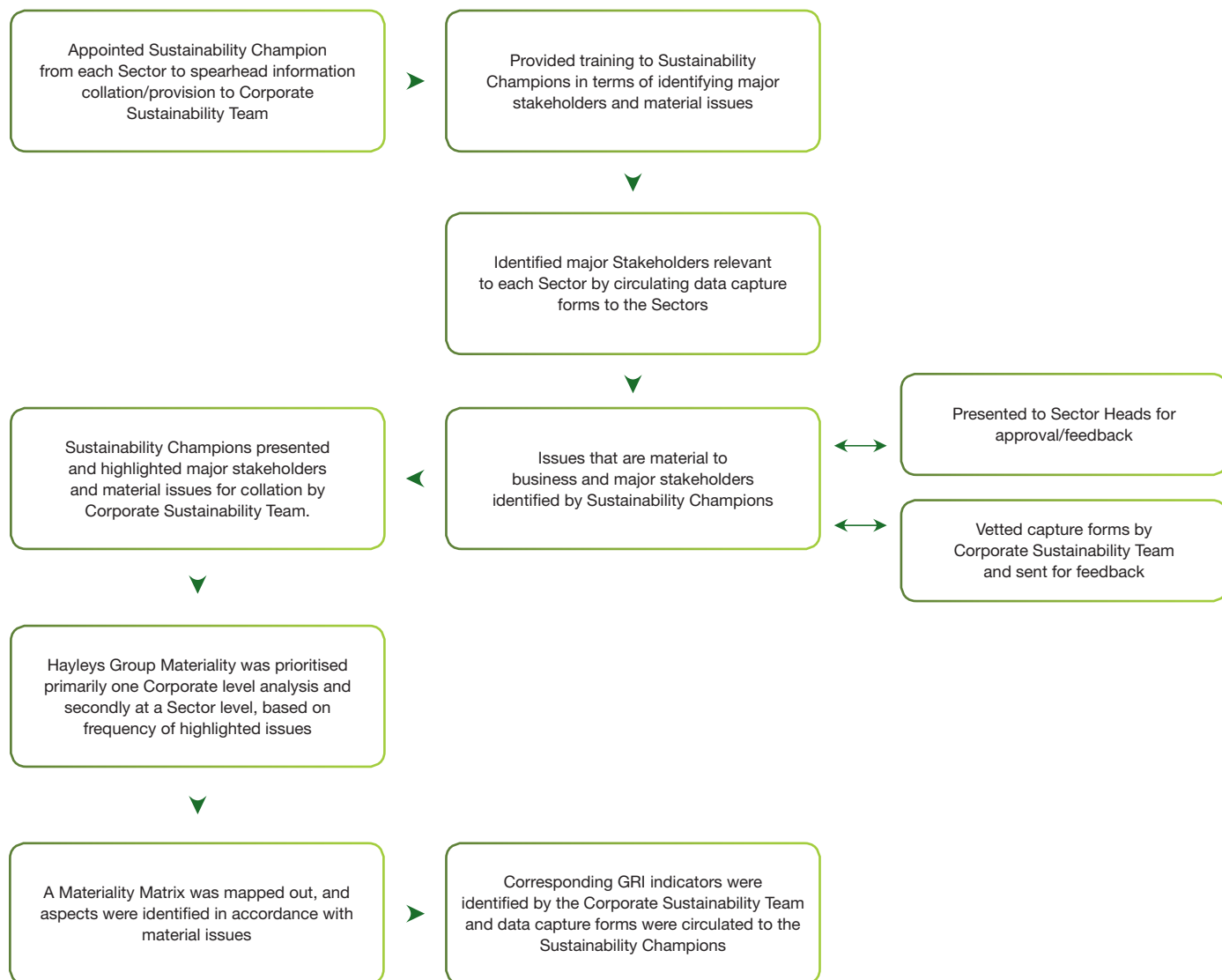
Our business sectors have various mechanisms for engaging with their stakeholders which are described on page 70.

This activity has also facilitated the re-formulation of the Group's Sustainability Strategy and Sustainability Governance Structure.

Data on Environmental and Safety Issues has been compiled from actual operating data maintained by the various businesses, factories, hotels and other units of the Group. Data on Social Responsibility was obtained on-site.

The flow chart on the opposite page depicts the process that was followed by the Group last year on stakeholder engagement and identification of issues material to them and the Group.

Stakeholder Engagement Process at Hayleys PLC



SUSTAINABILITY REPORT

Stakeholder	Process of Engagement and Frequency
Shareholders	<ul style="list-style-type: none"> • Annual General Meeting, which provides an opportunity to review the past year's performance and engage in discussion with the management • Quarterly financial reports, which provide a review of current performance during the year, as do simultaneous media releases • An open door policy, which enables shareholders to visit and obtain information from the Company Secretaries and engage in dialogue • Website, regularly updated • Meetings with fund managers, share brokers and investment analysts • Email address, provided for comments and suggestions
Employees	<ul style="list-style-type: none"> • A performance management system facilitates transparent evaluation, dialogue and performance based remuneration and reward • Formal meetings and less structured contact in the course of work • 'Job Banding' has been launched and upon completion will facilitate uniformity of designations and remuneration, greater transparency and clarity with regard to designations and 'organisational fit' across the companies and sectors • The CEO's Forum quarterly provides an interactive forum with senior management, discussing current performance and future prospects and allowing a frank question and answer session • Monthly meetings of Clusters • Employee intranet, accessible to any employee having access to e-mail • Quarterly internal magazine • The Hayleys Group Recreation Club provides many opportunities for interaction and fellowship across the Group, bringing employees together regardless of rank or designation
Customers	<ul style="list-style-type: none"> • A Customer Satisfaction Index is maintained by many of our companies • Customer Relationship Management (CRM) enables companies to keep in touch with their customers on a regular basis • Regular customer visits and reviews help build and maintain rapport • Events such as Dealer and Distribution Conventions are held periodically
Business Partners	<ul style="list-style-type: none"> • Visits from principals and to principals' locations facilitate engagement • Conventions for partners, distributors and dealers are held once a year or at regular intervals • Robust communication systems enable continuing dialogue on product quality, marketing, customer satisfaction and problem solving • Corporate updates on important group activities via brochures, DVDs and the like • Website, regularly updated • Participation at International Trade Fairs, with a view to expanding network of business partners and reach of product distribution
Community	<ul style="list-style-type: none"> • Social impact assessments carried out in areas of operations to identify risks associated with operating in such communities. • Ongoing community development initiatives and social impact assessments • Other sector initiatives such as dental awareness programs and eye clinics are project based
Government	<ul style="list-style-type: none"> • Regular Meetings, discussions, presentations, representation on national committees and Chambers of Commerce
Society/Pressure Groups/Media	<ul style="list-style-type: none"> • Ongoing Engagements with society, pressure groups and media are carried out via websites, social media channels and interaction with the media • Annual communication of Hayleys' sustainable practices and initiatives through our sustainability report • Quarterly participation at GCNC Sustainability Hub • Annual Communication on Progress (COP) to the United Nations Global Compact

The following sustainability aspects were identified as material based on analysis and stakeholder engagement (the aspects were analysed with respect to stakeholders and to Hayleys PLC and its Group Companies).

Aspects

Economic

- Profitability
- Availability of Raw Materials
- Access to New Markets

Environmental

- Energy
- Water
- Biodiversity
- Emissions, Effluents, and Waste

Social

- Employment
- Labour/Management Relations
- Non-discrimination
- Freedom of Association and Collective Bargaining
- Child Labour
- Forced and Compulsory Labour
- Local Communities
- Corruption
- Product and Service Labelling
- Products and Services
- Marketing Communications
- Compliance

Good Governance...Sustainable Engagement

Hayleys enterprise has been founded on sound principles of governance, as can be expected from an entity with a history of 134 years of operation.

A comprehensive review of Hayleys' governance practices is contained in the chapter, 'Governance at Hayleys' appearing on page 119 to 142 of this Report.



Training on Integrated Pest Management, in Ampara

SUSTAINABILITY REPORT





ENVIRONMENT CONSERVATION FOREST REPLANTING PROGRAMME (FRP)

We recognise the urgency of combating climate change and preserving the planet for future generations. The private sector today has a moral responsibility to engage people to become active agents of sustainable development.

Biodiversity Conservation and Enrichment is a key aspect of sustainability, and the Forest Replanting Programme is a major environmental initiative connected with a larger study and assessment of flora, fauna and biodiversity carried out by a team of environmental scientists. The objective of the Forest Replanting Programme is to plant 7,000 plants over a seven hectare area within the Halgolle Estate. Over 6,000 plants have been planted thus far, with practical participation from both company staff and interested stakeholders from other corporates.

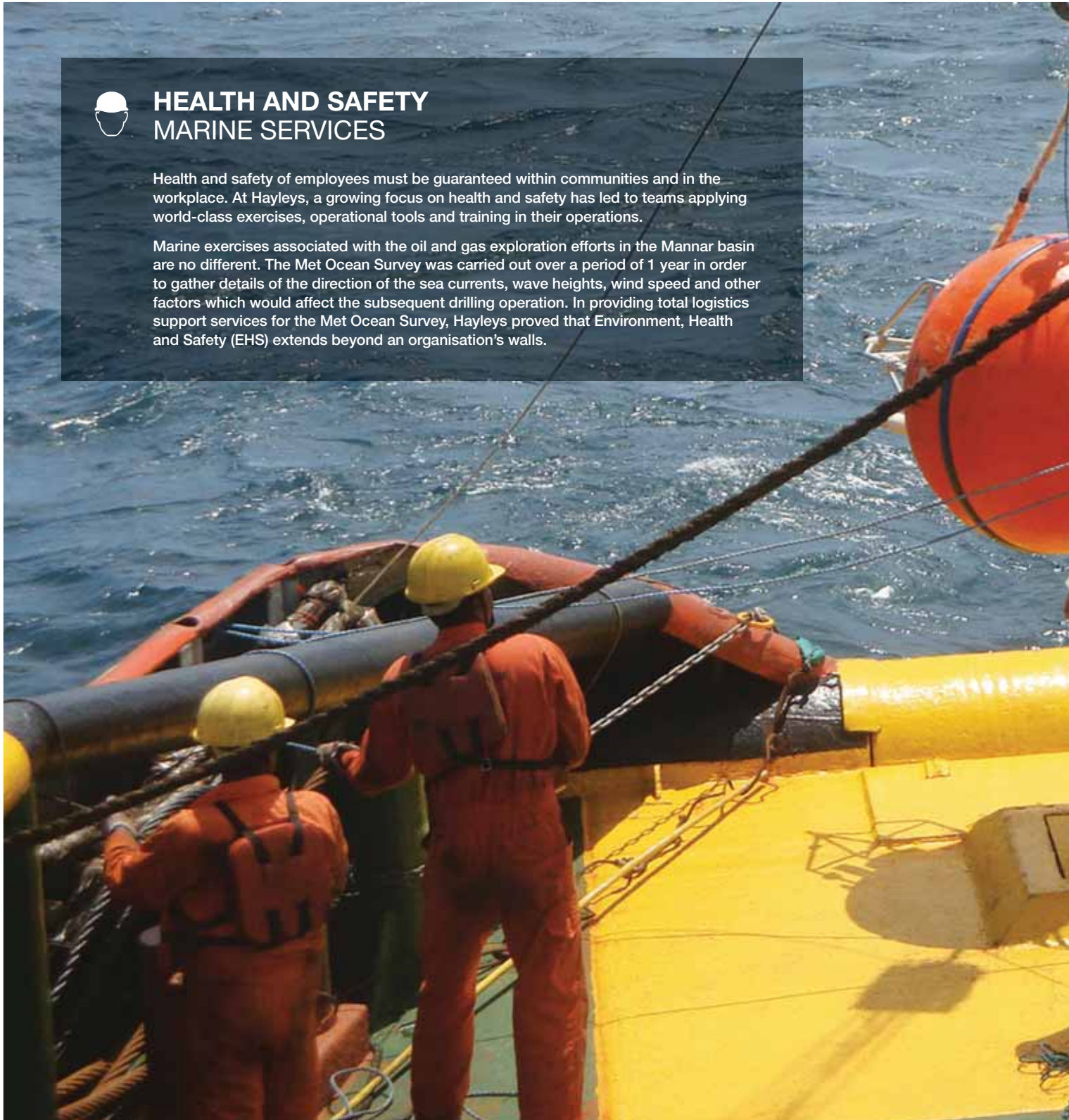
SUSTAINABILITY REPORT



HEALTH AND SAFETY MARINE SERVICES

Health and safety of employees must be guaranteed within communities and in the workplace. At Hayleys, a growing focus on health and safety has led to teams applying world-class exercises, operational tools and training in their operations.

Marine exercises associated with the oil and gas exploration efforts in the Mannar basin are no different. The Met Ocean Survey was carried out over a period of 1 year in order to gather details of the direction of the sea currents, wave heights, wind speed and other factors which would affect the subsequent drilling operation. In providing total logistics support services for the Met Ocean Survey, Hayleys proved that Environment, Health and Safety (EHS) extends beyond an organisation's walls.





SUSTAINABILITY REPORT



COMMUNITIES FIRSTLIGHT INITIATIVE

The spread of our activities across the country, has resulted in our companies being an integral part of the communities they operate in, and hence, assessment of societal requirements are part of everyday interactions at these localities. The Group is mindful at all times of the impact its operations may exert on these communities and conversely, the impact community considerations may have on its business.

'Firstlight' is aimed at improving the quality of life of disadvantaged farmers located in remote villages of Sri Lanka. The foundation of 'Firstlight' is fair trade in rubber latex, in order to empower farmers to be self-reliant and to sustain their families by partnering an ethical business initiative. The Firstlight Foundation addresses wide-ranging issues impacting the lives of these smallholders: from the youngest to the eldest member of their communities.



SUSTAINABILITY REPORT





CUSTOMERS AND SUPPLIERS VEGETATION TRAINING

Hayleys owes much of its growth to its longstanding and mutually rewarding relationships established over the years with suppliers and partners. Our supplier base cuts across geographical and social boundaries; with businesses that are widespread, the impact of our activities on our stakeholder is broad-based and far reaching.

Adopting a strong 'Grow Sri Lanka' orientation, Hayleys has several hundreds of local suppliers who employ many thousands more. They range from raw material suppliers to subcontractors to outgrowers, from all over the country. Many have grown with us, some over several generations and are proud entrepreneurs today.

We work together with farmers in the identification of their needs. Farmer training classes, demonstration programmes and individual visits are conducted by over 200 extension officers island-wide.

SUSTAINABILITY REPORT





GREEN PRODUCTS AND SERVICES TRADING CARBON CREDITS

Hayleys is committed to environmental sustainability in the products we manufacture and services we offer. Eco-friendly products and services within our portfolio include eco-friendly wind and hydro power generation, activated carbon, geotextiles, coir fibre pith, engineering, solutions for pollution control and energy saving lamps.

This year, local engineering skills and innovation led to the achievement of a major milestone, when Hayleys registered and traded carbon credits under the Kyoto Protocol. The credits were awarded to Haycarb's Recogen plant, the world's only pollution-free charcoaling plant, whose environment-friendly coconut shell charcoaling process reduces greenhouse gas emissions and also generates electricity that is supplied to the national grid, contributing towards reducing fossil fuel driven power generation in the country.

SUSTAINABILITY REPORT

ECONOMIC PERFORMANCE

A challenging operating environment notwithstanding, Hayleys Group has posted its best annual earnings in the history of the 134 year old conglomerate.

With Hand Protection, Agriculture and Purification sectors turning in particularly strong performances, the Group improved turnover to Rs. 62.5 bn, growing by Rs. 8 bn of 15% over the 12 months ending 31st March, 2012.

Pre-tax profit more than doubled to Rs. 4.8 bn, and profit after tax grew 212% to Rs. 3.8 bn. While capital gains of Rs. 2.1 bn contributed substantially to these results, profit before tax from operations excluding capital gains reflected a growth of 30%. Hayleys has consciously taken strong positions in industries that have tremendous future growth potential based on long-term economic and socio-political trends. At the same time, we are well aware that with a

paradigm shift in the Sri Lankan economy since 2009, there are new growth areas in the economy that the Group ought to have exposure to. It is well-established that the Leisure sector will be a major growth area in Sri Lanka in the next decade. The exposure of Hayleys to the Leisure sector is holistic, ranging from hotel ownership, management, travel agency and tour operations. The recent acquisition of the Amaya Group has already brought in significant earnings and also brings in synergies in resort management. With the refurbishment of the Ceylon Continental Hotel, Hayleys will have a modern and diverse leisure portfolio, well-positioned to take advantage of the impending tourism boom.

Hayleys investments in wind power and mini-hydro power are also expected to add to the Group's bottom line in years to come as renewable energy takes on ever-increasing significance in a growing economy which demands energy.

Hayleys offers retiring employees defined benefits, which in the year 2011/12 amounted to 881 mn. Comprehensive data on this subject appears in the section - Accounting policies, appearing on pages 162 to 170 of this Report.

The Government's Export Development Rewards Scheme (EDRS) was a stimulus package introduced to reward direct exporters to manage vulnerabilities and risks associated with the global economic crisis. Under this scheme, Group Company, Haycarb PLC received Rs. 9.734 mn for their export activities in 2009/10, during the financial year under review.

Hayleys seeks to recruit Sri Lankans in local areas of operation unless requisite competencies to match the profiles of posts to be filled are not available within Sri Lanka. Hayleys has within its roster, six expats, two at Hotel Services (Ceylon) PLC (Ceylon Continental Hotel) and four at Hayleys MGT Knitting Mills PLC.

A Hayleys JV - The First Private 'Vessel of Enterprise' at Hambantota Port



Pictured is the foundation stone laying ceremony, amidst a gathering of senior government officials and senior representatives from Hayleys and Dragon Asia Fertiliser.

Hayleys PLC and Dragon Asia Fertiliser Ltd. of Hong Kong became the first Private Sector entities to invest in the Magam Ruhunupura Mahinda Rajapakse Port at Hambantota.

This JV between Hayleys and Dragon Asia embodies a commitment to expend US\$ 7 mn to develop a local and international fertilizer transshipment and distribution hub, incorporating fertilizer storage, processing, bagging and distribution activities.

Construction began on the 4th of December, 2011.

Once operational, the state-of-the-art Hambantota International Fertilizer Distribution Hub hopes to attract major fertilizer shipments from the Baltic Sea region to the Port of

Hambantota, by employing its strategic location to deliver freight advantages to buyers in terms of cost and time savings.

Such cost advantages will in turn benefit the local agriculture industry, enabling the local farmers to thrive.

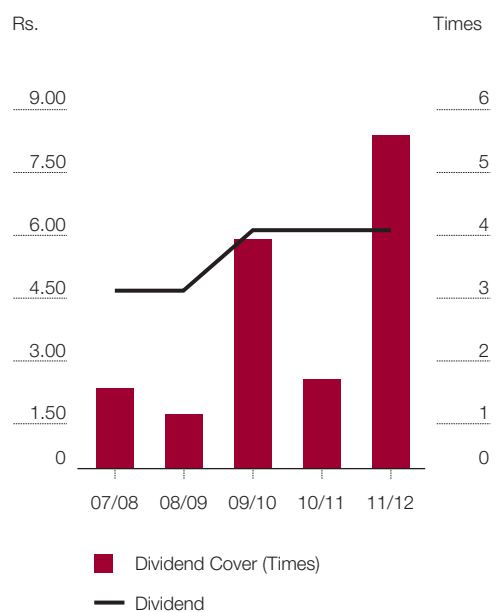
It is envisaged that these bulk fertilizer shipments which arrive at the Hambantota port on larger mother vessels will also be distributed to the Indian subcontinent and South East Asia on feeder vessels.

In addition to attracting fertilizer shipments, the new facility is also expected to open up new markets such as Africa, which has the potential to be catered to, via the Hambantota Port.

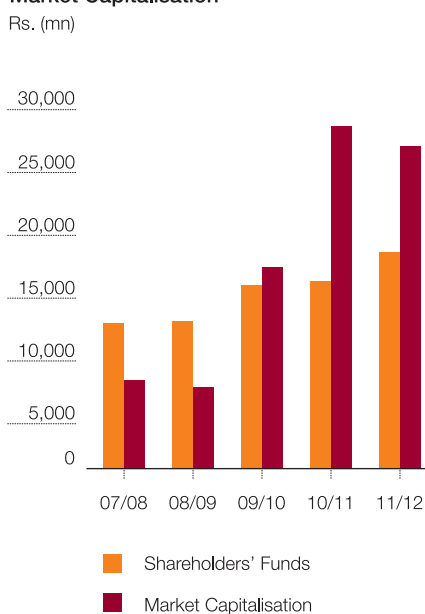
Group Value Addition

		2011/12 Rs.Mn		2010/11 Rs.Mn
Turnover		62,465		54,370
Other Income				
		62,465		54,370
Cost of materials & Services bought in		(43,722)		(40,545)
Total Group Value Addition		18,744		13,825
	Share %		Share %	
To Employees as remuneration	46	8,582	48	8,038
To Government Revenue	17	3,132	14	2,601
Of Sri Lanka	16	2,944	12	2,433
Overseas	1	188	2	168
To Shareholders as dividends	2	300	3	300
To Lenders of capital	15	2,902	14	1,297
Interest on borrowings		1,576		846
Minority interest		1,326		451
Retained in the business	20	3,828	21	1,589
Depreciation		1,621		1,263
Profit retained		2,207		326
Total Group Value Addition	100	18,744	100	13,825

Dividend Vs Dividend Cover



Shareholders' Funds Vs Market Capitalisation



SUSTAINABILITY REPORT

Strengthening the Fibre Industry - A Homegrown Solution

A new wholly locally-designed and fabricated semi-automated fibre processing mill that integrates several stages of the process of extracting fibre from coconut husks has been unveiled in Sri Lanka, significantly enhancing efficiency, product quality, safety and earning potential.

Researched, developed and fabricated by Engineer A. P. S. Luxman Wijesinghe, the new machine has been installed at a Fibre Mill at Nattandiya, following an intervention by the Hayleys Group's Fibre sector subsidiary Ravi

Industries, which supported its inventor by purchasing and leasing out the new machine.

The Hayleys Group's Fibre sector has also pledged to support the manufacture and roll-out of the new machine for the benefit of the local fibre industry, by purchasing five machines and leasing them out to fibre suppliers.

As a Group that has been at the forefront of the coir industry for 133 years, Hayleys, and its fibre sector companies have played a pioneering and enduring role in the development and mechanization of the industry. This latest innovation enhances incomes and working

conditions of fibre industry employees, and improves the quality of their output by significant margins.

Studies have shown that working the new machine for eight hours a day, a fibre supplier can extract fibre from 6000 husks, generating income of Rs 1.2 million for a month of 25 working days, and earning a minimum profit of Rs 250,000 a month after raw material, electricity, maintenance, consumables and labour costs.

Investor Information

History of Dividends and Scrip Issues

Year ended 31st March,	Issue	Basis	No. of Shares '000	Cum. no of Shares '000	Dividend (%)	Dividend Rs. '000
1952	Initial Capital		20	20		
1953	First dividend			20	80	160
1954	Rights (at Rs. 10/-)	1:02	10	30	55	165
1955				30	50	150
1956	Bonus	5:06	25	55	32.5	179
1957	Bonus	3:11	15	70	37.5	330
1958	Bonus	3:07	30	100	20	200
1959				100	10	100
1960				100	18	180
1961	Bonus	1:02	50	150	7.5	262
1962	Bonus	1:03	50	200	15	300
1963				200	15	300
1964	Bonus	1:04	50	250	15	375
1965				250	20	500
1966				250	18	450
1967				250	15	375
1968				250	12.5	313
1969				250	15	375
1970				250	15	375
1971				250	15	375

Year ended 31st March,	Issue	Basis	No. of Shares '000	Cum. no of Shares '000	Dividend (%)	Dividend Rs. '000
1972				250	11	275
1973				250	11	275
1974	Bonus	1:01	250	500	11	275
1975				500	18	450
1976				500	10	442
1977				500	11	460
1978				500	15	584
1979	Bonus	1:02	250	750	15	852
1980				750	16	958
1981	Bonus	1:03	250	1,000	20	1,863
1982	Bonus	1:04	250	1,250	21	2,385
1983	Bonus	1:05	250	1,500	25	3,451
1984				1,500	27	3,774
1985				1,500	27.5	3,525
1986	Bonus	1:03	500	2,000	33	6,600
1987	Bonus	1:02	1,000	3,000	33	9,900
1988	Bonus	1:03	1,000	4,000	33	13,200
1989	Bonus	1:04	1,000	5,000	33	16,500
1990	Bonus	1:05	1,000	6,000	33	19,800
1991	Bonus	1:04	1,500	7,500	33	24,750
1992	Bonus	1:05	1,500	9,000	33	29,700
1993	Bonus	1:06	1,500	10,500	30	31,500
1994	Bonus	4:21	2,000			
	Rights (at Rs. 160/-)	1:05	2,500	15,000	30	40,500
1995	Bonus	1:05	3,000	18,000	30	54,000
1996	Bonus	1:09	2,000	20,000	30	60,000
1997	Bonus	1:10	2,000	22,000	30	66,000
1998	Bonus	1:11	2,000	24,000		
	Share Trust (at Rs. 210/-)		2,400	26,400	30	79,200
1999	Bonus	1:06	4,400	30,800	30	92,400
2000	Bonus	1:14	2,200	33,000	30	99,000
2001	Rights (at Rs. 10/-)	1:11	3,000	36,000	35	126,000
2002	Rights (at Rs. 15/-)	1:09	4,000	40,000	35	140,000
2003	Rights (at Rs. 20/-)	1:08	5,000	45,000	35	157,500
2004	Rights (at Rs. 20/-)	1:09	5,000	50,000	35	175,000
2005	Rights (at Rs. 20/-)	1:10	5,000	55,000		
	Bonus	4:11	20,000	75,000	35	262,500
2006				75,000	35	262,500
2007				75,000	Rs. 3.50 p.s.	262,500
2008				75,000	Rs. 3.00 p.s.	225,000
2009				75,000	Rs. 3.00 p.s.	225,000
2010				75,000	Rs. 4.00 p.s.	300,000
2011				75,000	Rs. 4.00 p.s.	300,000
2012				75,000	Rs. 4.00 p.s.	300,000

SUSTAINABILITY REPORT

Stock Exchange

Interim Financial Statements of the 4th Quarter, for the year ended 31st March, 2012 have been submitted to the Colombo Stock Exchange as required by the Listing Rules.

Market Value

The market value of Hayleys PLC ordinary shares was:

	2011 Rs.		2010 Rs.		2009 Rs.
Highest	426.00	(on 19th April, 2011)	415.00	(on 1st February, 2011)	240.00 (on 12th March, 2010)
Lowest	295.00	(on 3rd November, 2011)	223.00	(on 1st April, 2010)	86.00 (on 07th April, 2009)
Year end	360.00		382.10		225.00

Dividend Payments

Proposed first and final dividend Rs. 4/- per share to be declared on 29th June, 2012 and payable on 10th July, 2012 (2010/11 - first and final - Rs. 4/- per share).

Share Trading

	2012	2011	2010
No. of transactions	1,741	6,916	3,601
No. of shares traded	18,938,893	22,585,884	5,275,900
Value of shares traded (Rs.)	7,188,680,168	7,697,117,910	858,357,100

Ordinary Shareholders as at 31st March 2012

No. of Shares Held	Residents			Non-Residents			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 - 1,000	2,528	503,686	0.6716	40	12,904	0.0172	2,568	516,590	0.6888
1,001 - 10,000	535	1,771,046	2.3614	33	131,038	0.1747	568	1,902,084	2.5361
10,001 - 100,000	166	5,259,914	7.0132	26	613,332	0.8178	192	5,873,246	7.8310
100,001 - 1,000,000	29	8,263,783	11.0184	6	1,901,871	2.5358	35	10,165,654	13.5542
Over 1,000,000	7	56,542,426	75.3899				7	56,542,426	75.3899
	3,265	72,340,855	96.4545	105	2,659,145	3.5455	3,370	75,000,000	100.0000

Category

Individuals	2,992	51,522,923	68.6972	96	2,635,487	3.5140	3,088	54,158,410	72.2112
Institutions	273	20,817,932	27.7572	9	23,658	0.0315	282	20,841,590	27.7888
	3,265	72,340,855	96.4545	105	2,659,145	3.5455	3,370	75,000,000	100.0000

Of the issued ordinary share capital, 96.88% is held by residents of Sri Lanka.

Environmental Performance

At Hayleys, caring for the Environment is inbuilt; it is made up of a host of commitments that have stretched across its network of companies in its 134 year history.

Our efforts have been two pronged. One is to proactively design and manufacture products that protect the environment and second to minimise the impact of our activities. Whilst being conscious of the fact that profit is the *raison d'être* of business, we are mindful that sustainable profit does not happen in isolation of our People and our Planet.

With the need to combat climate change made urgent over the recent years we are mindful of the need to enhance our R&D in environmental protection products whilst intensifying our efforts to minimise.

We take pride in our diverse array of eco-friendly products and services, ranging from activated carbon, coir fiber pith, horticulture products, and our in-house R&D which has pioneered many turnkey solutions for the purification of gases, air and liquids. Not satisfied with merely complying with environmental regulation, we are increasingly seeking accreditations from reputed bodies.

Apart from manufacturing, we also represent leading global brands in agriculture, consumer products, industrial solutions, leisure and aviation and transportation and logistics. Our choice of the most appropriate principal, is not based merely on how commercially attractive the liaison would be, but also on compatibility of eco-friendly principles.

Hayleys has continuously focused on implementing 'best practices', by investing in waste water treatment, air purification, recycling of latex waste/spent activated carbon, reducing

gaseous emissions, noise control, sewage disposal, conservation of energy, recovery of waste gas heat systems, replacement of fossil fuels with renewable energy - mini-hydro and wind-power plants.

Hayleys aims to minimise waste and energy consumption with regard to energy, water, emissions, effluents and waste, whilst managing the environmental impact of waste generation and disposal. These will be done by raising awareness with a view to achieving significant reductions, upgrading current waste collection and disposal systems, assessing current barriers to effective

waste minimisation and overcoming them and developing and improving current capacities for effective waste minimisation through targeted awareness/programmes. We will inculcate better processes at floor level to capture data from the relevant sectors.

Through these initiatives, we aim to realise significant reductions in the quantity of waste, establish sustainable waste minimisation programmes, permanent waste management positions and adopt a Regulatory and Evaluation Mechanism in addition to creating on-going awareness on the subject.

Our 'Black' Carbon Earns 'Green' Credits

Haycarb PLC, the world's largest coconut shell based activated carbon producer, has become one of the first companies in Sri Lanka to successfully register and trade-in carbon credits under the Kyoto Protocol.

The credits were awarded to Haycarb's Recogen Plant situated in Badalgama, the world's only pollution-free charcoaling plant, whose environment-friendly coconut shell charcoaling process reduces greenhouse gas emissions and also generates electricity that is supplied to the national grid, contributing towards reducing fossil fuel driven power generation in the country.

Under the Kyoto Protocol's Clean Development Mechanism, Recogen earned over 4000 Certified Emission Reduction (CER) credits generated during the period 2009/10, for which the Company has received the approved payment.

Each CER is equivalent to a ton of carbon dioxide reduced, which can be 'sold' and set off against greenhouse gas reduction targets as established under the Kyoto Protocol.

Designed and implemented in-house with local engineering and technical expertise, the Recogen project has a patented process for 'Green Charcoaling.' The project allows Haycarb to significantly reduce its carbon footprint, enabling the company to claim that it produces the world's most 'green' activated carbon with the lowest carbon footprint per ton of activated carbon produced.

Haycarb - At the forefront of the 'Black' to 'Green' Revolution!

SUSTAINABILITY REPORT

Hayleys Business Solutions becomes Sri Lanka's first and only CarbonNeutral® BPO



Mohan Pandithage – Chairman and Chief Executive, Hayleys Group (third from left) receives the certificate from Subramaniam Easwaran – Co Founder, Carbon Consulting Company.

Hayleys Business Solutions International (Pvt) Ltd. (HBSI) recently became the first and only BPO in the country to obtain CarbonNeutral® certification.

This pioneering achievement, unique in Sri Lanka's business process outsourcing services industry, was earned after a focused effort by HBSI to adopt practices that reduce or eliminate greenhouse gas emissions. The certificate was awarded by The CarbonNeutral Company, a world-leading provider of carbon reduction solutions.

In accordance with *The CarbonNeutral Protocol*, a global standard for carbon neutral certification, an independent assessment of the Company's CO₂ emissions was undertaken. HBSI has reduced and offset its CO₂ emissions to net zero. As a result, the Company is Sri Lanka's first and only CarbonNeutral® certified BPO Company, as verified by an independent organisation.

HBSI has already implemented several energy management initiatives in accordance with its offset-inclusive emissions reduction programme.

Materials - Consumed and Recycled

Our Group is engaged in a wide diversity of business and consequently, consumes a wide variety of materials. Keeping track of our material consumption facilitates the monitoring of material efficiency and cost of material flows.

We reported all available data on materials last year. However, we find that it is more useful and progressively valid to track the top few materials of each sector and focus on their consumption and monitoring. Therefore, we have decided not to provide information on this for 2011/12 and we are committed to reporting this next year.

Reclaiming Packaging Material

Hayleys maintains a responsible stance with regard to disposal of waste material.

We use packaging material in our Agriculture Export business. A variety of materials such as paper cartons, jars, pouches, plastic barrels, cardboard barrels and cans are reclaimed through the direct buyer who does further processing of the product at their warehouse. Out of 44.8 MT of packaging material used, 8.5 MT was reclaimed during 2011-12.

Our Carbon Footprint

We have commenced measuring and reporting our greenhouse gas (GHG) emissions on a voluntary basis from the year under review. It is based on the guidelines provided in the revised edition of WBCSD/WRI Greenhouse Gas Protocol Corporate Accounting and Reporting Standard.

This is our first attempt, and hence, there are some limitations. The organisational boundary is broadly the same as that used in our GRI-based Sustainability Report, except that not all companies are included in the GHG emissions (carbon footprint) computation due to non-availability of data. The other main limitation relates to the few estimates that had to be made in respect of some measurements.

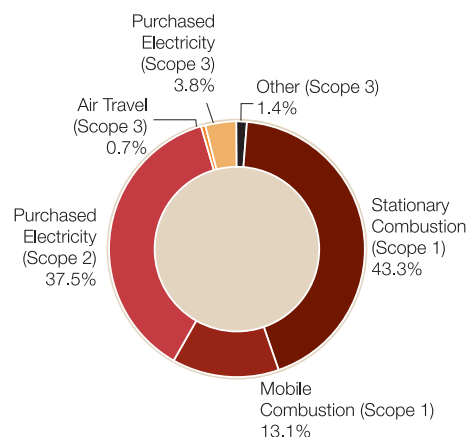
Nevertheless, we have made a bold start, as we believe what gets measured gets managed. We plan to refine our data capture and validation processes as we go along, and also ensure that there is a fuller representation of entities that come within the defined organisational boundary when we report our carbon footprint next time. We are reporting each entity separately to maintain year-on-year comparability.

Financial control is being used as the basis for consolidating the GHG emissions of the reporting entities. Accordingly the consolidated carbon footprint of the Hayleys Group during the year under review amounted to 54,014 tonnes carbon dioxide equivalent (t CO₂e) subject to the limitations noted above.

As will be seen from the table giving the carbon footprint of reporting entities, direct GHG emissions arising from stationary combustion sources, a Scope 1 item, accounted for 43% of the Hayleys Group total. This is closely followed by an almost 38% share from purchased electricity (an indirect source of emissions) consumed in facilities owned by the reporting entities and reported under Scope 2. Indirect emissions from purchased electricity consumed in premises under an operating lease accounted for almost 4% of the Group total and are reported under scope 3 as per the chosen GHG consolidation approach. The Dipped Products Group was the largest GHG emitter among reporting entities and accounted for 30% of the total emissions of the Hayleys Group, followed by the Haycarb Group with a 21% share of the total. Both Dipped Products and Haycarb are large manufacturing Groups serving global markets. Haycarb's figure for the year under review is considerably lower than what was reported in the previous year. This is due to the exclusion of direct carbon dioxide emissions from biologically sequestered carbon arising from the combustion of biomass, which do not get reported under the GHG Protocol scopes.

These are preliminary findings that offer some insights despite the limitations noted above. We will continue to develop our systems and procedures for the faithful representation of our GHG emissions in the years ahead with the objective of producing credible and unbiased information. That would not only make us a more environmentally responsible corporate citizen but also contribute positively to bottom line profits through more effective and efficient resource utilisation.

Share of GHG Emissions by Source



SUSTAINABILITY REPORT

Carbon Footprint (tonnes Co₂ Equivalent)

Sector and Reporting Entity	Scope 1		Scope 2	Scope 3			Total GHG Emissions by Entity	Share of GHG Emissions by Entity
	Stationary Combustion	Mobile Combustion	Purchased Electricity	Air Travel	Purchased Electricity	Other		
Global Markets & Manufacturing								
Fibre								
Fibre IFL (Group)	124.32	64.07	1,160.58	18.00			1,366.97	2.5%
Ravi Industries Ltd.	27.45	33.63	428.91	14.24			504.23	0.9%
Rileys (Pvt) Ltd.	38.79		504.60	3.55			546.94	1.0%
Hand Protection								
Dipped Products Group	10,270.05		5,982.85	74.12			16,327.02	30.2%
Purification								
Haycarb Group	8,963.30	971.74	1,272.43	40.99			11,248.46	20.8%
Construction Material								
Alumex Group	2,313.12	1,353.37	2,282.71	5.67			5,954.87	11.0%
Agriculture								
Agriculture								
Agro Technica Ltd.	53.10		38.83				91.93	0.2%
Haychem (Pvt) Ltd.	5.38	11.24	57.19	3.54			77.35	0.1%
Hayleys Agro Bio Tech (Pvt) Ltd.		20.12	138.69	2.04			160.85	0.3%
Hayleys Agro Fertilisers (Pvt) Ltd.		120.20	39.95	26.41			186.56	0.3%
HJS Condiments Ltd.	610.72	115.81	301.68	13.96			1,042.17	1.9%
Quality Seed Company (Pvt) Ltd.	36.73	11.67	35.52	5.14			89.06	0.2%
Sunfrost (Pvt) Ltd.	4.32	925.12	50.90				980.34	1.8%
Plantations								
Kelani Valley Plantations PLC	227.59	1,377.50	3,522.85				5,127.94	9.5%
Talawakelle Tea Estates PLC	49.22	619.60	2,469.36	4.40			3,142.58	5.8%
Transportation & Logistics								
Hayleys Advantis Group	11.84	1,450.78	658.66	95.18	191.26	48.31	2,456.03	4.5%

Sector and Reporting Entity	Scope 1		Scope 2	Scope 3			Total GHG Emissions by Entity	Share of GHG Emissions by Entity
	Stationary Combustion	Mobile Combustion	Purchased Electricity	Air Travel	Purchased Electricity	Other		
Consumer Products Group				14.48	72.03	717.24	803.75	1.5%
Leisure & Aviation Hotel Services (Ceylon) PLC	673.24			42.14	1,766.10		2,481.48	4.6%
Industry Inputs Hayleys Industrial Solutions (Pvt) Ltd.			67.77	5.09			72.86	0.1%
Investment & Services Hayleys Business Solutions International (Pvt) Ltd.				3.91	47.34		51.25	0.1%
Holding Company Hayleys PLC	5.19	27.68	1,261.50	7.07			1,301.44	2.4%
Total GHG Emissions by Source	23,414.36	7,102.53	20,274.98	379.93	2,076.73	765.55	54,014.08	
Share of GHG Emissions by Source	43.3%	13.1%	37.5%	0.7%	3.8%	1.4%		100%

Energy Savings Earned from Conservation

The Agricultural sector introduced a new method for pasteurising which achieved a 23% reduction in consumption of furnace oil. They also installed Variable Speed Drive (VSD) controllers for two specific functions, achieving 65% savings and reducing electricity consumption by 65%.

Water - Consumed, Recycled, Reused

Across the Group, constituent companies have in place strategies and initiatives towards water conservation.

For the year under review Hayleys consumed 4,310,582 m³* water and 457,284.8 m³ ** was recycled/reused.

* *Advantis, Agriculture, Alumex, DPL, Fibre, Haycarb, KVPL and TTEL*

** *Advantis, Agriculture, DPL, Fibre, KVPL and TTEL*

We are committed to report on businesses within the manufacturing, agriculture and plantation sectors as these are primary consumers of water. We will set in place capture mechanisms at a corporate level and we hope to report more comprehensively next year.

SUSTAINABILITY REPORT



Biodiversity Conservation and Enrichment

In the true spirit of conducting sustainable business, Hayleys takes many an initiative to safeguard biodiversity in terms of the Hayleys Group Environmental Policy. With vast extents of land under its management, it is the plantation sector that is most relevant in this context. We are guided by a comprehensive Biodiversity Assessment Inventory of fauna and flora within all our plantations. We have also developed a check-list to identify High Conservation Value Forests (HCVF) within our plantation boundaries.

Biodiversity is rich across all elevations, with a high proportion of endemic flora and fauna.

Kelani Valley Plantations PLC (KVPL) has a range of initiatives in force, to protect the environment.

Good agricultural practices are in place, which often exceed the stipulations of the Tea and Rubber Research Institutes. This has helped the Company gain GLOBAL GAP certification for all its estates.

Wewalthalawa Conservation Forest is an unexplored biodiversity hot spot and is home to more than a hundred different vascular plants, birds, reptiles and mammals. Recent studies have revealed that there are unidentified plant species. It has magnificent sightseeing places such as Dripping Rock, Mini World's End, Waul Lena, Olu Ella and natural swimming pools.

Situated in the Yatiyantota area, Halgolle Estate is home to exotic flora and fauna and its topography consists of natural hill crest formations which have been preserved by the Company in their natural state.

The specific initiatives taken in this regard included the following:

- Establishment of buffer zones
- Leaving of wildlife corridors
- Setting aside land for conservation and protection
- Enrichment of conservation forests
- Continued tree planting programme in denuded areas which commenced in 2009

Given below are the details of this major biodiversity conservation project carried out by the Group.

Location	Halgolle Estate
Size (km ²)	930 Ha
Activity	Conservation and Enrichment of Biodiversity
Name of third party partnership, if any	International Union for Conservation of Nature (IUCN)

Forest Replanting Programme (FRP) is one of the key aspects of KVPL's environmental initiatives which also include the study and assessment of flora, fauna and biodiversity carried out by the team of environmental scientists. This team was led by the specialist in the field attached to the UN. The Forest Replanting Programme involves the planting of 7,000 plants over 7 Ha, at Wewalthalawa Conservation Forest.

The Deutsche Bank Asia Foundation with the collaboration of KVPL, carried out the 2nd phase of the Halgolle Biodiversity initiative by planting native tree species in denude areas at Wewalthalawa in Halgolle Estate.

The participants had hands-on experience in preserving nature for future generations. Halgolle, is an ideal location for people living in cities to experience nature first hand.

Social Performance

With businesses that are widespread, the impact of our activities on our stakeholders are broad-based and far reaching. The spread of our activities across the country, has resulted in our businesses being an integral part of the communities they operate in, and hence, assessment of societal requirements are part of everyday interactions at these localities.

This segment of our report deals with the impacts Hayleys enterprise has on the social systems within which it operates. We are mindful of our calling; to deal responsibly and fairly with the different stakeholder groups and whilst we seek to achieve our business goals, we simultaneously commit ourselves to the development and well-being, and the empowerment and enrichment of the lives of all our stakeholders whilst not compromising good ethics. In this section, we examine this aspect in greater detail. Our reporting is structured around the key segments of Employee Relations, Human Rights, Customer Relations and Society.

People...The Human Stakeholder

At Hayleys, we believe that people make the difference between a good organisation and an excellent one. The Group consists of over 36,000 employees. The aspirations, competencies and commitment of our people are at the heart of all our achievements. Thus we develop and implement programmes and strategies for them; our most valued resource.

We recognise the importance of individual contribution through our performance management system which is linked to the rewards of each individual. We promote career growth and advancement within the Group through talent management and succession planning programmes. Our Human Resources Information System facilitates informed decision-making by maintaining up-to-date employee information.

In this segment of our Report, we will be looking at the many ways our enterprise impacts the lives of employees and the manner in which Hayleys has striven to handle such interaction in the most sustainable manner possible.

Moulding a Winning Team... Our Employees

We have in place the structure and culture that equips us as an organisation to win in a dynamic environment. Therefore, we believe that when putting together a winning team we require the world's best in talent and skill to meet today's challenges.

Our goals are to attract, develop and retain talent which is crucial for our continued success. In order to ensure this we constantly audit the skill requirements across the Group and in our key global functions in order to ensure we have the required human resources in place to successfully run and expand the business while guaranteeing less adversity to the environment.

Part of our winning culture is to constantly support our employees' growth by helping them reach their full potential. We have developed a new performance-based reward structure that recognises people who have delivered exceptional results and who practice our corporate values. We have analysed and further enhanced the process of setting goals for our employees, ensuring it gives a more precise direction on priorities and responsibilities.

Furthermore, we have developed performance measures that allow us to introduce more customised and diverse ways to reward people and promote excellence on all levels within the Company.

SUSTAINABILITY REPORT

Profiling the Hayleys Employee

Workforce by Employment Type/Contract

Sector/Company	Executive & Above	Clerical & Supervisory	Manual Grade	Total
Fibre	154	145	1,308	1,607
Hand Protection	213	111	1,582	1,906
Purification Products	204	73	702	979
Textiles	179	265	665	1,109
Construction Material	55	91	259	405
Agriculture	208	254	735	1,197
Plantations	196	1,193	23,842	25,231
Transportation and Logistics	603	1,580	82	2,265
Power and Energy	119	63	13	195
Consumer Products	94	130	1	225
Leisure and Aviation	229	566	268	1,063
Investments and Services	162	33	6	201
Total	2,416	4,504	29,463	36,383

Figures above include permanent, contract and casual employees as well as those from overseas locations and those contracted through third party service providers.

Security Staff of the Group

Security is outsourced and several service providers are utilised. Within 74 locations, 502 security service personnel are contracted. Janitorial staff are also outsourced and these numbers will be provided in future reports.

Employee Category-wise Turnover

Turnover % - Permanent + Contract				
	Executives & Above	Clerical & Supervisory	Manual Grade	Total
Turnover	289	242	201	732
Ave HC	2,157	2,653	2,514	7,324
Turnover %	13.40	9.12	8.00	9.99

This excludes Casual staff/Overseas staff/Service Provider staff of the Group and Manual grade staff of plantation companies.

Steps have already been taken to capture staff turnover gender-wise and will be reported in next year's Sustainability Report.

Caring for the Hayleys Employee Our Exclusive Benefit Package

Full-time employees are entitled to reimbursement of medical and professional expenses. Through the Group's Recreation Club, financial support is disbursed to staff for weddings, newborns, prizes for employees etc. Employees of the Hayleys Group with service spanning 15 years and beyond are recognised at Long Service Awards Ceremonies at a sector level.

Emoluments to part-time and temporary employees are confined to the payment of their basic salary and statutory dues. They are not entitled to employment benefits which are granted to full-time employees.

Enshrining a Right

Freedom of Association is a right enshrined in the Hayleys ethos. All labour representation enjoys a collective bargaining process and agreements are prevalent in all relevant operating centres of the Group.

Sector	Number of employees covered by Collective Bargaining Agreements
Fibre	297
Hand Protection	376
Purification Products	301
Plantation	23,393
Agriculture	70
Total covered by CBAs	24,326
Total permanent employees	30,275
Percentage	80.35

A Planned and Deliberate Approach to Operational Change

Hayleys extends due notice to staff regarding impending operational changes. Due to the diversity and individual characteristics of each cluster, such lead times may change from one company to the other. However, the Group strictly maintains the right of staff to receive adequate

and timely notice of such moves, although no specific provision has been made in the collective agreements with regard to the minimum notice period(s) for effecting significant operational changes.

Keeping Staff Healthy and Safe

What we promote for our long-term prosperity is also for the sustainability of our employees. As part of our sustainability strategies, we have set targets for creating a better, healthier and committed workplace. Part of this initiative includes reducing workplace injuries, accidents and improving employee fitness and nourishment.

Health and safety of employees must be guaranteed within the workplace and in external communities and operations. At Hayleys, a growing focus on health and safety has led to teams applying world-class exercises, operational tools and training in their operations. We aim to drive forward an integrated management system on Environment, Health and Safety, and Quality in an attempt to bind all Group companies to high levels of social accountability standards at the workplace.

Worker Representation on Health and Safety Committees

Sector	% of Worker Representation
Transportation and Logistics	13
Agriculture	10
Fibre	4
KVPL	5
TTEL	3
Hand Protection	11
Purification Products	4

Preventive Strategies for Managing Health and Safety

Hayleys has many programmes within the Group to address these concerns.

Group constituent companies conducted training programmes across subjects such as Conflict Management, Best Practice, Health and Well-being, First Aid, Safe Behaviour, Reproductive Health Issues (STD/HIV/AIDS), TB Awareness and Dental Health Awareness.

Training and Developing Employees

Our workforce is an important part of our business success. It is in our interest to ensure that apart from other forms of growth that they are also supported by the Company to acquire skills and competencies that will enable them to fulfil their career paths with great distinction.

Hayleys has a strong reputation for the quality of its management and workplace training. Training is the core on which all skills and capabilities are developed and enhanced.

All training processes provided by the Hayleys Group are designed to upgrade skill levels, develop the individual, promote career advancement and pay heed to the 'life after career' aspect of every employee.

Twenty seven Training Programmes were carried out by Hayleys for employees across the Group in the year under review, covering sustainability awareness, finance and accounting, business communications, project management, mentoring to name a few areas.

Training

Highlighted below are the significant Group-wide training initiatives for 2011/12

Internal

- Orientation Programmes conducted twice every quarter.
- Speechcrafter Programme – successful completion of two more batches (completing a total of 6 batches). Trained by the Toastmasters of Nations Trust Bank.

SUSTAINABILITY REPORT

- Business English courses - successful completion of two more batches, and the introduction of the pre-intermediate level programme, facilitated by the Wendy Whatmore Academy.
- Training Needs Analysis (TNA) training for those in the Group. This programme preceded the training needs identification process for the FY2012/13.
- A Group-wide programme introducing the concept of mentoring its practices and benefits.

External

- Participation at the Chartered Accountants, Sri Lanka - INSEAD Global Leadership Programme; aimed at grooming high-end corporate executives and business leaders with global leadership qualities necessary for today's ever evolving business context

We present below the relevant data by business segment:

Average Hours Training Per Year (in hours)

Sector/ Company	Executive Management	Clerical/ Supervisory	Manual Grade
Transportation and Logistics	5,743	505	–
Agriculture	1,530	1,564	2,700
Construction Materials	774	212	43.5
Hand Protection	5,801	358	13,883
Fibre	266	1,437	798
Purification Products	3,477	–	1,351
HBSI	67	–	–
TTEL	1,694	9,585	32,440
KVPL	1,893	10,712	36,256
Consumer Products	877	1,536	–

Performance and Career Development Reviews

The Employee Performance and Career Development Process is widely applied across all constituent companies of Hayleys PLC. 100% of employees receive performance and career development reviews.

The online Performance Management System (PMS) has been implemented across the Group. Group companies (with the exception of new business acquisitions, Amaya Leisure PLC, Mabroc Group and Alumex Group, which would go on-line towards end 2012) implement performance evaluations using the automated Performance Management System (PMS).

Refresher sessions and performance review meetings were conducted to ensure the sustainability of the initiative and continuous improvement of the system.

Rewards are linked to the performance rating of each individual. The annual performance based merit increment is granted for employees' performance during the previous year.



Hayleys Advantis launched "Saluting Our Stars" on the 7th of December, in four separate events to capture all sector staff. The Recognition Scheme is designed to ensure that all aspects of an employee's contribution are recognized and rewarded.

Technical Competencies

Technical competencies for all executives and above at the Fibre Cluster were identified and descriptors were developed as a first step to minimising the technical competency gaps within the sector.

This project will be extended to other Group companies within the financial year 2012/13.

Job Banding

In order to maintain standardization of 'jobs' and 'remuneration and benefits' structure across the Group, a requirement was to evaluate and band all jobs based on an evaluation methodology. Hence 'Job Banding' was introduced in February 2010 initially to the Hayleys Advantis Group and thereon to Hayleys Travels and Hayleys Consumer where, a day's workshop on Job Description (JD) writing and Job Evaluation for selected individuals were conducted during the year under review.

Further to the initial training, another session was organized to a selected group of individuals who were solely responsible for ensuring that all JDs across the Group were written as per the new JD format.

All completed JDs were then evaluated as per a scientific tool used by a team of trained personnel. These evaluated jobs will be banded into grades and finally pay scales and benefits will be identified accordingly.

The above methodology will be applied to all sectors within the Group.

Hayleys Management Trainees Programme

The Hayleys Group Management Trainee programme was launched on the 15th of March 2012 with a group of promising young graduates coming on board for the career experience of their lives.

Our Management Trainee programme aims to develop young graduates to be competent executives who have the potential to be developed into management roles 'as future leaders' within our businesses from two to three years of recruitment

The programme will provide overall exposure specifically within the business sectors and the Group in general whilst developing managerial competencies, knowledge, attitudes and behaviour enabling them to perform effectively to achieve our business objectives.

The Management Trainees will go through a group-wide orientation with exposure to all our diverse business sectors and thereafter engage in trainings and specific projects centered at Sector level. The training plan also includes quarterly evaluations and a final assessment at the end of the 12 month programme to determine their suitability to be recruited as an executive to the relevant company.

Human Rights - Our Approach

The Ten Principles promulgated by the Global Compact (UNGC) concerning human rights, labour, the environment and anti-corruption, underpin every endeavour at Hayleys Group.

The Group is a signatory to these principles. All Hayleys companies are guided by the principles of the UNGC and Sri Lanka's legal and regulatory regimes concerning safeguarding of human rights.

Diversity and Equal Opportunity

Hayleys Group is an extremely diverse organisation in terms of its ethnic and cultural make-up. The composition of our management and workforce teams using tested parameters also highlights the aspect of equal opportunity that prevails within our Group.

There is no disparity in terms of salary across all positions in the Group with respect to gender. Salary distinctions are based on factors such as performance and market comparisons for the relevant skill group.

No employee of the Group is forced to work more than the number of hours stipulated by law.

In areas of the Group where extended working hours are required by the nature of business, a roster system is followed to ensure an equitable division of working hours for every employee.

Hayleys PLC has put in place a comprehensive Grievance Handling Policy that ensures employee grievances are heard and resolved as expeditiously and as satisfactorily as possible. The Group employs a multi-layered format where grievances unresolved at immediate supervisor level will be channelled further up the administrative chain until resolution is reached. There have been no instances of grievances reported related to discrimination or human rights during the period under review.

As a matter of policy, Hayleys PLC does not employ anyone under the age of 18. Whether in our direct recruitment regime or when sourcing labour requirements through third party suppliers, this policy is firmly enshrined.

In line with the very clear stance Hayleys adopts in eschewing any form of forced or compulsory labour in operations across its supply chain and whilst we are extremely familiar with the position and practice of third party contractors in this regard, we do recognise the need to bring this aspect into the formal agreements we sign with such parties. Hayleys is already working on making this a reality, and we look forward to reporting our progress next year.

Labour Contractor's Agreement

Hayleys finalised the new labor contractor agreement in English and Sinhala in order to ensure a quality labour supply while maintaining the statutory requirements.

Risk Mitigation of Workers' Rights

Hayleys is addressing existing policies to take care of matters relating to human rights and currently fully supports the right of Freedom of Association, Collective Bargaining and enactment of Collective Agreements.

Twelve companies within the Group operate Collective Bargaining Agreements with four unions. Employees are fully supported to engage in dialogue with the Company on any issues they wish to voice and seek redress on.

We are an equal rights employer, with an open door policy and conduct all our business dealings with stakeholders without bias. During the year under review, we have had no reported restrictions on freedom of association and collective bargaining and incidents of child labour in violation of this ethic.

All security personnel have been outsourced. Contractors implement basic level training for their personnel before they are deployed for duty. Monthly meetings at Hayleys ensure standards are met. Any instances of violations are recorded. To date there have been no violations of human rights.

In Support of Society at Large

Hayleys' enterprise touches lives far beyond office, factory or estate. In this section we present an account of our activities for the year under review.

Buying Local

Hayleys has a traditional policy of procuring most of its materials and services locally. Imports are resorted to only if a requirement is not locally available.

Our contribution to the country's economy is substantial through this practice, given the size and scope of Hayleys' diversified operations.

SUSTAINABILITY REPORT

Special mention is merited on the operations of HBSI, which holds a BPO in Uduwil in Jaffna in partnership with the Foundation for Advancing Rural Opportunity (FARO). When selecting employees, preference is given to those in the locality.

We Care for Society and its Well-being

Hayleys' social commitment is an established part of its sustainability strategy and corporate policy. We are a part and parcel of the society and we believe in being a responsible corporate citizen. We see this as an investment in society's future and a long-term contribution to a positive business environment. Our Group policy outlines targets to grow the business while reducing our carbon footprint and increasing the positive contribution we make to society. As part of our social commitment we have successfully carried out numerous society and environment-based projects throughout the country.

The main sectors that conduct business within specific communities are Agriculture, Plantations and Manufacturing. Out of the total number of Agriculture and Plantations operations, 100% are covered by impact assessment programmes. Out of the manufacturing industries, three out of five sectors conduct such programmes. More information is provided below.

Plantations' Bought Leaf Operation

This is a separate initiative to issue tea plants and fertilizers to the Bought Leaf suppliers to improve their properties along with free transport for their produce and advisory/consultancy services.

Outgrowers and Extension Services

The outgrower system and extension services around the island are an acclaimed backward integration venture that enhances supplier relations and provides steady income streams to farmers throughout the country.

The Buy Back Agreement with the farmer community assures adherence to commitments made. Growing of fruits and vegetables through farmers in the operation is further supported by conducting impact assessments, reviewing of farmer income, profitability/sustainability, development programs, extension services and training for higher productivity. Thereby the company is not only ensuring the best of products for their customers but are creating entrepreneurs in the rural areas.

Firstlight

The local community engagement project 'DPL Firstlight' was launched in June 2007 and is ongoing within all plants in all locations in DPL's Sri Lankan operations. Farmer training and community capacity development are still at the forefront of this internationally acclaimed initiative.

A Home for Every Plantation Worker

Our Plantations Sector, spearheads an ongoing initiative - the 'A Home for Every Plantation Worker' and is also extremely proactive in the health arena, conducting clinics and awareness programmes on eye (including cataract surgery and provision of spectacles) and dental care, dengue disease, prevention of alcoholism, cancer prevention, AIDS, typhoid etc. An ambulance service also operates within the plantation region.

Working through the Estate Worker Housing Co-operatives, loans are provided for estate housing improvement, purchase of vehicles, and redemption of mortgaged properties all of which aid community capacity building. The Company also educates the estate community on effective use of loans, household cash management and savings programmes.

Effective programmes conducted for empowerment of estate youth included courses in sewing, bridal and beauty care, self-employment and home gardening.

Other Initiatives

Other Group companies from the Manufacturing and Agriculture sectors provided vocational training for school leavers across a gamut of enterprise and Regional Centres to facilitate technology transfer, imparting of knowledge and agronomy updates.

Being Aware...that 'Corruption Can Corrupt'

Hayleys Group has always conducted its business within a strict framework of integrity and ethics, with zero tolerance of corruption.

We are guided by the UNGC and our Corporate Values. Many of our subsidiaries have extended this core value by incorporating it in their own guides, handbooks and codes.

Within the Group, 166 staff members were trained in specific disciplines of anti-corruption during the year.

Participation in Public Policy Development and Lobbying

Hayleys PLC makes no financial or in-kind contributions to political parties, politicians or related institutions.

Hayleys PLC plays an active and participatory role in the public policy development domain. Ours is also a clear voice when lobbying issues of relevance.

Given below is a complete list of trade organisations/chambers in which Hayleys Group has affiliations with.

Type of Membership	Council	Role
Vice President of Sri Lanka	Vietnam Business Council of the Ceylon Chamber of Commerce	Facilitate trade and investment between Sri Lanka and Vietnam
Committee Member	Environmental Management Systems Users and Promoters Association	Dedicated to mobilise development and maintenance of sound Environment Management Systems (EMS)
Presidency	Agricultural Machinery Manufacturers' Association	Enhancing local industry through the provision of agricultural machinery
Directorship	Sri Lanka Institute of Nanotechnology (NANCO)	Enhancing technology based economic development in Sri Lanka via innovation
Executive Committee Membership	National Agribusiness Council	Contributing to the growth of Sri Lankan Agri related business
Committee Membership	Committee on Biotechnology of the National Science Foundation	Active involvement in promoting research, development and innovation in the field of biotechnology
Committee Membership	Ceylon Chamber of Commerce	Enhancing business networking via affiliated associations and bilateral business councils.
Executive Committee Membership	CropLife, Sri Lanka	Promoting the safe use of pesticides for crop protection
Committee Membership	University Grants Commission	Supporting the development of a University System of the highest quality appropriate to national needs and aspirations, in keeping with global trends
Committee Membership	Institute of Food Science & Technology	Strengthening and sustaining Sri Lanka's food industry
Committee Membership	Seed Producers Association of Sri Lanka	Involvement in producing, processing, certifying and distributing seed and planting material to farmers
Corporate Membership	All Island Poultry Association (AIPA)	Ensuring sustainability of the poultry industry in Sri Lanka
Director	Plantation Human Development Trust	Providing sustainable development programs in the plantations industry
Vice-President and Secretary	Friends of Horton Plains, Talawakelle	Enhancing sustainability in the Nuwara Eliya district
Committee Member	Ceylon Rubber Traders Association	Representing the interest of rubber sellers
Committee Member	Planters Association	Representing the interests of regional planters
General Council Member	SLASSCOM	Promoting research and innovation
Network Representative & Board Membership	Global Compact Network Ceylon	Facilitate the progress of companies engaged in the Global Compact with respect to implementation of the ten principles of the Global Compact in Sri Lanka.
Advisory Council Membership		Acts in an advisory capacity to the CASA Executive Committee
Executive Committee Member	Ceylon Association of Ships Agents (CASA)	Decision-making role with regard to related to shipping matters.
Member of Committee of Main Lines & Feeder		Address operational matters and reports to the Executive Committee
Member of the Ocean Freight Sub Committee	Sri Lanka Freight Forwarding Association	Committing towards the promotion, development and protection of the Sri Lankan freight forwarding industry
Committee Member	Ceylon Chamber of Commerce - Sri Lanka - Russia Business Council	Facilitate trade and investment between Sri Lanka and Russia
Committee Member, Infrastructure Committee	Ceylon Chamber of Commerce	Contributing to physical infrastructure development
Director	Sri Lanka Port Management and Consultancy Services Limited	Contributing to Port development

SUSTAINABILITY REPORT

Type of Membership	Council	Role
Executive Committee Member	Association of Clearing and Forwarding Agencies	Providing support and leverage to the shipping industry
Executive Committee Membership	Association of Container Depot Operators	Supporting the interest and business of Container Depot Operators in Sri Lanka
Steering Committee Member	Council for Business with Britain	Promoting bilateral trade between Sri Lanka and Britain
Executive Committee Membership	Association of Container Transporters	Enriching and setting standards of the container transport industry in Sri Lanka
Director	American Chamber of Commerce	Encouraging trade, business and investment activities between Sri Lanka and the United States of America.
Steering Committee Member	Ceylon Chamber of Commerce	Ports, Shipping, Aviation and Logistics Council Supporting growth and competitiveness of shipping, aviation and logistics industries
Vice President	Ceylon Chamber of Commerce - Sri Lanka	France Business Council Facilitate trade and investment between Sri Lanka and France
Vice President	Chartered Institute of Logistics and Transport	Encouraging the art and science of logistics and transport
Vice President	Indonesia Business Council	Facilitate trade and investment between Sri Lanka and Indonesia

Product Responsibility

Customers need constant assurance on the safety and ethics behind the products they use. In this segment of the Report, we answer all these queries to make sure that our customers understand our commitment towards the well-being of our society. The human and environmental safety of our products is an absolute priority and it is important to us that every one of our customers knows that buying a Hayleys product means they are choosing to buy the most optimal combination of safety and efficacy.

Advertising is our way of communicating with our customers and informing them of the benefits and innovation that go in to every Hayleys product. It is also a way for us to interact and address our customers' concerns. We are aware of the influence marketing and advertising has on our customers. We make it a point not to utilise this to manipulate them. This means we ensure that all claims made by us are of sound scientific basis and that all such communication passes through the baseline test of being legal, decent and honest.

Accordingly, we obtain prior approval from the relevant authorities and adhere to all guidelines of the principles of marketing communications. For example, we seek the approval of the

Registrar of Pesticides and/or the Deputy Director of Agriculture of the Department of Agriculture of the respective district for all agro chemicals, approval of the Registrar of Veterinary Medicines for Veterinary Medicines. Similarly, we strictly adhere to the corporate compliances and guidelines of our principals and the guidelines of the Consumer Affairs Authority relating to all our products.

Satisfying the Customer

The Fibre sector conducts Customer Satisfaction Surveys monthly, quarterly, biannually and annually and a Customer Satisfaction Index is arrived at. One-on-one interviews supplement this process. Issues arising out of these are attended to expeditiously. The sector also maintains a Reliability Index to track timely delivery of goods and services. We hope to provide a more comprehensive report of this aspect next year.

DPL conducts customer surveys annually. Additional random feedback are obtained on an on-going basis.

Haycarb conducts customer satisfaction surveys annually to further improve customer relations. Haycarb measures customer satisfaction under

Quality of Products, Flexibility, Communication with Customers, Packaging and Labelling, Delivery Time and Price.

Alumex customer surveys indicated top ratings on co-operativeness and product dimensions. Alumex takes steps to provide product familiarisation when new products are introduced. Each year, the Company provides training facilities for key customer personnel such as Engineers, Architects and Technical Officers. When new aluminium profiles are introduced to the market, training programmes are organised for key decision-makers within the industry such as Engineers, Architects and Technical Officers.

Within the constituent companies of the Advantis Group, customer satisfaction surveys are done annually and in some instances biannually. Additionally, FedEx has conducted an external market research during the year under review. Over 90% satisfaction rate has been recorded, with some units recording a level of 97%.

The Consumer Products sector carries out consumer and market surveys quarterly/ biannually or as defined by the business or brand strategy. Feedback is used to formulate business strategy.

Ensuring Product Safety

When a customer buys a product they put their faith in us to provide products that are safe.

Product safety is priority and is considered at the initial stage when designing a new product or process. We constantly reassess our safety standards and processes. Based on sound science, our safety methods take a precautionary approach, ensuring that we rectify any mishap even before it happens. If we are not confident about the safety of an ingredient or product, we will not introduce it to the market.

Constituent companies of the Group embed product safety across their production chain - across processes such as R & D, marketing, promotion, transport and distribution and storage among others.

An integral component of the process is adherence to applicable regulatory frameworks be they in terms of prevailing law or mandated quality standards.

Product Certifications

Hayleys has diligently pursued the process of accreditation and certification of its products and services, which are internationally-accepted measures of quality and service standards.

A full listing appears under the section Accreditations appearing on pages 66 and 67 of this Report.

Product and Service Labelling

It is the duty of Hayleys companies to educate people about the benefits of our products. It is also a way for us to engage with consumers on issues that matter to them.

Imparting this information to our customers whether it be on a product label, leaflet, media activity or by other means is what we will consider here.

DPL provides data relating to the following on their product and service information and labelling, including the sourcing of components, content - particularly with regard to substances that might produce an environmental or social impact and safe use of the product or service.

All relevant agricultural fertilizer products and pesticides display poison warnings. Safe storage instructions are displayed on pesticides and fertilizer. On veterinary products and pesticides safe application procedures, information on antidotes in case of contamination/consumption and poison centre contact details are given amongst other information. We comply with the regulations of FAO Code of Conduct and those of the Department of Agriculture, the Registrar of Pesticides and other relevant authorities.

Hayleys Agriculture fully complies with the plant quarantine procedures for import and export of plants. All our value added food products display Net Content, 'Best Before Date' or Produced Date and Shelf Life, Lot Identification, Instructions for Use, Storage Information, Nutritional Value and Energy Value. Safety aspects and other health requirements are included in compliance with local and international regulations and standards.

Hayleys Advantis complies with stipulated requirements by displaying users' rights and obligations in transportation documents such as Bills of Lading, Waybills (Air and Sea), Goods Received Notes and Combined Transportation Documents as specified by relevant conventions.

SUSTAINABILITY REPORT

Marketing Communications

Hayleys PLC is of the view that the marketing of any or all of its products must be attended by the highest levels of responsibility. Unless responsibility informs all aspects of a product, from inception to consumption, our business cannot claim to be sustainable.

We are happy to record here that there have been no instances of non-compliance with regulation and voluntary codes concerning marketing communication and related activity, reported from any company in Hayleys Group.

A feedback mechanism is given on the Hayleys corporate website, official social media channels and in other forms of documentation including this Annual Report, to redirect all such inquiries or complaints to Hayleys Corporate Communications/Sustainability Unit.

Likewise, there have been no complaints of breach of customer privacy and data loss. No fines were levied against us for non-compliance with laws and regulations concerning the provision and use of products and services.

Customer privacy is crucial to the BPO sector which is indicated within the case study on the right.

Compliance

Our companies are aware of regulations and legal matters of compliance such as intellectual property, product information and labelling, health and safety impacts through regular proactive communication and advice through the Group Legal Department.

We have defined the significant fine limit as Rs. 1 mn for any business sector within the Group.

There was one reported instance in which the significant fine limit was exceeded during the period under review.

HBSI awarded International Accreditation for Information Security Management



Mohan Pandithage – Chairman and Chief Executive, Hayleys Group, receives the certificate from Ms. Shyama Wijayathunga – Operations Manager, DNV Business Assurance Colombo

Hayleys Business Solutions International (HBSI), the Hayleys Group's BPO and Shared Services Company, was recently awarded the internationally recognised ISO 27001:2005 certification for Information Security Management from Det Norske Veritas (DNV).

The objective of the ISO standard itself is to provide a model for establishing, implementing, operating, monitoring, reviewing, maintaining, and improving an Information Security Management System and the receipt of such certification will enable the Company to assure confidence of data security in local and foreign markets.

As Hayleys Chairman Mr Mohan Pandithage remarked, "This is the first step in HBSI's journey towards becoming a preferred Business Process Outsourcing and Shared Services partner. Certified assurance in the processes and protocols of data security is a substantial achievement in gearing the Company to cater to discerning clients and markets".

Our Brands



Global Markets and Manufacturing



Agriculture



Plantations and Tea Exports



Transportation and Logistics



Leisure and Aviation



Consumer Products



Investments and Services



SUSTAINABILITY REPORT

INDEPENDENT ASSURANCE STATEMENT ON THE NON-FINANCIAL REPORTING



Introduction

Det Norske Veritas AS ('DNV') has been commissioned by the management of Hayleys PLC ('Hayleys' or 'the Company') to carry out an independent assurance engagement on the sustainability performance reported in the Hayleys Annual Report 2011–12 ('the Report') in its printed format. This assurance engagement has been conducted against the Global Reporting Initiative 2011 Sustainability Reporting Guidelines Version 3.1 (GRI G3.1) and AccountAbility's AA1000 Assurance Standard 2008 (AA1000AS (2008)). The verification was conducted during May 2012, for the year of activities covered in the Report i.e. 1st April 2011 to 31st March 2012.

DNV is a global provider of sustainability services, with qualified environmental and social assurance specialists working in over 100 countries. DNV states its independence and impartiality with regard to this assurance engagement. DNV was not involved in the preparation of any statements or data included in the Report, with the exception of this Assurance Statement. DNV maintains complete impartiality toward any people interviewed. DNV expressly disclaims any liability or co-responsibility for any decision a person or entity would make based on this Assurance Statement.

The intended users of this assurance statement are the management of the Company and readers of this Report. The management of Hayleys is responsible for all information provided in the Report as well as the processes for collecting, analyzing and reporting the information. DNV's responsibility regarding this verification is to Company only and in accordance with the agreed scope of work. The assurance engagement is based on the assumption that the data and information provided to us is complete and true.

Scope, boundary and limitations of Assurance

The scope of work agreed upon with Hayleys includes verification of the following:

- The content of the sustainability performance reported in the Annual Report 2011–12 i.e. review of the policies, initiatives, practices and performance described in the Report as well as references made in the Report, except for Hayleys MGT Knitting Mills PLC;
- Evaluation of the AccountAbility principles and specified performance information, described below, for a Type 2, moderate level of assurance, in accordance with the requirements of AA1000AS (2008) detailed below:
 - Information relating to company's sustainability issues, responses, performance data and underlying systems for the management of such information and data;
 - Information relating to company's materiality assessment and stakeholder engagement processes;
- Confirm that the Report meets the requirements of the GRI G3.1 for an Application Level 'B+', as declared by Hayleys.

The reporting boundary is as set out in the Report, covering entities in Sri Lanka over which Hayleys has management control and significant influence as explained in the report. During the verification process, there were no limitations encountered on the scope for the assurance engagement.

Verification Methodology

This assurance engagement was planned and carried out in accordance with the AA1000AS (2008) and the DNV Protocol for Verification of Sustainability Reporting¹. The Report has been evaluated against the following criteria:

- Adherence to the principles of **Inclusivity**, **Materiality** and **Responsiveness** as set out in the AA1000AS (2008); the **Reliability** of specified sustainability performance information, as required for a Type 2, moderate level assurance engagement,

- Adherence to the additional principles of **Completeness** and **Neutrality** as set out in DNV's Protocol, and
- The principles and requirements of the GRI G3.1 for an application level B+.

As part of the engagement, DNV has verified the statements and claims made in the Report and assessed the robustness of the underlying data management system, information flow and controls. In doing so, we have:

- Reviewed the company's approach to stakeholder engagement and its materiality determination process;
- Verified the sustainability-related statements and claims made in the Report and assessed the robustness of the data management system, information flow and controls;
- Examined and reviewed documents, data and other information made available by the Hayleys;
- Visited the Corporate-Office, other sectorial offices located at corporate office, manufacturing locations of Hayleys (i.e. Ravi Industries Ltd., Toyo Cushion Lanka (Pvt.) Ltd., Hayleys Exports PLC at Ekala and Kotugoda, Dipped Products PLC at Kottawa, Haycarb Group at Badalgama and Alumex Group at Sapugaskanda, Makola), Third party logistics (i.e. Logiwiz Ltd. at Kelaniya) and Food Processing site (fruit and vegetable exports i.e. HJS Condiments Ltd. at Biyagama);
- Conducted interviews with key representatives including data owners and decision-makers from different sectors and functions of the Company;
- Performed sample-based reviews of the mechanisms for implementing the company's sustainability related policies, as described in the Report;
- Performed sample-based checks of the processes for generating, gathering and managing the quantitative data and qualitative information included in the Report.

¹ <http://www.dnv.com/cr>

Opportunities for Improvement

The following is an excerpt from the observations and opportunities for improvement reported to the management of the Company to improve its sustainability performance management and these opportunities for improvement are considered for drawing our conclusion on the Report; however they are generally consistent with the management's objectives:

- Establish medium and long term triple bottom-line objective and goals (3-5 years), covering the broader sustainability topics that are material to Hayleys Group;
- The sustainability performance data may be captured at source at the various manufacturing locations through the existing resource planning software to further improve the accuracy and reliability of reported data;
- Implement a continuous and systematic quality assurance procedure for data management system to further improve the quality of reported sustainability performance data;
- Fully report on key material performance indicators that are partially reported, in the subsequent reports.

Specific evaluation of the information on sustainability performances

We consider the methodology and process for gathering information developed by the Company for its sustainability performance reporting is appropriate and the qualitative and quantitative data included in the Report, was found to be reliable, identifiable and traceable; the personnel responsible were able to demonstrate the origin and interpretation of the data. We also assessed the reported progress against the company's commitments as disclosed in its previous Report and observed that the Report presents a fair description of the sustainability activities and the goals achieved.

Conclusions

Hayleys has identified its sector wise core sustainability risks, its impacts and the associated sustainability challenges and opportunities. In our opinion the Report, provides a fair representation of the company's sustainability

policies, objectives, management approach and performance during the reporting year. We have evaluated the Report's adherence to the following principles on a scale of 'Good', 'Acceptable' and 'Needs Improvement':

AA1000AS (2008) Principles

Inclusivity: As a part of its stakeholder engagement process, the Company engages with its identified stakeholders through different modes and at determined intervals and the inputs from the stakeholder engagement has been taken into consideration for redefining its systems and procedures.

In our view, the level at which the Report adheres to this principle is 'Good'.

Materiality: The Company has identified material aspects for reporting based on the inputs from stakeholder engagement process for the reporting period; in our opinion the identified material aspects needs to be appropriately prioritised and needs to arrive at the relative materiality of the selected aspects; also Company may re-evaluate and report all the material aspects based on the adopted guidelines and frame work for sustainability performance management. In our view, the level at which the Report adheres to this principle is 'Acceptable'.

Responsiveness: We consider that the Company has fairly responded to key stakeholder concerns, through its policies and management systems and the same are fairly reflected in the Report and provides a balanced representation of material issues related to the company's sustainability performance.

In our view, the level at which the Report adheres to this principle is 'Acceptable'.

Reliability: The majority of data and information verified at corporate office and sites were found to be accurate. Some of the data inaccuracies identified during the verification process were found to be attributable to transcription, interpretation and aggregation errors and the errors have been corrected.

Hence in accordance with the AA1000AS (2008) requirements for a Type 2, moderate level of assurance engagement, we conclude that the specified sustainability data and information

presented in the Report is generally reliable and acceptable.

Additional Parameters as per DNV's Protocol

Completeness: The report covers over 20 core performance indicators for the application level 'B'; some of the reported core indicators have been reported partially and the rationale behind partial reporting are explained within the Report;

In our view, the level at which the Report adheres to this principle is 'Acceptable'.

Neutrality: The sustainability performance and related issues are reported in this report in a transparent and balanced manner, in terms of content and tone.

In our view, the level at which the Report adheres to this principle is 'Good'.

DNV confirms that the GRI Application Level 'B+' has been attained in reference to the various application levels defined in the GRI G3.1.

For Det Norske Veritas AS



Nandkumar Vadakepathth

Lead Verifier
Head-Sustainability & Business Excellence
Services(South)
Det Norske Veritas AS, India



Antonio Astone
Reviewer
Global Sustainability Manager
DNV Business Assurance, Italy.

Bangalore, India, 1st June 2012

SUSTAINABILITY REPORT

GRI Compliance Index

Index No.	Description	Report Section	Status	Page
1.	Strategy & Analysis			
1.1	Statement from the most senior decision-maker of the Organisation	Sustainability Report	●	56
1.2	Description of Key Impacts, Risks & Opportunities	Sustainability Report	●	57-59
2.	Organisational Profile			
2.1	Name of the Organisation	Corporate Information	●	Inner Back Cover
2.2	Primary Brands, Products and/or Services	Our Portfolio of Businesses Sustainability Report	●	10-11 103
2.3	Operational Structure of the Organisation	Sustainability Report	●	62-63
2.4	Location of Organisation's Headquarters	Corporate Information	●	Inner Back Cover
2.5	Number of countries where the Organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report	Our Portfolio of Businesses	●	10-11
2.6	Nature of ownership & legal form	Corporate Information	●	Inner Back Cover
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	Our Portfolio of Businesses	●	10-11
2.8	Scale of the Reporting Organisation	Our Portfolio of Businesses	●	10-11
2.9	Significant changes during the reporting period regarding size, structure or ownership	Major Shareholder Chairman and Chief Executive's Message	●	118, 06-09
2.10	Awards received during the reporting period	Sustainability Report	●	64-66
3.	Report Parameters			
3.1	Reporting period	Sustainability Report	●	68
3.2	Date of most recent previous report	Sustainability Report	●	68
3.3	Reporting cycle	Sustainability Report	●	68
3.4	Contact point for questions regarding the Report or its Contents	Sustainability Report	●	68
3.5	Defining Report Content	Sustainability Report	●	68
3.6	Boundary of the Report	Sustainability Report	●	68
3.7	Any specific limitations on the scope or boundary of the Report	Sustainability Report	●	68
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can affect comparability from period to period and/or between organisations	Sustainability Report	●	68
3.9	Data measurement techniques and the bases of calculations	Sustainability Report	●	68
3.10	Explanation of the effect of any re-statement of information provided in earlier reports	Sustainability Report	●	68
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report	Sustainability Report	●	68
3.12	GRI Compliance Index	Sustainability Report	●	105-111
3.13	Policy and current practice with regards to seeking external assurance for the Report	Sustainability Report	●	104

Index No.	Description	Report Section	Status	Page
4	Governance, Commitments & Engagement			
4.1	Governance Structure of the Organisation	Hayleys Governance	●	119-142
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Hayleys Governance	●	119-142
4.3	The number of members of the highest governance body that are independent and/or non-executive members	Hayleys Governance	●	119-142
4.4	Mechanisms for Shareholders and employees to provide recommendations or direction to the highest governance body	Hayleys Governance	●	119-142
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives and the Organisation's performance	Hayleys Governance	●	119-142
4.6	Processes in place for the highest governing body to ensure conflicts of interests are avoided	Hayleys Governance	●	119-142
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the Organisation's strategy on economic, environmental, and social topics	Hayleys Governance	●	119-142
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	Hayleys Governance	●	119-142
4.9	Procedures of the highest governance body for overseeing the Organisation's identification and management of economic, environmental, and social performance.	Hayleys Governance	●	119-142
4.10	Processes for evaluating the highest governance body's own performance	Hayleys Governance	●	119-142
4.11	Precautionary Approach	Sustainability Report Hayleys Governance	●	68 119-142
4.12	Externally developed economic, environmental and social Charters and principles	Hayleys Governance	●	119-142
4.13	Membership in industry/ business association	Sustainability Report	●	99
4.14	List of stakeholder groups engaged by the Organisation	Sustainability Report	●	70
4.15	Basis for identification and selection of stakeholders with whom to engage	Sustainability Report	●	68-69
4.16	Approaches to stakeholder engagement including frequency	Sustainability Report	●	70
4.17	Key topics and concerns raised through stakeholders engagement and the Organisation's response	Sustainability Report	●	71
Economic Performance				
EC1	Direct economic value generated and distributed	Sustainability Report	●	83
EC2	Financial implications and other risks and opportunities for the Organisation's activities due to climate change		□	
EC3	Coverage of the Organisation's defined benefit plan obligations	Sustainability Report Accounting Policies	●	82 166
EC4	Significant financial assistance received from Government	Sustainability Report	●	82
EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation		□	

● Fully Reported ○ Partially Reported □ Not Reported

SUSTAINABILITY REPORT

Index No.	Description	Report Section	Status	Page
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation		□	
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	Sustainability Report	●	82
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement		□	
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts		□	
Environmental Performance				
EN1	Materials used by weight or volume		□	
EN2	Percentage of materials used that are recycled input materials		□	
EN3	Direct energy consumption by primary energy source	Sustainability Report	○	89
EN4	Indirect energy consumption by primary source	Sustainability Report	○	89
EN5	Energy saved due to conservation and efficiency improvements	Sustainability Report	○	39
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives	Sustainability Report	○	39
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Sustainability Report	○	39
EN8	Total water withdrawal by source	Sustainability Report	○	91
EN9	Water sources significantly affected by withdrawal of water		□	
EN10	Percentage and total volume of water recycled and reused	Sustainability Report	○	91
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Sustainability Report	●	92
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Sustainability Report	●	92
EN13	Habitats protected or restored	Sustainability Report	○	92
EN14	Strategies, current action & future plans for managing biodiversity		□	
EN15	Number of IUCN Red List Species & National Conservation List Species with habitats in areas affected by operations		□	
EN16	Total direct and indirect greenhouse gas emissions by weight	Sustainability Report	○	90-91
EN17	Other relevant indirect greenhouse gas emissions by weight	Sustainability Report	○	90
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved		□	
EN19	Emissions of ozone-depleting substances by weight		□	
EN20	NO, SO, and other significant air emissions by type and weight		□	

● Fully Reported ○ Partially Reported □ Not Reported

Index No.	Description	Report Section	Status	Page
EN21	Total water discharge by quality and destination		<input type="checkbox"/>	
EN22	Total weight of waste by type and disposal method		<input type="checkbox"/>	
EN23	Total Number of & Volume of significant spills		<input type="checkbox"/>	
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally		<input type="checkbox"/>	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff		<input type="checkbox"/>	
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Sustainability Report	●	87
EN27	Percentage of products sold & their packaging materials reclaimed	Sustainability Report	○	88
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		<input type="checkbox"/>	
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce		<input type="checkbox"/>	
EN30	Total environmental protection expenditures and investments by type		<input type="checkbox"/>	
Society				
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	Sustainability Report	●	98
SO2	Percentage and total number of business units analysed for risks related to corruption		<input type="checkbox"/>	
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	Sustainability Report	○	98
SO4	Actions taken in response to incidents of corruption		<input type="checkbox"/>	
SO5	Public policy positions and participation in public policy development and lobbying	Sustainability Report	●	98-100
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country		<input type="checkbox"/>	
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes		<input type="checkbox"/>	
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations		<input type="checkbox"/>	
SO9	Operations with significant potential or actual negative impacts on local communities		<input type="checkbox"/>	
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities		<input type="checkbox"/>	

● Fully Reported ○ Partially Reported □ Not Reported

SUSTAINABILITY REPORT

Index No.	Description	Report Section	Status	Page
Labour Practices and Decent Work				
LA1	Total workforce by employment type, employment contract, and region, broken down by gender	Sustainability Report	○	94
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region	Sustainability Report	○	94
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operations	Sustainability Report	●	95
LA4	Percentage of employees covered by collective bargaining agreements	Sustainability Report	●	95
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	Sustainability Report	●	95
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advice on occupational health and safety programmes	Sustainability Report	○	95
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by province		□	
LA8	Education, training, counseling, prevention of diseases, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	Sustainability Report	●	95,98
LA9	Health and safety topics covered in formal agreements with trade unions		□	
LA10	Average hours of training per year per employee by employee category		□	
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings		□	
LA12	Percentage of employees receiving regular performance and career development reviews, by gender		□	
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity		□	
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operations		□	
LA15	Return to work and retention rates after parental leave, by gender		□	
Human Rights				
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening	Sustainability Report	●	97
HR2	Percentage of significant suppliers, contractors and other business partners that have undergone human rights and actions taken		□	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained		□	

● Fully Reported ○ Partially Reported □ Not Reported

Index No.	Description	Report Section	Status	Page
HR4	Total number of incidents of discrimination and corrective actions taken	Sustainability Report	●	97
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights	Sustainability Report	●	97
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	Sustainability Report	●	97
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of all forms of forced or compulsory labor	Sustainability Report	●	97
HR8	Percentage of security personnel trained in Organisation policies & Procedures concerning aspects of human rights that are relevant to operations		□	
HR9	Total number of incidents of violations of rights of indigenous people and actions taken		□	
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments		□	
HR11	Number of grievances related to human rights filed, addressed, and resolved through formal grievance mechanisms	Sustainability Report	●	97
Products Responsibility				
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures		□	
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services		□	
PR3	Type of product & service Information required by procedures and percentage of significant products and services subject to such information requirements	Sustainability Report	●	100-101
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling		□	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction		□	
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	Sustainability Report	●	100, 102
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes		□	
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data		□	
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services	Sustainability Report	●	102

● Fully Reported □ Partially Reported □ Not Reported

SUSTAINABILITY REPORT

UNGC Principles - GRI Indicators Cross Reference

Issue Areas	GC Principles	Page/s
Human Rights	Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights	95, 97
	Principle 2 Businesses should make sure that they are not complicit in human rights abuses	97
Labour	Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	95, 97
	Principle 4 Businesses should uphold the elimination of all forms of forced and compulsory labor	97
	Principle 5 Businesses should uphold the effective abolition of child labour	97
	Principle 6 Businesses should uphold the elimination of discrimination in respect of employment and occupation	97
	Principle 7 Businesses should support a precautionary approach to environmental challenges	68, 87
Environment	Principle 8 Businesses should undertake initiatives to promote greater environmental responsibility	90, 91, 92
	Principle 9 Businesses should encourage the development and diffusion of environmentally friendly technologies	39
Anti-Corruption	Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery	98

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

The Board of Directors of Hayleys PLC has pleasure in presenting their Report on the Affairs of the Company together with the Audited Consolidated Financial Statements for the year ended 31st March, 2012. The details set out herein provide the pertinent information required by the Companies Act No. 07 of 2007 and the Colombo Stock Exchange Listing Rules and are guided by recommended best reporting practices.

Principal Activities

Hayleys PLC is a holding company that owns, directly or indirectly, investments in the numerous companies constituting the Hayleys Group and provides services to Group companies. The Group consists of a portfolio of diverse business operations. The main Subsidiaries and equity accounted investees of Hayleys PLC are listed on pages 62 to 63.

The principal activities of the Group are categorised into different business groupings, i.e., Global Markets & Manufacturing, Agriculture & Plantations, Transportation & Logistics, Consumer Products, Power & Energy and Leisure & Aviation. Each grouping may consist of a number of sectors. The main activities of the sectors are described in the Management Review & Preview section (pages 10 to 41) of this Report.

Business Review/Future Developments

A review of the Group's business and its performance during the year, with comments on financial results and future strategic developments, is contained in the Chairman's Statement (pages 06 to 09) and Management Review & Preview (pages 10 to 41) sections of this Annual Report. These reports together with the Financial Statements reflect the state of affairs of the Company and the Group.

The Company and its subsidiaries, in August 2011, acquired 51% of Amaya Leisure PLC and consequent to the resultant mandatory offer, the stake increased to 65%. The Group, also acquired the controlling interest in its hitherto equity accounted investees, Quality Seed Co., Ltd. and Eastern Hotels (Pvt) Ltd. These

companies are accounted as Subsidiaries in the Consolidated Financial Statements, in accordance with the Sri Lanka Accounting Standards.

The Directors, to the best of their knowledge and belief, confirm that the Group has not engaged in any activities that contravene laws and regulations.

Financial Statements

The Financial Statements of the Company and the Group are given on pages 157 to 222.

Auditor's Report

The Auditor's Report on the Financial Statements of the Company and the Group is given on page 156.

Accounting Policies

The accounting policies adopted in the preparation of the Financial Statements are given on pages 162 to 170. Changes, if any, in Group accounting policies made during the accounting period are described under Note 3 of the Accounting Policies.

Group Turnover/International Trade

The turnover of the Group was Rs. 62.5 bn (Rs. 54.4 bn), in the year under review. A detailed analysis of the Group's turnover, profits and asset allocation relating to different segments of the Group's business is given in Note 40 to the Financial Statements.

The Group's exports from Sri Lanka amounted to Rs. 30 bn (Rs. 25.8 bn) at f.o.b. value in the year under review.

The Group's turnover from International Trade, which includes the turnover of overseas subsidiaries in addition to exports from Sri Lanka, amounted to Rs. 40.4 bn (Rs. 35.3 bn) in the year under review.

Trade between Group companies is conducted at fair market prices.

Results and Dividends

The Group's profit from continuing operations, excluding its share of profits of equity accounted investees, amounted to Rs. 4,793 mn (Rs. 1,990 mn) in the year under review. With its share of equity accounted investees' profits (net of tax), Group profit from continuing operations before taxation amounted to Rs. 4,806 mn (Rs. 2,041 mn). After deducting Rs. 961 mn (Rs. 904 mn) for taxation the profit from continued operations was Rs. 3,845 mn (Rs. 1,137 mn). When an amount of Rs. 1,326 mn (Rs. 451 mn) for minority interests was deducted the Group profit attributable to equity holders of the Company for the year was Rs. 2,520 mn (Rs. 677 mn). A sum of Rs. 300 mn (Rs. 300 mn) has been set aside for proposed dividends.

The Consolidated Income Statement along with the Company's Income Statement for the year are given on page 157. Details of transfers to/from reserves in respect of the Group and the Company are shown in the Statement of Changes in Equity on page 160.

The Directors have confirmed that the Company satisfies the solvency test requirement under Section 56 of the Companies Act No. 07 of 2007 for the first & final dividend proposed. A solvency certificate has been sought in respect of the first & final dividend of Rs. 4.00 per share (Rs. 4.00) proposed to be paid to the holders of issued ordinary shares of the Company as at the close of business on 29th June, 2012. The dividend represents a redistribution of dividends received by the Company and therefore will not be subject to the 10% tax deduction otherwise applicable.

Group Investment

Group capital expenditure during the year on property, plant & equipment and investments, other than investments in Subsidiaries, amounted to Rs. 5.1 bn (Rs. 2.9 bn).

Property, Plant & Equipment

Capital expenditure during the year, on property, plant & equipment by the Group and by the Company amounted to Rs. 5.0 bn (Rs. 2.9 bn) and Rs. 109 mn (Rs. 12 mn) respectively.

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

Information relating to movements in property, plant & equipment is given in Note 14 to the Financial Statements.

Market Value of Properties

The freehold land of the Group has in general been subjected to routine revaluation by independent qualified valuers. The most recent revaluations in respect of the Group were carried out as at 31st March, 2010. Small extents of freehold land are reflected at book values as their appreciation is insignificant.

Details of revaluations, carrying values and market values are provided in Note 14 to the Financial Statements. The statement on Value of Real Estate on page 224 gives details of freehold land held by the Group.

Stated Capital and Reserves

The stated capital of the Company, consisting of 75,000,000 ordinary shares, amounts to Rs. 1,575 mn. There was no change in stated capital during the year.

Total Group Reserves at 31st March 2012 amounts to Rs. 16.6 bn (Rs. 14.1 bn) comprising Capital Reserves of Rs. 6.6 bn (Rs. 7.0 bn) and Revenue Reserves of Rs. 10.0 bn (Rs. 7.0 bn). The composition of reserves is shown in the Statement of Changes in Equity in the Financial Statements.

Interests Register

The Company, in compliance with the Companies Act No. 07 of 2007, maintains an Interests Register. Particulars of entries in the Interests Register and in the Interests Registers of Subsidiaries that maintain such Registers are detailed below.

Directors' Interests in Transactions: The Directors of the Company and its Subsidiaries have made the general disclosures provided for in Section 192 (2) of the Companies Act No. 07 of 2007. Note 38 to the Financial Statements dealing with related party disclosures includes details of their interests in transactions.

Directors' interests in shares: Directors of the Company and its Subsidiaries who have relevant interests in the shares of the respective Companies have disclosed their shareholdings and any acquisitions/disposals to their Boards, in compliance with Section 200 of the Companies Act.

Details of Directors' shareholdings in the Company are given later in this Report. There were no changes in holdings during the period other than the following:

Mr. K.D.D. Perera

- 12,414,216 shares were purchased during the year. Of this, 5,527,032 shares were purchased from Royal Ceramic Lanka PLC.
- 1,325,000 shares and 875,000 shares were disposed, during the year, to Royal Ceramics Lanka PLC and Vallibel One PLC respectively.
- 1,031,000 shares, in addition to above, were purchased during the year by Royal Ceramics Lanka PLC.
- 937,584 shares, in addition to above, were purchased during the year by Vallibel One PLC.

Mr. K.D.D. Perera has the controlling interest in Royal Ceramics Lanka PLC and Vallibel One PLC.

Mr. W.D.N.H. Perera

- 104,800 shares were purchased and disposed during the year.

Subsidiaries

There were no share transactions by the Directors, in terms of Section 200 of the Companies Act in respect of the Subsidiaries other than the following:

Hunas Falls Hotels PLC

- 24,173 shares were purchased during the year by Mr. S.C. Ganegoda.
- Mr. N.J.H.M. Cooray, who held 15,279 shares in the Company, resigned from the Board during the year.

Haycarb PLC

- 11,000 shares were purchased during the year by Mr. H.S.R. Kariyawasan.

Hotel Services (Ceylon) PLC

- 669,000 shares were purchased and disposed during the year by Mr. W.D.N.H. Perera.
- 977,350 shares were purchased and 394,004 shares were disposed during the year by Vallibel One PLC of which Mr. K.D.D. Perera has the controlling interest.

Amaya Leisure PLC

- 24,497,461 shares were disposed during the year by Mr. K.D.D. Perera

Hayleys Advantis Ltd.

- Mr. M.O. Raban, who held 236,633 shares in the Company passed away on 19th January, 2012

HJS Condiments Ltd.

- Mr. A.C. Wikramanayake, who held 128,617 shares in the Company, resigned from the Board during the year.

Volanka Exports Ltd.

- Mr. I. Piyasena who held 14,840 shares in the Company, resigned from the Board during the year.

Insurance & Indemnity: The Company has obtained a Corporate Guard insurance policy from Chartis Insurance Ltd., providing worldwide cover to indemnify all past, present and future Directors and Officers (D & O) of Hayleys PLC and its Subsidiaries at a premium of Rs. 5.0 mn (Rs. 4.7 mn). The limit on liability of the cover is US\$ 5 mn (US\$ 5 mn).

Payment of Remuneration to Directors: Executive Directors' remuneration is established within an established framework by the Board's Remuneration Committee, to whom this task has been entrusted. The Directors are of the opinion that the framework assures appropriateness of remuneration and fairness for the Company.

The total remuneration of Executive Directors for the year ended 31st March, 2012 is Rs. 120 mn, which includes the value of perquisites granted to them as part of their terms of service. The total remuneration of Non-Executive Directors for the year ended 31st March, 2012 is Rs. 5 mn determined according to scales of payment decided upon by the Board previously. The Board is satisfied that the payment of remuneration is fair to the Company.

Directors' Remuneration

Directors' remuneration, in respect of the Company for the financial year 2011/12 is Rs. 125 mn (Rs. 80 mn).

Directors' remuneration in respect of the Company's Subsidiaries for the financial year 2011/12 is Rs. 435.6 mn (Rs. 261 mn.).

Corporate Donations

Donations by the Company amounted to Rs. 2,001,799/- (Rs. 828,463/-) which includes a sum of Rs. 121,000/- (Rs. 121,000/-) made to Government approved charities.

The total donation of Rs. 2,001,799/- exceeds the amount of Rs. 300,000/- approved by the shareholders at the last Annual General Meeting. Ratification of the additional amount of Rs. 1,701,799/- will be sought at the Annual General Meeting.

Donations by the Subsidiaries amounted to Rs. 12.5 mn (Rs. 10.4 mn).

No donations were made for political purposes.

Directorate

The names of the Directors who held office at the end of the financial year are given below and their brief profiles appear on pages 50 and 51.

Executive Directors

Mr. A.M. Pandithage (*Chairman & Chief Executive*)
Mr. M.R. Zaheed
Mr. J.A.G. Anandarajah
Mr. S.C. Ganegoda
Mr. H.S.R. Kariyawasan
Dr. K.I.M. Ranasoma
Mr. L.T. Samarawickrama
(*Appointed 30th June, 2011*)

Non-Executive Directors

Mr. K.D.D. Perera (*Deputy Chairman*)
Mr. W.D.N.H. Perera
Dr. H. Cabral, PC*
Mr. R.P. Pathirana* (*Appointed 30th June, 2011*)
Mr. M.D.S. Goonatilleke*
(*Appointed 30th June, 2011*)

**Independent Non-Executive Director*

The basis on which Directors are classified as Independent Non-Executive Directors is discussed in the Corporate Governance statement.

Messrs. L.T. Samarawickrama, R.P. Pathirana and M.D.S. Goonatilleke were appointed to the Board since the last Annual General Meeting in terms of the Article 27 (2) of the Articles of Association of the Company. Shareholders will be requested to re-elect them at the Annual General Meeting.

Messrs J.A.G. Anandarajah, W.D.N.H. Perera and S.C. Ganegoda retire by rotation and being eligible offer themselves for re-election.

Mr. K.D.D. Perera was appointed as Deputy Chairman on 20th July, 2011.

The following Directors ceased to hold office during the year:

Mr. A.M. Senaratna [*Retired (by rotation) on 29th June 2011 at the Annual General Meeting*]
Mr. T.W.L.F. Jayasekera [*Retired (by rotation) on 29th June, 2011 at the Annual General Meeting*]
Mr. L.K.B. Godamunne
(*Retired on 29th June, 2011*)

The names of Directors holding office at the end of the financial year in respect of Subsidiaries, grouped under sectors, are given below. Names of Directors who ceased to hold office during the year are given within brackets.

Fibre

A.M. Pandithage, S.C. Ganegoda,
G.M.P. De Silva, M.M.M. De Silva, F.R. Alles,
H.C.S. Mendis, Dr. S.A.B. Ekanayake,
T.G. Thoradeniya, J.A.W.M. Jayasekera,
Dr. P.C. Vermunt, Ms. A. Holder-Vermunt,
A. Venugopal, A.T.A. Kuruppu, B.R.M. Mendis,
Ms. I. Weiland, U. Prinz, T. Doemling,
Ms. M. Hirai, Ms. M. Shiraishi, J.A.M.V.D. Hout,
A.R.K. Jayawardena, A.A.N. Dias,
B.M.A. Senanayake, D. Molligoda, G.S. Silva,
A.R.K. Jayawardena, (I. Piyasena),
(L.K.B. Godamunne), (T.D.S.H. Gunasena)

Hand Protection

A.M. Pandithage, K.D.D. Perera,
Dr. K.I.M. Ranasoma, J.A.G. Anandarajah,
S.C. Ganegoda, G.K. Seneviratne,
N.Y. Fernando, R. Seevaratnam, F. Mohideen,
L.G.S. Gunawardena, K.A.L.S. Fernando,
M. Bottino, N.A.R.R.S. Nanayakkara, M.V. Fildier,
M. Orlando, V. Rocchetti, B.A. Mahipala,
D.B.K. Pathirage, R.M.T. Premarathna,
T.G. Thoradeniya, (J. Benoit), (J.P. Coudert)

Purification Products

A.M. Pandithage, H.S.R. Kariyawasan,
S.C. Ganegoda, A. M. Senaratna, R.P. Peris,
K.D.D. Perera, R. Seevaratnam,
Ms. M.J.A.S. Abeyratne, D.E. Ranarajah,
W.D.N.H. Perera, Dr. S.A.K. Abayawardana,
T.D. Naylor, D.J. Perera, P. Karnchanabatr,
B. Karnchanabatr, K. Karnchanabatr,
Y.P.A.S. Pathiratna, A.A.M. Caderbhoy,
A.H. Djafar, S. Sopian, M.S.P. Udaya Kumar,
B. Balartnarajah, Ms. S.S. Ragunathan,
P. Rousseau, F. Brocheet, B. Dasgupta,
(L.K.B. Godamunne)

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

Textiles

A.M. Pandithage, S. Spezza, S.C. Ganegoda, K.D.D. Perera, M.C.D. Amalean, R. Seevaratnam, J.A.G. Anandarajah, H. Somashantha, R.N. Somaratne, Dr. E.M. Fernando, S.D. Amalean (Alternate), (H.R. Peris)

Construction Materials

A.M. Pandithage, S.C. Ganegoda, J.A.G. Anandarajah, K.D.D. Perera, R.P. Pathirana, A.A. Akbarally, D.W.P.N. Dediwela, H.H. Abdulhusein, A.J. Hirdaramani (Alternate), T. Akbarally (Alternate), (M.L. Hirdaramani), (S.D. Amarasinghe)

Agriculture

A.M. Pandithage, M.R. Zaheed, S.C. Ganegoda, L.K.B. Godamunne, M.M.M. De Silva, U.E.R. Gangoda, Ms. J. Dharmasena, D. Nilaweera, S.M. Gamage, R. Seevaratnam, A.N.K. Perera, K.R. Rajapakse, H.P. Lin, G. Olbrechts, M. Symons, S. Yamada, S. Kodama, A.C. Pathirage, N.D. Shilling, R.J. Taylor, (A.C. Wikramanayake), (T.D.S.H. Gunasena)

Plantations

A.M. Pandithage, J.A.G. Anandarajah, G.K. Seneviratne, S.T. Gunatilleke, S.C. Ganegoda, Dr. K.I.M. Ranasoma, L.T. Samarawickrama, R. Seevaratnam, F. Mohideen, S. Siriwardana, Merrill J. Fernando, Malik J. Fernando, L.N. De S. Wijeyeratne, Dr. S.S.S.B.D.G. Jayawardena, Prof. U. Liyanage, Ms. M.D.A. Perera, W.D.N.H. Perera, N.Y. Fernando, M.M.M. De Silva, D.S. Seneviratne, Dr. R.D. Bandaranaike, D.J. Ambani, R.J. Perera, N.R. Ranatunge, R.M. Hanwella, N.A.R.R.S. Nanayakkara, N. Weeraratne, D.C. Fernando (Alternate)

Power & Energy

A.M. Pandithage, M.M.M. De Silva, A.R. De Silva, S.C. Ganegoda, M.R. Zaheed, M.H. Zainudeen, D. Hewageegana, H.S.R. Kariyawasan, R.P. Peris, Y.P.A.S. Pathiratna, T.H. Aziz, B. Balaratnarajah, K.D.D. Perera, D.D.W. Siriwardene, D.S. Arangala, R.A.A.W. Rajakaruna, S.T. Gunatilleke, J.A.G. Anandarajah, N.Y. Fernando, Merrill J. Fernando, Malik J. Fernando, V.K. Hirdaramani, R.P. Pathirana, A.A. Akbarally, M.Najmudeen

Industry Inputs

A.M. Pandithage, S.C. Ganegoda, M.M.M. De Silva, M.R. Zaheed, M.H. Zainudeen, P.T.S. de Silva, D. Hewageegana, L.G.C. De Silva

Consumer Products

A.M. Pandithage, S.C. Ganegoda, M.R. Zaheed, A.R. Zubair, M.M.M. De Silva, H.J.O. Silva, R. Seevaratnam, M.D.S. Goonetilleke, D.D.W. Siriwardene

Investments & Services

A.M. Pandithage, S.C. Ganegoda, M.M.M. De Silva, S.P. Dissanayake, D.D.W. Siriwardene, Ms. L.Y. Pararasasegaram, L.D.E.A. De Silva, Dr. A. Sivagananathan, S. Balasubramaniam, Ms. M.P. Abeyesekera, Ms. S. Abeytunge, Ms. D. Talpahewa, (A.C. Wikramanayake)

Transportation & Logistics

A.M. Pandithage, L.R.V. Waidyaratne, S.C. Ganegoda, S.R. Sadanandan, T.U.K. Peiris, A.B. Ratnayake, Ms. E.M.C.S. Gamage, A.M. Senaratna, R. Seevaratnam, P.L. Cumaratunga, K. Amarasekera, F.T. Salem, C.D. La Ferriere, E. Silhol, E. Zeenny, I. Saleem, T. Nakai, S. Sugishima, K. Wai Chak, O. Novoru, M.G. Gomez, S.I. Ramakrishnan, L.B. Culas, P.S. Gunawardena, S.N. Wickremesooriya,

K.L.C. Fernando, R.W.P. Polonowita, S.J. Wijesinghe, B.P.R. Liyanage, R. Samaratunga, Ms. Y.N. Perera, M.D.D. Pieris, K. Balasundaram, Ms. M.R.P. Balendra, D.D.W. Siriwardene, C. Perera, M. Masri, C.I.J. Charles, A.H. Kulasinghe, J.R. Hill, K.P. Kalyan, K. Miyoshi, N.P. Samarasinghe, B.A.B. Goonetilleke, A.M. Gahazali, M.I.S. Sabar, P. Jayanetti, J.C. Anandappa, O. Kubota, T. Banno, T. Aoyagi, S. Mahadeva (Alternate), (C.N. Allis), (M.O. Raban), (M. Niruttan), (D.A. Molligoda), (M.A.N. Perera)

Leisure & Aviation

A.M. Pandithage, S.C. Ganegoda, K.D.D. Perera, L.T. Samarawickrama, S.P. Dissanayake, S.J. Wijesinghe, N.J. De S. Deva-Aditya, L.N. De S. Wijeyeratne, Ms. R.N. Ponnambalam, W.D.N.H. Perera, V.K. Wickremasinghe, J.G. Victoris, K.A.Y.P. Sumanapala, Ms. V. Jayasundera, C.J. Wickramasinghe, D.E. Silva, S.B. Rangamuwa, J.P. Van Twest, B.C.S.A.P. Gooneratne, S. Senaratne, S.H. Amarasekera, Ms. D.S.N. Weerasooriya, (M.O. Raban), (N. Wadugodapitiya), (U.D. Gamage)

Corporate Governance

The Company has complied with the Corporate Governance rules laid down under the Listing Rules of the Colombo Stock Exchange. The Corporate Governance section on pages 119 to 142 discusses this further.

Auditors

Messrs Ernst & Young, Chartered Accountants, are deemed reappointed, in terms of Section 158 of the Companies Act No. 07 of 2007, as Auditors of the Company.

A resolution proposing the Directors be authorised to determine their remuneration will be submitted at the Annual General Meeting.

The Auditors, Messrs Ernst & Young (2010/11 Messrs KMPG Ford, Rhodes, Thornton & Co.) were paid Rs. 1.0 mn (Rs. 0.8 mn), and Rs. 24.7 mn (Rs. 17.8 mn) as audit fees by the Company and its Subsidiaries respectively. In addition, they were paid Rs. 0.3 mn (Rs. 0.1 mn) and Rs. 6.4 mn (Rs. 9.0 mn), by the Company and its Subsidiaries respectively, for non-audit related work, which consisted mainly of tax consultancy services.

In addition to the above, Group companies, both local and overseas, engage other audit firms. Audit fees and payments relating to non-audit work in respect of these firms amounted to Rs. 18.2 mn (Rs. 10.4 mn) and Rs. 10.9 mn (Rs. 6.7 mn) respectively.

The Auditors of the Company and its Subsidiaries, have confirmed that they do not have any relationships (other than that of Auditor) with, or interests in, the Company or any of its Subsidiaries other than those disclosed above.

Share Information

Information relating to earnings, dividend, net assets, market value per share and share trading is given on pages 04 and 86.

Events Occurring after the Balance Sheet Date

No circumstances have arisen since the Balance Sheet date that would require adjustment, other than those disclosed in Note 34 to the Financial Statements on page 210.

Employment

The number of persons employed by the Company and its Subsidiaries at year-end was 33,201 (31,651).

Employee Share Ownership

The Group has a number of broad-based share purchase schemes for its employees.

The Group does not operate any share option schemes.

Shareholders

It is the Group's policy to endeavour to ensure equitable treatment to its shareholders.

Statutory Payments

The declaration relating to statutory payments is made in the Statement of Directors' Responsibilities on page 152.

Environmental Protection

The Group's efforts to conserve scarce and non-renewable resources, as well as its environmental objectives and key initiatives, are described in the Environment Issues section of the Sustainability Report.

Internal Controls

The Directors acknowledge their responsibility for the Group's systems of internal control. The system is designed to give assurance, *inter alia*, regarding the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information generated.

However, any system can only ensure reasonable and not absolute assurance that errors and irregularities are either prevented or detected within a reasonable time period.

The Board, having reviewed the systems of internal control, is satisfied with the Group's adherence to and effectiveness of these controls for the period up to the date of signing the Financial Statements.

Going Concern

The Directors, after making necessary inquiries and reviews including reviews of the Group's budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and borrowing facilities, have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis has been adopted in the preparation of the Financial Statements.

Directors' Shareholdings

Directors' holdings, of ordinary shares in the Company is given below:

Name of Director	No. of Shares as at 31.03.2012	No. of Shares as at 01.04.2011
Mr. A.M. Pandithage	2,338	2,338
Mr. K.D.D. Perera - 30,916,399 (01.04.2011 - 16,943,928)	36,000,649	22,501,227
SBL/Mr. K.D.D. Perera - 2,900,000 (01.04.2011 - 2,060,000)		
Royal Ceramics Lanka PLC - 370,000 (01.04.2010 - 3,495,633)		
LB Finance PLC - 1,666 (01.04.2011 - 1,666)		
Vallibel One PLC - 1,812,584 (01.04.2011 - Nil)		
Mr. M.R. Zaheed	1,487	1,487
Mr. W.D.N.H. Perera	11	11
Mr. S.C. Ganegoda	2,000	2,000
Dr. K.I.M. Ranasoma (Appointed on 01.04.2011)	751	751
Waldock Mackenzie Ltd./Mr. L.T. Samarawickrama (Appointed on 30.06.2011)	43,500	43,500
Mr. R.P. Pathirana (Appointed on 30.06.2011)	2,000	2,000
Mr. M.D.S. Goonatilleke (Appointed on 30.06.2011)	2,500	2,500
Total	36,055,236	22,555,814

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

Major Shareholdings

Name of the Shareholder	No. of Shares as at 31.03.2012	%	No. of Shares as at 31.03.2011	%
1. Mr. K.D.D. Perera	30,916,399	41.22	16,943,928	22.59
SBL/Mr. K.D.D. Perera	2,900,000	3.87	2,060,000	2.75
2. Trustees of the D.S. Jayasundera Trust	8,698,017	11.60	8,698,017	11.60
3. Trustees of the Hayleys PLC - Employees Share Trust	6,855,735	9.14	6,855,735	9.14
4. Lanka Orix Leasing Company PLC	2,423,128	3.23	2,015,028	2.69
5. Employees' Provident Fund	1,819,473	2.43	1,926,273	2.57
6. Vallibel One PLC	1,812,584	2.42	-	-
7. Hayleys Group Services (Pvt) Ltd. Number 2 Account	1,117,090	1.49	1,328,790	1.77
8. Mrs. M.L. Johnpulle (Deceased)	907,165	1.21	907,165	1.21
9. Mr. G.M. Spittel (Deceased)	568,197	0.76	568,197	0.76
10. Mrs. R.N. Ponnambalam	540,315	0.72	540,315	0.72
11. M.S. Jayasundera (Deceased)	500,098	0.67	1,915,098	2.55
12. Mrs. F.C. Phillips & Mr. R.H.S. Phillips	482,304	0.64	482,304	0.64
13. Mrs. Y.M. Spittel	465,561	0.62	465,561	0.62
14. Mr. A.C. Wikramanayake	443,630	0.59	502,130	0.67
15. Mrs. P.M. Godamunne	443,447	0.59	807,447	1.08
16. Mrs. S.D. Wickramasinghe	440,281	0.59	440,281	0.59
17. Mr. G.N. Wikramanayake	370,422	0.49	370,422	0.49
18. Royal Ceramics Lanka PLC	370,000	0.49	3,495,633	4.66
19. Janashakthi Insurance PLC (Shareholders)	307,200	0.41	307,200	0.41
20. Aviva NDB Insurance PLC A/C No. 07	306,476	0.41	233,000	0.31
Total	62,687,522	83.58	50,862,524	67.82

As at 31st March, 2012 there were 3,370 (3,874) registered shareholders. The percentage of shares held by the public, as per the Colombo Stock Exchange Rules, as at 31st March, 2012 was 40.33% (48.04%).

Mandatory Offer

Mr. K.D.D. Perera together with Royal Ceramics Lanka PLC, Vallibel One PLC and L B Finance PLC being parties acting in concert, held as at 31st August, 2011 approximately 31.626% of the total number of shares in issue in Hayleys PLC and Mr. K.D.D. Perera's purchase of a further

9.166% of Hayleys PLC on 1st September, 2011, triggered the Company Take-overs and Mergers Code 1995 (as amended in 2003) and thereby requiring in terms of Rule No. 31 (1) (a) to make an offer to purchase shares from the remaining shareholders.

Accordingly, Mr. K.D.D. Perera made an offer to purchase shares from the remaining shareholders at Rs. 380/- per share. The offer was closed on 28th October, 2011 and shareholders who held 6.13% of total issued shares accepted the said offer.

Annual General Meeting

The Annual General Meeting will be held at the Sapphire Ballroom, Ceylon Continental Hotel, No. 48, Janadhipathi Mawatha, Colombo 01, at 3.00 p.m. on Friday, 29th June, 2012.

The Notice of the Annual General Meeting appears on page 229.

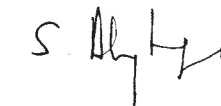
For and on behalf of the Board,



A.M. Pandithage
Chairman & Chief Executive



S.C. Ganegoda
Director



Hayleys Group Services (Pvt) Ltd.
Secretaries

17th May, 2012

Comparative figures are shown in brackets.

GOVERNANCE AT HAYLEYS

Dear Stakeholder,

Hayleys has committed to the highest level of governance and strive to foster a culture that values and rewards exemplary ethical standards, personal and corporate integrity and respect for others. Our approach to governance is predicated on the belief that there is a link between high-quality governance and the creation of long-term shareholder value. Our expectations of our employees and those to whom we contract business are set out in our Code of Business Conduct.

The current economic and business environment underscores the need for continued high standards of corporate governance. This is also clearly a time where engagement with shareholders is more important than ever. As representatives of shareholders accountable to them for the Hayleys's performance, it is a key part of the Board's approach to governance to ensure shareholders' views are heard and understood. The Board governs Hayleys consistent with our long-stated business strategy and commitment to a transparent and high-quality governance system.

This section of the Annual Report outlines the system of governance at Hayleys and its adherence to the requirements of the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the requirements of the Continuing Listing Requirements Section 7.10 on Corporate Governance Rules for Listed Companies issued by the Colombo Stock Exchange.

While ensuring that Hayleys is committed to the highest standards of corporate governance in order to deliver shareholder value over the long term, I hope this Report will help you to understand how we practice corporate governance at Hayleys PLC.

Yours Sincerely,



A.M. Pandithage

Chairman and Chief Executive

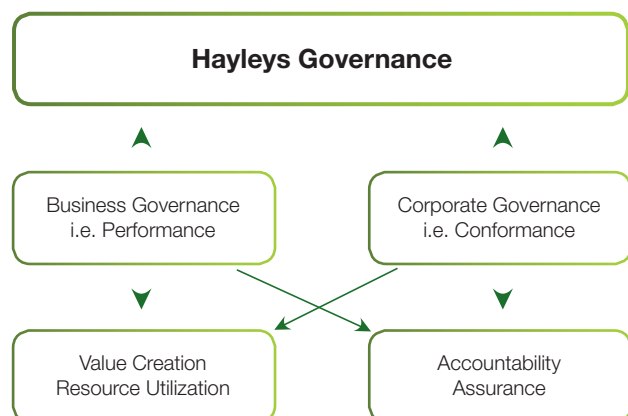
17th May, 2012

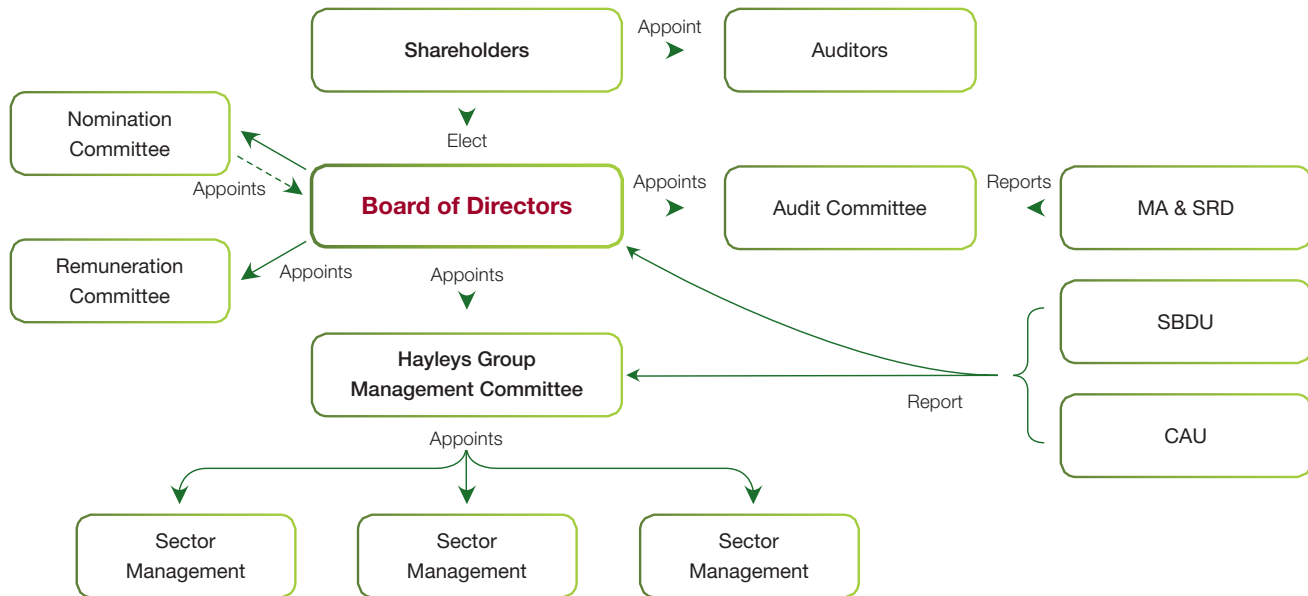
GOVERNANCE AT HAYLEYS

Hayleys has a policy of complying with established best practices in corporate governance. The Board has adopted core values and group standards which set out the conduct of staff in their dealings with shareholders, customers, colleagues, suppliers and other stakeholders of the Group. One of the core values communicated within the group is a belief that the highest standard of integrity is maintained in business.

The Group's governance framework covers both corporate governance and business governance. This includes corporate governance processes that support business governance, enabling companies to focus on areas that create value in their business. We strive to achieve a balance between accountability and assurance (conformance) on the one hand and value creation and resource utilization (performance) on the other. Thus we believe our business governance and corporate governance complement each other, as depicted below.

Conformance (corporate governance) covers issues such as Board structures, roles and processes. Performance (business governance) focuses on strategy and value creation. Hayleys Governance Guidelines provide Directors and management with a road map of their respective responsibilities. These guidelines, which will be updated periodically, detail clearly those matters requiring Board and Committee approval, advice or review. The Hayleys Governance Framework is depicted in the following diagram.





In our framework of governance, we have identified the importance of providing the Board and Hayleys Group Management Committee (HGMC) information which is comprehensible, relevant, reliable and timely in a cost effective manner. In this pursuit the Strategic Business Development Unit (SBDU) and Corporate Affairs Unit (CAU) satisfy various information needs of the Board and HGMC.

Business governance

Business governance provides an integrated framework to help the Group focus on both the drivers of value that move the business forward and the need to ensure adequate control and oversight. An overview of our business governance is given in the following diagram;



GOVERNANCE AT HAYLEYS

The process involved in undertaking a new project is outlined below:

- Board papers are prepared in respect of all new projects and businesses that a sector expects to embark upon and are tabled and approved by the relevant Boards.
- A project or business will be referred to the SBDU for their analysis and comments where investment is expected to exceed specified limits.
- Projects exceeding these limits are referred to the Hayleys Board with the comments/ recommendations of the SBDU, before any firm engagement or financial commitment is entered into.
- Where investments relate to projects which are progressed in phases, they will be approved in principle prior to initiation and each new phase will be sanctioned before it commences.

Strategic direction

Group strategies are subjected to a comprehensive annual review by the Board and are further discussed and reviewed as necessary during the year.

These group strategies act as a catalyst for sector strategies where HGMC has been delegated authority to formulate strategies in respect of business units, seek approval for such strategies and implement them within the policy framework established by the Board.

The sectors are required to align their strategies towards the achievement of the Group and Sector/Company Key Performance Indicators (KPIs). The annual budgeting process assists this and documents sector strategies and quantify short- term objectives.

Strategic implementation

The main businesses of the Group are incorporated into eight clusters – Global Markets & Manufacturing, Agriculture, Plantations, Transportation & Logistics, Consumer, Leisure & Aviation, Power & Energy, Industry Inputs and Investments & Services.

The achievement of targets through implementation of strategies formulated, current performance and the short term outlook are reviewed at cluster review meetings which are held monthly. Further, focused discussions take place at monthly HGMC meetings.

Strategic risk

The Board in understanding current business performance strives to ensure there is transparency around significant risk exposures. It encourages a culture where there is open debate and discussion on the risks faced in achieving business objectives and on new projects and key investment initiatives.

In providing strategic direction the board will obtain and review all strategic options and initiatives under consideration. This will comprise an analysis of the options, resource constraints and related risk exposures to facilitate informed decision making.

Corporate Governance Statement

The Board of Directors have adopted a formal Corporate Governance Statement. Aspects covered in this statement include the responsibilities of the Board and the HGMC,

governance processes and the authority entrusted to the HGMC. The Board will continue to adopt best practices in Corporate Governance and adopt them where appropriate, to better safeguard stakeholder interests.

IT governance

We continue to give attention to shaping the Group's IT systems to meet its strategies and operational objectives. Competent and dedicated staff are deployed Group- wide to support this need.

The Group's investment in IT resources covers resources operated and managed centrally and resources deployed in the various sectors. The former includes ERP systems / other related business systems, Internet, email and other collaborative services, and a Group- wide data communication system. The latter includes sector specific resources such as logistics management systems.

IT value and alignment

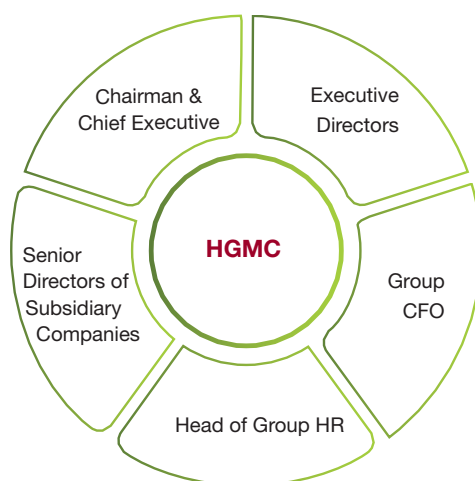
Investments for IT projects and systems are made after considering their suitability for the related projects. Further aspects such as cost savings, improved customer satisfaction, timely information and the balance between cost of investment and scale of operations are also taken into account when these decisions are taken.

IT risk management

Risks associated with Information Technology are assessed in the process of Enterprise Risk Management. Use of licensed software, closer monitoring of Internet /email usage and other IT related operations (for compliance with the Group's IT Use Policy) and the use of antivirus, firewall servers /software etc, are some of the practices in place. Business critical information is backed up / replicated at regular intervals and kept in secure offsite locations to meet the statutory and other relevant compliances. In addition business critical systems are duplicated as necessary for catastrophic failures.

Further insight into operational aspects of the Management Structure

Hayleys Group Management Committee (HGMC)



The Hayleys Board has delegated to the HGMC authority to formulate strategies with respect to business units, seek approval for this strategy and implement it within the policy framework established by the Board.

HGMC members are responsible for developing strategies and action plans with respect to the sectors and/or business units they manage. HGMC members in charge of service units are responsible for the formulation of policies and strategies with respect to these units, which are subject to approval by the Board.

Strategies with respect to the sectors are presented in the annual budget planning process and are discussed and approved by the HGMC before submission to the Hayleys Board for approval.

All capital expenditure of business sectors are required to be approved by the Boards of the respective companies.

Companies falling within each sector are required to hold quarterly meetings at which all matters requiring the approval of the Boards of those companies will be tabled and considered.

Authority vested with the HGMC

The responsibilities of the HGMC include -

- Recruitment, remuneration and ensuring ethical conduct of all personnel
- Training and succession planning
- Negotiation with trade unions and manual / clerical personnel
- Approval of expenditure
- Supervision of financial authority
- Maintenance of safety standards.
- Management of risk and following implicit and explicit guidelines set by the Group
- Safeguarding of assets and their efficient utilization.
- Providing support to the Board and the HGMC in pursuing Hayleys Group objectives and standards

The Group Management Committee meets monthly.

GOVERNANCE AT HAYLEYS

While Group Companies are subject to coverage by the Audit Committees, HGMC members are responsible to review risk management systems and internal control systems designed to protect assets, ensure proper records are maintained and reliable information is produced periodically.

All Financial Controllers of sectors are encouraged to report to the Group Financial Officer, bringing to his notice any significant aspect of risk or concern regarding the business activities of their sector and the financial statements submitted by them. This reporting may be more frequent if circumstances warrant it. These are subject to active discussion at the CFO Forum which takes place every 6 weeks so that matters are debated among the CFO's of the Group.

Copies of minutes of meetings of the Group Management Committee and of other Review Meetings are sent to all Directors including the Non-Executive Directors.

Internal Communication

Functional Clusters

Finance, Corporate Communications & HR Clusters have been established previously and bring together representatives from the different parts of the Group. These Clusters serve as a forum to communicate relevant matters, identify areas of special interest and concern and discuss these, and share and spread best practices.

CEO's Forum

The CEO's Forum chaired by the Chairman & Chief Executive is held quarterly. This Forum brings together management staff of all companies, in a setting in which information is disseminated and comments and questions relating to the Group are made, asked and answered. This Forum has seen active participation from all attendees.

Corporate Governance

Corporate Governance essentially is the system by which companies are directed and controlled by the management in the best interest of the stakeholders and others. Corporate Governance ensures fairness, transparency and integrity of the management. Corporate Governance is a way of life, rather than a mere legal compulsion. It further inspires and strengthens investor's confidence and commitment to the Company.

At Hayleys PLC, Corporate Governance is the catalyst responsible for business practices, which ensures positive workplace management, marketplace responsibility, environmental stewardship, community engagement, and sustained financial performance. Hayleys PLC is the Holding Company of the Hayleys Group which mainly consists of businesses which are actively controlled/managed by Hayleys.

The businesses of the Group are given under report Parameters, of the Sustainability Report on pages 62 and 63 of the Report.

We set out below the Corporate Governance practices adopted and practiced by Hayleys, the extent of adoption of the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka and the Rules set out in Section 7.10 of the Colombo Stock Exchange's Listing Rules on Corporate Governance.

Section A

This section covers Hayleys extent of adherence to the requirements of the Code of Best Practice on Corporate Governance issued by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. This reflects Hayleys governance in the following six fundamental aspects:

- Directors
- Directors' Remuneration
- Relations with Shareholders
- Accountability and Audit
- Institutional Investors
- Other Investors

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
---------------------------------	----------------------------	-------------------	-----------------------------

A. Directors

A.1 The Board

Hayleys PLC is headed by an effective Board of Directors which consists of professionals and business leaders drawn from different backgrounds and their profile are given in pages 50 and 51. The Board of Directors of Hayleys PLC is responsible for governance of all companies which Hayleys actively manages.

1. Board meetings	A.1.1	Compliant	The Board meets monthly to review the performance of the Company and its subsidiaries and take strategic decisions relating to Groups direction and other matters. Special Board meetings were also held as necessary. These meetings enhanced shareholder value and all stakeholder interests are considered in corporate decisions. Details of the meetings and attendance of the members are set out in the page 142.
2. Responsibilities of the Board	A.1.2	Compliant	The Board of Directors formulates, implement and communicate business policy and strategy to assure sustained growth, and monitor its implementation. It ensures the Chief Executive and management team possess the skills, experience and knowledge to implement the strategy effectively, with proper succession arrangements in place. The Board ensures effective systems to secure integrity of information, internal controls and risk management, compliance with laws and regulations and ethical standards. The Board ensures all stakeholder interests are considered in corporate decisions and values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations.
3. Compliance with laws and seeking independent professional advice	A.1.3	Compliant	The Board collectively, and Directors individually, act in accordance with the laws and regulations of Sri Lanka as applicable to the Group. The Directors are permitted to obtain independent professional advice when required at the expense of Hayleys and will be coordinated through company secretaries as and when it is necessary.
4. Company Secretary	A.1.4	Compliant	All Directors have access to the advice and services of the Company Secretary as necessary. The Company Secretary keeps 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. Any question of the removal of the Company Secretary is a matter of the Board as a whole.

GOVERNANCE AT HAYLEYS

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
5. Independent judgment of Directors	A.1.5	Compliant	All Directors bring independent judgment to the scrutiny of decisions taken by the Board on issues of strategy, performance, resources and business conduct.
6. Dedication of adequate time and effort by the Directors	A.1.6	Compliant	The Chairman and members of the Board dedicate adequate time and effort to fulfil the duties as Directors of Hayleys PLC to ensure that the duties and responsibilities owed to Hayleys PLC are satisfactorily discharged. In addition to attending Board Meetings, they have attended Subcommittees and ensures that they allocate adequate time and effort to fulfill the duties as members of such Board Subcommittees. Directors dedicate sufficient time before a meeting to review Board papers and call for additional information and clarification, and after a meeting to follow up on issues consequent to the meeting.
7. Training for new and existing Directors	A.1.7	Compliant	Every new Director and existing Directors are provided training on general aspects of directorship and matters specific to the industry wherever as necessary. Every Director recognises the need for continuous training and an expansion of the knowledge and skills required to effectively perform their duties as required.

A.2 Chairman and Chief Executive Officer

The Code requires a clear division of responsibilities between conducting of the business of the Board, and facilitating executive responsibility for management of the business. Though the functions of Chairman and Chief Executive are vested in one, the management structure established within the Group ensures this does not compromise the effective practice of Corporate Governance in the Group.

8. Justification and highlighting the combining of the posts of Chairman and Chief Executive	A.2.1	Compliant	<p>Though the functions of Chairman and Chief Executive are vested in one person, the management structure established within the Group ensures this does not compromise the effective practice of Corporate Governance in the Group. The Executive Directors and HGMC members are responsible for the businesses conducted by the Group and effectively function as CEOs of these businesses.</p> <p>Dr. H. Cabral, PC, Non-Executive Director functioned as Senior Independent Director through the year and he ensures governance within the Board is preserved and stakeholder concerns are addressed.</p>
--	-------	-----------	--

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
---------------------------------	-------------------------------------	----------------------	-----------------------------

A.3 Chairman's Role

The Chairman is responsible for effective conduct of meetings of the Board; he preserves order and facilitates discharge of Board functions and Implementations of decisions taken.

9. Role of the Chairman	A.3.1	Compliant	<p>The Chairman is responsible for the efficient conduct of Board meetings and ensures, inter alia, that</p> <ul style="list-style-type: none"> a. The effective participation of both Executive and Non-Executive Directors is secured; b. All Directors are encouraged to make an effective contribution for the benefit of the Company; c. A balance of power between Executive and Non-Executive Directors is maintained; d. The views of Directors on issues under consideration are ascertained; and e. The Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders. <p>The Chairman maintains close contact with all Directors and, where necessary, holds meetings with Non-Executive Directors without Executive Directors being present.</p>
-------------------------	-------	-----------	---

A.4 Financial Acumen

The Code requires the Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.

10. Availability of sufficient financial acumen and knowledge	A.4	Compliant	<p>The Board of Directors have experience in all sectors where Hayleys is operating coupled with their academic background and also possess financial acumen and knowledge together with having significant business acumen leading private and public enterprises. The details of their qualifications have been set on page 50 and 51.</p>
---	-----	-----------	--

GOVERNANCE AT HAYLEYS

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
---------------------------------	----------------------------	-------------------	-----------------------------

A.5 Board Balance

The Code requires the Board to have a balance of Executive and Non-Executive Directors so that no individual or small group of individuals can dominate the Board's decision-making.

11. Presence of Non-Executive Directors (NEDs)	A.5.1	Non-Compliant	Five out of twelve Directors are NEDs and they contribute immensely to the Board's decisions
12. Independent Non-Executive Directors	A.5.2	Compliant	Three out of five NEDs are independent which is above the minimum prescribed by the Code which is two or one-third of NEDs appointed to the Board whichever is higher.
13. Independence of NEDs	A.5.3	Compliant	All Independent NEDs are independent of management and free of any business or other relationship that could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.
14. Annual Declaration	A.5.4	Compliant	Each NED submits a declaration of independence/non-independence in a prescribed format.
15. Determination of independence of the Directors	A.5.5	Compliant	The Board has determined the independence of Directors based on the declarations submitted by the NEDs as to their independence, as a fair representation and will continue to evaluate their independence on this basis annually. Independent Non-Executive Directors are: <ul style="list-style-type: none"> • Dr. H. Cabral, PC • M.D.S. Goonatilleke • R.P. Pathirana
16. Senior Independent Director	A.5.6	Compliant	Since the Chairman and Chief Executive is the same person, Dr. H. Cabral, PC who is an Independent Non-Executive Director functioned as the Senior Independent Director. The Senior Independent Director is the Director to whom concerns can be conveyed if a need arises. (Terms of Reference)
17. Confidential discussions with Senior Independent Director	A.5.7	Compliant	Senior Independent Director is available for confidential discussions with other Directors who may have concerns which pertain to significant issues that are detrimental to the Group.
18. Chairman's meetings with NEDs	A.5.8	Compliant	Chairman meets with NEDs only, without the Executive Directors being present as whenever necessary.
19. Recording of concerns in Board Minutes	A.5.9	Compliant	Concerns raised by the Directors which cannot be unanimously resolved during the year if any, are recorded in the Board Minutes with adequate details

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
---------------------------------	-------------------------------------	----------------------	-----------------------------

A.6 Supply of Information

The Code requires the Board should be provided with timely information in a form and of a quality appropriate enabling them to discharge their duties.

20. Management's obligation to provide appropriate and timely information to the Board	A.6.1	Compliant	<p>Directors are provided with monthly reports on performance, minutes of review meetings and such other reports and documents as necessary. The Chairman ensures all Directors are adequately briefed on issues arising at meetings.</p> <p>The minutes, agenda and papers required for Board meeting are provided in advance to facilitate its effective conduct.</p>
21. Adequate time for effective conduct of the Board meetings	A.6.2	Compliant	<p>The minutes, agenda and papers required for Board meetings are provided in advance to facilitate its effective conduct.</p>

A.7 Appointments to the Board

The Code requires having a formal and transparent procedure for the appointment of new Directors to the Board.

22. Nomination Committee	A.7.1	Compliant	<p>Nomination Committee makes recommendations to the Board on all new Board appointments. The terms of Reference for Nomination Committee are similar to the one set out in Schedule A in this Code. Nomination Committee of Hayleys PLC consists of the following Directors:</p> <p>Nomination Committee Chairman: A.M. Pandithage</p> <p>Name of Member K.D.D. Perera W.D.N.H. Perera Dr. H. Cabral, PC</p> <p>The Board believes it is appropriate for the Chairman and Chief Executive to chair this Committee and that the composition of the Committee ensures its balance.</p>
23. Assessment of Board - Composition by the Nomination Committee	A.7.2	Compliant	<p>The Nomination Committee annually assesses Board-Composition to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company. The findings of such assessment are taken into account when new Board appointments are considered.</p>

GOVERNANCE AT HAYLEYS

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
24. Disclosure of required details of new Directors to shareholders	A.7.3	Compliant	<p>Following details of new Directors are disclosed on their appointment to the Colombo Stock Exchange, selected newspapers and Annual Report:</p> <ul style="list-style-type: none"> a. A brief resume of the Director; b. The nature of his expertise in relevant functional areas; c. The names of companies in which the Director holds directorships or memberships in Board Committees; and d. Whether such Director can be considered 'independent'.

A.8 Re-election

The Code requires all Directors should be required to submit themselves for re-election at regular intervals at least once in every three years.

25. Appointments of NEDs, Chief Executive and Directors in the Board	A.8.1 A.8.2	Compliant	<p>The provisions of the Company's Articles require a Director appointed by the Board to hold office until the next Annual General Meeting and seek reappointment by the shareholders at that meeting.</p> <p>The Articles call for one-third of the Directors in office to retire at each Annual General Meeting. The Directors who retire are those who have served for the longest period after their appointment/re-appointment. Retiring Directors are generally eligible for re-election.</p> <p>The names of Directors submitted for election or re-election is accompanied by a resumé to enable shareholders to make an informed decision on their election.</p> <p>The Chief Executive does not retire by rotation.</p>
--	----------------	-----------	---

A.9 Appraisal of Board Performance

The Code requires the Board should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.

26. Annual performance evaluation of the Board and its Committees	A.9.1 A.9.2	Compliant	<p>The Chairman and Remuneration Committee evaluates the performance of the Executive Directors.</p> <p>The Board undertakes an annual self-evaluation of its own performance and of its Committees.</p>
27. Disclosure of performance evaluation criteria	A.9.3	Compliant	Please refer Remuneration Committee Report on page 155.

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
---------------------------------	-------------------------------------	----------------------	-----------------------------

A.10 Disclosure of information in respect of Directors

The Code requires the shareholders should be kept advised of relevant details in respect of Directors.

28. Details in respect of Directors	A.10.1	Compliant	The Following information in relation to Directors is disclosed.														
			<table><tr><td></td><td>Page Number</td></tr><tr><td>Name, qualifications and brief profile</td><td>50 -51</td></tr><tr><td>The nature of his expertise</td><td>50 -51</td></tr><tr><td>Directors' interest in contracts</td><td>211 - 212</td></tr><tr><td>Names of listed companies each Director serves as a Director</td><td>115 - 116</td></tr><tr><td>Number of meetings (The Board and Committees) held and attendance</td><td>142</td></tr><tr><td>Names of Committees in which the Director serves as the Chairman or a member</td><td>129, 132, 137</td></tr></table>		Page Number	Name, qualifications and brief profile	50 -51	The nature of his expertise	50 -51	Directors' interest in contracts	211 - 212	Names of listed companies each Director serves as a Director	115 - 116	Number of meetings (The Board and Committees) held and attendance	142	Names of Committees in which the Director serves as the Chairman or a member	129, 132, 137
	Page Number																
Name, qualifications and brief profile	50 -51																
The nature of his expertise	50 -51																
Directors' interest in contracts	211 - 212																
Names of listed companies each Director serves as a Director	115 - 116																
Number of meetings (The Board and Committees) held and attendance	142																
Names of Committees in which the Director serves as the Chairman or a member	129, 132, 137																

A.11 Appraisal of Chief Executive

The Code requires the Board to assess the performance of the Chief Executive.

29. Setting Annual targets and appraisal of the performance of the Chief Executive by the Board	A.11.1 A.11.2	Compliant	Prior to the commencement of each financial year the Board in consultation with the CEO, set reasonable financial and non-financial targets which are in line with short, medium and long-term objectives of Hayleys, achievement of which should be ensured by the Chief Executive. A monthly performance evaluation is performed at which actual performance is compared to the budget. The Chief Executive is responsible to provide the Board with explanations for any adverse variances together with actions to be taken.
---	------------------	-----------	--

GOVERNANCE AT HAYLEYS

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
B. Directors' Remuneration			
B.1 Remuneration Procedure			
The Code requires establishing a formal and transparent procedure for developing policy on executive remuneration and for fixing remuneration packages of individual Directors and no Director is involved in deciding his own remuneration.			
30. Establishment of the Remuneration Committee	B.1.1	Compliant	<p>The Remuneration Committee decides on the remuneration of the Chairman/Chief Executive and the Executive Directors and sets guidelines for the remuneration of the management staff within the Group. The Chairman/Chief Executive is not a member of this Committee.</p> <p>Please refer page 155 Remuneration Committee Report for the terms of reference for Remuneration Committee.</p>
31. Composition of the Remuneration Committee	B.1.2	Compliant	The Remuneration Committee consists of Non-Executive Directors and the Chairman of this Committee is appointed by the Board who is the Senior Independent Director Dr. H. Cabral, PC.
32. Chairman and the members of the Remuneration Committee	B.1.3	Compliant	<p>The Remuneration Committee consists of following Non-Executive Directors:</p> <p>Dr. H. Cabral, PC – Chairman</p> <p>Name of Member</p> <p>K.D.D. Perera</p> <p>W.D.N.H. Perera</p> <p>M.D.S. Goonatileke</p>
33. Determination of remuneration of NEDs	B.1.4	Compliant	The Board as a whole determine the remuneration of the NEDs including the members of the Remuneration Committee which the Board believes is in line with current market conditions.
34. Consultation of the Chairman and access to professional advice.	B.1.5	Compliant	Remuneration Committee consults the Chairman about its proposal relating to the remuneration of other Executive Directors and have access to professional advice from within and outside Hayleys PLC, in discharging their responsibilities.

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
---------------------------------	-------------------------------------	----------------------	-----------------------------

B.2 The Level and Make-up of Remuneration

The Code requires the levels of remuneration of Directors should be sufficient to attract and retain the Directors. The proportion of remuneration of Executive Directors should be linked to corporate and individual performance.

35. Executive Director's remuneration package	B.2.1	Compliant	The Remuneration Committee formulates the required emoluments needed to attract, retain and motivate Executive Directors of the quality required.
36. Comparisons of remuneration with other companies	B.2.2	Compliant	The Remuneration Committee ensures that the remuneration of executives of each level of management is competitive and in line with their performance. Surveys are conducted as and when necessary to ensure that the remuneration is competitive with those of comparative companies.
37. Comparisons of remuneration with other companies in the Group	B.2.3	Compliant	The Remuneration Committee reviews data concerning executive pay among the Group Companies.
38. Performance-related elements of remuneration of Executive Directors	B.2.4	Compliant	A performance-based incentive has been determined by the Remuneration Committee to ensure that the total earnings of the executives are aligned with the achievement of objectives and budgets of the Group companies.
39. Executive share options	B.2.5	N/A	Presently the Group does not have an Executive Share Option Schemes.
40. Executive Directors remuneration	B.2.6	Compliant	The Remuneration Committee follows the provisions set out in Schedule D of the Code as required.
41. Early termination of Executive Directors	B.2.7 B.2.8	N/A	No special early termination clauses are included in the contract of employment contract of Executive Directors that would entitle them to extra compensation. However, any such compensation would be determined by the Board of Directors.
42. Levels of remuneration for NEDs	B.2.9	Compliant	Remuneration for NEDs reflect the time commitment and responsibilities of their role, taking into consideration market practices. NEDs are not included in share options as there is no scheme in existence.

GOVERNANCE AT HAYLEYS

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
---------------------------------	----------------------------	-------------------	-----------------------------

B.3 Disclosure of Remuneration

The Code requires the Company's Annual Report should contain a Statement of Remuneration policy and details of remuneration of the Board as a whole.

43. Disclosure of remuneration	B.3.1	Compliant	Please refer section B.1.3 on page 132 for the members in the Remuneration Committee and Remuneration Committee Report on page 155 for the remuneration policy. Please refer page 173 for the total Directors' Remuneration.
--------------------------------	-------	-----------	---

C Relations with Shareholders

C.1 Constructive use of the Annual General Meeting (AGM) and conduct of General Meetings

The Code requires the Board to use the AGM to communicate with shareholders and should encourage their participation.

44. Use of proxy votes	C.1.1	Compliant	Hayleys PLC has in place an effective mechanism to count all proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hand, except where a poll is called.
45. Separate resolution for all separate issues at the AGM	C.1.2	Compliant	Hayleys PLC proposes a separate resolution at the AGM on each substantially separate issue. And also adoption of the Annual Report of the Board of Directors on the Affairs of Hayleys PLC, Statement of Compliance and the Financial Statements with the Independent Auditors' Report is considered as a separate resolution.
46. Availability of all Board Subcommittee Chairmen	C1.3	Compliant	The Chairman of Hayleys PLC ensures the Chairmen of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman.
47. Adequate notice of the AGM	C.1.4	Compliant	A copy of the Annual Report including Financial Statements, Notice of Meeting and the Form of Proxy are sent to shareholders 15 days prior to the date of the AGM as required by the Statute in order to provide an opportunity to all the shareholders to attend the AGM.
48. Procedures of voting at General Meeting	C.1.5	Compliant	A summary of the procedures governing voting at General Meeting is circulated to shareholders with every Notice of the General Meeting.

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
---------------------------------	----------------------------	-------------------	-----------------------------

C.2 Major Transactions

The Code requires the Directors to disclose to shareholders all proposed corporate transactions, which if entered in to, would materially alter the Hayleys PLC net assets and the consolidated Group net asset base.

49. Disclosure on 'major transactions'	C.2.1	Compliant	<p>During the year, there were no major transactions as defined by Section 185 of the Companies Act No. 07 of 2007 which materially affect the net asset base of Hayleys PLC or consolidated group net asset base.</p> <p>Transactions, if any, which materially affect the net asset base of Hayleys PLC, will be disclosed in the Quarterly/Annual Financial Statements.</p>
--	-------	-----------	--

D. Accountability and Audit

D.1 Financial Reporting

The Code requires the Board to present a balanced and understandable assessment of Hayleys PLC's financial position, performance and prospects.

50. Board's responsibility for statutory and regulatory reporting	D.1.1	Compliant	<p>The Board has recognised the responsibility to present regulatory and statutory reporting in a balanced and understandable manner.</p> <p>When preparing quarterly and annual Financial Statements, Hayleys complied with the requirements of the Companies Act No. 07 of 2007 and prepared and presented them in accordance with Sri Lanka Accounting Standards. Hayleys PLC has complied with the reporting requirements prescribed by the Colombo Stock Exchange.</p>
51. Directors' Report in the Annual Report	D.1.2	Compliant	The Annual Report of the Board of Directors on the Affairs of the Company given on pages 113 to 119 covers all areas of this section.
Statement of Directors' and Auditors' responsibility for the Financial Statements	D.1.3	Compliant	<p>The "Statement of Directors' Responsibilities" is given on page 152.</p> <p>The "Independent Auditors' Report" on page 156 for the Auditor's responsibility.</p>
53. Management Discussion Analysis	D.1.4	Compliant	Please refer 'Management Review and Preview' on pages 10 to 41.
54. Declaration by the Board on the going concern of the business	D.1.5	Compliant	Please refer page 117 of this 'Annual Report of the Board of Directors on the Affairs of the Company' and the "Statement of Directors' Responsibilities".
55. Summon an EGM to notify serious loss of capital	D.1.6	Compliant	Reason for such an EGM has not risen as yet but would be complied with if such situation arises.

GOVERNANCE AT HAYLEYS

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
D.2 Internal Control			
The Code requires to the Board to maintain a sound system of internal control to safeguard shareholders' investments and the Hayleys' assets.			
56. Annual review of the effectiveness of Group's system of internal controls	D.2.1	Compliant	<p>The Board is responsible for the Group's internal control and its effectiveness. Internal control is established with emphasis placed on safeguarding assets, making available accurate and timely information and imposing greater discipline on decision-making. It covers all controls, including financial, operational and compliance control and risk management. It is important to state, however, that any system can ensure only reasonable, and not absolute, assurance that errors and irregularities are prevented or detected within a reasonable time.</p> <p>The Group's Management Audit & System Review Department (MA & SRD) plays a significant role in assessing the effectiveness and successful implementation of existing controls and strengthening these and establishing new controls where necessary. The MA & SRD's Reports are made available to the Chairman and Chief Executive and the Chairman of the Audit Committee.</p> <p>The Group also obtains the services of independent professional accounting firms other than the statutory auditors to carry out internal audits and reviews to supplement the work done by the MA & SRD.</p> <p>The Board has reviewed the effectiveness of the system of financial controls for the period up to the date of signing the accounts. There is a direct channel between the Head of MA & SRD and the Chairman of the Audit Committee without the interference of any Directors or Executives.</p>
57. Reviewing the need for internal audit function	D.2.2	N/A	This is not applicable as the Group's Management Audit & System Review Department (MA & SRD) is responsible for internal audit function.

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
---------------------------------	-------------------------------------	----------------------	-----------------------------

D.3 Audit Committee

The Code requires the Board to establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the External Auditors.

58. Composition of the Audit Committee	D.3.1	Compliant	<p>Audit Committee consists of:</p> <p>Chairman: M.D.S. Goonatilleke</p> <p>Name of Member W.D.N.H. Perera Dr . H. Cabral, PC R. P. Pathirana</p> <p>The Company Secretary serves as its Secretary. The Chairman and Chief Executive and Group CFO are invited to attend meetings, and other Executive Directors attend meetings as required. The input of the statutory Auditors is obtained where necessary.</p> <p>The Audit Committee helps the Group achieve a balance between conformance and performance</p>
59. Duties of the Audit Committee	D.3.2	Compliant	<p>The Audit Committee keeps under review the scope and results of the audit and its effectiveness, and the independence and objectivity of the Auditors. Review of nature and extent of non-audit services provided by the Auditors to seek balance objectivity and independence.</p>
60. Terms of Reference of the Audit Committee	D.3.3	Compliant	<p>The Terms of Reference (please refer page 154) of the Audit Committee have been agreed to by the Board. This addresses the purpose of the Committee, its duties and responsibilities including the scope and functions of the Committee.</p>
61. Disclosures of the Audit Committee	D.3.4	Compliant	<p>Names of the members of the Audit Committee are given under item 58 of this Code and the Independence of the Auditors is disclosed on page 154 under the Section of the 'External Auditors' in the Audit Committee Report on page 154.</p>

GOVERNANCE AT HAYLEYS

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
---------------------------------	-------------------------------------	----------------------	-----------------------------

D.4 Code of Business Conduct and Ethics

The Code requires Hayleys PLC to adopt a Code of Business Conduct and Ethics for Directors, and members of senior management team and must promptly disclose any waivers of the Code for Directors or others.

62. Disclosure of Code of Business Conduct and Ethics	D.4.1	Compliant	A comprehensive Corporate Governance and Code of Conduct and business governance has been adopted by the Board and is in compliance and any violations are taken for consideration.
63. Affirmation of the Code of Business Conduct and Ethics	D.4.2	Compliant	Refer the Chairman and Chief Executive Message

D.5 Corporate Governance Disclosures

The Code requires the Directors to disclose the extent to which Hayleys PLC adheres to established principles and practices of Good Corporate Governance.

64. Disclosure of Corporate Governance	D.5.1	Compliant	This Report from pages 124 to 140 sets out the manner and extent to which Hayleys PLC has complied with the principles and provisions of the Code.
--	-------	-----------	--

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
---------------------------------	-------------------------------------	----------------------	-----------------------------

Shareholders

E. Institutional Investors

E.1 Shareholder Voting

The Code requires Institutional Shareholders to make use of their votes and encourages to ensure their voting intentions are translated to practice.

65. Communication with shareholders	E.1.1	Compliant	<p>There are regular meetings with shareholders (based on their requests) on matters which are relevant and of concern to the general membership. Voting of the shareholders is critical in carrying out a resolution at the AGM. The Chairman ensures the views of the shareholders are communicated to the Board as a whole.</p> <p>Quarterly Financial Statements are made available to the Colombo Stock Exchange and also made available on the Group's website. Further, shareholders are provided with Annual Reports at the conclusion of each financial year.</p> <p>Any information that the Board considered as price sensitive is disseminated to the shareholders as necessary.</p> <p>Shareholders may bring up concerns they have, either with the Chairman and Chief Executive or the Group's Secretarial Department as appropriate.</p> <p>Discussions are held with Institutional Investors, involving the Chairman, and other Executive Directors where necessary. This process is supported by the SBDU and the CAU. During these meetings, the Directors ensure protection of share price sensitive information that has not been made available to the Company's shareholders.</p>
-------------------------------------	-------	-----------	--

E.2 Evaluation of Governance Disclosures

The Code requires the Institutional investors to give due weight to all relevant factors drawn to their attention.

66. Due weight by Institutional Investors	E.2.1	Compliant	The Institutional Investors are encouraged to give due weight to all relevant matters relating to the Board structure and composition.
---	-------	-----------	--

GOVERNANCE AT HAYLEYS

Corporate Governance Principles	SEC & ICASL Code Reference	Compliance Status	Hayleys' Extent of Adoption
F. Other Investors			
F.1 Investing/Divesting Decision			
67. Individual shareholders	F.1	Compliant	<i>Individual investors are encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.</i>
F.2 Shareholder Voting			
68. Individual shareholders voting	F.2	Compliant	Individual shareholders are encouraged to participate in General Meetings of companies and exercise their voting rights.

Section B

This section covers Hayleys extent of adherence to the requirements of the Continuing Listing Requirements Section 7.10 on Corporate Governance Rules for Listed Companies issued by the Colombo Stock Exchange. This reflects Hayleys' level of conformance to CSE's Listing Rules which comprises of following fundamental principles.

- Non-Executive Directors
- Independent Directors
- Disclosures Relating to Directors
- Remuneration Committee
- Audit Committee

CSE Rule Reference	Corporate Governance Principles	Compliance Status	Hayleys' Extent of Adoption
7.10.1(a)	Non-Executive Directors	Compliant	Please refer the item 11 of the SEC and ICASL Code table on page 128.
7.10.2(a)	Independent Directors	Compliant	Three of five Non-Executive Directors are Independent.
7.10.2(b)	Independent Directors	Compliant	All NEDs have submitted their confirmations on Independence as per the criteria set by Hayleys PLC, which is in within the regulatory requirements.
7.10.3(a)	Disclosure relating to Directors	Compliant	The Board assessed the independence declared by the Directors and determined the Directors who are independent and disclosed same in Item 15 of SEC & ICASL on page 128.

CSE Rule Reference	Corporate Governance Principles	Compliance Status	Hayleys's Extent of Adoption
7.10.3(b)	Disclosure relating to Directors	Compliant	The Board has determined that all Non-Executive Directors except for Mr. K.D.D. Perera and Mr. W.D.N.H. Perera satisfy the criteria for 'independence' set out in the Listing Rules.
7.10.3(c)	Disclosure relating to Directors	Compliant	Please refer pages 50 and 51 for the brief résumé of each Director.
7.10.3(d)	Disclosure relating to Directors	Compliant	Disclosed the appointments of new Directors to the Colombo Stock Exchange when it is disclosed to the public. Brief résumés of the Directors appointed during the year have been provided to the Colombo Stock Exchange.
7.10.5(a)	Composition of Remuneration Committee	Compliant	The Remuneration Committee comprised of four Non-Executive Directors.
7.10.5(b)			
7.10.5(c)	Functions of Remuneration Committee	Compliant	Please refer Item 30 of the SEC & ICASL Code table on page 132 for the details of the functions of the Remuneration Committee.
	Disclosure in the Annual Report relating to Remuneration Committee	Compliant	Names of Remuneration Committee members are given in the Item 32 of the SEC & ICASL Code table on page 132. The Report of the Remuneration Committee is given on page 155 and the remuneration paid to Directors is given in the Note 10 to the Financial Statements on page 173.
7.10.6(a)	Composition of Audit Committee	Compliant	<p>As at 31st March, 2012, Committee comprises of three Non-Executive Independent Directors and one Non-Executive Directors.</p> <p>Chairman of the Audit Committee is an Independent Non-Executive Director.</p> <p>The Chairman and Chief Executive and Chief Financial Officer attend meetings by invitation.</p> <p>Chairman of the Audit Committee is a passed finalist of The Institute of Chartered Accountants of Sri Lanka. Please refer page 51 for further details.</p>

GOVERNANCE AT HAYLEYS

CSE Rule Reference	Corporate Governance Principles	Compliance Status	Hayleys's Extent of Adoption
7.10.6(b)	Audit Committee Functions	Compliant	Please refer Item 59 of the SEC & ICASL Code table on page 137 for the details of the functions of the Audit Committee.
7.10.6 (c)	Disclosure in the Annual Report relating to Audit Committee	Compliant	The names of the Audit Committee members and the Report of the Audit Committee has been given on page 137. The basis of determination of the independence of the Auditor is also given in the Audit Committee Report.

Board and the Committee attendance. The number of meetings of the Board and Board Committees and individual attendance by members as follows.

Name	Directorship Status	Board	Audit Committee
Mr. A.M. Pandithage (Chairman & Chief Executive)	Executive	16/16	–
Mr. K.D.D. Perera (Deputy Chairman)	Non-Executive	6/16	–
Mr. L.K.B. Godamunne (resigned w.e.f. 29th June)	Non-Executive	3/3	1/1
Mr. M.R. Zaheed	Executive	13/16	–
Mr. A.M. Senaratna (resigned w.e.f. 29th June)	Non-Executive	3/3*	1/1
Mr. J.A.G. Anandarajah	Executive	13/16	–
Mr. T.L.F.W. Jayasekara (resigned w.e.f. 29th June)	Non-Executive	1/3	1/1
Mr. W.D.N.H. Perera	Non-Executive	10/16	1/7
Mr. S.C. Ganegoda	Executive	15/16	–
Mr. H.S.R. Kariyawasan	Executive	15/16	–
Dr. H. Cabral PC	Non-Executive	12/16	6/7
Dr. M. Ranasoma	Executive	13/16	–
Mr. L.T. Samarawickrama (w.e.f. 30th June 2011)	Non-Executive	9/12	–
Mr. R.D. Pathirana (w.e.f. 30th June 2011)	Non-Executive	12/12	6/6
Mr. M.D.S. Goonathilleke (w.e.f. 30th June 2011)	Non-Executive	11/12	6/6

Mr. A.M. Senaratna participated in 3 meetings via conference hall

RISK MANAGEMENT

Risk arises in all our business activities cannot be completely eliminated; however we work to manage risk in our internal control environment. Hayleys Group recognises that risk remains as an intrinsic component of doing business, however structured and transparent enterprise risk management process facilitates management to identify, manage and prepare for risks in an informed, controlled and transparent manner. An effective risk management framework helps Group in its attempts to achieve the optimum trade-off between risks and returns. The Group recognises the complexity and the diversity of risks that surround its operational activities and endeavours, to maximise opportunities and minimise exposures to risk while being cognisant of the risk/reward relationship and the limits of its risk appetite. An effective risk management framework can make an immense contribution in the efforts of the Group to optimise use of available capital.

The Group is using COSO and Risk Management Industry approaches as the conceptual framework of ERM. The framework consists of identifying and profiling of significant risks, modelling and measuring risk, determining Group risk appetites, accepting/transferring/eliminating/sharing risk, measuring of performance including the benefits of risk diversification and monitoring execution of the process. It is about directing the scarce resources to the opportunities that are expected to generate the maximum return with minimum risk.

Taking risks is an inherent part of entrepreneurial behaviour. A structured risk management process encourages management to take risks in a controlled manner. In order to provide a comprehensive view of Hayleys' business activities, risks and opportunities are identified in a structured way combining elements of a top-down and bottom-up approach. Risks are reported on a regular basis as part of the 'Business Performance Management' process. All relevant risks and opportunities are prioritised in terms of impact and likelihood, considering quantitative and/or qualitative aspects. The bottom-up identification and prioritisation process is supported by meetings/forums with the respective management at Sector and SBU Function level. The top-down element ensures that potential new risks and opportunities are discussed on management level and are included in the subsequent reporting process, if found to be applicable. Reported risks and opportunities are analysed regarding potential cumulative effects and are aggregated on Sector, Cross-Sector/Company and SBU level. Hayleys Group has a structured risk management process to address different risk categories – Strategic, Operational, Compliance and Financial risks.

RISK MANAGEMENT

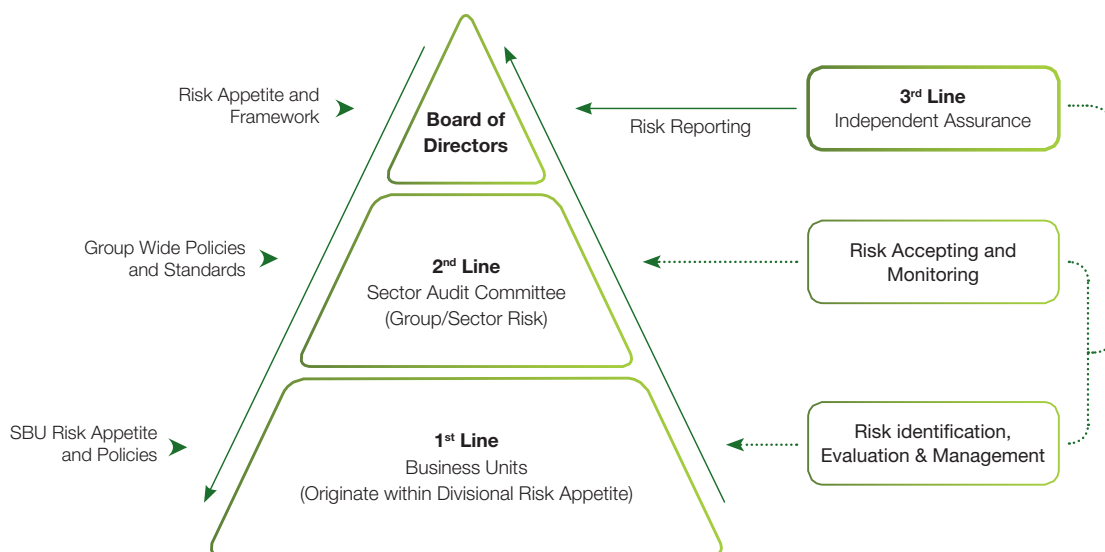
Risks/Opportunities			
Strategic	Operational	Compliance	Financial
Macroeconomic changes	Innovation process	Legal	Treasury
Changes in Industry market	Value Chain	Tax	Accounting and reporting
Acquisitions	People	Market practices	
Growth emerging markets	Business disruption	Regulatory	
	Reputation	General business principles	
		Internal controls	
		Data privacy/ product security	
Corporate Governance			
Risk Management Framework (COSO)			

The sector management has nominated persons responsible for risk management at the upper managerial level and risk management co-ordinators to ensure that an effective system for early identification of risks is implemented and maintained. Group Internal Audit co-ordinating the identification and documentation of control risk areas throughout the Group, enhancing the risk management system and monitoring

its effectiveness at regular intervals. In addition, during the year-end audit, the External Auditor issues a Management Letter and informs the Group Management Committee and to the Board of Directors the outcomes of these evaluations. These outcomes are taken into account in the continuing enhancement of our risk management system.

Our Group assurance function independently evaluates the adequacy and effectiveness of the Group's overall risk management framework and controls.

Our overall risk management approach is summarised in the following diagram:



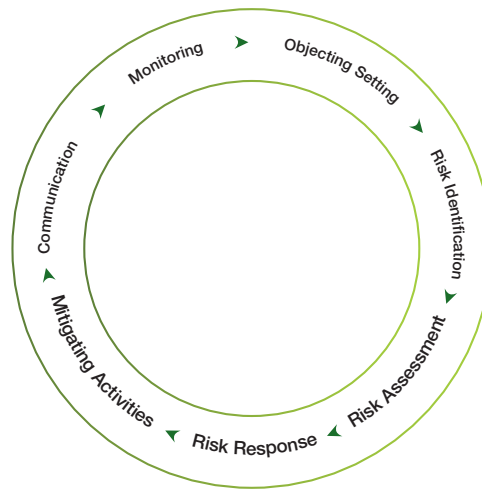
The 1st Line of Defence – Risk identification, Risk Management and Self-Assurance

Divisional business units are responsible for identifying, evaluating and managing the risks that they originate within approved risk appetite and policies. They are required to establish and maintain appropriate risk management controls, resources and self-assurance processes.

The 2nd Line of Defence – Establishment of Risk Management Frameworks and Policies and Risk Management Oversight

- Sector Audit Committees lead the optimisation of risk-reward by overseeing the development of risk appetite statements, risk management frameworks, policies and risk concentration controls, and monitoring Hayley's risk profile for alignment with approved appetites and strategies.
- Sector Management are responsible for developing division-specific risk appetite statements, policies, controls, procedures, monitoring and reporting capability, which align to the Board's Statement of Risk Appetite and the risk management frameworks approved by the Board of Directors. These risk areas are independent of the Divisions' 1st Line business areas, with Group internal audit having a direct reporting line to the Sector Audit Committees, as well as to the Hayleys PLC, Audit Committee.

The 3rd Line of Defence – Independent Assurance Enterprise Risk Management Process



Objective Setting ▼

Business units will continue to set their goals and objectives annually after evaluating and identifying the risks associated with their businesses. The Group's tolerance of the risks identified will ultimately determine the objectives agreed.

Risk Identification ▼

The Group's Management Audit & System Review Department (MA&SRD) plays a significant role in identifying financial and operational risks relating to SBU's/Sectors and deviations from required Internal controls. Internal audit reports produced monthly /quarterly by leading audit firms relating to specific sectors are also reviewed to identify the risks. Key elements of risk relating to sectors are discussed at monthly cluster meetings and at meetings of the Hayleys Group Management Committee (HGMC).

RISK MANAGEMENT

Risk Assessment ▼

Risk measures are based on likelihood and impact. Any significant risk exceeding risk tolerances will require management responses. Risks mentioned in the MA&SRD reports are ranked as High, Moderate and Low risk events based on the product of impact and likelihood. A higher risk event requires a more urgent management response.

Risk Response and Mitigating Activities ▼

Depending on the significance of the risk to the sector in which the entity operates, decisions are taken to appropriately manage the risk by accepting, reducing, sharing or avoiding it. Such decisions are influenced by the Group's risk appetite. The Sector Head together with Management Team initiates mitigatory action that is needed to manage risks.

Information and Communication ▼

Documentation and Reporting plays a key role in monitoring risk. Group MA&SRD Reports and outsourced internal audit reports are forwarded to the respective Group Management Committee member for action and direction. The reports are also forwarded to the relevant Audit Committees to increase awareness of the risks in each sector. Reports are tabled by sectors, at the meetings of the Board, certifying their mitigating actions to overcome risk events.

Monitoring ▼

The ultimate responsibility for monitoring the process of Risk Management lies with the HGMC and Audit Committee. This includes of monitoring of efficiency and effectiveness, Group internal controls.

Risk Assessment Matrix

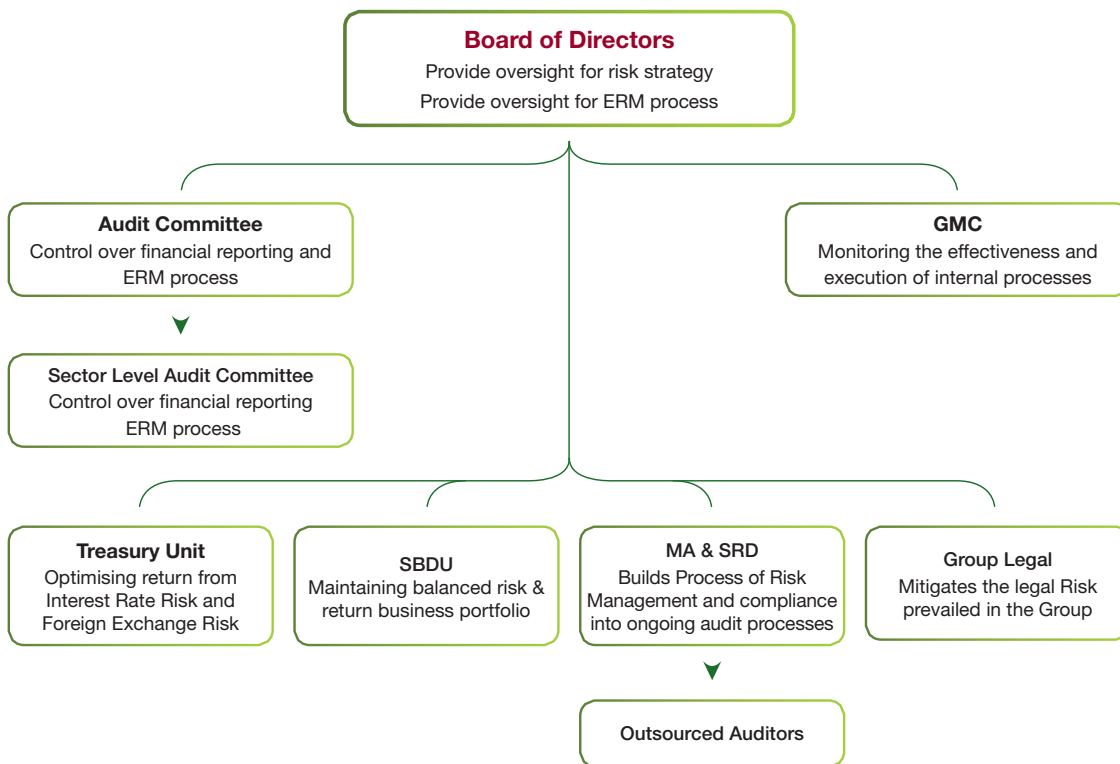
Probability (P)	Risk Matrix						
	(5) Very High	p>80%	5	10	15	20	25
	(4) High	60%<p>80%	4	8	12	16	20
	(3) Medium	40%<p>60%	3	6	9	12	15
	(2) Low	20%<p<40%	2	4	6	8	10
		P<20%	1	2	3	4	5
			(1) Isolated	(2) SBU Level	(3) Process Level	(4) Regional/ Channel Level	(5) Enterprise Level
			Impact				

Risk Management Governance Structure

The principal aim of the Group's risk management governance structure and system of internal control is to manage business and operational risks, with a view to enhancing the value of shareholders' investments and safeguarding assets.

Management has put in place a number of key policies, processes and independent controls to provide assurance to the Board of the integrity of

our reporting and effectiveness of our systems of internal control and risk management. The governance assurance diagram below highlights the relationship between the Board of Directors and the various controls in the assurance process. Some of the more significant internal control systems include Audit Committee, Sector Level Audit Committees, Hayleys Group Management Committee (HGMC), Treasury Unit (TU), Strategic Business Development Unit (SBDU), Group Legal & Management Audit & System Review Unit (MA&SRD).



RISK MANAGEMENT

Specific Risks Faced by the Group and Mitigating Actions

Techniques for the measurement and management of risks continue to evolve in the Group for the Enterprise Risk Management during the financial year 2012/13. The broad categorisation of the risk profile of Hayleys Group is depicted in the table over leaf.

Risk Category	Risk	Effect	Strategies and Mitigating Actions	Risk Rating
Finance	Foreign Exchange Risk	Affects Group results/ pricing policy	<ul style="list-style-type: none"> The exchange rate risk that the Group is exposed to are identified and the associated risk exposure measured, Exchange rate movements are forecast and outlooks developed for currencies in which the Group carries exposure. Group-wide FX exposures are monitored, and appropriate action is recommended to reduce inherent risks and minimise adverse impacts of currency rate movements on assets and liabilities. Benefits are sought from Group synergies and the use of natural hedges. Measures are established to determine effectiveness of action taken. 	High
	Interest Rate Risk	Impacts the Group's earnings, cash flow and economic value.	<ul style="list-style-type: none"> Interest rates and socio-economic circumstances are monitored to allow accurate and prudent forecasts to be built. Advice is provided in respect of the relevant backdrop and in managing existing and new borrowing facilities. Negotiations with banks/financiers are actively supported. 	High
	Liquidity Risk	Inadequate funds would lead to postponement of investments and resorting to costly funding alternatives.	<ul style="list-style-type: none"> Business models and working capital management are reviewed periodically to ensure cash flow alignment as far as possible, and minimise dependence on external lenders of liquidity. Trade cycles are analysed with a view to generating liquidity from operations, and thereby mitigating liquidity risk. The Group's bank relationships are managed with involvement of the Group Treasury to ensure access to essential credit and cash management services. 	High

Risk Category	Risk	Effect	Strategies and Mitigating Actions	Risk Rating
	Investment Risk	The future profitability of the Group is affected by the degree of realisation of expected earnings on investments.	<ul style="list-style-type: none"> • The portfolio of ongoing activity is analysed so it is better managed by the Group, and necessary action (including divestiture) taken. • Gaps in the business portfolio are identified and potential new areas of business identified. • Proposals from business sectors on new investments are extensively reviewed and improved, and appropriate recommendations are made to Group management. • Information on returns from business activity is aggregated each quarter to form a risk early warning system. 	High
	Credit Risk	The possibility of incurring bad debts, and the prospect of protracted legal proceedings without assurance of satisfaction.	<ul style="list-style-type: none"> • Credit risks are assessed, credit limits are set and credit granted is closely monitored. • Bank guarantees and cash deposits are obtained from frequent customers to cover credit exposure, as far as is feasible. • Export credit is insured to minimize inherent risks. 	Moderate/High
Business	Dependence on business partners	A major buyer discontinuing business will adversely affect sales and profits. Global mergers and acquisitions of principals represented, which are commonplace, can lead to the loss of agencies held. The latter is particularly relevant for the Consumer, Agri Inputs, Industrial Inputs, Transportation and Agro Products segments of the Group's business.	<ul style="list-style-type: none"> • The presence of Group companies overseas and a valued network of foreign and local business partners help identify the materialisation of risks and actions in mitigation. • Good principal agent relationships reduce the risk of unexpected, adverse events. • The Group remains alive to new market opportunities, to developing new alliances, and to acquiring distribution channels, which reduce the impact of any losses that do arise. 	Moderate

RISK MANAGEMENT

Risk Category	Risk	Effect	Strategies and Mitigating Actions	Risk Rating
	Fluctuations in prices, off take and availability of raw materials, energy, freight and other operating inputs	Margins may be affected by fluctuations in crop prices due to factors such as harvest and weather conditions, crop disease, crop yields, alternative crops and by-product values. In some cases, due to the basis for pricing in sales contracts, or due to competitive markets, we may not be able to pass on to customers the full amount of raw material price increases or higher energy, freight or other operating costs.	Strategic relationships with suppliers. Multiple-source supply agreements for key ingredient supplies Balanced portfolio of supply and tolling contracts in operation with customers to manage balance of raw material prices and product sales prices and volume risks. Raw material and energy purchasing policies to provide security of supply. Derivatives used where possible to hedge exposure to movements in future prices of commodities.	Moderate
	Product Risk	Loss of markets for existing product range.	<ul style="list-style-type: none"> • Accreditations are received from customers and international standards - setting bodies on products marketed. • Product innovation is given high priority. • The highest priority is given to closeness to customers and responsiveness to their needs. 	Moderate
	Due to climate changes	Manufacturing companies of the Group that use indigenous raw materials such as coconut fibre, coconut shell, latex and gherkins are affected by shortages due to weather conditions.	<ul style="list-style-type: none"> • Building adequate inventory levels when raw materials are available. • Sourcing from other countries as necessary and feasible. • Geographically diversifying risks by establishing manufacturing units overseas. 	Moderate
	IT Risk	The Group depends on accurate, timely information from key computer systems to enable decision-making.	<ul style="list-style-type: none"> • Implementation of sound IT policy throughout the Group is supported by adequate systems and controls. • A contingency plan is in place to mitigate the risk of IT failures. • A central IT team is in place to support IT within the Group. 	Moderate
	Socioeconomic Policies (Regulatory Risk)	Loss of competitiveness of our products in the international market place due to increased costs.	<ul style="list-style-type: none"> • Relevant issues are addressed to regulatory and other authorities and persistently canvassed with them. • Measures are taken to maximize productivity and reduce costs, for an example energy costs are mitigated by the use of alternative energy sources. • Operations are established overseas to diversify risk. 	Moderate/High
	Impact of the IFRS Convergence	Significant impact on the financial performance, position & processes of the Group, which could effect decisions made by the users of Financial Statements.	<ul style="list-style-type: none"> • Group has set up a significant project, consisting diagnostic & planning, solution development & implementation towards achieving compliance 	Moderate

Financial Reports

Statement of Directors' Responsibilities	152
Chairman/Chief Executive's and Group Chief Financial Officer's Responsibility Statement	153
Audit Committee Report	154
Remuneration Committee Report	155
Independent Auditors' Report	156
Income Statements	157
Balance Sheets	158
Statements of Changes in Equity	159
Cash Flow Statements	160
Notes to the Financial Statements	162

Financial Calendar 2011/12

1st Quarter Report	5th August, 2011
2nd Quarter Report	8th November, 2011
3rd Quarter Report	13th February, 2012
4th Quarter Report	18th May, 2012
Annual Report 2011/12	5th June, 2012
61st Annual General Meeting	29th June, 2012
First and Final Dividend Proposed	29th June, 2012
First and Final Dividend Payable	10th July, 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible under Sections 150 (1), 151, 152 (1), & 153 of the Companies Act No. 07 of 2007, to ensure compliance with the requirements set out therein to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit & loss of the Company and the Group for the financial year.

The Directors are also responsible, under Section 148, for ensuring that proper accounting records are kept to enable, determination of financial position with reasonable accuracy, preparation of Financial Statements and audit of such statements to be carried out readily and properly.

The Board accepts responsibility for the integrity and objectivity of the Financial Statements presented. The Directors confirm that in preparing the Financial Statements, appropriate accounting policies have been selected and applied consistently while reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected.

They also confirm that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange. Further, the Financial Statements provide the information required by the Companies Act and the Listing Rules of the Colombo Stock Exchange.

The Directors are of the opinion, based on their knowledge of the Company, key operations and specific inquiries, that adequate resources exist to support the Company on a going concern basis over the next year. These Financial Statements have been prepared on that basis.

The Directors have taken reasonable measures to safeguard the assets of the Group and, in that context, have instituted appropriate systems of internal control with a view to preventing and detecting fraud and other irregularities.

As required by Section 56 (2) of the Companies Act, the Board of Directors has authorised distribution of the dividend now proposed, being satisfied based on information available to it that the Company would satisfy the solvency test after such distribution in accordance with Section 57 of the Companies Act, and have sought in respect of the dividend now proposed, a certificate of solvency from the Auditors.

The External Auditors, Messrs Ernst & Young who were appointed at the last Annual General Meeting were provided with every opportunity to undertake the inspections they considered appropriate to enable them to form their opinion on the Financial Statements. The report of the Auditors, shown on page 156 sets out their responsibilities in relation to the Financial Statements.

Compliance Report

The Directors confirm that to the best of their knowledge, all statutory payments relating to employees and the Government that were due in respect of the Company and its Subsidiaries as at the Balance Sheet date have been paid or where relevant, provided for.

By order of the Board

HAYLEYS GROUP SERVICES (PVT) LTD.

Secretaries

17th May, 2012

CHAIRMAN/CHIEF EXECUTIVE'S AND GROUP CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The Financial Statements of Hayleys PLC and the Consolidated Financial Statements of the Group as at 31st March 2012 are prepared and presented in compliance with the requirements of the following.

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka;
- Companies Act No. 07 of 2007;
- Listing Rules of the Colombo Stock Exchange; and
- Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

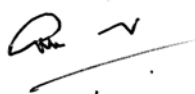
We confirm that the significant accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied, as described in the Notes to the Financial Statements. The prescribed Accounting Standards have been adopted without any deviations while the comparative information has been reclassified, wherever necessary, to comply with the current presentation. The significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Audit Committee and our External Auditors.

We have also taken proper and sufficient care in installing systems of internal control and accounting records, to safeguard assets, and to prevent and detect frauds as well as other irregularities. These have been reviewed, evaluated and updated on an ongoing basis. Reasonable assurances that the established policies and procedures of the Company have

been consistently followed were provided by periodic audits conducted by Group's internal auditors. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Audit Committee of the Company meets periodically with the Internal Auditors and the Independent Auditors to review the effectiveness of the audits, and to discuss auditing, internal control and financial reporting issues. The Independent Auditors and the Internal Auditors have full and free access to the Audit Committee to discuss any matter of substance.

The Financial Statements were audited by independent external auditors, Messrs Ernst & Young, Chartered Accountants. The Audit Committee approves the audit and non audit services provided by the External Auditor, in order to ensure that the provision of such services does not impair their independence.



A.M. Pandithage
Chairman and Chief Executive



L.D.E.A. De Silva
Group Chief Financial Officer

17th May, 2012

AUDIT COMMITTEE REPORT

Role of The Audit Committee

The role of the Committee, which has specific terms of reference, is described in the Corporate Governance Report on page 137.

Composition of the Audit Committee

The Audit Committee, appointed by and responsible to the Board of Directors, comprises three Independent Non-Executive Directors and a Non-Executive Director. Company Secretary acts as the Secretary to the Audit Committee. The Chairman and Chief Executive, Group Chief Financial Officer and Manager - Management Audit & Systems Review attend meetings of the Committee by invitation. The Chairman of the Audit Committee is a Senior Qualified Accountant.

Mr. T.L.F. Jayasekara and Mr. L.K.B. Godamune have resigned with effect from 29th June, 2011. Mr. K.D.D. Perera has resigned with effect from 4th November, 2011. Mr. M.D.S. Goonatilake and Mr. R.P. Pathirana Independent Non-Executive Directors were appointed to the Audit Committee with effect from 30th June, 2011. The names of the members and brief profiles of each member are given on pages 50 and 51 of this Report. Their individual and collective financial knowledge and business acumen and the independence of the Committee, are brought to bear on their deliberations and judgments on matters that come within the Committee's purview.

Meetings of the Audit Committee

The Committee met 7 times during the year. The attendance of the members at these meetings is stated in the table on page 142.

Other members of the Board and the Group Management Committee, as well as the External Auditors were present at discussions where this was appropriate. The proceedings of the Audit Committee are regularly reported to the Board of Directors.

Tasks of the Audit Committee

Financial Reporting System

The Committee reviewed the financial reporting system adopted by the Group in the preparation of its quarterly and annual Financial Statements to ensure reliability of the processes and consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka

Accounting Standards. The methodology included obtaining statements of compliance from Heads of Finance and Directors in charge of operating units. The Committee recommended the Financial Statements to the Board for its deliberations and issuance. The Committee, in its evaluation of the financial reporting system, also recognised the adequacy of the content and quality of routine management information reports forwarded to its members.

Internal Audits

The Committee reviewed the process to assess the effectiveness of the Internal Financial Controls that have been designed to provide reasonable assurance to the Directors that assets are safeguarded, and that the financial reporting system can be relied upon in preparation and presentation of Financial Statements. The Group Management Audit and Systems Review Department reports on key control elements and procedure in Group companies that are selected according to an annual plan were reviewed.

Internal Audits are outsourced to leading audit firms in line with an agreed annual audit plan. Follow up reviews are scheduled to ascertain that audit recommendations are being acted upon. The Committee appraised the independence of the Group MA & SRD and other Internal Auditors, in the conduct of their assignments.

The Committee obtained and reviewed statements from the heads of business sectors identifying their respective major Business Risks, mitigatory action taken or contemplated for management of these risks. The COSO Enterprise Risk Reporting Process is presently being implemented within the Group.

The Committee obtained representations from Group companies on the adequacy of provisions made for possible liabilities and reviewed reports tabled by Group companies certifying their compliance with relevant statutory requirements.

Subsidiary Company Audit Committees

Certain listed subsidiaries and also some of the unlisted subsidiaries have appointed their own Audit Committees comprising Independent Non-Executive Directors. These Audit Committees function independently of the Audit Committee of Hayleys PLC, but have similar

terms of reference. The minutes of their meetings are made available to Hayleys Audit Committee.

External Audits

The Committee held meetings with the External Auditors to review the nature, approach, scope of the audit and the Audit Management Letters of Group companies. Actions taken by the management in response to the issues raised, as well as the effectiveness of the internal controls in place, were discussed with the heads of business units. Remedial action was recommended wherever necessary.

The Audit Committee has reviewed the other services provided by the External Auditors to the Group to ensure that their independence as Auditors has not been compromised.

Appointment of External Auditors

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young., continue as Auditors for the financial year ending 31st March 2013.

Support to The Committee

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

Conclusion

The Audit Committee is satisfied that the Group's accounting policies and operational controls provide reasonable assurance that the affairs of the Group are managed in accordance with Group policies and that Group assets are properly accounted for and adequately safeguarded.

M.D.S. Goonatilake

M.D.S. Goonatilake
Chairman
Audit Committee

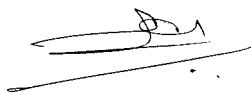
16th May, 2012

REMUNERATION COMMITTEE REPORT

The Remuneration Committee of Hayleys PLC consists of Non-Executive Directors, a majority of whom are independent, and is chaired by an Independent Non-Executive Director as per good governance requirements. The Chairman and Chief Executive assists the Committee by providing relevant information and participating in its analysis and deliberations, except when his own compensation package is reviewed.

The Committee is responsible for determining the compensation of the Chairman and Chief Executive, Executive Directors and members of the Group Management Committee. In addition they lay down guidelines and parameters for the compensation structures of all management staff within the Group.

A primary objective of the compensation packages is to attract and retain a highly-qualified and experienced work force, and reward performance accordingly in the backdrop of industry norms. These compensation packages provide compensation appropriate for each business within the Group and commensurate with each employee's level of expertise and contribution, bearing in mind the business performance and shareholder returns.



Dr. Harsha Cabral, PC

Chairman

Remuneration Committee

17th May, 2012

INDEPENDENT AUDITORS' REPORT



Chartered Accountants

201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
eysl@lk.ey.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HAYLEYS PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Hayleys PLC ("Company"), the consolidated financial statements of the Company and its subsidiaries which comprise the balance sheets as at 31 March 2012, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes. "The financial statements of the company, the consolidated financial statements of the company and its subsidiaries, as of 31 March 2011 were audited by another auditor whose report dated 19 May 2011, expressed an unqualified opinion on those financial statements."

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control

relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statements presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2012 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2012 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31 March 2012 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of Section 151 (2) and Sections 153 (2) to 153 (7) of the Companies Act No. 07 of 2007.

Colombo
17th May 2012

INCOME STATEMENTS

For the year ended 31st March,	Notes	Consolidated		Company	
		2012 Rs. '000	2011 Rs. '000 (Restated)	2012 Rs. '000	2011 Rs. '000
Continuing operations					
Gross turnover	6	62,465,253	54,370,207	176,664	161,716
Turnover tax		(167,247)	(145,601)	(12,868)	(14,727)
Net turnover		62,298,006	54,224,606	163,796	146,989
Cost of sales		(48,985,972)	(42,914,122)	(136,805)	(115,637)
Gross profit		13,312,034	11,310,484	26,991	31,352
Group dividend		–	–	1,235,872	560,665
Other income	7	2,567,540	211,605	348,669	236,074
Distribution expenses		(1,883,053)	(1,963,462)	–	–
Administrative expenses		(7,408,760)	(6,690,334)	(165,043)	(99,753)
Other expenses	8	(218,960)	(32,397)	–	–
Net finance cost	9	(1,575,507)	(846,341)	(370,856)	(273,174)
Share of profit of equity accounted investees (net of tax)		12,695	51,074	–	–
Profit before tax	10	4,805,989	2,040,629	1,075,633	455,164
Tax expense	11	(960,665)	(903,853)	(5,341)	(1,880)
Profit for the year from continuing operations		3,845,324	1,136,776	1,070,292	453,284
Discontinued Operations					
Loss for the year from discontinued operations (net of tax)	39	–	(9,042)	–	–
Profit for the year		3,845,324	1,127,734	1,070,292	453,284
Attributable to:					
Equity holders of the Company		2,519,732	677,181		
Non-controlling interest		1,325,592	450,553		
Profit for the year		3,845,324	1,127,734		
Earnings per Share					
Basic earnings per share (Rs.)	12	33.60	9.03		
Diluted earnings per share (Rs.)	12	33.60	9.03		
Earnings per share from continuing operations					
Basic earnings per share (Rs.)	12	33.60	9.15		
Diluted earnings per share (Rs.)	12	33.60	9.15		
Dividend per share (Rs.)	13	4.00	4.00		

Notes from pages 162 to 221 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

BALANCE SHEETS

As at 31st March,	Notes	Consolidated		Company	
		2012	2011	2012	2011
		Rs. '000	Rs. '000 (Restated)	Rs. '000	Rs. '000
Assets					
Non-current assets					
Property, plant & equipment	14	30,360,487	24,445,595	3,919,284	3,837,739
Investment property	15	37,156	—	—	—
Intangible assets	16	4,833,959	3,361,546	—	—
Investments in subsidiaries	17	—	—	7,840,097	5,610,679
Investments in equity accounted investees	17	340,353	463,647	—	1,960
Other long-term investments	17	411,911	703,059	291,407	291,407
Employees' share trust loan	18	491,439	492,243	491,439	492,243
Deferred tax assets	26	212,982	197,235	—	—
Total non-current assets		36,688,287	29,663,325	12,542,227	10,234,028
Current Assets					
Inventories	19	10,682,430	8,720,285	920	1,396
Amounts due from subsidiaries	38	—	—	295,139	400,526
Amounts due from equity accounted investees	38	—	3,723	—	784
Trade and other receivables	20	14,545,445	12,210,780	71,387	37,504
Short-term investments	21	60,985	14,853	31,632	5,195
Income tax recoverable	29	147,762	170,917	4,644	5,501
Short-term deposits		915,067	1,378,314	—	—
Cash and cash equivalents		1,755,418	1,487,226	25,834	19,915
Assets classified as held for sale	39	4,862	15,993	—	—
Total current assets		28,111,969	24,002,091	429,556	470,821
Total assets		64,800,256	53,665,416	12,996,783	10,704,849
Equity and Liabilities					
Stated capital	22	1,575,000	1,575,000	1,575,000	1,575,000
Capital reserves		6,619,929	6,951,296	3,697,729	3,697,729
Revenue reserves		9,964,448	7,119,699	2,238,156	1,467,864
Total equity attributable to equity holders of the Company		18,159,377	15,645,995	7,510,885	6,740,593
Non-controlling interest		9,582,712	8,052,425	—	—
Total Equity		27,742,089	23,698,420	7,510,885	6,740,593
Non-Current Liabilities					
Interest-bearing borrowings	24	5,655,017	4,432,619	1,386,667	1,680,000
Deferred income	25	777,670	792,867	—	—
Deferred tax liability	26	795,041	713,907	—	—
Retirement benefit obligations	27	3,921,370	3,335,442	333,279	259,857
Total non-current liabilities		11,149,098	9,274,835	1,719,946	1,939,857
Current Liabilities					
Trade and other payables	28	9,706,541	8,084,330	174,204	120,885
Amounts due to subsidiaries	38	—	—	827,250	151,088
Amounts due to equity accounted investees	38	21,155	52,563	—	—
Income tax payable	29	297,512	399,052	—	—
Current portion of long-term interest-bearing borrowings	24	1,501,839	1,893,093	506,667	720,000
Short-term interest-bearing borrowings	30	14,379,848	10,260,541	2,232,831	1,032,426
Liabilities directly associated with assets classified as held for sale	39	2,174	2,582	—	—
Total current liabilities		25,909,069	20,692,161	3,740,952	2,024,399
Total liabilities		37,058,167	29,966,996	5,485,898	3,964,256
Total equity and liabilities		64,800,256	53,665,416	12,996,783	10,704,849

It is certified that the Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



L.D.E.A. De Silva

Group Chief Financial Officer

The Directors are responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board,



A.M. Pandithage

Chairman and Chief Executive

17th May, 2012



S.C. Ganegoda

Director

Notes from pages 162 to 221 form an integral part of these Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31st March, 2012

Consolidated

	Attributable to equity holders of the Company							Non-controlling interest	Total equity
	Stated Capital	Reserve on scrip issue	Revaluation reserve	Other capital reserves	Exchange fluctuation reserve	General reserve	Retained earnings		
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st April, 2010	1,575,000	1,091,774	5,542,671	413,062	573,348	2,127,574	3,891,131	15,214,560	22,333,350
Adjustment due to changes in holding	–	(103,186)	3,687	3,288	–	7,413	37,391	(51,407)	36,797
Acquisition of subsidiary	–	–	–	–	–	–	–	789,624	789,624
Translation of foreign entities	–	–	–	–	(31,996)	(12,343)	–	(44,339)	(52,813)
Net gains/(losses) not recognised in the Income Statement	–	(103,186)	3,687	3,288	(31,996)	(4,930)	37,391	(95,746)	773,608
Transfers	–	–	–	–	–	172,816	(172,816)	–	–
Profit for the year	–	–	–	–	–	–	677,181	677,181	1,127,734
Dividends	–	–	–	–	–	–	(150,000)	(150,000)	(536,272)
Balance as at 31st March, 2011 - Restated	1,575,000	988,588	5,546,358	416,350	541,352	2,295,460	4,282,887	15,645,995	23,698,420
Revaluation of assets	–	–	207,588	–	–	–	–	207,588	207,588
Adjustment due to changes in holding	–	(671,914)	155,252	43,602	–	20,563	424,235	(28,262)	(461,944)
Acquisition of subsidiary	–	–	–	–	–	–	–	953,449	953,449
Translation of foreign entities	–	–	–	–	114,324	–	–	114,324	188,332
Net gains/(losses) not recognised in the Income Statement	–	(671,914)	362,840	43,602	114,324	20,563	424,235	293,650	887,425
Transfers	–	–	(65,895)	–	–	(229,502)	295,397	–	–
Profit for the year	–	–	–	–	–	–	2,519,732	2,519,732	3,845,324
Dividends	–	–	–	–	–	–	(300,000)	(300,000)	(689,080)
Balance as at 31st March, 2012	1,575,000	316,674	5,843,303	459,952	655,676	2,086,521	7,222,251	18,159,377	27,742,089

Company

	Stated capital	Revaluation reserve	Other capital reserves	General reserves	Retained earnings	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st April, 2010	1,575,000	3,684,503	13,226	382,087	782,493	6,437,309
Profit for the year	–	–	–	–	453,284	453,284
Dividends	–	–	–	–	(150,000)	(150,000)
Balance as at 31st March, 2011	1,575,000	3,684,503	13,226	382,087	1,085,777	6,740,593
Profit for the year	–	–	–	–	1,070,292	1,070,292
Dividends	–	–	–	–	(300,000)	(300,000)
Balance as at 31st March, 2012	1,575,000	3,684,503	13,226	382,087	1,856,069	7,510,885

1. Descriptions of specific reserves are given below:

Reserve on Scrip Issue represents bonus issues made by subsidiaries.

Revaluation Reserve relates to the revaluation of property, plant & equipment.

Details of the **Other Capital Reserves** are given in Note 23 to the Financial Statements.

Exchange Fluctuation Reserve comprises all foreign currency differences arising from the translation of the Financial Statements of foreign operations.

Notes from pages 162 to 221 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

CASH FLOW STATEMENTS

	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000 Restated	2012 Rs. '000	2011 Rs. '000
<i>For the year ended 31st March,</i>				
Cash Flows from Operating Activities				
Cash generated from operations (Note A)	3,847,425	3,391,901	1,944,133	(117,580)
Retiring gratuity paid	(344,783)	(230,433)	(3,218)	(10,627)
Interest paid (including interest capitalised)	(1,471,162)	(1,209,654)	(399,698)	(282,265)
Income tax paid	(1,066,719)	(748,493)	(4,484)	(3,845)
Net cash inflow/(outflow) from operating activities	964,061	1,203,321	1,536,733	(414,317)
Cash Flows from Investing Activities				
Purchase and construction of property, plant & equipment	(5,035,767)	(2,886,161)	(108,736)	(12,270)
Government grants received - capital	37,584	147,484	-	-
Proceeds from disposal of property, plant & equipment	234,627	205,558	566	1,469
On acquisition of intangible assets	(72,161)	(35,769)	-	-
Proceeds from the sale of investments	2,597,135	-	280,000	1,532,393
Proceeds from the sale of equity accounted investees	172,699	22,525	-	-
Proceeds from the sale of assets held for sale	1,523	102,673	-	-
Proceeds from disposal of short-term investments	1,343	942,614	-	-
Long-term investments in Group companies and others	(707,208)	(13,000)	(2,260,151)	(1,732,261)
Short-term investments	(19,291)	(817,915)	-	(809,021)
Acquisition of subsidiaries	(2,702,740)	(2,115,321)	-	-
Interest received	215,307	166,465	28,842	9,091
Dividends received from equity accounted investees	7,800	3,120	-	-
Dividends received from non-group companies	135,613	2,120	134,122	405
Recovery of employee share trust loan	804	1,842	804	1,842
Net payment to minority shareholders	(389,080)	(386,272)	-	-
Net cash used in investing activities	(5,521,811)	(4,660,037)	(1,924,553)	(1,008,352)
Net cash inflow/(outflow) before financing	(4,557,750)	(3,456,716)	(387,820)	(1,422,669)
Cash Flows from Financing Activities				
Capital payment on finance lease	(39,922)	(29,867)	-	-
Buy back of own shares by subsidiaries	(50,000)	-	-	-
Debenture Redemption	-	(95,000)	-	-
Proceeds from interest-bearing borrowings	3,541,006	3,898,728	-	2,400,000
Repayment of interest-bearing borrowings	(2,907,696)	(1,663,584)	(506,666)	(130,000)
Dividends paid	(300,000)	(150,000)	(300,000)	(150,000)
Net cash inflow/(outflow) from financing activities	243,388	1,960,277	(806,666)	2,120,000
Net increase/(decrease) in cash and cash equivalents	(4,314,362)	(1,496,439)	(1,194,486)	697,331
Cash and cash equivalents at beginning of the year	(7,394,391)	(5,897,952)	(1,012,511)	(1,709,842)
Cash and cash equivalents at end of the year (Note B)	(11,708,753)	(7,394,391)	(2,206,997)	(1,012,511)

Notes from pages 162 to 221 form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Net cash flows related to discontinued operations is shown in Note 39 - Discontinued Operations.

For the year ended 31st March,

	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000 Restated	2012 Rs. '000	2011 Rs. '000
A. Cash Generated from Operations				
Profit before tax from continuing operations	4,805,989	2,040,629	1,075,633	455,164
Loss before tax from discontinued operations	—	(9,042)	—	—
	4,805,989	2,031,587	1,075,633	455,164
Adjustments for:				
Net finance cost	1,575,507	846,341	370,856	273,174
Share of profits from equity accounted investees	(12,695)	(51,074)	—	—
Depreciation on property, plant & equipment	1,621,334	1,262,885	26,829	29,765
(Gain)/loss on the disposal and derecognition of property, plant & equipment	113,442	(45,164)	(204)	(1,174)
(Gain)/loss on the disposal of long-term investments	(2,198,233)	5,381	(213,000)	(100,902)
(Gain)/loss on the disposal of short-term investments	(1,343)	(133,593)	(1,343)	(133,593)
Surplus on acquisition	(81,372)	(3,761)	—	—
Amortisation of intangible assets	27,328	22,307	—	—
Dividend income	(135,613)	(2,120)	(134,122)	(405)
Net gains/(loss) on translation of foreign currency	(319,652)	196,849	—	—
Differences of exchange on translation of foreign entities	251,847	48,374	—	—
Provision for bad and doubtful debts	2,190	130,415	1,446	(650)
Provision for unrealised profit and write-down of inventories	105,672	315,716	—	—
(Gain)/loss on the disposal of subsidiary and associates	(20,975)	(5,381)	—	—
Provision for retiring gratuity	881,084	631,772	76,640	55,812
Amortisation of government grants	(52,781)	(21,415)	—	—
Reversal of Provision for fall in value of investments	—	(171)	—	—
Provision for fall in value of investment	967	10,090	—	—
	6,562,696	5,239,038	1,202,735	577,191
(Increase)/decrease in trade and other receivables	(2,085,507)	(1,213,825)	11,441	948
(Increase)/decrease in inventories	(2,032,589)	(252,317)	476	104
Increase/(decrease) in trade and other payables	1,402,825	(380,995)	729,481	(695,823)
	3,847,425	3,391,901	1,944,133	(117,580)
B. Analysis of Cash and cash equivalents				
Cash and cash equivalents	1,756,028	1,487,836	25,834	19,915
Short-term deposits	915,067	1,378,314	—	—
	2,671,095	2,866,150	25,834	19,915
Short-term interest-bearing borrowings	(14,379,848)	(10,260,541)	(2,232,831)	(1,032,426)
Cash and cash equivalents previously reported	(11,708,753)	(7,394,391)	(2,206,997)	(1,012,511)
Cash and cash equivalents as restated	(11,708,753)	(7,394,391)	(2,206,997)	(1,012,511)

C. During the year the Group acquired property, plant & equipment with an aggregate cost of Rs. 5,036 mn and Rs. 32.9 mn was acquired by means of finance leases.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

Hayleys 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 address of the Company's registered office and the principal place of business is given on inner back cover.

The Consolidated Financial Statements of Hayleys PLC, as at and for the year ended 31st March, 2012 encompass the Company and its Subsidiaries (together referred to as the 'Group') and the Group's interest in Equity Accounted Investees. Descriptions of the nature of the operations and principal activities of the Company, its Subsidiaries and Equity Accounted Investees are given on pages 62 to 63.

Hayleys PLC, does not have an identifiable Parent of its own.

The Financial Statements of all companies in the Group other than those mentioned in Note 35 to the Financial Statements are prepared for a common financial year, which ends on 31st March.

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 (SLASs) promulgated by The Institute of Chartered Accountants of Sri Lanka (ICASL), and with the requirements of the Companies Act No. 07 of 2007.

The Financial Statements were authorised for issue by the Directors on 17th May 2012.

2.2 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and accounting policies are applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following:

- Land and buildings are measured at cost at the time of acquisition and subsequently land is revalued.

2.3 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Group's functional currency, except for certain subsidiaries and whose functional currencies are different as they operate in different economic environments (see Note 33). All financial information presented in Sri Lankan Rupees have been given to the nearest thousand, unless stated otherwise.

Materiality and Aggregation

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

3. Significant Accounting Policies

The accounting policies set out below are consistent with those used in the previous year. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with policies adopted by the Group.

Certain comparative information has been reclassified to conform with the current year's presentation.

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

3.1 Basis of Consolidation

The Consolidated Financial Statements (referred to as the 'Group') comprise the Financial Statements of the Company and its Subsidiaries and the Group's interest in Equity Accounted Investees.

Subsidiaries, Equity Accounted Investees are disclosed in Note 17 to the Financial Statements.

3.1.1 Acquisitions and Divestments

Acquisitions of subsidiaries are accounted for using the purchase method of accounting. The results of subsidiaries, equity accounted investees acquired or incorporated during the period have been consolidated from the date of acquisition or incorporation, while the results of subsidiaries, equity accounted investees disposed, have

been accounted up to the date of disposal. Non-controlling interest is measured at the proportionate share of the acquiree's identifiable net assets.

3.1.2 Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities which is evident when the Group controls the composition of the Board of Directors of the entity or holds more than 50% of the issued shares of the entity or 50% of the voting rights of the entity or entitled to receive more than half of every dividend from shares carrying unlimited right to participate in distribution of profits or capital.

Entities that are subsidiaries of another entity which is a subsidiary of the Company are also treated as subsidiaries of the Company.

The interest of outside shareholders in Group companies is disclosed separately under the heading of 'Non-Controlling Interest'.

3.1.3 Transactions with Non-controlling Interests

The profit or loss and net assets of a company attributable to equity interests that are not owned by the Parent, directly or indirectly through subsidiaries, is disclosed separately under the heading 'Non-Controlling Interest'.

The Group applies a policy of treating transactions with Non-Controlling Interests as transactions with parties external to the Group.

3.1.4 Equity Accounted Investees

Equity accounted investees are those entities in which the Group has significant influence, but not control, over financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Equity accounted investees are accounted for using the equity method. The Consolidated Financial Statements include the Group's share of profit net of tax and equity movements of equity accounted investees from the date that significant influence commences until the date significant influence

ceases. When the Group's share of losses exceeds its investment in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has incurred obligations or has made payments on behalf of the investee.

3.1.5 Transactions Eliminated on Consolidation

Intra-group balances, transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign Currency

3.2.1 Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates applicable on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate ruling at that date. Foreign currency differences arising on translation are recognised in profit and loss. Non-monetary assets and liabilities which are carried in terms of historical cost in a foreign currency are translated at the exchange rate that prevailed at the date of the transaction.

3.2.2 Financial Statements of Foreign Entities

The results and financial position of all Group entities that have a functional currency other than the Sri Lanka Rupee are translated into Sri Lankan Rupees as follows:

- Assets and liabilities for each Balance Sheet presented, including goodwill and fair value adjustments arising on the acquisition of a foreign entity, are translated at the closing rate at the reporting date.
- Income and expenses are translated at the average exchange rate for the period.

All resulting exchange differences are recognised in the foreign currency translation reserve within equity. When a foreign entity is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is recognised in profit and loss.

3.3 Assets and Bases of their Valuation

3.3.1 Property, Plant & Equipment

3.3.1.1 Recognition and Measurement

Items of property, plant & equipment are measured at cost or at fair value in the case of land less accumulated depreciation and accumulated impairment losses if any.

3.3.1.2 Owned Assets

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

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

Revaluation of land is done when there is a substantial difference between the fair value and the carrying amount of the land, and is undertaken by professionally qualified valuers. Increases in the carrying amount on revaluation are credited to the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same individual asset are charged against revaluation reserve directly in equity. All other decreases are expensed in profit and loss.

3.3.1.3 Leased Assets

Assets obtained under the finance lease, which effectively transfer to the Company substantially, all of the risks and benefits incidental to ownership of the leased assets, are treated as if they have been purchased outright and are capitalised at their cash price. Assets acquired by way of a finance lease are measured at an amount equal to the lower of their fair value and the present value of minimum lease payments at the inception less accumulated depreciation and accumulated impairment losses.

The principal/capital elements payable to the lessor are shown as liability/obligation. The lease rentals are treated as consisting of capital and interest elements. The capital element in the rental that is applied to reduce the outstanding obligation and interest element is charged against profit, in proportion to the reducing capital element outstanding.

The cost of improvements to leased property is capitalised, disclosed as improvements to leasehold property and depreciated over the unexpired period of the lease, or the estimated useful lives of the improvements, whichever is shorter.

Other leases are operating leases and are not recognised in the Balance Sheet.

3.3.1.4 Subsequent Costs

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

The costs of the day-to-day servicing of property, plant & equipment are recognised in profit and loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS

3.3.1.5 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. Gains and losses on derecognition are recognised in profit and loss and gains are not classified as revenue. When revalued assets are sold, any related amount included in the Revaluation Reserve is transferred to Retained Earnings.

3.3.1.6 Depreciation

Depreciation is recognised in profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant & equipment. Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets unless it is reasonably certain that the Group will have ownership by the end of the lease term. Freehold land is not depreciated.

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

Leasehold right to land	-	Over the lease period
Buildings	-	20 - 50 years
Software	-	03 - 05 years
Plant & machinery	-	05 - 20 years
Stores equipment	-	05 - 10 years
Motor vehicles	-	04 - 05 years
Furniture, fittings & office equipment	-	02 - 13 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.

Depreciation methods, useful lives and residual values are reassessed at the each reporting date.

3.3.2 Intangible Assets

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably in accordance with SLAS 37 - 'Intangible Assets'. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortisation and accumulated impairment losses.

3.3.2.1 Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the acquired entity. Negative goodwill arising on an acquisition represents the excess of the Group's interest in the fair value of the assets and liabilities acquired over the cost of acquisition. Negative goodwill is recognised immediately in profit and loss.

After the control of an entity is obtained, changes in ownership interest that do not result in a loss of control are accounted as equity transactions and gain or loss from these changes are recognised in Statement of Changes in Equity.

3.3.2.2 Leasehold Rights

In respect of operating leases acquired under a business combination where the Group is the lessee, Group determines whether the terms of each operating lease are favourable or unfavourable relative to market terms. The Group recognises an intangible asset if the terms of an operating lease are favourable relative to market terms and a liability if the terms are unfavourable, relative to market terms. Leasehold rights represent value of favourable lease terms.

3.3.2.3 Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit and loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the

asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit and loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

3.3.2.4 Other Intangible Assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

3.3.2.5 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 is recognised in profit and loss as incurred.

3.3.2.6 Amortisation

Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date on which they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- Right to generate hydro power - 15 years
- EPR System - 5 years
- Lease hold right - Over the remaining lease period

3.3.3 Investments

3.3.3.1 Investment Property

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at its cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing

the investment property to a working condition for their intended use and capitalised borrowing costs.

When the use of a property changes such that is reclassified as property, plant & equipment, at its fair value at the date of reclassification becomes its cost for subsequent accounting.

3.3.3.2 Long-Term Investments

Quoted and unquoted investments in shares held on long-term basis are measured at cost.

In the Parent company's Financial Statements, investments in subsidiaries and Equity Accounted Investees are carried at cost less impairment losses under the Parent Company's accounting policy for long-term investments.

Provision for impairment is made when in the opinion of the Directors there has been a decline which is other than temporary in the value of the investment.

3.3.3.3 Short-Term Investments

Short-term investments are measured at the lower of cost and market value on an aggregate portfolio basis, with any resultant loss recognised in profit and loss.

3.3.4 Current Assets

Assets classified as current assets on the Balance Sheet are cash and bank balances and those which are expected to be realised in cash during the normal operating cycle or within one year from the reporting date, whichever is shorter.

3.3.5 Inventories

Inventories are measured at the lower of cost and net realisable value. The general basis on which cost is determined is:

- 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 an appropriate share of production overhead based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses.

3.3.6 Trade and other Receivables

Trade and other receivables are stated at their estimated realisable amounts.

3.3.7 Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

3.3.8 Impairment

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amounts are estimated at each reporting date or more frequently, if events or changes in circumstances indicate that they might be impaired.

3.3.8.1 Calculation of Recoverable Amount

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. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

3.3.8.2 Impairment/Reversal of Impairment

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

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.3.9 Non-Current Assets Held for Sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than continuing use are classified as assets held for sale. Immediately before classification as assets held for sale, the assets (or components of a disposal group) are measured in accordance with the Group's accounting policies. Thereafter Non-current assets are presented separately on the face of the Balance Sheet at the lower of its carrying amount and fair value less costs to sell. Assets classified as 'Non-current assets held for sale' are neither amortised nor depreciated. An impairment loss on initial recognition as held for sale, and subsequent gains and losses on re-measurement are recognised in profit and loss. Gains in excess of any cumulative impairment loss are not recognised.

3.3.10 Discontinued Operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to

NOTES TO THE FINANCIAL STATEMENTS

be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative Income Statement is represented as if the operation had been discontinued from the start of the comparative period.

3.4 Liabilities and Provisions

Liabilities classified as current liabilities on the Balance Sheet are those which fall due for payment on demand or within one year from the reporting sheet date. Non-current liabilities are those balances that fall due for payment later than one year from the reporting sheet date.

All known liabilities have been accounted for in preparing the Financial Statements.

3.4.1 Employee Benefits

3.4.1.1 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 Employee Provident and Employee Trust Funds covering all employees are recognised as an expense in profit and loss as incurred.

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

3.4.1.2 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 SLAS-16 - '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 27 Any changes in these assumptions will impact the carrying amount of defined benefit obligations.

Provision has been made for retirement gratuities from the first year of service for all employees, in conformity with SLAS 16(Revised 2006) 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. This liability is computed on the following basis:

Length of service (Years)	No. of months salary for each completed years of service
up to 20	1/2
20 to 25	3/4
25 to 30	1
30 to 35	1 1/4
over 35	1 1/2

3.4.2 Short-Term Benefits

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

3.4.3 Provisions

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

3.4.4 Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of possible outcomes against their associated probabilities.

3.4.5 Trade and Other Payables

Trade and other payables are stated at their cost.

3.4.6 Capital Commitments and Contingencies

Capital commitments and contingent liabilities of the Group are disclosed in the respective Notes to the Financial Statements.

3.5 Income Statements

For the purpose of presentation of the income statement, the function of expenses method is adopted, as it represents fairly the elements of Company performance.

3.5.1 Turnover

Hayleys PLC's gross turnover comprises dividends received from Group companies, commission and rent income. The net Group turnover excludes turnover taxes and trade discounts. The gross turnover represents the invoiced value of goods and services to customers outside the Group.

3.5.2 Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from services rendered is recognised in profit and loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Room revenue is recognised on the rooms occupied on daily basis.

Food and beverage revenue is recognised at the time of sales.

Rental income is recognised in profit and loss as it accrues.

Dividend income is recognised in profit and loss on the date the entity's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the commission made by the Group.

Grants are recognised initially as deferred income when there is a reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit and loss on a systematic basis in the periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit and loss on a systematic basis over the useful life of the asset.

Gains and losses on the disposal of investments held by the Group are recognised in profit and loss.

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 operating income' in profit and loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

3.5.3 Expenses

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

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

3.5.3.1 Operating Leases

Leases where the lessor effectively retains substantially all the risks and rewards of ownership over the lease term are classified as operating leases. Payments made under operating leases are recognised in profit and loss on a straight-line basis over the term of the lease.

3.5.3.2 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

3.5.3.3 Finance Income and Expenses

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

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

3.5.3.4 Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised using the Balance Sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax withheld on dividend income from subsidiaries and Equity Accounted Investees is recognised as an expense in the Consolidated Income Statement at the same time as the liability to pay the related dividend is recognised.

3.6 General

3.6.1 Events Occurring after the Balance Sheet Date

All material post Balance Sheet events have been considered and where appropriate adjustments or disclosures have been made in the respective Notes to the Financial Statements.

3.6.2 Earnings Per Share

The Group presents basic and diluted 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. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.7 Plantations

The plantation companies in the Group adopt certain accounting policies, which differ from that of the Group, since their nature of operations is significantly different from that of the rest of the Group. The accounting policies adopted are in accordance with SLAS 32 - 'Plantations'.

Those accounting policies that significantly vary from the rest of the Group are given below. Where material, the impact of the different accounting policies has been quantified.

NOTES TO THE FINANCIAL STATEMENTS

3.7.1 Property, Plant & Equipment

3.7.1.1 Permanent Land Development Costs

Permanent land development costs are those costs incurred in major infrastructure development and building new access roads on leased lands. The costs have been capitalised and amortised over the shorter of useful lives or remaining lease periods. Permanent impairments to land development costs are charged to the Income Statement in full or reduced to the net carrying amounts of such assets in the year of occurrence after ascertaining the loss.

3.7.1.2 Limited Life Land Development Cost (Immature/Mature Plantations)

The cost of land preparation, rehabilitation, new planting, replanting, crop diversification, inter-planting and fertilisation etc., incurred between the times of planting and harvesting (when the planted area attains maturity), are classified as immature plantations. These immature plantations are shown at direct cost plus attributable overheads, including interest attributable to borrowings utilised to finance immature plantations.

Permanent impairments to land development costs are charged to the Income Statement in full or reduces to the net carrying amounts of such asset in the year of occurrence after ascertaining the loss.

The expenditure incurred on perennial crop (Tea/Rubber) fields which come into bearing during the year, has been transferred to mature plantations.

3.7.1.3 Infilling Cost

The land development cost incurred for infilling has been capitalised with the relevant mature field only when it increases the expected economic future benefits from that field. Infilling costs that are not capitalised are recognised in profit and loss as an expense as incurred.

3.7.1.4 Depreciation

Depreciation is recognised in profit and loss on a straight-line basis over the estimated useful lives of each item of property, plant & equipment as follows:

Mature Plantations (Replanting and New Planting)

Description	Years
Mature plantations - Tea	33
- Rubber	20
Sanitation, water and electricity supply	20

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Mature plantations are reassessed at the reporting date. Mature plantations are depreciated over their useful lives or unexpired lease period, whichever is less.

No depreciation is provided for immature plantations.

3.7.1.5 Leased Assets

Leasehold rights are amortised in equal annual amounts over the shorter of the remaining lease periods and the useful lives as follows:

Description	Years
Bare land	53
Improvements to land	30
Mature plantations	30
Buildings	25
Machinery	15

3.7.2 Borrowing Costs

Borrowing costs incurred in respect of loans that are utilised for field development activities have been capitalised as a part of the cost of the relevant immature plantation. The capitalisation will cease when the crops are ready for commercial harvest.

3.7.3 Inventories

Inventories other than produce stocks are valued at the lower of cost and estimated net realisable value, after making due allowance for obsolete and slow moving items. Net realisable value is the estimated selling price at which stocks can be sold in the ordinary course of business after

allowing for cost of realisation and/or cost of conversion from their existing state to saleable condition.

The cost incurred in bringing inventories to their present location and condition is accounted using the following cost formula.

3.7.3.1 Input Material, Spares and Consumables

At actual cost on weighted average basis.

3.7.3.2 Nurseries

At the cost of direct materials, direct labour and an appropriate proportion of directly attributable overheads, less provision for overgrown plants.

3.7.3.3 Harvested Crop

Manufactured up to the Balance Sheet date and sold since then, until the time of preparation of the Financial Statements are valued at since realised price. The balance stocks are valued at estimated selling price. The prices are net of all attributable expenses relating to the public auction.

3.7.4 Grants and Subsidies

Grants and subsidies are recognised at their fair value where there is a reasonable assurance the the grant / subsidy will be received and all attaching conditions, if any , will be complied with. When the grant or subsidy relates to an income item is recognised as income over the periods necessary to match them to the costs to which it is intended to compensate on a systematic basis.

Grants and subsidies related to assets, including non-monetary grants at fair value are deducted in arriving at the carrying value of the asset (or are deferred in the Balance Sheet and credited to the Income Statement over the useful life of the asset)

3.8 Cash Flow Statement

The Cash Flow Statement has been prepared using the 'indirect method'.

Interest paid is classified as an operating cash flow. Grants received, which are related to purchase and construction of property, plant & equipment are classified as investing cash flows. Dividend and interest received are classified as cash flows from investing activities.

Dividends paid are classified as financing cash flows. Dividends received by Hayleys PLC, which is an investment company, are classified as operating cash flows and are not disclosed separately in the Company Cash Flow Statement.

3.9 Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segmental information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

The activities of the segments are described on pages 10 to 41 in the Hayleys Management Review & Preview section. Segmentation has been determined based on the activities of the companies or the sector into which the products or services are sold (e.g. activated carbon is segmented as Purification Products).

The Group transfers products from one geographic region for resale to another. The geographical analysis of turnover is by location of customer and of profits by location of the office in which the business is recorded.

Inter-segment transfers are based on fair market prices. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant & equipment, and intangible assets other than goodwill.

4. Critical Accounting Estimates and Judgments

Use of Estimates and Judgments

The preparation of Financial Statements in conformity with SLASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual experience and results may differ from these judgments and estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period and any future periods.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes.

4.1 Measurement of the Recoverable Amount of Cash-Generating Units Containing Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3.3.8. The basis of determining the recoverable amounts of cash-generating units and key assumptions used are given in Note 16.

4.2 Income Taxes

The Group is subject to income taxes in numerous jurisdictions. The Group recognises liabilities for anticipated tax based on estimates of taxable income. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

4.3 Measurement of the Defined Benefit Obligations

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 27. Any changes in these assumptions will impact the carrying amount of defined benefit obligations.

4.4 Impairment of Property, Plant & Equipment and Intangible Assets other than Goodwill

The impairment analysis is principally based upon discounted estimated cash flows from the use and eventual disposal of the assets. Factors like lower than anticipated sales and resulting decreases of net cash flows and changes in the discount rates could lead to impairment.

4.5 Revaluation of Land

The Group measures land at revalued amount with change in fair value being recognised in the Statement of Changes in Equity. The valuer has used valuation techniques such as Market Value.

5. Sri Lanka Accounting Standards effective from 01 January 2012

Following the convergence of Sri Lanka Accounting Standards with International Reporting Standards with the International Financial Reporting Standards, all existing Sri Lanka Accounting Standards will be prefixed as Sri Lanka Financial Reporting Standards (SLFRS) or Sri Lanka Accounting Standards (LKAS) which commonly refer to as Sri Lanka Accounting Standards corresponding to International Financial Reporting Standards (IFRS) or International Accounting Standards (IAS), respectively. The Council of The Institute of Chartered Accountants of Sri Lanka has mandated all specified business enterprises to adopt these new Accounting Standards effective for financial periods beginning on or after January 1, 2012.

NOTES TO THE FINANCIAL STATEMENTS

The Group will be adopting the new Sri Lanka Accounting Standards (new SLAS) comprising LKAS and SLFRS applicable for financial periods commencing from 1st January, 2012 as issued by the Institute of Chartered Accountants of Sri Lanka. The Group has commenced reviewing its accounting policies and financial reporting in readiness for the transition. As the Group has a 31 March year end, priority has been given to considering the preparation of an opening Balance Sheet in accordance with the new SLASs as at 1st April, 2011. This will form the basis of accounting for the new SLASs in the future, and is required when the Group prepares its first new SLAS compliant Financial Statements for the year ending 31st March, 2013. Set out below are the key areas where accounting policies will change and may have an impact on the Financial Statements of the Group. The Group is in the process of quantifying the impact on the Financial Statements arising from such changes in accounting policies.

The Institute of Chartered Accountants of Sri Lanka has resolved an amendment to the Sri Lanka Accounting Standard 10 on 'Accounting Policies, Changes in Accounting Estimates and Errors', whereby the provisions contained in Paragraphs 30 and 31 of SLAS 10, would not be applicable for Financial Statements prepared in respect of financial periods commencing before 1st January, 2012.

(a) SLFRS 1 - First Time Adoption of Sri Lanka Accounting Standards requires the Group to prepare and present opening new SLFRS Financial Statements at the date of transition to new SLFRS. The Group shall use the same accounting policies in its opening new SLFRS Financial Statements and throughout all comparable periods presented in its first new SLFRS Financial Statements. Those accounting policies should comply with each new SLFRS effective as at 1st January, 2012.

(b) LKAS 1 - 'Presentation of Financial Statements' requires an entity to present, in a Statement of Changes in Equity, all owner changes in equity. All non-owner changes in equity are required to be presented in one statement of Comprehensive Income or in two statements (a separate Income Statement and a Statement of Comprehensive Income). This standard also requires the Group to disclose

information that enables users of its Financial Statements to evaluate the entity's objectives, policies and processes for managing capital.

(c) LKAS 16 - 'Property Plant and Equipment' requires the Group to initially measure an item of property plant & equipment at cost, using the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period, unless such interest is capitalised in accordance with LKAS 23 'Borrowing Costs'.

All site restoration costs including other environmental restoration and similar costs must be estimated and capitalised at initial recognition, in order that such costs can be depreciated over the useful life of the asset.

This standard requires depreciation of assets over their useful lives, where the residual value of assets is deducted to arrive at the depreciable value. It also requires that significant components of an asset be evaluated separately for depreciation.

(d) LKAS 32 - 'Financial Instruments: Presentation', LKAS 39 - 'Financial Instruments: Recognition and Measurement' and SLFRS 7 on 'Financial Instruments: Disclosures' - Disclosures will result in changes to the current method of recognising financial assets, financial liabilities and equity instruments. These standards will require measurement of financial assets and financial liabilities at fair value at initial measurement. The subsequent measurement of financial assets classified as fair value through profit and loss and available for sale will be at fair value, with the gains and losses routed through the Statements of Comprehensive Income and Other Comprehensive Income respectively.

Financial assets classified as held to maturity and loans and receivables will be measured subsequently at amortised cost. These assets will need to be assessed for any objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') coupled with a reliable estimate of the loss event (or events) impact on the estimated future cash flows of the financial asset or group of financial assets. As such the current method of

assessing for impairment will have to be changed to meet the requirements of these new standards.

Financial liabilities will be either classified as fair value through profit or loss or at amortised cost. At present, the Company/Group does not identify, categorise and measure financial assets and liabilities as per the requirements of the standard and also does not recognise certain derivative instruments on the Balance Sheet,

(e) SLFRS 3 - 'Business Combinations' will require the Company to apply this standard to transactions and other events that meet the new definition of a business i.e. an integrated set of assets(inputs) and activities(processes) which are capable of being conducted and managed to provide a return, as opposed to a mere asset acquisition. Under the new acquisition method of accounting, in addition to recognising and measuring in its financial statements the identifiable assets acquired and liabilities assumed the standard also requires recognition and measurement of any non-controlling interest in the acquiree and re-measuring to fair value any previously held interests which could have an impact on the recognition of goodwill. Subsequent to the acquisition of control any acquisitions or disposals of non-controlling interest without loss of control will be accounted for as equity transactions and cannot be recognised as profit/loss on disposal of investments in the statement of financial performance.

(f) LKAS 12 - 'Income Tax' requires deferred tax to be provided in respect of temporary differences which will arise as a result of adjustments made to comply with the new SLAS.

(g) LKAS 18 - 'Revenue' requires the Company to measure revenue at fair value of the consideration received or receivable. It also specifies recognition criteria for revenue, and the Company/Group needs to apply such recognition criteria to the separately.

6. Turnover

A. Industry Segment Turnover

	Consolidated	
	2012 Rs. '000	2011 Rs. '000
Fibre	4,577,755	4,582,981
Hand Protection	13,499,025	11,700,036
Purification Products	8,468,844	6,325,897
Textiles	5,206,976	6,543,378
Construction Materials	2,254,953	1,383,288
Agriculture	7,655,846	7,406,636
Plantations	8,041,257	4,662,038
Transportation & Logistics	5,284,821	4,734,997
Leisure & Aviation	1,569,962	924,677
Consumer Products	4,285,285	3,799,838
Power & Energy	327,672	353,687
Industry Inputs	1,292,709	1,932,772
Investments & Services	148	19,982
	62,465,253	54,370,207

B. Geographical Segment Turnover

	Consolidated	
	2012 Rs. '000	2011 Rs. '000
Asia (excluding Sri Lanka)	7,241,867	3,884,955
Australia	1,795,083	1,507,992
Europe	11,510,908	10,475,258
United States of America	7,868,407	7,489,029
Africa	843,691	885,337
Indirect Exports	11,127,245	9,590,363
Sri Lanka	22,078,052	20,537,273
	62,465,253	54,370,207

C. Gross Turnover

	Company	
	2012 Rs. '000	2011 Rs. '000
Rent Income	176,664	161,716
	176,664	161,716

NOTES TO THE FINANCIAL STATEMENTS

7. Other Income

	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Amortisation of Government grants	52,781	21,415	–	–
Dividend income from investments	135,613	2,120	134,122	405
Change in fair value of short-term investments	–	171	–	–
Gain on disposal of property, plant & equipment	43,192	45,164	204	1,174
Gain on disposal of investments – long term	2,198,233	5,381	213,000	100,902
– short term	1,343	133,593	1,343	133,593
– equity accounted investees	55,006	–	–	–
Negative goodwill on acquisition of subsidiaries	81,372	3,761	–	–
	2,567,540	211,605	348,669	236,074

8. Other Expenses

	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Impairment in value of long-term investments	–	10,090	–	–
Impairment in value of short-term investments	967	–	–	–
Loss on disposal of equity accounted investees	34,031	–	–	–
De-recognition of property, plant & equipment	156,634	–	–	–
Amortisation of intangible assets	27,328	22,307	–	–
	218,960	32,397	–	–

9. Net Finance Cost

	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
A. Finance Income				
Interest income	(215,307)	(166,465)	(28,842)	(9,091)
B. Finance Cost				
Interest on long-term loans	509,830	370,476	186,462	116,407
Interest on short-term loans	886,864	807,724	213,236	165,858
Interest on finance leases	74,468	31,455	–	–
Net losses/(gains) on translation of foreign currency	319,652	(196,849)	–	–
Total finance costs	1,790,814	1,012,806	399,698	282,265
Net finance costs	1,575,507	846,341	370,856	273,174

10. Profit before tax from Continuing Operations

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

	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Directors' emoluments	560,192	341,040	124,604	79,902
Auditors' fees (includes overseas subsidiaries)				
Audit Services				
– Ernst & Young	25,680	3,502	980	–
– KPMG	6,227	18,649	–	800
– Other auditors	12,011	6,985	–	–
Non-Audit Services				
– Ernst & Young	6,695	882	250	–
– KPMG	5,205	9,062	2,044	47
– Other auditors	5,666	5,815	–	–
Depreciation on property, plant & equipment	1,621,334	1,262,885	26,829	29,765
Donations	14,505	11,181	2,002	828
Provision for bad and doubtful debts & bad debts written-off	2,190	130,415	1,446	–
Provision for unrealised profit and write-down of inventories	105,672	315,716	–	–
Staff Cost				
Defined contribution plan cost	967,007	658,017	25,195	28,679
Defined benefit plan cost	881,084	631,772	76,640	55,812
Other staff cost (excluding defined contributions & defined benefits)	7,662,604	6,028,218	349,073	230,555
Staff training & development	35,165	26,230	4,882	3,601
Legal fees	24,506	24,086	–	–
Operating leases	82,307	133,377	–	–

11. Taxation

A. Tax Expense

	Consolidated	
	2012 Rs. '000	2011 Rs. '000
Income tax on current year profits		
Hayleys PLC	5,341	1,880
Subsidiaries	843,919	802,758
	849,260	804,638
Under provision in respect of previous years	3,829	1,024
Irrecoverable ESC	13,293	7,277
	866,382	812,939
Origination/(reversal) of temporary differences		
Subsidiaries	(32,276)	5,339
Tax on dividend income	126,559	85,575
Tax expense	960,665	903,853

NOTES TO THE FINANCIAL STATEMENTS

B. Reconciliation of Accounting Profit to Income Tax Expense

	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000 (Restated)	2012 Rs. '000	2011 Rs. '000
Profit before tax	4,805,989	2,040,629	1,075,633	455,164
Share of profit of equity accounted investees	(12,695)	(51,074)	–	–
Intra-group adjustments	2,186,181	999,863	–	–
	6,979,475	2,989,418	1,075,633	455,164
Disallowable expenses	3,499,994	3,304,555	130,440	122,004
Tax deductible expenses	(2,979,703)	(2,241,470)	(32,301)	(41,150)
Tax exempt income	(3,883,265)	(3,277,601)	(1,584,337)	(795,565)
Tax loss b/f	(4,404,579)	(3,686,758)	(1,086,340)	(804,542)
Adjustment of tax loss b/f	679,354	146,886	22,455	(17,396)
Tax loss c/f	5,381,364	4,404,579	1,493,078	1,086,340
Taxable income	5,272,640	1,639,609	18,628	4,855
Income tax @ 35%	–	488,817	–	1,852
Income tax @ 28%	375,198	–	5,216	–
Income tax @ 15%	150,734	116,840	–	–
Income tax @ 12%	19,318	–	–	–
Income tax at other tax rates	279,783	192,493	–	–
Social Responsibility Levy	24,227	6,488	–	28
Income tax on current year profit	849,260	804,638	5,216	1,880
Under provision in respect of previous years	3,829	1,024	125	–
Irrecoverable ESC	13,293	7,277	–	–
	866,382	812,939	5,341	1,880
Origination/(reversal) of temporary differences	(32,276)	5,339	–	–
Tax on dividend income	126,559	85,575	–	–
Tax expense	960,665	903,853	5,341	1,880
Effective tax rate	19.99%	44.29%	0.50%	0.41%

C. Corporate Income Taxes of companies resident in Sri Lanka have been computed in accordance with the Inland Revenue Act No. 10 of 2006 as amended, whilst Corporate Taxes of non-resident companies in the Group have been computed in keeping with the domestic statutes in their respective countries. Irrecoverable Economic Service Charge has been charged in the Income Statements.

Resident companies in the Group, excluding those which enjoy a tax holiday or concessionary rate of taxation, were liable to income tax at 28% during 2011/12. (35% - 2010/11)

1. Tax Exemptions

1 A. In terms of the Inland Revenue Act

- Ultracarb (Pvt) Ltd. is entitled for a 3 year income tax holiday. The tax holiday period is yet to commence.
- Hayleys MGT Knitting Mills PLC is entitled to a 2 year tax holiday. The tax holiday would expire on 31st March, 2013.
- Income earned by Alutec Anodising and Machine Tools (Pvt) Ltd. is exempt from income tax until 31st March, 2012.
- Income earned by Hayleys Industrial Solutions (Pvt) Ltd. from projects undertaken outside Sri Lanka is exempt from income tax.
- Foreign dividends received are exempt from income tax.

1 B. In terms of BOI Agreements

Companies enjoying Tax Holidays under BOI Law are as follows;

Kandyan Resorts Pvt Ltd.	10 year tax holiday ended 31st March, 2012
Bhagya Hydro Power (Pvt) Ltd.	5 year tax holiday ended 31st March, 2012
Civaro International Ltd.	5 year tax holiday ended 31st March, 2012
Texnil (Pvt) Ltd.	10 year tax holiday ending 31st March, 2013
Moceti International (Pvt) Ltd.	5 year tax holiday ending 31st March, 2013
Kalupahana Power Company (Pvt) Ltd.	5 year tax holiday ending 31st March, 2013
Neluwa Cascade Hydro Power (Pvt) Ltd.	5 year tax holiday ending 31st March, 2014
Logiwiz NW (Pvt) Ltd.	5 year tax holiday ending 31st March, 2015
TTEL Somerset Hydro Power (Pvt) Ltd.	5 year tax holiday ending 31st March, 2015
TTEL Hydro Power Company (Pvt) Ltd.	5 year tax holiday ending 31st March, 2015
Alco Industries (Pvt) Ltd.	5 year tax holiday ending 31st March, 2015
Hayleys Agro Biotech (Pvt) Ltd.	8 year tax holiday ending 31st March, 2018
Hayleys Business Solutions (Pvt) Ltd.	5 year tax Holiday is yet to commence

1 C. Exemptions outside Sri Lanka

Haycarb Holdings Bitung Ltd.	Tax Exempt
Dipped Products (Thailand) Ltd.	8 years up to 31st December, 2012

2. Concessionary Tax Rates

2 A. In terms of the Inland Revenue Act

In terms of Sections 46, 48A, 51, 56 and 59 of the Inland Revenue Act No. 10 of 2006 as amended, the profits of companies listed below enjoy a concessionary tax rate of 10%/12%. (15%/20% - 2011)

Kelani Valley Plantations PLC	Profits from agriculture
Talawakelle Tea Estates PLC	Profits from agriculture
Sunfrost Ltd.	Profits from agriculture
HJS Condiments Ltd.	Profits from agriculture
Hayleys Agro Farms (Pvt) Ltd.	Profits from agriculture
Haycarb PLC	Profits from qualifying exports

NOTES TO THE FINANCIAL STATEMENTS

Haycolour (Pvt) Ltd.	Profits from qualifying exports
Super Felt (Pvt) Ltd.	Profits from qualifying exports
Mabroc Teas (Pvt) Ltd.	Profits from qualifying exports and agriculture
Creative Polymat (Pvt) Ltd.	Profits from qualifying exports and indirect exports
Ravi Industries Ltd.	Profits from qualifying exports and indirect exports
Rileys (Pvt) Ltd.	Profits from qualifying exports and indirect exports
Haymat (Pvt) Ltd.	Profits from qualifying exports and indirect exports
Toyo Cushion Lanka Ltd.	Profits from qualifying exports and indirect exports
Logiventures (Pvt) Ltd.	Profits from qualifying exports
Puritas Ltd.	Profits from qualifying exports
Lanka Orient Express Lines Ltd.	Profits from transshipment
DPL Plantations (Pvt) Ltd.	Profits from agriculture
Hayleys Plantation Services (Pvt) Ltd.	Profits from agriculture
Hayleys Travels and Tours (Pvt) Ltd.	Profits from promotion of tourism
Clarion Shipping (Pvt) Ltd.	Profits from transshipment
NYK Lines Lanka (Pvt) Ltd.	Profits from transshipment
Hotel Services (Ceylon) PLC	Profits from promotion of tourism
Hunas Falls Hotel PLC	Profits from promotion of tourism
Culture Club Resorts (Pvt) Ltd.	Profits from promotion of tourism

2 B. In terms of BOI Agreements

As per agreements signed with the Board of Investment, the business income of the Companies listed below would be subject to a concessionary tax rate for the periods indicated:

Dipped Products PLC	15% for a further period of 10 years up to Y/A 2018/19
Grossart (Pvt) Ltd.	15% for a further period of 10 years up to Y/A 2019/20
Logiwiz Ltd.	20% indefinitely
Neoprex (Pvt) Ltd.	15% for a further period of 10 years up to Y/A 2017/18
Logistics International Ltd.	15% for 20 years up to Y/A 2016/17
Bonterra Ltd.	15% for 20 years up to Y/A 2015/16
Feltex Pvt Ltd.	10% for 2 years up to Y/A 2012/13
Hanwella Rubber Products Ltd.	15% for a further period of 10 years up to Y/A 2020/21

3. Non Resident Companies

Corporate Income Taxes of non-resident companies are:

Company	Income tax rate
Haychem (Bangladesh) Ltd.	37.5%
PT Mapalus Makawanua Charcoal Industry	25%
Haymark Inc	34%
Logiwiz Logistics India (Pvt) Ltd.	30%
Eurocarb Products Ltd	26%
Haycarb Holding Australia (Pty) Ltd.	30%
Carbokarn Ltd.	30%
ICO Guanti SpA	27.5%
CK Regen System	30%
Haylex BV	20%
Haylex Japan	25%

12. Earnings Per Share

Basic Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.

Diluted Earnings per Share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjustment for the effect of all potentially dilutive ordinary shares.

There were no potentially dilutive ordinary shares outstanding at any time during the year/previous year.

Basic/diluted earnings per share are calculated as follows:

	Consolidated	
	2012	2011
Profit attributable to equity holders of the Company (Rs. '000)	2,519,732	677,181
Weighted average number of ordinary shares (i)	75,000,000	75,000,000
Basic/Diluted earnings per share (Rs.)	33.60	9.03

Continuing Operations

Profit attributable to ordinary shareholders (Rs. '000)	2,519,732	686,040
Weighted average number of ordinary shares (i)	75,000,000	75,000,000
Basic/Diluted earnings per share (Rs.)	33.60	9.15

Discontinued Operations

Profit attributable to ordinary shareholders (Rs. '000)	–	(8,859)
Weighted average number of ordinary shares (i)	75,000,000	75,000,000
Basic/Diluted earnings per share (Rs.)	–	(0.12)

(i) Qualifying ordinary shares at beginning of the year	75,000,000	75,000,000
Qualifying ordinary shares at the end of the year	75,000,000	75,000,000

13. Dividends

	Company	
	2012 Rs. '000	2011 Rs. '000
First and Final proposed Rs. 4.00 per share (2010/11 – Rs. 4.00 per share)	300,000	300,000
Total dividends	300,000	300,000
Dividend per ordinary share (Rs.)	4.00	4.00

- (i) The dividends represent redistribution of dividends received by the Company and are therefore not subject to the 10% tax deduction.
- (ii) The Directors have recommended a Rs. 4/- per share first and final dividend for the year ended 31st March, 2012 to be approved at the Annual General Meeting on 29th June, 2012.

NOTES TO THE FINANCIAL STATEMENTS

14. Property, plant & equipment

A. Consolidated

	Land*	Mature/ immature plantations	Buildings	Machinery & stores equipment	Motor vehicles	Furniture, fittings & office equipment	Total 2012	Total 2011
As at 31st March,	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost or Valuation:								
Gross book value								
At the beginning of the year	7,940,295	4,301,361	6,957,615	12,855,573	663,781	1,758,030	34,476,655	27,298,229
On acquisition of subsidiary	876,142	–	1,211,056	238,529	60,455	136,897	2,523,079	5,025,498
Additions	74,703	390,287	445,974	3,191,124	232,733	314,214	4,649,035	2,434,239
Transfers from assets held for disposal	9,200	–	–	–	–	–	9,200	–
Transfer to investment property	(31,100)	–	(7,764)	–	–	–	(38,864)	–
Disposals/write off	–	–	(148,782)	(611,278)	(53,398)	(134,895)	(948,353)	(274,101)
Effect of movements in foreign exchange rates	31,507	–	95,301	505,352	(2,594)	30,131	659,697	(7,210)
At the end of the year	8,900,747	4,691,648	8,553,400	16,179,300	900,977	2,104,377	41,330,449	34,476,655
Depreciation:								
At the beginning of the year	235,661	853,872	1,282,054	6,703,675	429,298	1,319,454	10,824,014	8,435,911
On acquisition of subsidiary	6,071	–	5,399	81,077	4,182	6,566	103,295	1,233,478
Charge for the year	30,323	107,932	221,816	938,435	135,556	187,272	1,621,334	1,262,885
Transfer to investment property	–	–	(1,708)	–	–	–	(1,708)	–
On disposals/write off	–	–	(22,074)	(438,399)	(36,691)	(103,134)	(600,298)	(113,708)
Effect of movements in foreign exchange rates	–	–	23,700	218,197	(1,136)	22,177	262,938	5,448
At the end of the year	272,055	961,804	1,509,187	7,502,985	531,209	1,432,335	12,209,575	10,824,014
Net book value at 31st March,	8,628,692	3,729,844	7,044,213	8,676,315	369,768	672,042	29,120,874	23,652,640
Capital work-in-progress	–	–	–	–	–	–	1,239,613	792,955
Carrying amount	–	–	–	–	–	–	30,360,487	24,445,595

* Land includes land development cost.

B. Company

	Freehold Land	Buildings	Machinery & stores equipment	Motor vehicles	Furniture, fittings & office equipment	Total	Total
<i>As at 31st March,</i>	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	2012 Rs. '000	2011 Rs. '000
Cost or Valuation:							
Gross book value							
At the beginning of the year	3,691,480	132,090	40,987	17,785	183,714	4,066,056	4,053,982
Additions	–	162	–	13,770	15,566	29,498	13,112
Disposals	–	–	(61)	–	(1,592)	(1,653)	(1,038)
At the end of the year	3,691,480	132,252	40,926	31,555	197,688	4,093,901	4,066,056
Depreciation:							
At the beginning of the year	–	44,712	36,727	11,237	142,447	235,123	206,102
Charge for the year	–	1,935	1,707	4,749	18,438	26,829	29,765
On disposals	–	–	(61)	–	(1,230)	(1,291)	(744)
At the end of the year	–	46,647	38,373	15,986	159,655	260,661	235,123
Net book value at 31st March,	3,691,480	85,605	2,553	15,569	38,033	3,833,240	3,830,933
Capital work-in-progress	–	–	–	–	–	86,044	6,806
Carrying amount	–	–	–	–	–	3,919,284	3,837,739

C. Carrying Value

	Consolidated		Company	
<i>As at 31st March,</i>	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
At cost	19,917,692	15,159,899	227,804	146,259
At valuation	7,025,864	6,594,370	3,691,480	3,691,480
On finance leases	3,416,931	2,691,326	–	–
	30,360,487	24,445,595	3,919,284	3,837,739

- (i) Total borrowing cost capitalised to-date amounts to Rs. 42 mn (2010/11 – Rs. 162.6 mn).
- (ii) Group property, plant & equipment includes capitalised finance leases and leasehold rights on land. The carrying amount of these assets is:

	Consolidated			
<i>As at 31st March,</i>	Cost Rs. '000	Accumulated depreciation/ amortisation Rs. '000	Carrying value 2012 Rs. '000	Carrying value 2011 Rs. '000
Land	637,436	277,050	410,386	416,120
Mature/immature plantations	2,816,364	697,803	2,118,561	2,063,204
Buildings	855,582	147,716	707,867	153,148
Machinery & stores equipment	100,129	68,980	31,149	31,667
Motor vehicles	136,009	70,395	65,614	27,187
Capital work-in-progress	83,355	–	83,355	–
Total	4,628,875	1,211,944	3,416,931	2,691,326

NOTES TO THE FINANCIAL STATEMENTS

(iii) Unexpired lease periods of land:

Kelani Valley Plantations PLC – 35 years

Kelani Valley Green Tea (Pvt) Ltd. - 35 years

Kalupahana Power Company (Pvt) Ltd. - 35 years

HJS Condiments Ltd. – 88 years/81 years/23 years

Talawakelle Tea Estates PLC – 33 years

Hotel Services (Ceylon) PLC - 57 years

Culture Club Resorts (Pvt) Ltd. - 32 years

(iv) Amounts by which values have been written up in respect of land revalued by independent qualified valuers are indicated below, together with the last date of revaluation:

As at 31st March, Company	Location	Written up by	
		2012 Rs. '000	2011 Rs. '000
Hayleys PLC	Colombo (31.03.2010)	3,684,503	3,684,503
Volanka (Pvt) Ltd.	Ekala (31.03.2010)	416,468	416,468
	Galle (31.03.2010)	27,096	27,096
		443,564	443,564
Chas P. Hayley & Co. (Pvt) Ltd.	Galle (31.03.2010)	212,800	212,800
Dipped Products PLC	Kottawa (31.03.2010)	80,105	80,105
	Weliveriya (31.03.2010)	53,204	53,204
Venigros (Pvt) Ltd.	Weliveriya (31.03.2010)	33,900	33,900
Palma Ltd.	Gonawala (31.03.2010)	27,958	27,958
		195,167	195,167
Haycarb PLC	Badalgama and Madampe (31.03.2010)	70,570	70,570
	Wewelduwa (31.03.2010)	64,822	64,822
Recogen (Pvt) Ltd.	Badalgama (31.03.2010)	18,256	18,256
		153,648	153,648
Lignocell (Pvt) Ltd.	Kuliyapitiya (31.03.2010)	21,340	21,340
Carbotels (Pvt) Ltd.	Elkaduwa (31.03.2010)	96,322	96,322
Haychem (Pvt) Ltd.	Kottawa (31.03.2010)	55,914	55,914
Haycolour (Pvt) Ltd.	Kalutara (31.03.2010)	22,706	22,706
Hayleys Electronics Ltd.	Malabe (31.03.2010)	88,803	88,803
Hayleys Exports PLC	Ekala (31.03.2010)	180,413	180,413
Hayleys Advantis Group	Welisara and Kelaniya (31.03.2010)	468,756	468,756
Ravi Industries Ltd.	Ekala (31.03.2010)	89,250	89,250
Volanka Exports Ltd.	Welipenna (31.03.2010)	6,492	6,492
Rileys (Pvt) Ltd.	Galle (31.03.2010)	135,608	135,608
Toyo Cushion Lanka (Pvt) Ltd.	Katana (31.03.2010)	45,126	45,126
Sunfrost (Pvt) Ltd.	Alawwa (31.03.2010)	12,478	12,478
Hayleys MGT Knitting Mills PLC	Neboda (31.03.2010)	16,433	16,433
Hayleys Electronics Lighting (Pvt) Ltd.	Hokandara (31.03.2009)	4,047	4,047
Eastern Hotels Ltd.	Nilaweli (31.03.2012)	431,494	–
		6,364,864	5,933,370

As at 31st March, Company	Written up by	
	2012 Rs. '000	2011 Rs. '000
Revaluation reserve attributable to non-controlling interest	(794,128)	(547,564)
Share of revaluation reserves of equity accounted investees	106,852	150,089
	5,677,588	5,535,895
Adjustment due to changes in holding	165,715	10,463
	5,843,303	5,546,358

- (v) Land owned by the Group other than those mentioned above has been stated at cost as the appreciation in value is insignificant. Further information is provided on page 224. There are no tax implications or tax liabilities pertaining to revaluation of land.
- (vi) Subject to disclosure in Note 8 - Other expenses, there has been no permanent impairment of property, plant & equipment which requires a provision.
- (vii) Property, plant & equipment with a carrying value of Rs. 1,769 mn and Rs. Nil for the Group and the Company respectively have been pledged as security for term loans obtained. The details are shown in Note 24.
- (viii) The carrying value of revalued land given above, had the said land been included at cost, would amount to Rs. 2,264 mn (Rs. 661 mn - 31st March, 2011) for the Group and Rs. 7 mn (Rs. 7 mn - 31st March, 2011) to the Company.
- (ix) The cost of the fully-depreciated property, plant & equipment which are still in use at the Balance Sheet date is as follows.

As at 31st March,	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Buildings	44,237	42,610	-	-
Machinery & equipment	2,328,448	1,737,742	22,607	24,532
Furniture, fittings & office equipment	647,903	708,264	72,725	31,301
Motor vehicles	280,225	157,645	63,452	51,514
	3,300,811	2,646,261	158,784	107,347

D. Capital Expenditure Commitments

The approximate amounts of capital expenditure approved by the Directors as at 31st March, 2012 were: Capital expenditure contracted for which no provision is made in the Financial Statements - Rs. 704 mn (Rs. 145 mn - 31st March, 2011). Capital expenditure approved by the Directors but not contracted for - Rs. 1,539 mn (Rs. 1,025 mn - 31st March, 2011).

NOTES TO THE FINANCIAL STATEMENTS

15. Investment Property

	Consolidated 2012 Rs. '000
Cost	
At the beginning of the year	–
Transferred during the year	38,864
At the end of the year	38,864
Amortisation	
At the beginning of the year	–
Transferred during the year	1,708
Amortisation for the year	–
At the end of the year	1,708
Balance c/f	37,156
Carrying amount	37,156

Rental income earned by the Group amounts to Rs. 4,421,mn.

16. Intangible Assets

	Consolidated					
	Development cost Rs. '000	Right to generate hydro power Rs. '000	Leasehold right Rs. '000	ERP system	Goodwill Rs. '000	Total Rs. '000
Cost						
At the beginning of the year - (Restated)	35,772	65,192	1,153,746	–	2,271,468	3,526,178
On acquisition of subsidiary (i)	–	–	–	–	1,427,580	1,427,580
Additions	–	–	–	72,161	–	72,161
At the end of the year	35,772	65,192	1,153,746	72,161	3,699,048	5,025,919
Amortisation						
At the beginning of the year	–	8,982	19,555	–	136,095	164,632
On acquisition of subsidiary	–	–	–	–	–	–
Amortisation charge for the year	–	4,165	19,555	3,608	–	27,328
At the end of the year	–	13,147	39,110	3,608	136,095	191,960
Carrying Amount						
31st March 2012 (ii)	35,772	52,045	1,114,636	68,553	3,562,953	4,833,959
31st March 2011 (ii)	35,772	56,210	1,134,191	–	2,135,373	3,361,546

- (i) Goodwill on acquisition of subsidiaries represents that arising from the acquisition of equity in Amaya Leisure PLC and Haylex UK. Further details are given in Note 36.

- (ii) The aggregate carrying amount of goodwill allocated to each unit is as follows:

Dipped Products PLC	– Rs.	97 mn
Dipped Products Group Companies	– Rs.	49 mn
Advantis Group Companies	– Rs.	98 mn
Haycarb Group Companies	– Rs.	63 mn
Hunas Falls Hotels PLC	– Rs.	8 mn
Hotel Services (Ceylon) PLC	– Rs.	633 mn
Alutec Anodising & Machine Tools (Pvt) Ltd.	– Rs.	1,052 mn
Amaya Leisure PLC	– Rs.	1,418 mn
Haylex UK	– Rs.	10 mn

- (iii) There has been no permanent impairment of intangible assets that requires a provision. Methods used in estimating recoverable amount are given below:
The recoverable value of the Dipped Products PLC, Hunas Falls Hotels PLC unit was based on fair value less cost to sell and others based on value in use. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and key assumptions used are given below:

Business growth	-	Based on historical growth rate and business plan
Inflation	-	Based on the current inflation rate and the percentage of the total cost subjected to inflation
Discount rate	-	Average market borrowing rate adjusted for risk premium
Margin	-	Based on current margin and business plan

- (iv) Remaining amortisation period of Rights to Generate Hydro Power.

Remaining amortisation period	Carrying amount Rs. '000
108 months	5,693
129 months	3,174
168 months	43,178
Total	52,045

- (v) Group has recognised an intangible asset in respect of operating leases acquired from the acquisition of Hotel Services (Ceylon) PLC, since terms of operating lease is favourable relative to market terms. Leasehold rights of the land has been revalued as of 31st March, 2010 by an independent qualified valuer at Rs. 1,313,086,051/-.

Intangible asset from the leasehold right is the revalued value of the land over the present value of future lease rentals to be paid.

Remaining leasehold period - 57 years.

NOTES TO THE FINANCIAL STATEMENTS

17. Investments

A. Company Investment in Subsidiaries

As at 31st March	% Holding		No. of Shares			Value Rs. '000		
	2012	2011	2012	Movement	2011	2012	Movement	2011
Investee								
Quoted investments								
Haycarb PLC (Rs. 3,220 mn)	68	68	20,125,103	–	20,125,103	47,204	–	47,204
Hayleys Exports PLC (Rs. 150 mn)	65	65	5,200,000	–	5,200,000	3,575	–	3,575
Dipped Products PLC (Rs. 2,480 mn)	41	41	24,776,080	–	24,776,080	363,612	–	363,612
Hayleys MGT Knitting Mills PLC (Rs. 335 mn)	55	57	28,138,452	–	28,138,452	569,153	–	569,153
Amaya Leisure PLC (Rs. 1,485 mn)	40	–	19,366,234	19,366,234	–	2,084,086	2,084,086	–
Hotel Services (Ceylon) PLC (Rs. 1,162 mn)	38	38	66,762,690	–	66,762,690	1,408,629	–	1,408,629
						4,476,259	2,084,086	2,392,173
Unquoted investments								
Hayleys Photoprint Ltd.	100	100	6	–	6	–	–	–
Haylex BV	100	100	1,000	–	1,000	25,733	–	25,733
Chas P. Hayley & Co. Ltd.	100	100	999,920	–	999,920	698	–	698
Ravi Industries Ltd.	86	86	10,773,750	6,224	10,767,526	15,255	178	15,077
Hayleys Group Services Ltd.	100	100	10,000	–	10,000	100	–	100
Hayleys Electronics Ltd.	98	98	951,850	–	951,850	95,687	–	95,687
Dean Foster (Pvt) Ltd.	49	49	5,882,351	–	5,882,351	9,904	–	9,904
Hayleys Advantis Ltd.	93	92	33,575,897	73,340	33,502,557	327,823	3,948	323,875
Volanka Exports Ltd.	4	3	106,632	15,519	91,113	1,916	247	1,669
Sunfrost (Pvt) Ltd.	5	5	423,300	–	423,300	4,233	–	4,233
Rileys (Pvt) Ltd.	6	11	2,500,000	–	2,500,000	10,334	–	10,334
XIL Industries Ltd.	99	99	2,662,601	–	2,662,601	53,818	–	53,818
Volanka (Pvt) Ltd.	62	46	6,440	–	6,440	23,107	–	23,107
Toyo Cushion Lanka (Pvt.) Ltd.	17	17	1,182,546	13,998	1,168,548	11,928	351	11,577
Hayleys Engineering Ltd.	100	100	11,990	–	11,990	–	–	–
Hayleys Produce Marketing Ltd.	100	100	250,000	–	250,000	2,532	–	2,532
Carbotels (Pvt) Ltd.	75	75	27,578,769	–	27,578,769	308,004	–	308,004
HJS Condiments Ltd.	8	8	993,019	3,851	989,168	10,481	63	10,418
Hayleys Plantation Services (Pvt) Ltd.	0	33	–	(6,700,002)	6,700,002	–	(67,000)	67,000
Hayleys Agriculture Holdings Ltd.	96	96	18,796,161	20,442	18,775,719	243,752	938	242,814
Hayleys Consumer Products Ltd.	98	98	19,242,569	55,014	19,187,555	249,168	443	248,725
Hayleys Industrial Solutions (Pvt) Ltd.	100	100	38,748,400	–	38,748,400	387,484	–	387,484

As at 31st March	% Holding		No. of Shares			Value Rs. '000		
	2012	2011	2012	Movement	2011	2012	Movement	2011
Hayleys Business Solutions International (Pvt) Ltd.	100	100	15,000,000	5,000,000	10,000,000	150,000	50,000	100,000
Hayleys Leisure Holdings (Pvt) Ltd.	100	100	2,000,000	–	2,000,000	20,000	–	20,000
Alutec Anodising & Machine Tools (Pvt) Ltd.	60	60	1,200,010	–	1,200,010	1,386,905	–	1,386,905
Nirmalapura Wind Power (Pvt) Ltd.	30	–	29,900,000	29,900,000	–	154,204	154,204	–
Quality Seeds Co. Ltd.	49	–	1,235,000	1,235,000	–	1,960	1,960	–
	–	–	–	–	–	3,495,026	145,332	3,349,694
Company investment in subsidiaries (at cost)	–	–	–	–	–	7,971,284	2,229,418	5,741,866
Provision for fall in value of investment made by the Company								
Hayleys Electronics Ltd.	–	–	–	–	–	(95,687)	–	(95,687)
XIL Industries Ltd.	–	–	–	–	–	(35,500)	–	(35,500)
Company investment in subsidiary	–	–	–	–	–	7,840,097	2,229,418	5,610,679

(i) Countries of incorporation of overseas subsidiaries are given in Note 17 on page 192.

B. Company/Group Investment in Equity Accounted Investees

As at 31st March,		% Holding		No. of Shares			Value Rs. '000		
		2012	2011	2012	Movement	2011	2012	Movement	2011
Investor	Investee								
Unquoted investments									
Hayleys PLC	Quality Seed Co. Ltd.	23	23	588,000	–	588,000	1,960	–	1,960
	Transfer to Subsidiaries	–	–	(588,000)	(588,000)	–	(1,960)	(1,960)	–
	Hayleys Plantation Services Ltd.	–	–	–	–	–	–	–	67,000
	Transfer to Subsidiaries	–	–	–	–	–	–	–	(67,000)
	World Call Telecommunications Lanka (Pvt) Ltd.	26	26	2,700,000	–	2,700,000	27,000	–	27,000
		–	–	–	–	–	27,000	(1,960)	28,960
Company investment in equity accounted investees (at cost)		–	–	–	–	–	27,000	(1,960)	28,960
Provision for impairment of investments									
Worldcall Telecommunications Lanka (Pvt) Ltd.		–	–	–	–	–	(27,000)	–	(27,000)
Carrying value of Company investment in equity accounted investees		–	–	–	–	–	–	(1,960)	1,960
Unquoted investments									
Haycarb PLC	Quality Seed Co. Ltd.	–	6	147,000	–	147,000	490	–	490
	Transfer to subsidiaries	–	–	(147,000)	(147,000)	–	(490)	(490)	–
Carbotels (Pvt) Ltd.	Jetwing Hotels Ltd.	–	40	–	(20,000)	20,000	–	(21,217)	21,217
	Tropical Villas (Pvt) Ltd.	–	40	–	(4,137,720)	4,137,720	–	(41,805)	41,805
	Eastern Hotels Ltd.	–	47	186,744	–	186,744	26,117	–	26,117
	Transfer to subsidiaries	–	–	(186,744)	(186,744)	–	(26,117)	(26,117)	–
	Negombo Hotels Ltd.	30	30	60,000	–	60,000	127,794	–	127,794
Haychem Ltd.	Quality Seed Co. Ltd.	–	20	500,000	–	500,000	5,000	–	5,000
	Transfer to subsidiaries	–	–	(500,000)	(500,000)	–	(5,000)	(5,000)	–
Hayleys Photoprint Ltd.	World Call Telecommunications Lanka (Pvt) Ltd.	3	3	300,000	–	300,000	3,000	–	3,000
Hayleys Advantis Group	Logiwiz Fiji (Pvt) Ltd.	49	49	88,199	–	88,199	6,532	–	6,532
	NYK Logistics & Kusuhara Lanka (Pvt) Ltd.	30	30	195,000	–	195,000	1,950	–	1,950
	Mountain Hawk Investment Company Ltd.	50	50	750,000	–	750,000	7,500	–	7,500

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March,		% Holding		No. of Shares			Value Rs. '000		
		2012	2011	2012	Movement	2011	2012	Movement	2011
Kelani Valley Plantations PLC	Mabroc Teas (Pvt) Ltd.	-	-	-	-	3,600,000	-	-	48,000
	Transfer to subsidiaries	-	-	-	-	(3,600,000)	-	-	(48,000)
Volanka Exports Ltd.	PT Tulus Lanka Coir Industries	45	45	164,250	-	164,250	17,776	-	17,776
Hayleys Industrial Solutions (Pvt) Ltd.	TTEL Hydro Power Company (Pvt) Ltd.	-	-	-	-	3,366,300	-	-	33,663
	Transfer to Subsidiaries	-	-	-	-	(3,366,300)	-	-	(33,663)
	TTEL Somerset Hydro Power (Pvt) Ltd.	-	-	-	-	2,940,000	-	-	29,400
	Transfer to subsidiaries	-	-	-	-	(2,940,000)	-	-	(29,400)
		-	-	-	-	-	164,552	(94,629)	259,181
		-	-	-	-	-	191,552	(96,589)	288,141
	Provision for fall in value of investment								
	PT Tulus Lanka Coir Industries	-	-	-	-	-	(17,776)	-	(17,776)
	World Call Telecommunication Lanka (Pvt) Ltd.	-	-	-	-	-	(27,000)	-	(27,000)
Group investments in equity accounted investees (at cost)		-	-	-	-	-	146,776	(96,589)	243,365

As at 31st March	Consolidated					
	Investment at Cost		Share of Post Acquisition Profit/(Loss) & MI Adj.		Net Assets	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Quality Seed Co. Ltd.	-	7,450	-	(18,796)	-	28,883
Carbotels equity accounted investees	127,794	216,933	(114,159)	75,646	278,609	392,768
World Call Telecommunications Lanka (Pvt) Ltd.	30,000	30,000	-	-	-	-
NYK Logistics & Kusuhara Lanka (Pvt) Ltd.	1,950	1,950	(2,126)	5,941	20,679	22,805
Logiwiz Fiji (Pvt) Ltd.	6,532	6,532	-	(8,699)	11,691	11,691
Mountain Hawk Investment Company Ltd.	7,500	7,500	21,874	-	29,374	7,500
Tianjing Shanglong Mattress Co. Ltd. - China	-	-	-	(17,143)	-	-
PT Tulus Lanka Coir Industries	17,776	17,776	-	(2,031)	10,091	10,091
	191,552	288,141	(94,411)	34,918	350,444	473,738
Transferred to other long-term investments	-	-	-	-	(10,091)	(10,091)
Group investment in equity accounted investees	191,552	288,141	(94,411)	34,918	340,353	463,647

- (i) Summarised financial information of Equity Accounted Investees.

Following information is not adjusted for Group share:

<i>As at 31st March,</i>	2012 Rs. '000	2011 Rs. '000
Assets and liabilities		
Total assets	2,244,559	1,915,167
Total liabilities	(1,386,689)	(596,273)
<i>For the year ended 31st March,</i>	2012 Rs. '000	2011 Rs. '000
Revenue and profit		
Total revenue	672,107	820,598
Total profit after tax	84,672	222,572

- (ii) The Company has neither contingent liabilities nor capital commitments in respect of its Equity Accounted Investees.
- (iii) The Group has not recognised the following shares of its losses in respect of its equity investments, since Group has no (further) obligation in respect of those losses beyond its investments:

<i>For the year ended 31st March,</i>	Cumulative		For the year	
	2012 Rs. '000	2011 Rs. '000 (Restated)	2012 Rs. '000	2011 Rs. '000 (Restated)
World Call Telecommunications Lanka (Pvt) Ltd.	(30,639)	(28,120)	(2,519)	(4,741)
	(30,639)	(28,120)	(2,519)	(4,741)

Financial Statements have been restated consequent to the reduction in the liability due to Lanka Bell Ltd. and Sri Lanka Telecom PLC.

- (iv) Countries of incorporation of overseas equity accounted investees are given in Note 17 on page 192.

NOTES TO THE FINANCIAL STATEMENTS

C. Other Long-Term Investments

As at 31st March, Investor		Consolidated	
		2012 Rs. '000	2011 Rs. '000
Hayleys PLC	Unquoted Investments		
	4,215,000 shares in Prudentia Investment Corporation Ltd. (31.03.11 - 4,215,000)	42,150	42,150
	Provision for fall in value of investments in Prudentia Investment Corporation Ltd.	(42,150)	(42,150)
	24,940,613 shares in AES Kelanitissa (Pvt) Ltd. (31.03.11 - 24,940,613)	249,407	249,407
	4,200,000 shares in Sri Lanka Institute of Nanotechnology (Pvt) Ltd. (31.03.2011 - 4,200,000)	42,000	42,000
	Company investments in long-term investments	291,407	291,407
Quoted Investments			
Dipped Products PLC	Hayleys PLC (31.03.11 - 3,536,159 ordinary shares)	–	156,101
Hanwell Rubber Products Ltd.	Royal Ceramics 1,100 (31.03.11 - 1,100 shares) (Rs. 0.2 mn)	3	3
Dean Foster (Pvt) Ltd.	Hayleys PLC (31.03.11 - 2,922,413 ordinary shares)	–	214,000
Toyo Cushion Lanka (Pvt) Ltd.	Hayleys PLC (31.03.11 - 232,737 ordinary shares)	–	11,370
Volanka Exports Ltd.	Hayleys PLC (31.03.11 - 183,275 ordinary shares)	–	17,431
Amaya Leisure PLC	Royal Ceramics Lanka PLC	83,646	–
		83,649	398,905
Unquoted Investments			
DPL Plantations Ltd.	255,000 shares in Wellassa Rubber Company Ltd. (31.03.2011 - 255,000)	2,550	2,550
Hayleys Advantis Group	600,000 shares in Unit Trust (Rs. 6 mn) (31.03.2011 - 600,000 Shares)	6,000	6,000
	26,071 shares in SLAFFA Cargo Services Ltd. (31.03.2011 - 26,071 Shares)	357	357
Haycarb Group	Haycarb Holdings Australia (Pty) Ltd. - Barrik Gold Corporation - Aus \$ 27.20 each	94	94
Hayleys Industrial Solutions (Pvt) Ltd.	350,000 shares in Hydro Trust Lanka (Pvt) Ltd.	3,500	3,500
Rileys (Pvt) Ltd.	15,101,498 shares in Onril (Pvt) Ltd.	45,645	45,645
	Impairment in value of long-term investment	(45,645)	(45,645)
Chas P. Hayley & Co. (Pvt) Ltd.	Investment in Chas Fibre (Pvt) Ltd.	177	123
Lignocell (Pvt) Ltd.	Investment in Chas Fibre (Pvt) Ltd.	177	123
Amaya Leisure PLC	Lake Lodge Resort (Pvt) Ltd	24,000	–
Volanka Exports Ltd.	165,250 shares in PT Tulus Lanka Coir Industries	10,091	10,091
	Impairment in value of long-term investments	(10,091)	(10,091)
		36,855	12,747
		120,504	411,652
		411,911	703,059

- (i) PT Tulus Lanka Coir Industries (Indonesia), in which Volanka Exports Ltd. holds a 45% stake was incorporated in the Consolidated Financial Statements as an Equity Accounted Investee up to 31st March, 2011. Taking into consideration that the Company has no business operations and in the absence of business relationship with the 55% shareholder in PT Tulus Lanka Coir Industries, the Group no longer considers it has any significant influence in respect of this Company. The investment is therefore, from the date stated, not treated as an Equity Accounted Investee but included under the category of other long-term investments in the Consolidated Financial Statements. This incorporates full provision for this investment and other exposures carried in respect of the Company.

- (ii) In the opinion of the Directors the net realisable value of unquoted investments other than those investments for which provisions have been made are higher than their cost.
- (iii) Amounts stated within brackets correspond to fair values as at 31st March, 2012, of quoted investments and investments in unit trusts. In the opinion of the Directors, any reduction in fair value below cost is considered to be of a temporary nature.

D. Inter-Company Shareholdings

As at 31st March,		% Holding		No. of Shares	
		2012	2011	2012	2011
Investor	Investee				
Agro Technica Ltd.	Sunfrost (Pvt) Ltd.	1	1	75,000	75,000
Chas P. Hayley & Co. Ltd.	Toyo Cushion Lanka (Pvt) Ltd.	2	2	169,267	169,267
	Hayleys Electronics Ltd.	2	2	14,975	14,975
	Lignocell (Pvt) Ltd.	100	100	12,000,000	12,000,000
Dean Foster (Pvt) Ltd.	Volanka (Pvt) Ltd.	38	28	3,920	3,920
	Hayleys Advantis Group	1	1	488,369	488,369
	Chas P. Hayley & Co. (Pvt) Ltd.	0	0	80	80
	Amaya Leisure PLC	21	–	10,252,300	–
Dipped Products PLC	Palma Ltd.	100	100	4,000,000	4,000,000
	Grossart (Pvt) Ltd.	100	100	4,200,000	4,200,000
	Venigros (Pvt) Ltd.	100	100	8,000,000	8,000,000
	Feltex (Pvt) Ltd.	100	100	1,500,000	1,500,000
	DPL Plantations (Pvt) Ltd.	100	100	54,999,994	35,000,000
	Neoprex (Pvt) Ltd.	100	100	4,000,000	4,000,000
	Dipped Products (Thailand) Ltd. (100 Bhat)	99	99	3,700,290	3,700,290
	Texnil (Pvt) Ltd.	100	100	7,500,000	7,500,000
	ICO Guanti SpA (Italy) (€1 – each)	55	55	1,100,000	1,100,000
	Hanwella Rubber Products Ltd.	73	70	18,152,000	6,090,000
DPL Plantations Ltd.	Kelani Valley Plantations PLC	71	71	24,200,000	24,200,000
	Hayleys Plantation Services (Private) Ltd.	66	33	13,400,000	6,700,000
Haycarb PLC	Dipped Products PLC	7	7	4,068,746	4,068,746
	Eurocarb Products Ltd. (UK) (£1 – each)	100	100	100,000	100,000
	Haycarb Holdings Australia (Pty.) Ltd. (Aus \$ 1 - each)	100	100	150,000	150,000
	Carbotels (Pvt) Ltd.	25	25	9,290,341	9,290,341
	Carbokarn Co. Ltd. (100 Baht, 72% paid-up)	50	50	250,000	250,000
	Puritas (Pvt) Ltd.	100	100	700,000	700,000
	Recogen (Pvt) Ltd.	100	100	37,000,000	37,000,000
	Kinetics (Pvt) Ltd.	100	100	4,088,367	4,088,367
	Haymark Inc. (Texas, USA)	100	100	stocks	stocks
	Haycarb Holdings Bitung Ltd. (\$ 1 – each)	100	100	1,400,000	1,400,000
	PT Mapalus Makawanua Charcoal Industry (IDR 1,000,000)	2	2	707	707
	Ultracarb (Pvt) Ltd.	100	–	20,000,000	–
	Quality Seeds Co. Ltd.	6	6	147,000	147,000
Carbokarn Co. Ltd.	CK Regen Systems Co. Ltd.	100	100	150,000	150,000
Puritas (Pvt) Ltd.	Lakdiyatha (Pvt) Ltd.	49	–	2,450	–

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March,		% Holding		No. of Shares	
		2012	2011	2012	2011
Haycarb Holdings Bitung Ltd.	PT Mapalus Makawanua Charcoal Industry (IDR 1,000,000)	83	83	30,830	30,830
Haychem (Pvt) Ltd.	Haychem Bangladesh Ltd. (100 Taka)	100	100	10,000	10,000
	Hayleys MGT Knitting PLC	2	2	848,774	848,774
	Quality Seeds	20	20	500,000	500,000
Haylex B.V.	HJS Condiments Ltd.	2	2	309,374	309,374
Hayleys Agriculture Holdings Ltd.	Agro Technica Ltd.	93	93	2,329,900	2,329,900
	Haychem (Pvt) Ltd.	100	100	4,400,000	4,400,000
	Hayleys Agro Fertilizers (Pvt) Ltd.	100	51	5,000,000	5,000,000
	Hayleys Agro Farms (Pvt) Ltd.	100	100	1,500,000	1,500,000
	Hayleys Agro Bio-Tech (Pvt) Ltd.	100	100	7,500,000	7,500,000
	HJS Condiments Ltd.	54	–	7,089,969	–
	Sunfrost Ltd.	93	–	7,445,000	–
Hayleys Electronics Ltd.	Hayleys Electronics Manufacturing (Pvt) Ltd.	100	100	500,000	500,000
	Hayleys Electronics Retailing (Pvt) Ltd.	100	100	17,600,000	17,600,000
	XIL Industries Ltd. (Usha)	0	0	5,898	5,898
Hayleys Exports PLC	Sunfrost (Pvt) Ltd.	–	6	–	500,000
	Toyo Cushion Lanka (Pvt) Ltd.	34	15	1,015,602	1,015,602
	Bonterra Lanka Ltd.	50	50	803,394	803,400
	Rileys (Pvt) Ltd.	21	34	7,750,000	7,750,000
	HJS Condiments Ltd.	–	12	–	1,561,607
Hayleys Industrial Solutions (Pvt) Ltd.	Haycolour (Pvt) Ltd.	100	100	60,000	60,000
	Bhagya Hydro (Power) (Pvt) Ltd.	100	100	3,500,000	3,500,000
	Hayleys Hydro Energy (Pvt) Ltd.	51	51	6,120,000	6,120,000
	Hayleys Lifesciences Ltd.	100	100	3,000,002	3,000,002
	Power Engineering Solutions (Pvt) Ltd.	100	100	320,002	320,002
	Nirmalapura Wind Power (Pvt) Ltd.	21	21	21,100,000	21,100,000
	TTEL Hydro Power (Pvt) Ltd.	49	49	3,366,300	3,366,300
	TTEL Summerset Hydro Power (Pvt) Ltd.	49	49	2,940,000	2,940,000
Hayleys Hydro Energy (Pvt) Ltd.	Neluwa Cascade Hydro (Pvt) Ltd.	100	100	11,910,002	11,910,002
Hayleys Plantation Services (Pvt) Ltd.	Talawakelle Tea Estates PLC	75	75	17,750,000	17,750,000
Talawakelle Tea Estates PLC	TTEL Hydro Power (Pvt) Ltd.	51	51	3,519,000	3,519,000
	TTEL Summerset Hydro Power (Pvt) Ltd.	51	51	3,060,000	3,060,000
Hayleys Advantis Group	Sunfrost (Pvt) Ltd.	1	1	50,000	50,000
	Hayleys MGT Knitting Mills PLC	2	2	1,231,230	1,231,230

As at 31st March,		% Holding		No. of Shares	
		2012	2011	2012	2011
Ravi Industries Ltd.	Rileys (Pvt) Ltd.	31	54	12,250,000	12,250,000
	Dipped Products PLC	1	1	567,000	567,000
	Ravi Marketing Services Ltd.	100	100	10,000	10,000
Rileys (Pvt) Ltd.	Haymat (Pvt) Ltd.	54	54	215,998	216,000
	Creative Polymats (Pvt) Ltd.	100	100	5,000,000	5,000,000
Toyo Cushion Lanka (Pvt) Ltd.	Dean Foster (Pvt) Ltd.	2	2	235,294	235,294
	Super Felt (Pvt) Ltd.	100	100	4,680,000	4,680,000
	Amaya Leisure PLC	2	-	816,400	-
Volanka (Pvt) Ltd.	Dipped Products PLC	8	8	4,873,640	4,873,640
	Sunfrost (Pvt) Ltd.	-	87	-	6,945,000
	Toyo Cushion Lanka (Pvt) Ltd.	22	22	1,455,832	1,455,832
	HJS Condiments Ltd.	-	42	-	5,528,362
	Dean Foster (Pvt) Ltd.	49	49	5,882,353	5,882,353
	Volanka Exports Ltd.	100	100	2,900,000	2,900,000
	Volanka Insurance Services (Pvt) Ltd.	100	100	59,000	59,000
	Rileys Ltd.	44	-	17,500,000	-
Carbotels (Pvt) Ltd.	Hunas Falls Hotels PLC	50	50	2,824,280	2,824,280
	Eastern Hotel (Pvt) Ltd.	93	47	373,485	186,744
	Hotel Services (Ceylon) PLC	13	13	23,000,000	23,000,000
Volanka Exports Ltd.	O E Techniques Ltd. (Oleo Essences & Perfumes)	100	100	10,000	10,000
	Amaya Leisure PLC	1	-	642,900	-
Kelani Valley Plantations PLC	Kalupahana Power Project Co. (Pvt) Ltd.	60	60	1,800,000	1,800,000
	Kelani Valley Green Tea (Pvt) Ltd.	100	100	2,000,000	1,020,000
	Kelani Valley Instant Tea (Pvt) Ltd.	95	75	2,850,000	2,250,000
	Mabroc Teas (Pvt) Ltd.	100	100	9,000,000	9,000,000
Hayleys Group Services (Pvt) Ltd.	Hayleys MGT Knitting PLC	1	1	508,933	232,701
Hayleys Leisure Holdings (Pvt) Ltd	Air Global (Pvt) Ltd	100	100	1,000,000	1,000,000
	Millenium Transportation (Pvt) Ltd	100	100	100,000	100,000
	North South Lines (Pvt) Ltd	100	100	135,000	135,000
	Hayleys Travels and Tours (Pvt) Ltd	100	100	1,780,000	1,780,000
Alutec Anodising & Machine Tools (Pvt) Ltd.	Alutec Extrusions (Pvt) Ltd.	100	26	10,000,000	2,505,000
	Alumex (Pvt) Ltd.	100	56	20,000,000	11,225,227
	Avro Enterprises (Pvt) Ltd.	100	-	25,002	2
	Alco Industries (Pvt) Ltd.	100	-	3,000,000	3,000,000
Hayleys Consumer Products Ltd.	Hayleys Consumer Marketing (Pvt) Ltd.	100	100	3,500,000	3,500,000
	Hayleys Electronics (Lighting) (Pvt) Ltd.	100	100	600,000	600,000
Amaya Leisure PLC	Kandyan Resorts (Pvt) Ltd.	100	-	29,784	-
	Culture Club Resorts (Pvt) Ltd.	100	-	28,079	-
	The Beach Resorts Ltd.	85	-	6,177	-

NOTES TO THE FINANCIAL STATEMENTS

E. Countries of Incorporation of Overseas Subsidiaries and Equity Accounted Investees

Countries of incorporation of companies incorporated outside Sri Lanka are stated in brackets against the Company names.

Haychem (Bangladesh) Ltd. (Bangladesh), PT Mapalus Makawanua Charcoal Industry (Indonesia), Haycarb Holdings Bitung Ltd. (British Virgin Island), Eurocarb Products Ltd. (UK), Haycarb Holdings Australia (Pty) Ltd. (Australia), Haymark Inc. (USA), Carbokarn Ltd. (Thailand), Haylex BV Group (Netherlands, Japan, UK & USA), Dipped Products (Thailand) Ltd. (Thailand), CK Regen Systems Co. Ltd. (Thailand), ICO Guanti SpA (Italy), Tianjing Shanglong Mattress Co. Ltd. (China), PT Tulus Lanka Coir Industries (Indonesia), Logiwiz Logistics India (Pvt) Ltd. (India), Civaro Freight India (Pvt) Ltd. (India) and Logiwiz Fiji (Pvt) Ltd. (Fiji).

18. Employees' Share Trust Loan

The Hayleys PLC Employees' Share Trust was set up by a special resolution adopted by the shareholders at an Extraordinary General Meeting of the Company. The Trust was allotted 2,400,000 ordinary shares of Rs. 10/- each on 9th February, 1998 at the market price of Rs. 210/- per share, payment for the shares being made by the Trustees from the proceeds of an interest-free loan of Rs. 504 mn, granted by the Company. This loan is repayable by the Trustees utilising part of the net income of the Trust.

As at 31st March,	Consolidated/Company	
	2012 Rs. '000	2011 Rs. '000
At beginning of the year	492,243	494,085
Recovery during the year	(804)	(1,842)
At end of the year	491,439	492,243

The market value of the shares held by the Trust as at 31st March, 2012 was Rs. 2,468 mn (31st March, 2011 - Rs. 2,620 mn).

19. Inventories

As at 31st March,	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000 (Restated)	2012 Rs. '000	2011 Rs. '000
Raw materials & consumables	4,092,782	3,525,230	920	1,396
Produce stocks	2,873,529	878,133	-	-
Work-in-progress	884,446	716,906	-	-
Finished goods	3,056,659	3,678,802	-	-
Goods-in-transit	221,502	262,030	-	-
	11,128,918	9,061,101	920	1,396
Provision for unrealised profit and write-down of inventories	(446,488)	(340,816)	-	-
	10,682,430	8,720,285	920	1,396

(i) Carrying amount of inventories pledged as security for bank facilities obtained amounted to Rs. 1,517 mn (31st March, 2011 - Rs. 1,741 mn).

(ii) Inventory carried at net realisable value as at 31st March, 2012 Rs. 45 mn (31st March, 2011 - Rs. 115 mn).

20. Trade and Other Receivables

As at 31st March,	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000 (Restated)	2012 Rs. '000	2011 Rs. '000
Trade receivables	7,975,512	7,271,845	–	–
Provision for bad and doubtful debts	(787,185)	(784,994)	–	–
	7,188,327	6,486,851	–	–
Bills receivable	2,932,829	2,409,518	–	–
Advances made under employee share ownership schemes	1,036	3,701	972	1,058
Other debtors, payments in advance, deposits and employee loans (i)	4,423,253	3,310,710	70,415	36,446
	14,545,445	12,210,780	71,387	37,504

(i) No loans have been given to the Directors of the Company.

As at 31st March,	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000 (Restated)	2012 Rs. '000	2011 Rs. '000
(ii) Currency wise analysis of trade and other receivables				
Rupees	8,119,286	9,732,267	71,387	37,504
Australian Dollars	101,316	175,953	–	–
Pounds Sterling	164,085	205,654	–	–
United States Dollars	3,340,915	1,688,683	–	–
Euro	2,327,165	179,423	–	–
Thai Baht	217,751	131,834	–	–
Indian Rupees	34,657	–	–	–
Other	240,270	96,966	–	–
	14,545,445	12,210,780	71,387	37,504

NOTES TO THE FINANCIAL STATEMENTS

21. Short-term Investments

As at 31st March,

Investor	Investee	No. of Shares	2012 Rs. '000 Fair Value	2012 Rs. '000 Cost	2011 Rs. '000 Cost
Hayleys PLC	Aitken Spence Hotel Holdings PLC	112	8	1	1
	ACL Cables PLC	127,260	7,966	2,088	2,088
	Asiri Hospitals PLC	-	-	-	1
	Blue Diamond Jewellery Worldwide PLC	-	-	-	2
	Central Industries PLC	9,000	630	321	321
	Ceylinco Insurance Co. PLC	-	0	-	2
	Aviva NDB Insurance PLC	49	10	2	2
	Ceylon Cold Stores PLC	252	23	1	2
	DFCC Bank PLC	338	38	19	19
	Kelani Tyres PLC	17,200	456	214	214
	Lanka ORIX Leasing Co. PLC	1,520	82	8	8
	National Development Bank PLC	20,681	2,540	1,687	1,691
	Seylan Bank PLC	-	-	-	3
	Three Acre Farms PLC	18,100	937	841	841
	Overseas Reality PLC	70,000	938	1,012	-
	Pan Asia Power PLC	1,600,000	4,160	9,756	-
	Access Engineering Ltd.	400,000	10,680	10,000	-
	Hatton National Bank PLC – Non-Voting	15,000	1,417	1,679	-
	Hatton National Bank PLC	5,000	765	567	-
	Environmental Resources Investments PLC	5,000	85	293	-
	Hunters & Company PLC	1,500	525	1,092	-
	Textured Jersey Lanka PLC	136,100	980	2,051	-
	Company short-term investments		32,240	31,632	5,195
Dean Foster (Pvt) Ltd.	ACL Cables PLC	4,120	258	24	24
	Asiri Hospital PLC	270	2	0	-
	Bairaha Farms PLC	900	117	18	18
	Blue Diamond Jewellery Worldwide PLC	13	-	0	-
	Central Industries PLC	900	63	24	24
	Ceylinco Securities & Financial Services PLC	1,300	13	12	12
	Aviva NDB Insurance Co. PLC	30	6	1	1
	Kelani Tyres PLC	2,000	53	11	11
	Lanka Orix Leasing Co. PLC	3,280	177	10	10
	Three Acre Farms PLC	2,000	104	91	91
	Vanik Incorporation PLC – Voting	7,500	6	124	124
	– Non-voting	5,000	4	50	50
	– Debentures	4,000	400	400	400
	Seylan Bank PLC	43	3	3	-
	Browns Investments PLC	186,200	614	946	-
	Textured Jersey Lanka PLC	136,100	980	2,053	-
	Provision for fall in value of investments		-	(967)	-
			2,800	2,800	765

As at 31st March,

Investor	Investee	No. of Shares	2012 Rs. '000 Fair Value	2012 Rs. '000 Cost	2011 Rs. '000 Cost
Mabroc Teas (Pvt) Ltd.	Sampath Bank PLC	-	-	-	34
	Cambron Exports (Pvt) Ltd.	-	-	-	500
	Mabroc International (Pvt) Ltd.	-	732	732	732
	Mabroc Japan Co.	-	4,567	4,567	4,567
	Vanik Incorporation PLC	-	-	-	60
	Seylan Bank PLC	3,000	3,000	3,000	3,000
Hayleys Advantis	Textured Jersey Lanka PLC	10,000	2,258	1,151	-
	Union Bank PLC	100,000	2,325	4,064	-
	Hatton National Bank PLC	43,000	4,196	1,750	-
Amaya Leisure PLC	Free Lanka Capital Holdings PLC	5,320,000	10,640	25,004	-
	LB Finance PLC	20	3	3	-
	The Fortress Resorts PLC	90,075	1,549	646	-
	Provision for fall in value of investments		-	(14,364)	-
			32,070	29,353	9,658
Group short-term investments			64,310	60,985	14,853

22. Stated Capital

As at 31st March,

		Company	
		2012 Rs. '000	2011 Rs. '000
Issued & fully-paid – ordinary shares			
At beginning of the year	- 75,000,000 (1st April, 2010 – 75,000,000)	1,575,000	1,575,000
At end of the year	- 75,000,000 (31st March, 2011 – 75,000,000)	1,575,000	1,575,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

23. Other Capital Reserves and Retained Earnings

A. Other Capital Reserves

	Capital profit on redemption of debentures	Fixed asset replacement reserve	Capital reserve on sale of property, plant & equipment	Capital redemption reserve fund	Debenture redemption reserve fund	Reserve on amalgamation	Legal reserve	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Consolidated								
Balance as at 1st April, 2010	109	11,578	57,250	30,683	1,049	301,458	10,935	413,062
Changes in equity holding	-	12	-	2,619	-	657	-	3,288
Transfers	-	-	-	-	-	-	-	-
Balance as at 31st March, 2011	109	11,590	57,250	33,302	1,049	302,115	10,935	416,350
Changes in equity holdings	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Balance as at 31st March, 2012	109	11,590	57,250	33,302	1,049	302,115	10,935	416,350

NOTES TO THE FINANCIAL STATEMENTS

	Capital profit on redemption of debentures	Fixed asset replacement reserve	Capital reserve on sale of property, plant & equipment Rs. '000	Debenture redemption reserve fund	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Company					
Balance as at 31st March, 2010	109	11,750	320	1,047	13,226
Balance as at 31st March, 2011	109	11,750	320	1,047	13,226
Balance as at 31st March, 2012	109	11,750	320	1,047	13,226

B. Retained Earnings

As at 31st March,	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Holding Company	1,856,069	1,085,777	1,856,069	1,085,777
Subsidiaries	5,263,081	3,161,630	–	–
Equity Accounted Investees	103,101	35,480	–	–
	7,222,251	4,282,887	1,856,069	1,085,777

24. Interest-Bearing Borrowings

As at 31st March,	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000

A. Total Non-Current Portion of Interest-Bearing Borrowings

Finance lease obligations	531,352	523,285	–	–
Debentures	40,000	40,000	–	–
Long-term loans	5,083,665	3,869,334	1,386,667	1,680,000
Total Non-current portion of interest-bearing borrowings	5,655,017	4,432,619	1,386,667	1,680,000

As at 31st March,	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000

B. Current Portion of Interest-Bearing Borrowings

Finance lease obligations	40,093	29,731	–	–
Long-term loans	1,461,746	1,863,362	506,667	720,000
Total current portion of interest-bearing borrowings	1,501,839	1,893,093	506,667	720,000

As at 31st March,	Consolidated	
	2012 Rs. '000	2011 Rs. '000
C. Finance Lease Obligations		
At beginning of the year	997,415	740,108
New leases obtained	32,380	34,933
	1,029,795	775,041
On acquisition of subsidiary	31,819	283,695
Repayments	(68,610)	(61,321)
At end of the year	993,004	997,415
Finance charges unamortised	(421,559)	(444,396)
Net lease obligations	571,445	553,019

As at 31st March,	Consolidated	
	2012 Rs. '000	2011 Rs. '000
D. Currency-wise Analysis of Finance Lease Obligations		
Rupees	559,293	536,566
Thai Baht	-	-
Taka	12,152	16,453
	571,445	553,019

As at 31st March,	Consolidated	
	2012 Rs. '000	2011 Rs. '000
E. Analysis of Finance Lease Obligations by Year of Repayment		
Finance lease obligations repayable within 1 year from year-end		
Gross liability	68,424	55,871
Finance charges unamortised	(28,331)	(26,140)
Net lease obligations repayable within 1 year from year-end	40,093	29,731
Finance lease obligations repayable between 1 and 5 years from year-end		
Gross liability	173,110	147,186
Finance charges unamortised	(89,876)	(82,535)
Net lease obligations	83,234	64,651
Finance lease obligations repayable after 5 years from year-end		
Gross liability	758,310	791,094
Finance charges unamortised	(310,192)	(332,460)
Net lease obligations	448,118	458,634
Net lease liability repayable later than 1 year from year-end	531,352	523,285

NOTES TO THE FINANCIAL STATEMENTS

(i) Kelani Valley Plantations PLC

The original lease rentals had been amended with effect from 18th June, 1996 to an amount substantially higher than the previous nominal lease rental of Rs. 500/- per estate per annum.

The basic rental payable under the revised basis was Rs. 19,598,000/- per annum. This amount is to be inflated annually by the Gross Domestic Product (GDP) Deflator in the form of contingent rent.

This lease agreement was further amended on 1st August 2002, freezing annual lease rental at Rs. 25,839,041/- from 18th June, 2002. Hence, the GDP Deflator adjustment was frozen at Rs. 6,241,041/- per annum until 17th June, 2008. Thereafter, it will be inflated annually by GDP Deflator.

According to the ruling given by the Urgent Issues Task Force (UITF) of The Institute of Chartered Accountants of Sri Lanka, the amounts stated in the Financial Statements have been adjusted to reflect the following:

- a. Further liability on the annual lease payment of Rs. 19,598,000/- will continue until the year 2045. The net present value of this liability at a 4% discounting rate (as recommended by the UITF) would result in a liability of Rs. 357,693,521/-.
- b. The net present value of Rs. 357,693,521/- is represented by a gross liability of Rs. 656,533,000/- (Rs. 19,598,000/- x 33 1/2 years) and interest in suspense of Rs. 298,839,579/-.
- c. The charge to the Income Statement during the current period is Rs. 45.8 mn (2010/11- Rs. 66.8 mn)

(ii) Talawakelle Tea Estates PLC

The lease of the Estates was amended, with effect from 22nd June, 1996 to an amount substantially higher than the previous lease rentals of Rs. 500/- per estate per annum. The rental payable under the revised basis is Rs. 7.225 mn per year and to be inflated annually by the GDP Deflator, and it is in the form of a contingent rental. This lease agreement was further amended with effect from 22nd June, 2002, to provide relief to the Company by freezing the lease rental as at 2002 for a period of 5 calendar years, from the fiscal years 2003/04 to 2007/08. In 2010 lease agreement was reverted back to the previous agreement with retrospective effect from 2008/09.

As at 31st March,	Consolidated	
	2012 Rs. '000	2011 Rs. '000
F. Debentures		
At beginning of the year	40,000	40,000
Acquisition of subsidiary	-	95,000
Repayments during the year	-	(95,000)
At end of the year	40,000	40,000
Repayable after one year	40,000	40,000

4,000,000 (par value Rs. 10/-) unquoted debentures, were issued to LVL Energy Fund (Pvt) Ltd. at 15%, by Neluwa Cascade Hydro Energy (Pvt) Ltd. to finance its Hydro Power Project capital requirements. These debentures are redeemable/convertible to preference shares on or after 31st March, 2011.

As at 31st March,	Consolidated	
	2012 Rs. '000	2011 Rs. '000

G. Currency-wise Analysis of Debentures

Rupees	40,000	40,000
	40,000	40,000

As at 31st March,	Consolidated	
	2012 Rs. '000	2011 Rs. '000

H. Analysis of Debentures by Year of Repayment

Long-term loans repayable between 2 and 5 years from year-end	40,000	40,000
	40,000	40,000

As at 31st March,	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000

I. Long-Term Borrowings

At beginning of the year	5,732,695	2,249,646	2,400,000	130,000
On acquisition of subsidiary	27,446	1,222,580	–	–
Exchange difference	151,960	25,326	–	–
New loans obtained (iii)	3,541,006	3,898,726	–	2,400,000
	9,453,107	7,396,278	2,400,000	2,530,000
Repayments	(2,907,696)	(1,663,583)	(506,666)	(130,000)
At end of the year	6,545,411	5,732,695	1,893,334	2,400,000
Transferred to current liabilities (repayable within one year)	(1,461,746)	(1,863,362)	(506,667)	(720,000)
Repayable after one year	5,083,665	3,869,334	1,386,667	1,680,000

(iii) Alumex Group, DPL Group, Nirmalapura Wind Power, Haycarb Group and Hotel Services PLC have obtained loans during the year amounting to Rs. 1,166 mn, Rs. 126 mn, Rs. 1,313 mn, Rs. 423 mn, Rs. 400 mn respectively.

As at 31st March,	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000

J. Currency-wise Analysis of Long-Term Borrowings

Rupees	5,134,888	4,324,982	1,893,334	2,400,000
United States Dollars	1,379,140	613,831	–	–
Euro	19,533	161,974	–	–
Taka	11,850	–	–	–
Thai Baht	–	631,908	–	–
	6,545,411	5,732,695	1,893,334	2,400,000

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March,	Consolidated		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000

K. Analysis of Long-Term Borrowings by Year of Repayment

Long-term loans repayable between 1 and 2 years from year-end	1,387,713	1,731,742	476,667	753,000
Long-term loans repayable between 2 and 5 years from year-end	2,467,297	1,705,430	910,000	927,000
Long-term loans repayable later than 5 years from year-end	1,228,655	432,162	–	–
	5,083,665	3,869,334	1,386,667	1,680,000

L. Long-Term Borrowings Repayable after One Year

Company	Lender/rate of interest (p.a.)	31.03.2012 Rs. '000	31.03.2011 Rs. '000	Repayment	Security
Hayleys PLC	HNB (AWPLR-1%)	1,110,000	1,330,000	Bi-annual repayment	None
	DFCC (AWPLR+0.5%)	276,667	350,000	Bi-annual repayment	None
H J S Condiments Ltd.	NDB (8.79%)	–	3,300	60 monthly instalments starting from March 2008 till February 2013	Mortgage over land & building
	BOC (6.5%)	1,686	4,067	60 monthly instalments starting from February 2009 till January 2014	Mortgage over plant & machinery
Venigros (Pvt) Ltd.	NDB (6.5%)	–	4,624	Monthly instalments ending August 2012	Mortgage over plant and machinery
Kalupahana Power Co. (Pvt) Ltd.	NDB (AWDR + 4%)	–	22,000	Quarterly instalments ending March 2013	Mortgage over heater at Weliveriya Primary mortgage over sub lease hold rights of Kalupahana Power Co.(Pvt) Ltd., and machinery and equipment of the Company
ICO Guanti SpA	BNL (6.5%) (Euro 100,000)	–	9,236	Monthly instalments ending July 2011	None
	Alessandria Financing 1.95% (Euro 1,000,000)	125,722	134,823	Repayment over 2 years as per agreed schedule	None
Dipped Products (Thailand) Ltd.	Thai Military Bank Public Company Ltd. (MLR – 1% – 2 Yrs.) (MLR – next 3 Yrs.)	9,567	124,592	Monthly instalments ending June 2011	Mortgage over land, building & machinery
	HSBC – Thailand (Baht 92,403,715)	409,491	305,452	Monthly instalments ending July 2015	Mortgage over land, building and machinery and guarantee from Parent company

Company	Lender/rate of interest (p.a.)	31.03.2012 Rs. '000	31.03.2011 Rs. '000	Repayment	Security
Kelani Valley Plantations PLC	NDB (11.51%)	3,008	7,518	Monthly instalments ending August 2013	Primary mortgage over the leasehold rights of Panawatta and Pedro Estates and a letter of undertaking from DPL plantations (Pvt.) Ltd. was given to subordinate management fee and dividends in a default situation of term loan
	NDB (11.51%)	6,300	10,748	Monthly instalments ending May 2014	
	NDB (6.5%)	1,500	6,000	Monthly instalments ending May 2013	
	Seylan Bank (12%)	–	18,126		Primary mortgage over the leasehold rights of Halgolla, We-Oya, Polatagama and Enderapola Estates and a letter of undertaking from DPL Plantations (Pvt.) Ltd. was given to subordinate management fee and dividends in a default situation of the term loan
	DFCC Bank (9.42%)	45,733	56,933	Monthly instalments ending March 2017	
	DFCC Bank (6.5%)	8,706	13,249	Monthly instalments ending November 2014	
	DFCC Bank (9.3%)	51,428	62,857	Monthly instalments ending June 2017	
	DFCC Bank (6.5%)	12,722	17,809	Monthly instalments ending June 2015	
	DFCC Bank (6.5%)	5,001	6,669	Monthly instalments ending, December 2015	
	DFCC Bank (6.5%)	2,427	4,507	Monthly instalments ending February 2014	
Toyo Cushion Lanka (Pvt) Ltd.	Commercial Bank PLR + 2%	1,391	3,930	48 monthly instalments from September 2009	Mortgage over stocks and debtors
	HNB	1,458	4,180	48 monthly instalments from September 2009	Mortgage over stocks and debtors
	HNB	8,754	14,202	48 monthly instalments	Mortgage over plant and machinery
Haycarb Holding (Australia) Pty Ltd.	Capital Finance (Fixed - 9.75%) (LIBOR + 4%)	5,317	–	35 equal instalments	Mortgage over vehicles given by Harcarb PLC
Recogen Ltd.	DFCC (6.5%)	2,500	12,500	Monthly instalments over five years commencing 7/1/2008	Corporate guarantee by Haycarb
Haycarb PLC	Commercial Bank (LIBOR + 3.75%)	90,531	–	Monthly instalments over 5 years commencing June 2011	None
Haycarb Holding Australia (Pty.) Ltd.	HSBC (LIBOR + 3.5%)	92,052	–	Monthly instalments over 5 years commencing June 2011	None Floating charge over assets of the company
Lakdiyatha (Pvt) Ltd.	Hatton National Bank (LIBOR + 4.75%)	55,913	–	Monthly instalments over seven years commencing 1/1/2013	Development agreement entered between Sri Lanka Tourism Development Authority and Lakdiyatha (Pvt) Ltd.
CK Regen Systems Co. Ltd.	Kasikorn Ban, Thailand MLR - 0.05%	62,894	–	Monthly instalments over five years commencing 10/1/2011	Mortgage over Land & Building

NOTES TO THE FINANCIAL STATEMENTS

Company	Lender/rate of interest (p.a.)	31.03.2012 Rs. '000	31.03.2011 Rs. '000	Repayment	Security
PT Mapalus Makawanua Charcoal Industry	Bank Panin Manado - Fixed - 8%	57,128	–	Monthly instalments over five years commencing September-2011	Mortgage over Land & Building
Rileys Ltd.	NDB BANK 16%	–	2,680	33 monthly installments from August 2009	None
Hayleys Advantis Group Logiventures (Pvt) Ltd.	HSBC (LIBOR+4%)	–	9,205	Repayment over 3 years as per agreed schedule	Corporate guarantee
TTEL Hydro Power (Pvt) Ltd.	Sampath Bank (AWDR+4%)	102,532	115,766	12 Monthly installments commencing from January 2010 repayable within 8 years	Primary mortgage bond over lease hold rights for Rs. 132.3 Mn project assets.
Neluwa Cascade Hydro Power (Pvt) Ltd.	NTB – (3m TB + 1.3%)	40,000	80,000	24 Quarterly installments	Primary Mortgage bond over project land and assets for Rs. 180 mn supported by a corporate Guarantee from Hayleys Industrial Solutions (Pvt) Ltd. for Rs. 180 mn
Hayleys Industrial Solutions Ltd.	NDB Bank (AWPLR + 1.99%)	93,750	131,250	48 monthly instalments commencing from 31st October, 2011	Secondary Mortgage Bond for Rs. 83.3 mn over project assets of TTEL Hydro Power (Pvt) Ltd. Secondary mortgage bond of Rs. 40.7 mn over the assets of Bhagya Hydro Power (Pvt) Ltd. and secondary mortgage bond over lease hold rights of property of Bhagya Hydro Power (Pvt) Ltd.
Bhagya Hydro Power (Pvt) Ltd.	Sampath Bank (AWDR + 5%)	17,235	22,214	95 monthly instalments commencing September 2007	Loan agreement for Rs. 39.5 mn. Primary concurrent mortgage for Rs. 78 mn over free hold properties of the project.
	Seylan Bank (AWDR + 5%)	7,911	12,642	95 instalments commencing September 2007	Rs. 39.5 mn to be secured by a primary concurrent mortgage over free hold land & project assets.
Hayleys MGT Knitting Mills PLC	Commercial Bank – 6.5%	3,545	–	71 monthly instalments of US\$ 2,545 (Rs. 280,000/-)	Corporate guarantee
	Commercial Bank – 6.5%	14,925	–	96 monthly instalments of US\$ 2,886 (Rs. 312,500/-)	Mortgage over machinery
	Commercial Bank 1 month LIBOR + 5%	20,582	75,759	48 monthly instalments of US\$ 25,000 each.	Primary mortgage over machinery
	Bank of Ceylon 3 months LIBOR +5%	28,868	59,462	42 monthly Instalments of US\$ 31,250 each	Primary mortgage over machinery
	HSBC – 1 month LIBOR +4.75%	–	65,421	48 monthly instalments of US\$ 31,250 each	None

Company	Lender/rate of interest (p.a.)	31.03.2012 Rs. '000	31.03.2011 Rs. '000	Repayment	Security
TTEL Sommerset Hydro Power	HNB (AWDR + 4%)	51,146	66,314	12 Monthly installments commencing from December 2008 repayable within 7 years	Registered primary mortgage bond for Rs 112 mn over lease rights of the property. Corporate Guarantee of TTEL and HISL for Rs 112 mn in the proportion of 51% and 49% respectively.
Lignocell Pvt Ltd	HNB	5,000	–	24 monthly instalments	None
Talawakelle Tea Estates PLC	NDB - 12.19%	326,404	340,562	60 monthly instalments	Primary mortgage bond over lease hold rights
	Sampath Bank (10.24%)	77,173	140,217	92 monthly installments commencing from April 2011	Primary mortgage bond over lease hold rights
	Sampath Bank (10.76%)	50,000	–	48 installments commencing from October 2014	Primary mortgage bond over lease hold rights
	Commercial Bank	–	4,115	Monthly installments commencing from September 2011	Primary mortgage bond over lease hold rights
Ravi Industries Ltd.	HNB 3M Euro+3.75	4,106	5,976	Quarterly instalments from December 2010	None
	HNB LKR 13%	18,399	–	Equal monthly instalments from March 2012	Primary Mortgage over specific Machinery
	PABC 3M Euro+3.75	10,327	–	Equal monthly instalments from October 2011	Primary Mortgage over specific Machinery
	PABC LIBOR+4.25	10,118	–	Equal monthly instalments from March 2012	Primary Mortgage over specific Machinery
Volanka Ltd	DFCC 4%	78,574	95,000	One year grace period loan repayment start date from Jan 2012	Primary mortgagee over an allotment of land with buildings.
Alutec Anodising & Machine Tools (Pvt) Ltd.	Commercial Bank 6.5%+AWPLR	11,260	18,412	2007 April to 2014 october	Mortgage over Machinery
Alutec Extrusions (Pvt) Ltd.	Commercial Bank 6.5%+AWPLR	39,593	56,776	November 2010 to November 2013	Mortgage over Land & building
Alumex (Pvt) Ltd.	LOLC 6.5%+AWPLR	19,792	32,292	June 2010 to June 2016	Mortgage over Machinery
Alumex (Pvt) Ltd.	Commercial Bank 1%+AWPLR	928	4,108	48 Monthly installments	Mortgage over Vehicle

NOTES TO THE FINANCIAL STATEMENTS

Company	Lender/rate of interest (p.a.)	31.03.2012 Rs. '000	31.03.2011 Rs. '000	Repayment	Security
Hotel Services (Ceylon) PLC	Bank of Ceylon AWPLR + 0%	400,000		7 years including 1 year grace period	Negative pledge over assets of the Company
	Bank of Ceylon-6%		–	6 years	Mortgage on lease hold right of the land
Haychem Bangladesh	CBCL/15% p.a	9,057		Monthly instalment BDT 166,667	Registered mortgage over land and building
Haycolor Ltd.	Hatton National Bank PLC - 14.12%	480	–	280,000 monthly instalment	None
	DFCC (9.75%)	–	3,839	Monthly instalments over 5 years	None
Kandyan Resorts (Pvt) Ltd.	NDB / AWPLR + 2%	17,172	–	48 Monthly instalments commencing from Mar-11	Kandyan Resorts (pvt) Ltd , Freehold Land & Buildings Amaya Leisure PLC , Corporate Guarantee Rs.25 mn
Culture Club Resort (Pvt) Ltd.	NDB / AWPLR + 2%	21,760	–	48 Monthly instalments commencing from Jan- 11	Kandyan Resorts (pvt) Ltd , Freehold Land & Buildings
Nirmalapura Wind Power (Pvt) Ltd.	HSBC / LIBO+3.25%	1,155,132	–	48 Monthly instalments	Mortgage over Land
		5,083,665	3,869,334		

25. Deferred Income

As At 31st March,	Consolidated	
	2012 Rs. '000	2011 Rs. '000

A. Grants (i)

At the beginning of the year	792,867	447,049
Grants received during the year	37,584	147,484
Acquisition of subsidiaries	–	219,749
Amortised during the year	(52,781)	(21,415)
At end of the year	777,670	792,867

- (i) Grants were received by the Plantation Sector from the Plantation Reform Project, Plantation Human Development Trust and Ministry of Community Development for workers' welfare facilities, reforestation of watersheds and other infrastructure facilities and by the Purification Products Sector, through the Ceylon Chamber of Commerce, under the promotion of Eco-Efficient Productivity Project.

26. Deferred Taxation

As at 31st March,	Consolidated	
	2012 Rs. '000	2011 Rs. '000

A. Deferred Tax Asset

At the end of the year (see Note 26.B)	212,982	197,235
--	---------	---------

B. Deferred Tax Liability

At the beginning of the year (Net)	516,672	446,236
Acquisition/(Disposals) of subsidiaries	72,801	99,809
Exchange gain/(loss)	24,862	4,263
Revaluations	—	(38,975)
Transfer from Income Statement (Net)	(32,276)	5,339
At the end of the year	582,059	516,672
Deferred tax asset	212,982	197,235
	795,041	713,907

C. Net deferred tax liabilities are attributable to the following as at the year end.

As at 31st March,	Consolidated	
	2012 Rs. '000	2011 Rs. '000
Deferred tax assets		
Tax effect of defined benefit obligation	412,539	322,568
Tax effect of tax loss carried forward	41,312	59,856
Tax effect of provisions	20,527	31,023
Others	2,567	2,924
	476,945	416,371
Deferred tax liabilities		
Tax effect of property, plant & equipment	1,059,004	933,043
Net deferred tax liabilities	582,059	516,672

NOTES TO THE FINANCIAL STATEMENTS

27. Retirement Benefit Obligations

As at 31st March,	Consolidated		Company	
	2012	2011	2012	2011
	Rs. '000	Rs. '000 (Restated)	Rs. '000	Rs. '000
Present value of unfunded gratuity	3,956,872	3,414,621	335,914	265,128
Total present value of the obligation	3,956,872	3,414,621	335,914	265,128

Provision for Retiring Gratuity

At the beginning of the year	3,335,442	2,186,369	259,857	214,672
Amortisation of transitional liability	43,677	47,307	2,635	2,635
On acquisition of subsidiary	48,721	735,631	–	–
Exchange difference	906	(105)	–	–
Benefits paid by the plan	(344,783)	(230,433)	(3,218)	(10,627)
Current service costs	257,589	274,274	15,190	10,927
Interest cost	352,057	242,563	29,164	24,484
Actuarial (gains)/losses	227,761	79,836	29,651	17,766
	3,921,370	3,335,442	333,279	259,857

As at 31st March,	Consolidated		Company	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000

The expense is recognised in the following line items in the Income Statement

Cost of sales	20,946	14,864	805	1,242
Administrative expenses	860,138	616,908	75,835	54,570
	881,084	631,772	76,640	55,812

Amortisation of Transitional Liability

Amortisation for the year	43,677	47,307	2,635	2,635
Amounts to be amortised in the future	35,502	79,179	2,635	5,271

SLAS 16 (Revised 2006) requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit that employees have earned in return for their service in the current and prior periods and discount that benefit using the Projected Unit Credit Method in order to determine the present value of the retirement benefit obligation and the current service cost. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates about demographic variables and financial variables that will influence the cost of the benefit. The following key assumptions were made in arriving at the above figure:

Rate of discount	11%
Salary increase	10%

Assumptions regarding future mortality are based on a 67/70 mortality table, issued by the Institute of Actuaries, London.

The demographic assumptions underlying the valuation are with respect to retirement age, early withdrawals from service and retirement on medical grounds.

According to the transitional provisions of SLAS 16 (Revised 2006), the Group can recognise the difference between the liability at transition and the liability that would have been recognised at the date of transition under the Group's new accounting policy over five years on a straight-line basis.

The Group's and Company's retirement benefit obligation would have been Rs. 3,425 mn (2010/11 - Rs. 2,751 mn) and Rs. 305 mn (2010/11 - 200 mn) respectively, as at the Balance Sheet date had the Group calculated its retirement benefit obligation as per the requirements of the Payments of Gratuity Act No. 12 of 1983, applying the basis of computation given in page 166.

28. Trade and Other Payables

As at 31st March,	Consolidated		Company	
	2012	2011	2012	2011
	Rs. '000	Rs. '000 (Restated)	Rs. '000	Rs. '000
Trade payables	3,291,951	3,200,411	–	–
Bills payable	2,245,297	1,284,092	–	–
Other payables including accrued expenses (i)	4,089,229	3,475,826	135,343	86,738
Unclaimed dividends	80,064	124,001	38,861	34,147
	9,706,541	8,084,330	174,204	120,885

(i) Includes provision for warranties amounting to Rs. 31 mn (31st March, 2011 – Rs. 41 mn).

As at 31st March,	Consolidated		Company	
	2012	2011	2012	2011
	Rs. '000	Rs. '000 (Restated)	Rs. '000	Rs. '000
(ii) Currency-Wise Analysis of Trade and Other Payables				
Rupees	6,283,839	6,908,749	174,204	120,885
Pounds Sterling	8,690	11,552	–	–
United States Dollars	2,435,792	1,136,012	–	–
Euro	760,229	4,643	–	–
Thai Baht	157,983	4,800	–	–
Indian Rupees	12,260	14,553	–	–
Other	47,348	4,021	–	–
	9,706,541	8,084,330	174,204	120,885

NOTES TO THE FINANCIAL STATEMENTS

29. Income Tax

As at 31st March,	Consolidated		Company	
	2012	2011	2012	2011
	Rs. '000	Rs. '000 (Restated)	Rs. '000	Rs. '000
A. Income Tax Recoverable				
At the end of the year (See Note B)	147,762	170,917	4,644	5,501
B. Income Tax Payable				
At the beginning of the year	228,135	65,027	(5,501)	(3,539)
Subsidiaries – Parent taxation on current year's profit	849,260	804,638	5,216	1,880
Write back of ESC previously written down	13,293	7,277		
(Over)/under provision in respect of previous years	3,829	1,024	125	–
Tax on dividend	126,559	85,575	–	–
Acquisition of subsidiary	261	14,518	–	–
Exchange gain/(loss)	(4,868)	(1,431)	–	–
Payments made during the year	(1,066,719)	(748,493)	(4,484)	(3,842)
Net income tax payable/(recoverable)	149,750	228,135	(4,644)	(5,501)
Income tax recoverable	147,762	170,917	(4,644)	(5,501)
At the end of the year	297,512	399,052	–	–

30. Short-Term Interest-Bearing Borrowings

As at 31st March,	Consolidated		Company	
	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Rupees	8,995,220	3,986,607	2,232,831	1,032,426
Australian Dollars	–	5,151	–	–
Sterling Pounds	2,043	7,808	–	–
United States Dollars	5,256,583	5,015,629	–	–
Euro	75,421	977,859	–	–
Thai Baht	–	228,760	–	–
Bangladesh Taka	50,581	38,727	–	–
	14,379,848	10,260,541	2,232,831	1,032,426

31. Contingent Liabilities and Commitments

A. Contingent Liabilities and Commitments

Contingent liabilities as at 31st March, 2012 on account of bills discounted amounted to Rs. Nil (31st March, 2011 – Rs. 1 mn) in respect of Sunfrost Ltd.

In August, 2010 PT Mapalus Makawanua Charcol Industry, the Indonesian Subsidiary of Hayleys PLC has been served with a tax decree in relation to taxes payable for 2007/08 amounting to Rs. 40 mn. An appeal has been submitted in November 2010. The court decree is awaited as of the date of the Balance Sheet.

The contingent liability as at 31st March, 2012 on guarantees given by Hayleys PLC., to third parties amounted to Rs. 101.2 mn. (Rs. 111.2 mn – 2010/11). Of this sum Rs 101.2 Mn (Rs. 111.2 mn – 2010/11) relate to facilities obtained by subsidiaries. Details of other guarantees are given in Note 24 to the Financial Statements.

B. Commitments

- (i) In terms of the 'Equity Support Agreement' entered into in respect of the AES Power Project, Hayleys PLC has provided:
A Standby Letter of Credit of US\$ 60,000 for the guarantee fees payable by AES Kelanitissa (Pvt.) Ltd., under an agreement with the Asian Development Bank.
- (ii) In terms of the operating lease agreements entered into, minimum future lease payments payable for the Group is as follows.

As At 31st March,	2012 Rs. '000	2011 Rs. '000
Repayable within one year	11,754	7,661
Repayable after one year less than 5 years	52,574	32,825
Repayable after 5 years	582,562	469,868
	646,890	510,354

32. Foreign Currency Translation

The principal exchange rates used for translation purposes were:

	Average		As at 31st March,	
	2012	2011	2012	2011
United States Dollar	113.33	112.14	127.85	110.46
Australian Dollar	119.39	106.32	133.10	114.17
Pounds Sterling	181.59	174.52	204.33	177.86
Thai Baht	3.71	3.60	4.16	3.64
Bangladesh Taka	1.47	1.60	1.56	1.52
Euro	157.00	148.42	170.66	156.15
Indian Rupee	2.37	2.47	2.50	2.48

33. Functional Currency

The Group's functional currency is Sri Lankan Rupee, except in the following subsidiaries and equity accounted investee where the functional currency is different as they operate in different economic environments.

Company	Functional Currency
Hayleys MGT Knitting Mills Ltd.	USD
Haychem (Bangladesh) Ltd.	Taka
PT Mapalus Makawanua Charcoal Industry	Rupiah
Haycarb Holdings Bitung Ltd.	USD
Eurocarb Products Ltd.	Sterling Pounds
Haycarb Holdings Australia (Pty) Ltd.	Australian Dollars
Haymark Inc.	USD
Carbokarn Ltd.	Thai Baht
Haylex BV Group	Euro & Yen
Dipped Products (Thailand) Ltd.	Thai Baht
CK Regen Systems Co. Ltd.	Thai Baht
ICO Guanti SpA	Euro
PT Tulus	Rupiah
Civaro Fiji (Pvt) Ltd.	Fiji Dollars
Civaro Freight India (Pvt) Ltd.	Indian Rupees
Hayleylines Ltd.	USD
Logiwiz Logistics India (Pvt) Ltd.	Indian Rupees

NOTES TO THE FINANCIAL STATEMENTS

34. Events Occurring after the Balance Sheet Date

Other than mentioned below, no other circumstances have arisen since the Balance Sheet date, which would require adjustments to, or disclosure in the Financial Statements.

(i) The Board of Directors of the Hayleys MGT Knitting Mills PLC, a Subsidiary of Hayleys PLC, at a Board Meeting held on 13th February 2012, recommended to the shareholders of Hayleys MGT Knitting Mills PLC, the issue of new Ordinary Shares by way of a Right Issue. This was passed at an Extra Ordinary Meeting held on 10th April 2012. Accordingly, the Company issued 101,562,212 shares at the rate of Rs. 9/- with two new ordinary shares for every one existing ordinary share held by its shareholders. Last date of acceptance and payment was 27th April 2012 and it was fully subscribed. Hayleys PLC subscribed to Rs. 826 Mn worth of shares in total.

(ii) Directors have proposed the payment of final dividend of Rs. 4.00 per share for the year ended 31st March 2012 which will be declared at the Annual General meeting to be held on June 29th, 2012. In accordance with Sri Lanka Accounting Standard No. 12 (Revised) on " Events after Balance Sheet date", the proposed final dividend has not been recognised as a liability as at the Balance Sheet date.

35. Companies with Different Accounting Years

The Financial Statements of Worldcall Telecommunications Lanka (Pvt) Ltd, Tianjing Shanglong Mattress Co. Ltd., Hayleys Plantation Services Ltd., Haylex BV Group, Haychem Bangladesh Ltd., Kelani Vally Plantations PLC Group, Carbokarn Co. Ltd. Haycarb Holdings Australia Group, Haymark Inc, PT Mapalus Makawanua Charcoal Industry, Haycarb Holdings Bitung Ltd., ICO Guanti SpA and Dipped Products (Thailand) Ltd., which have been drawn up to 31st December as per their reporting requirements, have been consolidated.

These Companies have been consolidated based on the Financial Statements drawn up to 31st December in compliance with SLAS 26 on 'Consolidated Financial Statements and Accounting for Investment in Subsidiaries'.

36. Acquisition and Disposal of Subsidiaries

A. The acquisition had the following effect on the Group's assets and liabilities

	2012 Acquisition of Quality Seeds Co. Ltd. Rs '000	2012 Acquisition of Haylex UK Rs '000	2012 Acquisition of Amaya Leisure PLC Rs '000	2012 Acquisition of Eastern Hotels Ltd. Rs '000	2012 Total Rs '000	2011 Acquisition of Alumex Group Rs '000 (Restated)
Property, plant and equipment	36,409	–	1,978,357	432,000	2,446,766	853,028
Investments	–	–	21,646	–	21,646	–
Inventories	10,958	–	24,270	–	35,228	443,356
Trade and other receivables	48,646	–	196,980	2,000	247,626	281,546
Short term Investments	–	–	110,809	–	110,809	–
Borrowings	–	–	(52,851)	–	(52,851)	(344,254)
Retirement benefit obligations	(30,793)	–	(17,928)	–	(48,721)	(49,677)
Deferred tax liability	–	–	(72,801)	–	(72,801)	(74,769)
Trade and other payables	(12,850)	(9,864)	(113,943)	(51,319)	(187,976)	(500,292)
Income tax payable	1,353	–	(1,594)	(20)	(261)	(14,358)
Net Identifiable assets and liabilities	53,723	(9,864)	2,072,945	382,661	2,499,465	594,580
Share of net assets accounted under equity accounted investees	(23,259)	–	–	(178,624)	(201,883)	–
Non-controlling interest	(2,356)	–	(907,943)	(43,150)	(953,449)	(226,456)
Investments	–	–	–	12,398	12,398	–
Dividend	–	–	–	–	–	12,119
Goodwill/(negative goodwill) acquired/ loss on disposal	(23,771)	9,864	1,417,716	(57,600)	1,346,209	1,052,530
	4,337	–	2,582,718	115,685	2,702,740	1,432,773

	2012 Acquisition of Quality Seeds Co. Ltd. Rs '000	2012 Acquisition of Haylex UK Rs '000	2012 Acquisition of Amaya Leisure PLC Rs '000	2012 Acquisition of Eastern Hotels Ltd. Rs '000	2012 Total Rs '000	2011 Acquisition of Alumex Group Rs '000 (Restated)
B. Satisfied by						
Cash Consideration	4,337	–	2,582,718	115,685	2,702,740	1,432,773
Analysis of cash and cash equivalents on acquisition of subsidiary						
Cash Consideration	–	–	(2,637,283)	(115,921)	(2,753,204)	(1,386,908)
Short term borrowings	1,749	–	74,977	236	76,962	(90,616)
Cash at Bank and in hand acquired	(6,086)	–	(20,412)	–	(26,498)	44,751
	(4,337)	–	(2,582,718)	(115,685)	(2,702,740)	(1,432,773)

C. During the first quarter, Hayleys Agriculture Holdings Ltd. obtained controlling interest in Quality Seeds Co. Ltd.

D. During the second quarter Hayleys PLC and its Group Companies acquired 51% of equity stake in Amaya Leisure PLC. Hayleys PLC acquired 12,785,861 shares (26.62%) of the Amaya Group whilst the remaining were purchased by Hayleys Group Companies. Post the acquisition, Hayleys PLC made a mandatory offer to purchase the remaining shares of Amaya Leisure PLC from existing shareholders. This has resulted in an increase in stake in Amaya Leisure PLC to 40%.

E. End of the 4th quarter Carbotels (Pvt) Ltd. obtained controlling interest in Eastern Hotels through acquisition of 186,741 shares and increasing its stake to 93.3%.

37. Disposal of Equity Accounted Investees

Equity accounted investees, Tropical Villas (Pvt) Ltd. and Jetwing Hotels Ltd. were disposed during the year, details of which are given in Note 17 to the Financial Statements.

	2012 Disposal of Tropical Villas	2012 Disposal of Jetwing Hotels
Share of net assets disposed	109,994	41,730
Profit/loss) on disposal	55,006	(34,031)
	165,000	7,699
Satisfied by;		
Cash Consideration	165,000	7,699

38. Related Party Transactions

A. Parent and Ultimate Controlling Party

The Company does not have an identifiable Parent of its own.

B. Transactions with Key Management Personnel

(i) Loans to Directors

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

(ii) Key Management Personnel Compensation

Key management personnel comprises the Directors of the Company and details of compensation are given in Note 10 to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

(iii) Other Transactions with Key Management Personnel

- (a) The names of Directors of Hayleys PLC, who are also Directors of Subsidiary and Equity Accounted Investees companies are stated on page 115 and 116.
- (b) Details of Directors and their spouses' share holdings are given in Annual Report of the Directors on the Affairs of the Company on page 117 and 118. There were no other transactions with key management personnel other than those disclosed in Note 38 to these statements.
- (c) The undermentioned Directors of Hayleys PLC, have leased the following residential premises to the undernoted companies in the Group:

Lessor	Premises	Lessee	Monthly Rental Rs.
A.M. Pandithage	No. 11/3, Sri Sunandarama Road, Kalubowila, Dehiwela.	Hayleys PLC	5,000
S.C. Ganegoda	No. 28, Campbell Place, Dehiwela	Hayleys PLC	2,500

C. Transactions with Subsidiaries, Equity Accounted Investees and Other Related Companies

Relationships with Subsidiaries and Equity Accounted Investees are explained in Note 17. Business segment classification is given under Group companies on pages 10 to 41.

- (i) Companies within the Group engage in trading transactions under normal commercial terms and conditions.
- (ii) Hayleys PLC provides office space to its Subsidiary companies and charges rent. In addition, the Company incurs common expenses such as on export shipping, secretarial, data processing, personnel and administration functions. Such costs are allocated to Subsidiary and Associate companies. During the year, payments were made to Group companies for the supply of goods and services. Details are given below:

Business segment	2012 Rs. '000		
	Subsidiaries		
	Rent	Common expenses	Purchase of goods and services
Fibre	6,500	71,417	779
Hand protection	16,318	70,271	2,796
Purification products	19,001	63,672	612
Textiles	3,129	42,121	174
Construction materials	63	12,562	–
Agriculture	13,912	57,299	26
Plantations	12,827	31,789	311
Industry inputs	16,477	42,836	3,544
Power and energy	19	1,533	0
Transportation and Logistics	44,732	44,571	5,931
Consumer products	16,312	27,355	323
Leisure and Aviation	11,571	21,621	8,603
Investments & services	555	1,745	9,743
Total	161,415	488,794	32,842

Business segment	2011 Rs. '000			2011 Rs. '000		
	Rent	Common expenses	Subsidiaries Purchase of goods and services	Rent	Equity accounted investees	
					Common expenses	Purchase of goods and services
Fibre	8,818	74,280	243	–	–	–
Hand protection	15,734	71,380	–	–	–	–
Purification products	18,370	52,804	125	–	–	–
Textiles	3,570	31,194	–	–	–	–
Agriculture	13,399	42,824	–	1,201	4,303	–
Plantations	11,448	10,644	267	–	–	–
Industry inputs	13,230	37,832	102	–	–	–
Power and energy	7	1,701	–	–	–	–
Transportation and logistics	40,187	50,961	4,257	–	–	–
Consumer products	15,588	25,598	454	–	–	–
Resorts	2,049	3,791	3,322	–	32	–
Investments and services	1,830	1,835	8,158	–	–	–
Total	144,229	404,845	16,929	1,201	4,335	–

Details of inter-company balances are given below:

Company

Business segment	2012 Rs. '000			2011 Rs. '000	
	Receivable	Subsidiaries Payable	Receivable	Subsidiaries Payable	Equity accounted investees Receivable
Fibre	66,301	(50,000)	32,783	–	–
Hand protection	25,311	(425,000)	33,987	–	–
Purification products	3,131	–	11,699	–	–
Textiles	99,376	–	8,812	–	–
Construction materials	3,861	–	9,668	–	–
Agriculture	26,785	–	2,665	–	751
Plantations	7,656	(104,964)	4,941	–	–
Industry inputs	6,583	–	41,563	–	–
Power and energy	21,472	–	2,203	–	27
Transportation	6,513	(25,415)	14,830	–	–
Consumer Products	15,538	(19,191)	236,939	(18,637)	–
Leisure and Aviation	12,392	(74,083)	131	(68,192)	6
Investments and Services	219	(128,597)	267	(64,260)	–
Total	295,139	(827,250)	400,526	(151,088)	784

NOTES TO THE FINANCIAL STATEMENTS

Details of intercompany balances are given below.

Group

Business segment	2012		2011	
	Rs. '000		Rs. '000	
	Equity accounted investees		Equity accounted investees	
	Receivable	Payable	Receivable	Payable
Agriculture	-	-	-	(51,947)
Transportation	-	(21,155)	292	(485)
Consumer Products	-	-	-	(131)
Investments and Services	-	-	3,431	-
Total	-	(21,155)	3,723	(52,563)

Transactions with other related Companies

	2012 Rs. '000 Company	2012 Rs'000 Group
Sale of goods and services	-	1,679,135
Purchase of goods and services	1,316	8,769
Net interest	-	75,197
Bank deposits	-	19,567
Bank facilities obtained as at 31st March	209,057	2,172,439

Transactions with DFCC Vardhana Bank, LB Finance PLC, NDB Bank PLC, Pan Asia Bank PLC, Sampath Bank PLC, Hidramani International (Pvt) Ltd., Unichela (Pvt) Ltd., Body Line (Pvt) Ltd., MAS Active (Pvt) Ltd, MAS Intimates (Pvt) Ltd., White House Clothing, Delmage Group Companies, Union Bank PLC, Nations Trust Bank PLC, Royal Ceramics Lanka PLC, Richard Peiris Distributors Ltd., Sri Lanka Insurance Corporation Ltd., Star Packaging (Pvt) Ltd., Commercial Bank of Ceylon PLC, Diesel & Motor Engineering PLC are reflected under transactions with other related companies above.

- (iii) Details of guarantees given in respect of related parties are given in Note 17 to the Financial Statements.
- (iv) No provision was made in respect of related party receivables.
- (v) No security has been obtained for related party receivables and all related party dues are payable on demand.
- (vi) Interest on related party dues are decided based on the inter bank lending rates, associated risk and purpose for which funds are used.
- (viii) There are no related parties or related party transactions other than those disclosed in Note 38 to the Financial Statements.

39. Discontinued Operations/Assets Held for Sale

	Consolidated	
	2012	2011
	Rs. '000	Rs. '000
Revenue and Expenses from Discontinued Operations		
Gross turnover	-	5
Turnover tax	-	-
Net turnover	-	5
Cost of sales	-	(4)
Gross profit	-	1
Other income	-	(977)
Distribution expenses	-	(8,066)
Administrative expenses	-	-
Other expenses	-	-
Net finance cost	-	-
Loss before tax from discontinued operations	-	(9,042)
Tax expense	-	-
Loss for the year from discontinued operations	-	(9,042)
Earnings per share		
Basic earnings per share (Rs.)	-	(0.12)
Diluted earnings per share (Rs.)	-	(0.12)

NOTES TO THE FINANCIAL STATEMENTS

Loss before tax from discontinued operations is stated after charging all expenses including the following:

	Consolidated	
	2012	2011
	Rs. '000	Rs. '000
Audit services	–	–
Non-audit services	–	–
Depreciation of property, plant & equipment	–	–
Staff cost		
Defined contribution plan cost	–	–
Defined benefit plan cost	–	–
Other Staff cost (excluding defined contributions & defined benefits)	–	6,365
Provision for bad and doubtful debts & bad debts written off	–	(102)
Rental on operating leases	–	–
Legal/litigation fees	–	–

Assets and Liabilities of Discontinued Operations

Assets Classified as Held for Sale

Property, plant & equipment	917	10,117
Inventories	1,302	1,302
Trade and other receivables	2,033	3,964
Cash in hand and at bank	610	610
Total assets	4,862	15,993

Liabilities Directly Associated with Assets Classified as Held for Sale

Trade and other payables	1,962	2,370
Current portion of long-term interest-bearing borrowings	212	212
Total liabilities	2,174	2,582

Cash Flow Related to Discontinued Operations

Net cash flows from operating activities	1,523	27,564
Net cash flows from investing activities	–	(6,024)
Net cash flows from financing activities	–	(11,700)
Net cash flows from discontinued operations	1,523	9,840

Industry Segment Information

For the year ended 31st March,	Transportation		Consumer Products		Discontinued Operations	
	2012	2011	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Turnover						
Total	-	-	-	5	-	5
Intra Group	-	-	-	-	-	-
External	-	-	-	5	-	5
Segment results	-	-	-	(9,042)	-	(9,042)
Profit before net finance cost	-	-	-	(9,042)	-	(9,042)
Net finance cost	-	-	-	-	-	-
Share of associate company profits					-	-
Profit before tax	-	-	-	(9,042)	-	(9,042)
Depreciation	-	-	-	-	-	8,000
Total assets	4,682	5,247	-	10,746	4,862	15,993
Non-interest-bearing liabilities						
Deferred taxation	-	-	-	-	-	-
Retirement benefit obligations	-	-	-	-	-	-
Trade and other payables	2,174	2,852	-	-	2,174	2,852

NOTES TO THE FINANCIAL STATEMENTS

40. Industry Segment Information

A. Primary Segments

	Fibre		Hand Protection		Purification Products		Textile		Agriculture		Plantation		Industry Inputs	
<i>For the year ended</i>														
<i>31st March,</i>	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
<i>In Rs. '000</i>														
Turnover														
Total	5,420,648	4,582,981	13,499,025	11,700,036	8,468,844	6,325,897	5,206,976	6,543,378	8,042,339	7,406,636	8,793,385	5,373,208	1,292,709	1,932,772
Intra Group	(842,893)	-	-	-	-	-	-	-	(386,493)	-	(752,128)	(711,172)	-	-
External	4,577,755	4,582,981	13,499,025	11,700,036	8,468,844	6,325,897	5,206,976	6,543,378	7,655,846	7,406,636	8,041,257	4,662,036	1,292,709	1,932,772
Segment results	163,829	(122,722)	2,014,710	454,677	806,595	643,009	(741,226)	(678,859)	1,223,401	721,070	577,413	632,390	160,764	29,150
Inter segment adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit before net finance cost	163,829	(122,722)	2,014,710	454,677	806,595	643,009	(741,226)	(678,859)	1,223,401	721,070	577,413	632,390	160,764	29,150
Net finance cost	(138,638)	(26,071)	(135,234)	(85,585)	(100,664)	38,728	(115,256)	(138,569)	(371,387)	(79,750)	(140,396)	187,238	(16,163)	(40,116)
Share of profit of equity accounted investees	-	(2,030)	-	(31,925)	-	-	-	-	(5,620)	(18,847)	-	19,169	-	-
Profit before tax	25,191	(150,823)	1,879,476	337,166	705,931	681,737	(856,482)	(817,428)	846,394	622,473	437,017	464,321	144,601	(10,966)
Depreciation	78,366	74,981	430,328	285,794	118,729	95,117	240,800	227,529	92,529	76,272	183,211	230,494	18,047	2,994
Amortisation of Intangible Assets	-	-	-	-	3,608	-	-	-	-	-	-	-	-	-
Total assets (excluding equity accounted investees)	5,969,403	5,337,001	9,115,748	7,729,730	5,663,209	3,803,398	4,390,231	4,596,872	7,176,294	4,292,757	8,368,730	7,955,323	1,043,937	823,492
Investment in equity accounted investees	-	10,091	-	-	-	-	-	-	-	28,883	-	-	-	-
Capital expenditure	167,575	186,944	684,350	697,848	709,815	222,116	157,802	395,434	176,478	205,186	170,441	83,415	20,596	5,343
Non-Interest bearing Liabilities														
Deferred taxation	16,162	23,716	19,514	15,102	14,635	12,651	179,503	152,728	10,284	5,310	197,658	147,438	-	-
Retirement benefit obligations	302,727	294,492	403,933	330,148	133,385	85,739	163,852	150,558	223,363	154,964	1,813,033	1,607,135	70,924	56,773
Trade and other payables	635,808	370,812	1,491,019	1,643,951	541,934	448,463	856,758	427,737	2,208,684	1,488,916	732,829	763,212	259,318	142,406
Cash Flow														
Segment cash flows from operating activities	(164,738)	(399,613)	100,821	209,247	(449,782)	440,261	641,525	(542,435)	(371,955)	229,386	529,647	856,060	29,172	230,845
Segment cash flows from investing activities	(53,103)	(259,336)	500,068	(1,374,951)	(799,112)	(320,333)	(151,827)	(278,741)	(341,962)	(228,044)	(553,646)	(490,383)	(14,141)	(284,987)
Segment cash flows from financing activities	159,079	53,075	(364,717)	87,490	305,404	(241,235)	(207,158)	897	(617,698)	(102,425)	(139,761)	(432,580)	(18,668)	320,390

Power & Energy		Transportation		Consumer Products		Leisure and Aviation		Investments & Services		Construction Materials		Non-segment Adjustments		Group Total	
2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
327,672	353,687	5,284,821	4,734,997	4,285,285	3,799,838	1,569,962	924,677	233,760	49,233	2,254,953	1,383,288	-	-	64,680,380	55,110,628
-	-	-	-	-	-	-	-	(233,612)	(29,251)	-	-	-	-	(2,215,127)	(740,421)
327,672	353,687	5,284,821	4,734,997	4,285,285	3,799,838	1,569,962	924,677	148	19,982	2,254,953	1,383,288	-	-	62,465,253	54,370,207
125,400	182,148	595,992	558,144	279,086	236,779	94,849	124,195	826,294	16,533	179,956	57,480	61,738	(18,099)	6,368,801	2,835,895
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125,400	182,148	595,992	558,144	279,086	236,779	94,849	124,195	826,294	16,533	179,956	57,480	61,738	(18,099)	6,368,801	2,835,895
(123,716)	(68,960)	62,069	22,036	(70,073)	(44,187)	6,909	42,198	(365,904)	(268,071)	(67,054)	(10,755)	-	-	(1,575,507)	(846,341)
-	-	3,421	9,061	-	-	14,894	75,646	-	-	-	-	-	-	12,695	51,074
1,684	113,188	661,482	589,241	209,013	192,592	116,652	242,039	460,390	(251,538)	112,902	46,725	61,738	(18,099)	4,805,989	2,040,629
80,251	33,776	87,377	85,494	8,663	3,727	176,343	81,407	27,360	35,119	84,505	30,180	(5,175)	-	1,621,334	1,262,885
4,165	2,753	-	-	-	-	19,555	19,555	-	-	-	-	-	-	27,328	22,307
2,401,502	1,177,898	3,812,621	3,736,312	1,489,928	1,229,511	3,724,917	2,401,858	13,388,887	10,365,949	1,225,115	1,251,845	(3,310,619)	(1,500,177)	64,459,903	53,201,769
-	-	61,744	41,996	-	-	278,609	392,768	-	-	-	-	-	(10,091)	340,353	463,647
1,836,065	138,453	119,250	246,057	40,590	15,023	808,401	906	108,487	60,262	95,843	30,180	-	-	5,095,693	2,287,166
5,142	69,102	20,082	20,558	-	-	233,764	166,706	25,000	25,000	73,297	75,596	-	-	795,041	713,907
678	454	318,949	272,382	34,307	27,705	53,830	31,335	352,951	283,219	49,438	40,538	-	-	3,921,370	3,335,442
51,216	220,480	1,198,660	974,344	700,493	556,812	469,781	354,931	199,957	198,737	360,094	493,529	-	-	9,706,541	8,084,330
534,506	(31,789)	688,843	591,542	(455,651)	79,680	365,806	399,993	1,580,080	(403,596)	139,559	102,233	(2,203,772)	(558,494)	964,061	1,203,321
(1,817,907)	(598,745)	(124,281)	(52,540)	183,844	7,665	(753,051)	(577,343)	(1,968,367)	(995,215)	(84,978)	(188,093)	456,653	981,009	(5,521,811)	(4,660,037)
1,308,129	636,925	(605,863)	(436,950)	(1,754)	(15,058)	186,850	(154,633)	(808,346)	2,114,549	(53,942)	(103,219)	1,101,832	233,051	243,388	1,960,277

NOTES TO THE FINANCIAL STATEMENTS

B. Secondary Segments (Geographical Segments)

(i) Geographical segment turnover (see Note 6 on page 171)

(ii) Geographical segment results

	Consolidated	
	2012 Rs. '000	2011 Rs. '000
Sri Lanka	5,697,933	2,210,308
Australia	49,107	37,561
Thailand	70,459	206,831
Bangladesh	35,409	42,055
Japan	37,885	29,384
India	(19,847)	(24,820)
Indonesia	34,448	43,742
Continental Europe	288,395	253,290
United Kingdom	91,582	119,226
United States of America	21,692	15,700
	6,307,063	2,933,277
Non-segment expense	61,738	(18,099)
	6,368,801	2,915,178

(iii) Geographical segment assets and capital expenditure

	Consolidated			
	Total Assets		Capital Expenditure	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Sri Lanka	56,377,363	45,867,916	4,658,666	1,147,871
Australia	311,145	225,174	7,916	8,413
Thailand	2,631,286	3,030,667	270,768	119,760
Bangladesh	156,056	127,107	–	2,047
Japan	324,673	239,717	–	971
India	87,243	123,009	633	6,288
Indonesia	665,892	503,764	152,200	–
Continental Europe	2,701,154	2,760,903	1,847	3,788
United Kingdom	984,938	271,167	3,663	7,374
United States of America	220,153	185,543	–	304
	64,459,903	53,334,967	5,095,693	1,296,816
Investment in equity accounted investees	340,353	463,647	–	–
	64,800,256	53,798,614	5,095,693	1,296,816

41. Prior year Adjustments

The Consolidated Financial Statements have been restated in accordance with Sri Lanka Accounting Standard 10 (Revised 2005) - Accounting Policies, Changes in Accounting Estimates and Errors, to reflect the following.

i. Alutec Anodising & Machine Tools (Pvt) Ltd., Alutec Extrusions (Pvt) Ltd., Alumex (Pvt) Ltd., Alco Industries (Pvt) Ltd., which were acquired by Hayleys PLC in the third quarter 2010/11, adjusted errors in retained earnings due to over statement and under statement of assets and liabilities. Comparative information in the Consolidated Financial Statements has been restated as follows:

	Inventories	Trade & other receivables	Trade & other payables	Deferred tax liability	Retirement benefit obligations	Income tax payable
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As per Annual Report published for 2011	8,861,777	12,271,870	8,031,337	719,090	3,323,234	399,753
Impact of errors	(141,492)	(61,090)	52,993	(5,183)	12,208	(701)
As per Annual Report published for 2012	8,720,285	12,210,780	8,084,330	713,907	3,335,442	399,052

	Intangible assets	equity attributable to equity share- holders	Non-controlling interest	Earnings per share	Earnings per share from continuing operations
As per Annual Report published for 2011	3,293,140	15,693,591	8,197,344	9.66	9.78
Impact of errors	68,406	(47,596)	(144,919)	(0.63)	(0.63)
As per Annual Report published for 2012	3,361,546	15,645,995	8,052,425	9.03	9.15

ii. Due to the above errors, the fair value of identifiable assets and liabilities of Alutec Anodising & Machine Tools (Pvt) Ltd. recognised for the determination of goodwill on acquisition was restated in the Consolidated Financial Statements.

TEN YEAR SUMMARY

Year ended 31st March	10-Year Compound Growth	2012 Rs. '000	2011** Rs. '000	2010** Rs. '000	2009** Rs. '000
Results					
Group turnover	19%	62,465,253	54,370,207	38,169,336	32,442,999
Profit before taxation	17%	4,805,989	2,040,629	3,293,392	1,374,638
Taxation	16%	(960,665)	(903,853)	(684,197)	(571,236)
Profit after tax	17%	3,845,324	1,136,776	2,609,106	803,402
Non-controlling interest	16%	(1,325,592)	(450,553)	(849,893)	(492,464)
Profit attributable to Hayleys PLC	17%	2,519,732	677,181	1,731,233	310,938
Funds Employed					
Stated capital***	9%	1,575,000	1,575,000	1,575,000	1,575,000
Capital reserves	18%	6,619,929	6,951,296	7,047,507	5,697,166
Revenue reserves	15%	9,964,448	7,119,699	6,592,052	5,083,473
Shareholders' funds	15%	18,159,377	15,645,995	15,214,559	12,355,639
Minority interest	16%	9,582,712	8,052,425	7,118,790	4,220,619
Borrowings (both short- and long-term)	21%	21,536,704	16,586,253	11,337,734	9,232,776
	17%	49,278,793	40,284,673	33,671,083	25,809,034
Assets Employed					
Non-current assets	19%	36,688,287	29,663,325	23,453,761	17,215,706
Current assets	16%	28,111,969	24,002,091	21,414,944	16,414,322
Current liabilities net of borrowings	19%	(10,027,382)	(8,538,527)	(7,922,413)	(5,317,991)
Provisions	19%	(4,716,411)	(4,049,349)	(2,828,159)	(2,153,244)
Deferred income	22%	(777,670)	(792,867)	(447,050)	(349,759)
Capital Employed	17%	49,278,793	40,284,673	33,671,083	25,809,034
Cash Flow					
Net cash inflow/(outflow) from operating activities		964,061	1,203,321	2,589,712	1,082,097
Net cash inflow/(outflow) from investing activities		(5,521,811)	(4,660,037)	(3,574,446)	200,631
Net cash inflow/(outflow) from financing activities		243,388	1,960,277	(1,012,142)	(892,834)
Increase/(decrease) in cash and cash equivalents		(4,314,362)	(1,496,439)	(1,996,876)	389,894
Key Indicators					
Earnings per share (basic) (Rs.)		33.60	9.03	23.08	4.15
Dividend per share (basic) (Rs.)		4.00	4.00	4.00	3.00
Net assets per share (Rs.)		242.13	208.61	202.86	164.74
Market price per share (Rs.)		360.00	382.10	225.00	90.00
% change in market price (after adjusting for scrip issues)		(5.78)	70.00	150.00	(7.90)
% change in All Share Price Index		(24.99)	94.00	127.00	(36.00)
Return on average shareholders' funds (%)		13.88	4.33	11.38	3.00
Return on average capital employed (%)		14.25	7.81	13.30	9.40
Price earnings ratio (times)		10.71	42.31	9.75	21.70
Interest cover (times covered)		4.05	3.41	5.60	2.10
Dividend payout Ratio (%)		11.91	44.30	17.33	72.29

** Includes results of discontinued operations.

*** Share capital and share premium previously reported have been reclassified to reflect stated capital as defined in the Companies Act No. 07 of 2007.

+ Increase due to a rights issue followed by scrip issue.

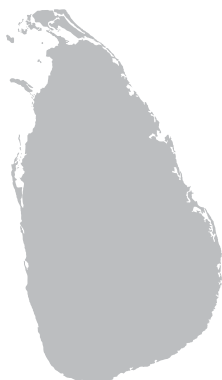
+++ Increase due to a rights issue.

	2008** Rs. '000	2007** Rs. '000	2006 Rs. '000	2005 Rs. '000	2004 Rs. '000	2003 Rs. '000
	31,326,583	27,584,626	24,011,798	19,445,441	15,503,450	12,509,780
	1,554,720	1,521,915	1,448,558	1,837,232	1,337,700	1,246,353
	(464,946)	(432,631)	468,127	(427,861)	(276,559)	(277,626)
	1,089,774	1,089,284	980,431	1,409,371	1,061,141	984,745
	(637,151)	(555,719)	(394,170)	(634,984)	(401,789)	(360,024)
	452,623	533,565	586,261	774,387	659,352	608,703
	1,575,000	1,575,000	1,575,000	+1,575,000	+++1,475,000	+++1,375,000
	5,954,623	5,457,476	2,466,637	2,253,637	2,054,681	1,520,054
	4,692,428	4,667,992	4,215,591	4,110,588	3,578,426	2,995,943
	12,222,051	11,700,468	8,257,228	7,939,225	7,108,107	5,890,997
	3,986,239	3,704,926	2,967,915	2,868,478	2,899,028	2,549,315
	9,600,416	10,235,592	9,781,034	8,113,582	5,493,388	3,737,764
	25,808,706	25,640,986	21,006,177	18,921,285	15,500,523	12,178,076
	17,625,669	17,005,585	12,957,290	11,932,426	9,655,743	7,523,269
	15,732,377	15,214,288	14,496,109	12,538,508	9,504,855	7,824,077
	(5,391,701)	(4,832,001)	(4,895,234)	(4,193,374)	(2,422,279)	(2,099,047)
	(1,906,595)	(1,541,717)	(1,360,003)	(1,185,246)	(1,092,694)	(947,932)
	(251,044)	(205,169)	(191,985)	(171,029)	(145,102)	(122,291)
	25,808,706	25,640,986	21,006,177	18,921,295	15,500,523	12,178,076
	1,841,624	408,821	216,967	1,095,244	419,206	89,434
	(751,827)	(843,422)	(1,650,184)	(3,016,839)	(1,721,816)	(846,674)
	(687,588)	(1,153,882)	768,153	1,638,736	680,486	(92,049)
	402,209	(1,588,483)	(665,064)	(282,859)	(622,124)	(849,289)
	6.03	7.11	7.82	10.37	8.89	8.83
	3.00	3.50	3.50	3.50	3.50	3.50
	162.96	156.01	110.10	106.35	95.79	85.50
	97.75	142.00	98.50	112.50	115.00	125.00
	(31.20)	44.2	(12.90)	44.3	(4.00)	16.2
	(9.00)	23	29	36	74	20
	4	5	7	10	10	11
	11.00	11	10	14	12	14
	16.2	20.0	12.6	10.8	12.9	14.1
	2.5	3.4	2.5	5.2	5.2	5.1
	49.75	49.23	44.76	33.75	39.37	39.64

VALUE OF REAL ESTATE

Ownership	Location	Address	Extent (Acres)	Buildings Sq.ft	No. of Buildings in each location	Market Value of Land Rs. Mn
Hayleys PLC	Colombo	No. 25, Foster Lane, Colombo 10	6.11	58,442	5	3,692
		No. 400, Deans Road, Colombo 10		102,442	8	
Volanka (Pvt) Ltd.	Ekala	No.193, Minuwangoda Road, Kotugoda	15.80	155,000	23	417
	Galle	No.136, Abdul Wahab Mawatha, Galle	1.20	27,176	7	66
Chas P. Hayley & Co. (Pvt) Ltd	Galle	No.136, Abdul Wahab Mawatha, Galle	4.06	49,200	6	229
Dipped Products PLC	Kottawa	Brahmanagama, Kottawa	8.40	114,428	20	96
	Weliveriya	Nedungamuwa, Weliveriya	8.19	8,120	2	57
	Malabe	No. 59, Pothuarawa Road, Talangama North	2.28	55,000	6	220
Venigros (Pvt) Ltd.	Weliveriya	Nedungamuwa, Weliveriya	7.09	55,391	7	40
Palma Ltd.	Gonawala	No. 184/25 and 184/26, Maguruwila Road, Pattiwila, Gonawala.	1.82	22,068	6	29
Haycarb PLC	Badalgama	Katana Road, Beatrice Estate, Badalgama	12.88	159,769	13	31
	Madampe	Kuliyapitiya Road, New town, Pothuwila, Madampe	25.95	231,263	9	53
	Wewalduwa	No. 333/25, New Road, Hunupitiya, Wattala	2.45	59,202	3	72
Recogen (Pvt) Ltd.	Badalgama	Katana Road, Beatrice Estate, Badalgama	10.84	22,604	3	26
Lignocell (Pvt) Ltd.	Madampe	Sellam Pataha, Melawagara, Madampe	7.03	80,000	5	14
	Kuliyapitiya	Karagahagedera, Kuliyapitiya	3.52	48,000	2	13
Carbotels (Pvt) Ltd.	Elkaduwa	Weyagala Estate, Elkaduwa, Matale	42.44	Nil	Nil	98
Haychem (Pvt) Ltd.	Kottawa	No. 168/D, Brahmanagama, Kottawa, Pannipitiya	5.00	50,000	14	56
Hayleys Agriculture Holdings Ltd.	Dambulla	Athabadiwewa, Pahalawewa, Dambulla	4.35	2,500	2	6
Haycolour (Pvt) Ltd.	Kalutara	Haycolour Factory, Ethanmadala, Kalutara	4.43	5,700	5	23
Hayleys Exports PLC	Ekala	Minuwangoda Road, Ekala	6.56	52,000	15	180
	Kuliyapitiya	Biginhill Estate, Karagahagedera, Kuliyapitiya	3.00	38,000	4	7
Hayleys Advantis Group	Welisara	N0. 309/15, Negombo Road, Welisara	6.7	7,500	4	338
	Kelaniya	No. 408 A, Nungamugoda, Kelaniya	7.75	175,000	6	367
	Sedawatte	No. 148/A1, Nawalokapura Sedawatte, Wellampitiya	2.25	5,000	3	48
Ravi Industries Ltd.	Ekala	No. 252A, Kurunduwatte Road, Ekala, Ja-ela	6.08	107,045	29	152
Volanka Exports Ltd.	Nattandiya	Wathugahamulla, Welipannagahamulla	7.20	58,500	5	9
Rileys (Pvt) Ltd.	Ekala	No. 131, Minuwangoda Road, Ekala, Ja-ela	3.80	90,000	6	152
Toyo Cushion Lanka (Pvt) Ltd.	Katana	Thimbirigaskatuwa, Katana	3.50	26,143	13	63
Sunfrost (Pvt) Ltd.	Allawwa	Nelumdeniya Road, Alawwa Waththa Road, Alawwa	5.18	21,293	18	39
Bhagya Hydro Power (Pvt) Ltd.	Gomala Oya	Gomala Oya Mini Hydro Power Plant, Godagampola, Rathnapura	2.11	2,300	2	2
Neluwa Cascade Hydro Power (Pvt) Ltd.	Neluwa	Lower Neluwa Mini Hydro Power Plant, Tawalama, Neluwa	2.45	1,894	1	5
Hunas Falls Hotels PLC	Kandy	Elkaduwa	19.88	63,246	16	20
Hayleys Electronics Lighting (Pvt) Ltd.	Hokandara	W. P. Colvin Perera Lane, Hokandara South	0.14	Nil	Nil	112
Hayleys MGT Knitting Mills PLC	Neboda	Narthupana Estate, Neboda	34.80	380,776	22	249
Alumex Group	Makola	Off Pittigala Road, Sapugaskanda, Makola	7.37	129,351	12	224
Eastern Hotels (Pvt) Ltd.	Trincomalee	Nilakara Estate, Nilaweli, Trincomalee	23.47	Nil	Nil	432
Culture Club Resorts (Pvt) Ltd.	Dambulla	Kapela, Kandalama, Dambulla	20.00	70,000	72	1
Kandyan Resorts (Pvt) Ltd.	Kandy	Heerassagala, Kandy	6.19	101,000	10	247

COUNTRY REPORT



Vital Statistics

Population (2011)	: 20.87 mn
Land Area	: 65,610 Sq km
Languages	: Sinhalese, Tamil and English
Per capita GDP (2011)	: US\$ 2,836
Maximum Corporate Tax Rate (2012)	: 28%
Currency (2012)	: Sri Lankan Rupee (LKR 128.00: 1 US\$)

Background

Sri Lanka lies in a strategic position at the Southern tip of the Indian subcontinent, at a mid-point along key shipping routes between the East and the West. After three decades of Civil War, Sri Lanka achieved peace in May 2009. This has paved the way for a paradigm shift in the country's development path characterised by faster economic growth, higher investment, infrastructure development and political and economic policy stability. Sri Lanka has traditionally been a country which relied on the plantation sector and in labour intensive industries such as apparel manufacture. In more recent years the services sector has taken on greater importance with telecommunications, finance, transport, construction and leisure dominating the economy. In 2011, the per capita income reached US\$ 2,836 and the IMF upgraded Sri Lanka to Middle Income Country status.

Political Climate

Sri Lanka is a multi-ethnic, multi-religious, democratic republic with an elected national Parliament and President along with provincial and Local Governments which are responsible for certain subjects at sub-national levels. The prevailing political stability and policy certainty has created a positive investment climate, both for Sri Lankan firms and potential foreign investors. In 2011, Foreign Direct Investment surpassed the US\$ 1 bn level for the first time and is projected to reach US\$ 2 bn in 2012. The stable political environment has also enabled the Government to embark on an ambitious programme of infrastructure development and economic policy reform.

Policy Directions

During the Civil War, investment in Sri Lanka's infrastructure was neglected. The current Government has embarked on an aggressive investment drive in the country's infrastructure, focusing on national highways and railways, ports, airports and energy. Sri Lanka opened its first expressway in December, 2011, connecting Colombo to the Southern Province, and in the medium term will have expressways connecting Colombo to the hill capital Kandy and the airport. The national railway network is being modernised to enable faster rail and new routes are also being created. The Colombo Port is being expanded through the Colombo South Harbour to cater to larger vessels and to increase its capacity. The primary airport in Katunayake is also undergoing expansion and a new airport is being built in Mattala in the South. Several new power projects are in progress ranging from coal power to hydro and wind power. Sri Lanka also began oil exploration off its North-West coast, and thus far 2 drill sites have indicated presence of hydrocarbons. At present, the commercial viability of these sites is being examined. The investments over the next 5 years will result in Sri Lanka enjoying a modern infrastructure network which will support economic growth in the long term.

In addition to investment in physical infrastructure, emphasis is being placed on development of social infrastructure. Sri Lanka has always attached great importance to social development and had a policy of free health and education up to tertiary level since the pre-independence era. This has resulted in a literacy rate of over 90%, life expectancy of 74 years and birth and death rates comparable to developed nations (17.4 and 5.9 per 1,000 persons). In order to further enhance the quality of education, the Government has indicated a desire to encourage foreign universities to establish off-shore

COUNTRY REPORT

campuses in Sri Lanka, catering to both domestic and regional markets. Simultaneously measures are being taken to enhance existing educational institutions at primary, secondary and tertiary levels. In addition to public sector education, Sri Lanka has developed substantial professional qualifications institutions, resulting in the country now having the world's second highest pool of CIMA trained students outside the UK, making Sri Lanka an attractive source for outsourcing finance professionals.

Along with investments in infrastructure the Government has outlined a medium-term economic policy framework which emphasises private sector-led growth, with reduced taxes on corporate (maximum 35% reduced to 28%) and personal incomes (maximum 35% reduced to 24%), international trade and a simplified tax structure. Improved revenue collection and lower defence expenditure would also lead to better fiscal management, eventually resulting in consolidation of fiscal deficits closer to 5% of GDP in the medium term, as envisaged in the Fiscal Management Responsibility Act. This would help entrench lower inflation and interest rates and lead to longer term macroeconomic stability. The Central Bank has also outlined a plan to gradually liberalise the capital account, making it easier for Sri Lankan corporates to access global capital markets and to develop the domestic corporate bond market.

The overall policy thrust of the Government can be summarised as a 'five-hub' strategy, where the Government hopes to position Sri Lanka as a regional hub in the following areas:

- Shipping and Naval
- Aviation
- Energy
- Knowledge
- Commerce and Finance

Economic Climate

As is the trend in emerging economies, Sri Lanka's economy is dominated by the services sector (59% of GDP) with industry (29% of GDP) and agriculture (12% of GDP) making up smaller shares. Recent economic growth has been broad based with all three sectors growing significantly since 2009. Whilst Sri Lanka has found itself in an uncertain global economic environment, the domestic economy has enjoyed a peace dividend that has resulted in high growth (8.3% in 2011), low unemployment (4.2% in 2011), historically benign inflation (annual average 5.9% in March 2012), and an improving fiscal position on the back of structural reforms and an IMF Standby Arrangement (budget deficit of 6.9% of GDP for 2011 and a projected deficit of 5.2% for 2012). Despite a weak global economic environment, exports grew by 22% in 2011 to reach US\$ 10.5 bn. The Financial sector has also performed well with the Banking sector achieving strong results in 2011/12.

Sri Lanka's economy has always been characterised by resilience. Even during the war economic growth was maintained at an average of around 5%. With the recent policy reforms, developments in infrastructure and increased investment, the economy is well on target to securing a long-term growth path well above past trends.

Sri Lanka is ideally located at a central point amongst the emerging global economic powerhouses. India is immediately north of Sri Lanka and the two countries have a 12-year old Free Trade Agreement which is expected to be developed into a Comprehensive Economic Partnership Agreement (CEPA) encompassing investment, trade in services and economic co-operation. Sri Lanka has developed close political and economic ties with China, and strong aviation and shipping links are already in place. Therefore the strategic objectives of Sri Lanka's 5-hub vision are in line with emerging global realities and trends. Greater economic and political integration with these emerging giants places Sri Lanka in an ideal position to play a pivotal role amongst the drivers of global economic growth in the medium to long term.

MILESTONES

1878

Charles Pickering Hayley forms Chas P. Hayley & Co. in Galle.

1909

Hayley & Kenny, a partnership formed between W W Kenny and Chas P Hayley, opens in Colombo.

1913

Hayley & Kenny purchases Thurburn Stores, 400, Deans Road premises.

1936

Hayley and Kenny becomes a private limited liability company.

1944

Chas P Hayley & Co. becomes a private limited liability company and fully owned subsidiary of Hayley & Kenny Ltd.

1952

George G Hayley with senior executives also subscribing to equity forms Hayleys Ltd. with a paid up capital of Rs. 200,000/-, to acquire from the heirs of the late Chas P Hayley and W W Kenny, the entire undertaking of Hayley & Kenny Ltd.

1954

Hayleys Ltd., becomes a public Company.

1958

Shipping agency department is formed, later to be reconstituted as Maritime Agencies Ltd. (forerunner of Hayleys Advantis Ltd.).

1964

Industries department is formed to manufacture agricultural machinery and spraying equipment.

1968

Haychem Ltd., a collaboration with Bayer of Germany, is formed to formulate agrochemicals.

1973

Haycarb Ltd., is formed to pioneer the manufacture and export of activated carbon from coconut shell charcoal.

1975

Ravi Industries Ltd., a Company engaged in the manufacture of brushes is acquired.

1976

Dipped Products Ltd., is incorporated to pioneer manufacture of Rubber Gloves.

1983

The first overseas venture, Sorbtech Inc. (now Haymark Inc.) is formed in USA.

1985

Overseas marketing companies are formed in Holland, UK, Japan and Australia.

1991

- Hayleys ventures into hoteliering through its subsidiary Carbotels Ltd.
- Employee share ownership schemes are introduced within the Group.
- Hayleys steps into the business of plantations.

1994

Group's first overseas manufacturing facility Carbokarn Co. Ltd., opens in Thailand.

2001

Hayleys steps into power generation in collaboration with AES Corporation of USA.

2002

Inland marketing companies realigned under 3 focused companies Hayleys Agri Products Ltd., Hayleys Consumer Products Ltd. and Hayleys Industrial Solutions Ltd.

2003

- Group entered into ship owning business, where Maritime Holdings Ltd. makes its maiden investment in the Container Vessel "Orient Stride".
- Dipped Products Ltd's initial overseas plant is set up in Thailand heralding its entry into the medical glove market.

2006

- Hayleys adopts a new visual identity replacing its former logo of 50 years with one, more contemporary and representative of the diversity of the Group's products and services.
- Hayleys achieves hat trick by winning Sri Lanka's Best Corporate Citizen title for the third successive year.
- Mabroc Kelani Valley launches the world's first "Ethical Tea" to be recognised by the UN's Global Compact.

2007

Hayleys becomes one of the first ten signatories worldwide to the CEO Water Mandate of the UN's Global Compact.

2010

Hayleys acquires its first city hotel - Ceylon Continental Hotel.

2011

Hayleys enters in to the aluminum extrusions industry by acquiring the Alumex Group.

Hayleys re-enters and wins the Best Corporate Citizens Award for the 4th consecutive year that it took part in the competition.

2012

Hayleys acquires the Amaya Group.

GLOSSARY OF FINANCIAL TERMS

Accounting Policies

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

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Basic earnings per share

Profits attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the period.

Borrowings

All interest bearing liabilities.

Capital employed

Total equity, minority interest and interest bearing borrowings.

Capital reserves

Reserves identified for specific purposes and considered not available for distribution.

Cash equivalents

Liquid investments with original maturity periods of three months or less.

Contingent liability

A possible obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

Credit rating

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Current ratio

Current assets divided by current liabilities.
A measure of liquidity.

Deferred taxation

The tax effect of timing differences deferred to/from other periods, which would only qualify for inclusion on a tax return at a future date.

Dividends

Distribution of profits to holders of equity investments.

Dividend cover

Profit attributable to ordinary shareholders divided by dividend. Measures the number of times dividend is covered by distributable profit.

Dividend payout

Dividend per share as a percentage of the earnings per share.

Dividend yield

Dividend per share as a percentage of the market price. A measure of return on investment.

EBITDA

Abbreviation for earnings before Interest, tax, depreciation and amortisation.

Effective tax rate

Income tax expenses divided by profit from ordinary activities before tax.

Equity

Shareholders' funds.

Equity accounted investees

An entity including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Gearing

Proportion of total interest bearing borrowings to capital employed.

Interest cover

Profit before tax plus net finance cost divided by net finance cost. Measure of an entity's debt service ability.

Market capitalisation

Number of shares in issue multiplied by the market value of a share at the reported date.

Net assets per share

Shareholders' funds divided by the weighted average number of ordinary shares in issue. A basis of share valuation.

Non-controlling interest

The interest of individual shareholders, in a company more than 50% of which is owned by a holding company.

Price earnings ratio

Market price of a share divided by earnings per share as reported at that date.

Related parties

Parties who could control or significantly influence the financial and operating policies of the business.

Retirement Benefits

Present value of a defined benefit obligation

Is the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Current service cost

Is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost

Is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Actuarial gains and losses

Is the effects of difference between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions.

Return on average capital employed

Profit before tax plus net finance cost divided by average capital employed.

Return on average shareholders' funds

Attributable profits to the shareholders divided by average shareholders' funds.

Revenue reserves

Reserves considered as being available for distributions and investments.

Segments

Constituent business units grouped in terms of similarity of operations and location.

Value addition

The quantum of wealth generated by the activities of the Group measured as the difference between turnover and the cost of materials and services bought in.

Working capital

Capital required to finance day-to-day operations computed as the excess of current assets over current liabilities.

NOTICE OF MEETING

Hayleys PLC
Company No. PQ 22

NOTICE IS HEREBY GIVEN that the Sixty-First Annual General Meeting of Hayleys PLC will be held at the Sapphire Ballroom, Ceylon Continental Hotel, No. 48, Janadhipathi Mawatha, Colombo 01 on Friday, 29th June, 2012 at 3.00 p.m. and the business to be brought before the Meeting will be:

1. To consider and adopt the Annual Report of the Board of Directors and the Statements of Accounts for the year ended 31st March, 2012, with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Mr. L.T. Samarawickrama, who has been appointed by the Board, since the last Annual General Meeting, a Director.
4. To re-elect Mr. R.P. Pathirana, who has been appointed by the Board, since the last Annual General Meeting, a Director.
5. To re-elect Mr. M.D.S. Goonathilleke, who has been appointed by the Board, since the last Annual General Meeting, a Director.
6. To re-elect Mr. J.A.G. Anandarajah, who retires by rotation at the Annual General Meeting, a Director.
7. To re-elect Mr. W.D.N.H. Perera, who retires by rotation at the Annual General Meeting, a Director.
8. To re-elect Mr. S.C. Ganegoda, who retires by rotation at the Annual General Meeting, a Director.
9. To authorise the Directors to determine contributions to charities for the financial year 2012/13 .
10. To ratify sum of Rs. 1,701,799/- donated to charities in excess of the sum approved by the shareholders for the financial year 2011/12.
11. To authorise the Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants who are deemed to have been reappointed as Auditors.
12. To consider any other business of which due notice has been given.

Note:

- (i) *A Shareholder is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a Shareholder of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office, No. 400, Deans Road, Colombo 10 by 3.00 p.m. on 27th June, 2012.*
- (ii) *It is proposed to post ordinary dividend warrants on 10th July, 2012 and in accordance with the Rules of the Colombo Stock Exchange the shares of the Company will be quoted ex-dividend with effect from 2nd July, 2012.*

By Order of the Board

HAYLEYS PLC

HAYLEYS GROUP SERVICES (PRIVATE) LIMITED

Secretaries

Colombo
23rd May, 2012

This image shows a full page of blank, lined paper. It features approximately 20 evenly spaced horizontal grey lines across its entire width, typical of notebook or legal stationery. The lines are thin and light grey, set against a plain white background. There are no margins, text, or other markings present.

FORM OF PROXY

Hayleys PLC
Company No. PQ 22

I/We*

ofbeing a shareholder/
shareholders* of HAYLEYS PLC hereby appoint,

1.

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 Sixty-First Annual General Meeting of the Company to be held on Friday, 29th June, 2012 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	For	Against
1. To adopt the Annual Report of the Board of Directors and the Statements of Accounts for the year ended 31st March, 2012, with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a dividend as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. L.T. Samarawickrama, who has been appointed to the Board since the last Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. R.P. Pathirana, who has been appointed to the Board since the last Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr. M.D.S. Goonathilleke, who has been appointed to the Board since the last Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect Mr. J.A.G. Anandarajah, who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect Mr. W.D.N.H. Perera, who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
8. To re-elect Mr. S.C. Ganegoda, who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
9. To authorise the Directors to determine contributions to charities for the financial year 2012/13	<input type="checkbox"/>	<input type="checkbox"/>
10. To ratify sum of Rs. 1,701,799/- donated to charities in excess of the sum approved by the shareholders for the financial year 2011/12.	<input type="checkbox"/>	<input type="checkbox"/>
11. To authorise the Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants who are deemed to have been reappointed as Auditors.	<input type="checkbox"/>	<input type="checkbox"/>

(**) The proxy may vote as he thinks fit on any other resolution brought before the Meeting.

As witness my/our* hands this day of 2012.

Witnesses:
.....
.....
.....

Signature of Shareholder

Note:

* Please delete the inappropriate words.

1. A proxy need not be a shareholder of the Company.
2. Instructions as to completion, appear on the reverse.

FORM OF PROXY

Instructions as to Completion

1. To be valid, this Form of Proxy must be deposited at the Registered Office, No. 400, Deans Road, Colombo 10, by 3.00 p.m. on 27th June, 2012.
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 of the Company) 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.

CORPORATE INFORMATION

Name of Company

Hayleys PLC

Legal Form

A Public Limited Company Incorporated in Sri Lanka in 1952.
Founded 1878.

Company Number

PQ 22

Accounting year end

31st March

Principal Activities

Holding Company; carrying out investments in and providing management and services to Hayleys Group Companies.

Stock Exchange Listing

The ordinary shares of the Company are listed on the Colombo Stock Exchange of Sri Lanka.

Head/Registered Office

Hayley Building
P.O. Box 70, No. 400, Deans Road,
Colombo 10, Sri Lanka.
Telephone: (94-11) 2627000
Facsimile: (94-11) 2699299

Auditors

Ernst & Young
Chartered Accountants
No. 201, De Saram Place,
Colombo 10, Sri Lanka.

Bankers

Hatton National Bank
HSBC
Bank of Ceylon
NDB Bank
Standard Chartered Bank
Sampath Bank
Commercial Bank of Ceylon
Deutsche Bank
DFCC
Citibank

Secretaries

Hayleys Group Services (Private) Limited
No. 400, Deans Road, Colombo 10,
Sri Lanka.
Telephone: (94-11) 2627650
E-mail: info@sec.hayleys.com

Please direct any queries about the administration of shareholdings to the Company Secretaries.

Investor relations

Please contact the Corporate Affairs Unit
Telephone: (94-11) 2627610
E-mail: info@cau.hayleys.com

Internet

www.hayleys.com

Hayleys PLC

Hayley Building, P.O. Box 70, No. 400, Deans Road, Colombo 10, Sri Lanka. www.hayleys.com



This Annual Report is Carbon Neutral

This Hayleys PLC Annual Report has been produced by Smart Media - The Annual Report Company whose greenhouse gas emissions resulting from the writing, designing, photography, production, project management, usage of paper and other raw materials, printing and transportation are offset using verified carbon offsets.



The
ANNUAL REPORT
Company

www.smart.lk



www.carbonfund.org