

The World Of Hayleys

A World of Care



The World of Hayleys A World of Care

We do not inherit the earth from our ancestors, we borrow it from our children.

At Hayleys, we know that there is more to life than just the pursuit of profitable trade and commerce. We've always seen the bigger picture - our 138 year heritage has made it so. That's why our vision of what is best for both your Company and the thousands of stakeholders we serve has been driven by our social and environmental consciousness, our desire to achieve sustainable growth and keep your Company vibrant, in a time of changing trends and needs.

The year under review saw your Company add a range of new businesses to our portfolio as we launched several significant new projects and investments, the details of which are described in the pages that follow. We also showcase the 'green' investments we have made towards reducing our carbon footprint, while continuing to deliver our promise of value to the many stakeholders who place their trust in us.

Welcome to the world of Hayleys. It's a world of care.

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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 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

Report Preamble

Since adoption of the Integrated Reporting Framework published by the International Integrated Reporting Council (IIRC) four years ago, we have continuously strived to respond better to the needs of our stakeholders through our annual report. We have placed specific focus on improving shareholder communications pertaining to our performance and through this year's report we aim to provide a balanced and concise assessment of our strategy, performance, governance and outlook in relation to our financial, social and environmental goals.

Scope and Boundary

The Report covers the operations of Hayleys PLC and its subsidiaries, based in Sri Lanka and overseas as listed in Note 18 of the Financial Statements on pages from 213 to 220. We adopt an annual reporting cycle and this year's report covers the period from 1st April 2015 to 31st March 2016. In certain disclosures pertaining to social and environmental impacts, the discussion is limited to the domestic operations and is noted accordingly. The content included in this Report has been selected and prioritised based on a structured mechanism as described on pages from 58 to 59 of this Report.

Reporting Enhancements

Integrating Reporting is an evolving discipline and we consistently strive to enhance the quality, meaningfulness and readability of our Report. Key reporting enhancements that were carried out during the year include,

- Widening the scope and coverage of our material aspects to reflect dynamics in our operating environment as well as our strategic priorities, in addition to those prescribed by the G-4 guidelines of the Global Reporting Initiative
- Increased connectivity and conciseness of information
- Improved the quality, consistency and coverage of non-financial information

Standards and Principles

Our reporting is aligned to the requirements of several domestic and international reporting standards, frameworks and regulations including the following;

- Sri Lanka Financial Reporting Standards
- Integrated Reporting Framework issued by the IIRC
- Global Reporting Initiative- G4 standards (Core criteria)
- Companies Act No 7 of 2007

- Listing Rules of the Colombo Stock Exchange
- Code of Best Practise on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka
- Principles of the United Nations Global Compact (UNGC)

External Assurance

We believe that third party assurance is vital in establishing credibility and transparency of our Report. External assurance on the Financial Statements and Sustainability Reporting has been provided by Messrs. Ernst and Young, Chartered Accountants.

Feedback

The Annual Report is used as an effective platform in seeking feedback from our stakeholders, and we welcome your comments and suggestions. Please contact,

Corporate Affairs Unit, Hayleys PLC

Email: info@cau.hayleys.com

“ We have placed specific focus on improving shareholder communications and through this year's report we aim to provide a balanced and concise assessment of our performance ”

Hayleys at a glance

Our Contribution

- Hayleys generates 2.36% of Sri Lanka's export earnings
- Accounts for 3.8% and 3.4% of the country's tea and rubber production
- One of Sri Lanka's largest employers with a global pool of 32,980 high performing employees

We are Sri Lanka's most diversified conglomerate with business interests spanning 12 sectors in the country's agriculture, industrial and services sector

Breadth of Operations



Our products are sold in 5 regions, around the globe.

Global Presence



- We generate 2.36% of Sri Lanka's export earnings
- Largest manufacturer of coconut shell based activated carbon
- 5% global market share of non-medical rubber gloves
- Country's leading aluminium extrusion manufacturer
- 3.8% and 3.4% of the country's tea and rubber production

Market Dominance



Strong focus on research capabilities and knowledge sharing have enabled our sectors to lead their respective industries in innovation and product development

Driver of Innovation



We are one of Sri Lanka's largest employers with a global pool of 32,980 high performing employees who drive our strategy. We in turn provide opportunities for growth in a dynamic work environment

Employer of Choice



Sustainability is embedded in our daily operations and mechanisms are in place to monitor a range of non-financial indicators to ensure that needs of all stakeholders are satisfied

A Sustainable Business



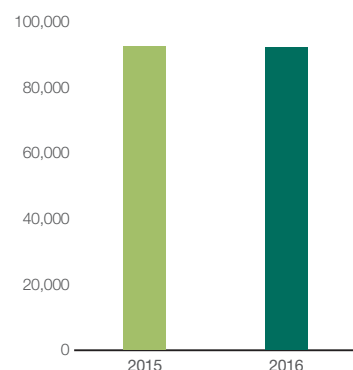
Hayleys at a glance

Operational Highlights

| | | 2016 | 2015 | Change % |
|---|--------------|---------|--------|----------|
| Earnings Highlights and Ratios | | | | |
| Revenue | Rs. mn | 92,275 | 92,562 | (0) |
| Results from operating activities | Rs. mn | 8,505 | 8,511 | (0) |
| Profit before tax | Rs. mn | 6,816 | 6,400 | 7 |
| Profit after tax | Rs. mn | 5,060 | 4,886 | 4 |
| Profit attributable to owners of the parent | Rs. mn | 3,004 | 2,581 | 16 |
| Dividends | Rs. mn | 488 | 450 | 8 |
| Gross profit | % | 24.5 | 23.0 | 7 |
| Operating profit margin | % | 9.2 | 9.2 | 0 |
| Net profit margin | % | 5.5 | 5.3 | 4 |
| Earnings per share (basic) | Rs. | 40.05 | 34.42 | 16 |
| Return on assets (ROA) | % | 4.9 | 5.2 | (6) |
| Return on capital employed (ROCE) | % | 10.67 | 11.62 | (8) |
| Interest cover | No. of times | 4 | 4 | 5 |
| Financial Position Highlights and Ratios | | | | |
| Total assets | Rs. mn | 103,322 | 93,326 | 11 |
| Total debt | Rs. mn | 33,114 | 29,062 | 14 |
| Equity attributable to equity holders of the parent | Rs. mn | 30,855 | 29,104 | 6 |
| Gearing | % | 41.55 | 39.66 | 5 |
| Debt/Equity | % | 71.09 | 65.74 | 8 |
| Equity asset ratio | % | 45.09 | 47.37 | (5) |
| Net assets per share | Rs. | 411.40 | 388.05 | 6 |
| Current ratio | No. of times | 1.2 | 1.3 | (6) |
| Quick asset ratio | No. of times | 0.8 | 0.8 | (8) |
| No. of shares in issue | No. mn | 75 | 75 | 0 |
| Market / Shareholder Information | | | | |
| Market value per share | Rs. | 245.70 | 300.00 | (18) |
| Dividend per share | Rs. | 6.50 | 6.00 | 8 |
| Company market capitalisation | Rs. mn | 18,428 | 22,500 | (18) |
| Group market capitalisation | Rs. mn | 46,543 | 56,147 | (17) |
| Price earnings ratio | No. of times | 6.13 | 8.72 | (30) |
| Dividend yield ratio | % | 2.6 | 2.0 | 32 |
| Dividend payout ratio | % | 16.2 | 17.4 | (7) |
| Dividend cover | No. of times | 6.2 | 5.7 | 7 |
| Others | | | | |
| Economic value generated | Rs. mn | 25,321 | 25,071 | 1 |
| Economic value distributed | Rs. mn | 20,527 | 20,524 | 0 |
| Government | Rs. mn | 2,657 | 1,615 | 65 |
| Employees | Rs. mn | 13,396 | 14,018 | (4) |
| Others | Rs. mn | 4,475 | 4,891 | (9) |
| Value added per employee | Rs. mn | 0.77 | 0.71 | 7 |
| Group employment | Number | 32,980 | 35,093 | (6) |

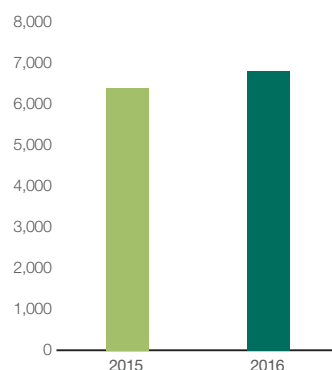
Revenue

Rs. mn



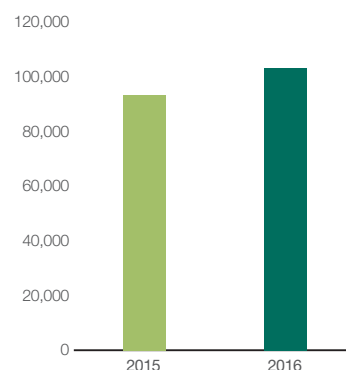
Profit Before Tax

Rs. mn



Total Assets

Rs. mn



Rs. 2.4bn

Increase in Total Equity

Rs. 10bn

Increase in Total Assets

32,980

Employees

Rs. 13.4bn

Payments to Employees

Rs. 25.3bn

Economic Value Generated

83,261 tCO₂e

Carbon Footprint

98,770

Training hours

89%

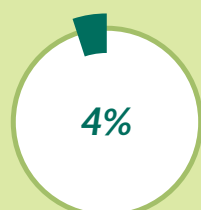
Retention rate

Hayleys at a glance

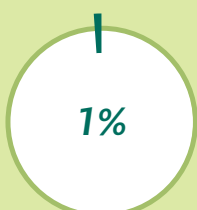
Snapshot of Our Businesses

Eco Solutions

Sri Lanka's leading manufacturer and exporter of value added coconut fibre products, with a global reputation for innovation and tailor-made solutions.



Revenue
Rs. 3.8 bn



Profit before tax
Rs. 92 mn

Products/Activities

- ▶ Brushware
- ▶ Floor Coverings
- ▶ Eco Fibre



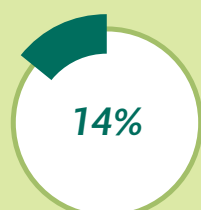
Employees
4%



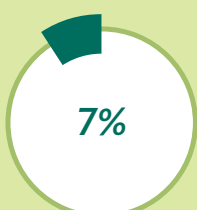
Carbon footprint
3%

Hand Protection

We are ranked among the world's top 5 producers in the hand protection industry and have developed a competitive edge through deep industry insights and innovation.



Revenue
Rs. 12.7 bn



Profit before tax
Rs. 584 mn

Products/Activities

- ▶ Industrial gloves
- ▶ Household gloves
- ▶ Medical gloves



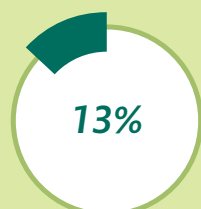
Employees
5%



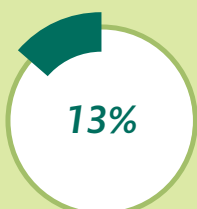
Carbon footprint
21%

Purification

World's leading manufacturer of coconut shell based activated carbon.



Revenue
Rs. 11.7 bn



Profit before tax
Rs. 1.1 bn

Products/Activities

- ▶ Coconut shell based activated carbon
- ▶ Environmental Engineering Solutions



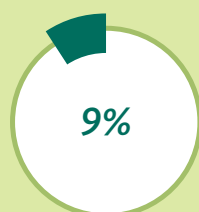
Employees
5%



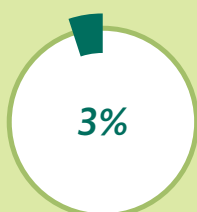
Carbon footprint
7%

Textiles

We supply fabric to leading global fashion brands, and have the capability to cater to end-to-end customer requirements.



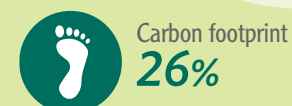
Revenue
Rs. 8.4 bn



Profit before tax
Rs. 253 mn

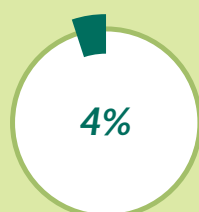
Products/Activities

- ▶ Single Jersey
- ▶ Interlock
- ▶ Pique
- ▶ Rib
- ▶ Fleece
- ▶ Polar fleece

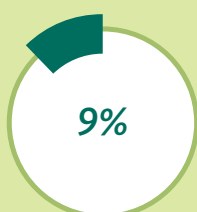


Construction Materials

Sri Lanka's premier manufacturer of aluminium extrusions commanding a dominant market share of 53%.



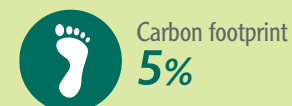
Revenue
Rs. 3.9 bn



Profit before tax
Rs. 801 mn

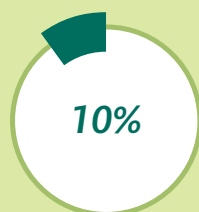
Products/Activities

- ▶ Aluminium extrusion
- ▶ Aluminium systems

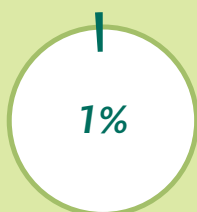


Plantations

One of Sri Lanka's largest plantation sector contributors, we generate 3.8% and 3.4% of the country's tea and rubber production respectively.



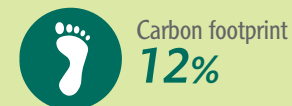
Revenue
Rs.9.1 bn



Profit before tax
Rs. 50 mn

Products/Activities

- ▶ Tea
- ▶ Rubber

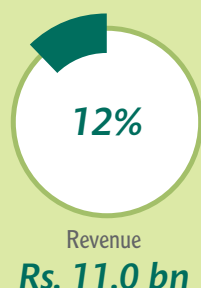


Hayleys at a glance

Snapshot of Our Businesses

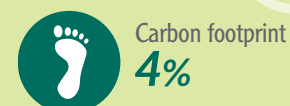
Agriculture

We are an industry pioneer in agricultural innovation and provide a wide range of agriculture related solutions to the retail and export markets.



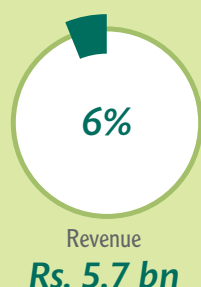
Products/Activities

- ▶ Fertilizer
- ▶ Processed fruits and vegetables
- ▶ Crop production
- ▶ Crop protection
- ▶ Animal Health
- ▶ Dairy



Consumer Products

We represent globally renowned brands including Proctor and Gamble, Phillips Lighting and Fujifilm



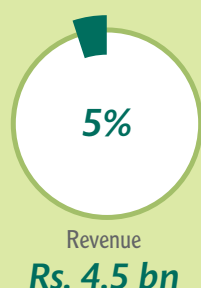
Products/Activities

- ▶ Consumer products
- ▶ Lighting solutions
- ▶ Pharmaceutical products
- ▶ Imaging products



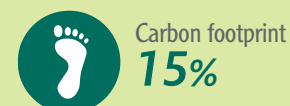
Leisure

We own and operate 7 resort properties through the Amaya Resorts chain, 1 city hotel, The Kingsbury and inbound tours.



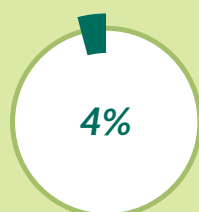
Products/Activities

- ▶ Resort and city hotel operations
- ▶ Inbound tour operations

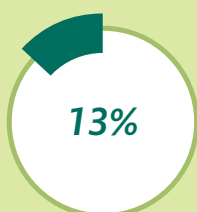


Industry Inputs and Power & Energy

We supply close to 2% of the country's total renewable energy with an installed capacity of 35 MW of hydro and wind power plants



Revenue
Rs. 3.6 bn



Profit before tax
Rs. 1.1 bn

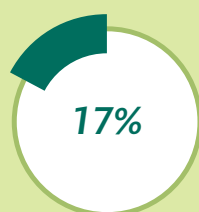
Products/Activities

- ▶ Renewable energy
- ▶ Industrial materials
- ▶ Power engineering solutions
- ▶ Life Sciences and medical equipment

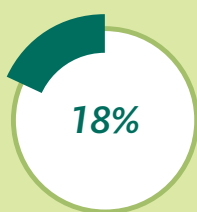


Transportation & Logistics

Sri Lanka's leading player in the transportation and logistics industry, we provide the entire gamut of transportation related services



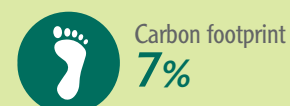
Revenue
Rs. 15.8 bn



Profit before tax
Rs. 1.5 bn

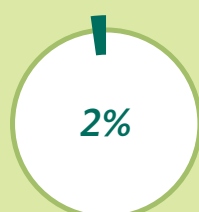
Products/Activities

- ▶ International freight management
- ▶ Integrated Logistics
- ▶ Marine Services
- ▶ Terminals and Engineering

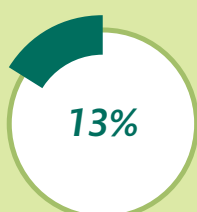


Others

This includes our BPO operation, Aviation and Travels, Alufab, Fentons Group and the Group services.



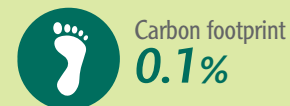
Revenue
Rs. 2 bn



Profit before tax
Rs. 1.1 bn

Products/Activities


- ▶ Business process outsourcing
- ▶ Aviation services, travel and tour services
- ▶ Aluminium framed glazed architectural systems
- ▶ Interior design
- ▶ Integrated solutions for buildings and ICT infrastructure



Hayleys at a glance

Awards & Accreditation

| Sector | Certificates |
|--|--|
|  Eco Solutions | <ul style="list-style-type: none"> BSCI – Business Social Compliance Initiative GOLS – Global Organic Latex Standard SMETA – Sedex Members Ethical Trade Audit ISO 9001 : 2008 ISO 14001 : 2004 SA8000 |
|  Hand Protection | <ul style="list-style-type: none"> ISO 9001 : 2008 - Quality Management ISO 13485 : 2003 Quality Management in Medical devices Forest Stewardship Council Certification ISO 14001 : 2004 - Environmental Management System ISO 17025 : 2005 - General requirements for the competency of testing and calibration laboratory Directive 89/686/EEC (Article 11B) Directive for personal protective equipment British Retail Consortium Certification Safety and Quality certification for consumer products UN Global Compact Signatory to the implementation of universal sustainability principles |
|  Purification | <ul style="list-style-type: none"> Kosher Certification for PT Mapalus Makawanua Charcoal Industry, Indonesia |
|  Textiles | <ul style="list-style-type: none"> OEKO TEX - Testing for harmful substances and Confirmation for usage Annual Report Awards 2015-The Institute of Chartered Accountants of Sri Lanka-Manufacturing Sector-Bronze award ISO 14001:2004 - Environment Management System SA 8000 - Social responsibility including zero tolerance of child labour |
|  Plantations | <p>TTEL</p> <ul style="list-style-type: none"> Rainforest Alliance-Sustainable Farm Certification Ethical Tea Partnership (ETP) UTZ Sustainable Tea Certification ISO 22000 Food Safety Management Systems Certification |
|  Agriculture | <ul style="list-style-type: none"> ISO 50001:2011 Energy Management System OHSAS 18001- Occupational Health and Safety |
|  Consumer | <ul style="list-style-type: none"> ISO 9001 : 2008 |

| Sector | Certificates |
|--|---|
|  Transportation | <ul style="list-style-type: none"> • ISO 9001:2008 Quality Management Systems • OHSAS 18001:2007 Health & Safety Management System • ISO 14001 : 2004 Environment Management Systems |

| Sector | Awards |
|--|---|
|  Others | <ul style="list-style-type: none"> • CIMA LMD Awards - No. 1 company in the 100 top listed companies - Hayleys PLC • Best Presented Annual Report Awards and SAARC Anniversary Awards - South Asian Federation of Accountants - Diversified Holdings - 1st Runner up - Hayleys PLC. |
|  Eco Solutions | <ul style="list-style-type: none"> • NCE export awards – Agriculture Value Added sector, Large Category – Silver award |
|  Purification | <ul style="list-style-type: none"> • Asia Responsible Entrepreneurship Awards 2015 - SME CSR Category from Enterprise Asia - “Puritas Sath Diyawara” project |
|  Textiles | <ul style="list-style-type: none"> • CIMA LMD Awards - No 01 in Footwear and Textile Sector |
|  Construction Materials | <ul style="list-style-type: none"> • National Business Excellence Awards 2015 - Large business category - Winner • National Business Excellence Awards 2015 - Manufacturing (Engineering) Sector-Winner • National Business Excellence Awards 2015 - Excellence in business & financial results-Runner - up • Annual Report Award Ceremony 2015-The Institute of Chartered Accountants of Sri Lanka-manufacturing sector-Gold award • National Business Excellence Awards 2015 - Overall award winner-Bronze award |

Hayleys at a glance

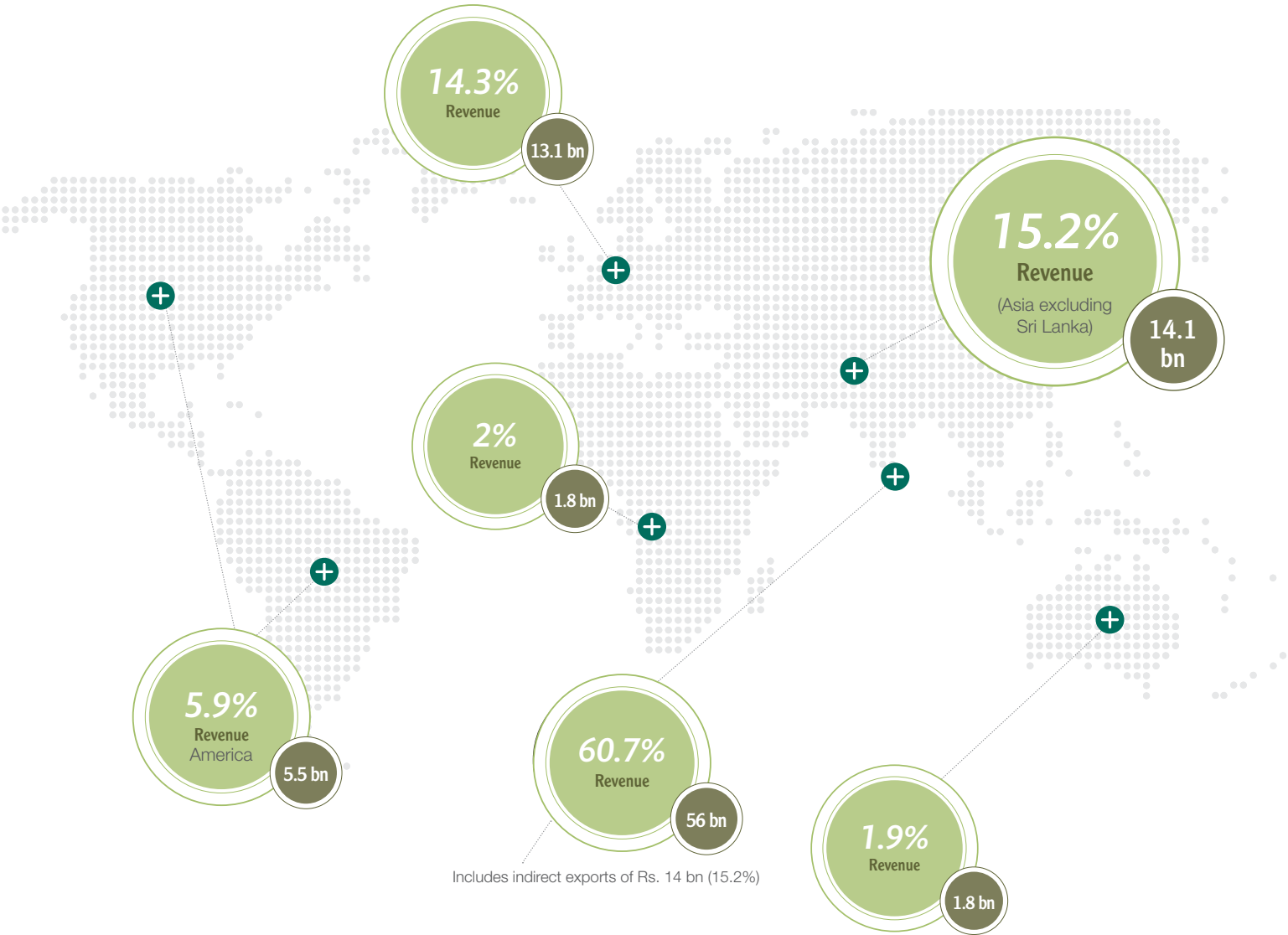
Awards & Accreditation

| Sector | Awards |
|---|--|
|  <p>Plantations</p> | <p>KVPL</p> <ul style="list-style-type: none"> • Ian Dias Abeysinghe Memorial Jasteca CSR Award 2015 - Japan Sri Lanka Technical & Cultural Association (JASTECA) - "A Home For Every Plantations Worker" - Gold Award • National Social Dialogue & Workplace Cooperation – Ministry Of Labour - Gold • National Business Excellence Awards 2015 -Excellence in Environmental Sustainability - Overall Categories - Winner • National Business Excellence Awards 2015 - Agriculture & Plantations Sector - Runner-up • Annual Report Award Ceremony 2015-The Institute of Chartered Accountants of Sri Lanka-Plantation Companies Category - Bronze <p>Mabroc</p> <ul style="list-style-type: none"> • National Chamber of Exporters - Tea value added large category - Silver • National Chamber of Exporters - Bulk tea extra-large category - Silver • GMP certificate from the Sri Lanka Tea Board <p>TTEL</p> <ul style="list-style-type: none"> • National Business Excellence Awards 2015 - Agriculture & Plantations Sector - Winner • National Business Excellence Awards 2015 - Excellence in Corporate Governance -Runner-up • National Business Excellence Awards 2015 - Excellence in Environmental Sustainability - Runner-up • National Business Excellence Awards 2015 - Excellence in Corporate Social Responsibility - Runner-up • Annual Report Awards 2015-The Institute of Chartered Accountants of Sri Lanka- Plantation Companies - Gold • Best Presented Annual Report Awards and SAARC Anniversary Awards - South Asian Federation of Accountants - Corporate Governance Disclosures 2014 - Agricultural Sector - Winner • National Green Award 2015 - Central Environmental Authority - Gold • Ralston Tissera Memorial Award-Excellence in Tea Manufacture - The Planters' Association of Ceylon - Highest Gross Sale Average in "Western High Grown" Category |
|  <p>Agriculture</p> | <ul style="list-style-type: none"> • National Green Awards 2015 - Bronze Award - Food and Beverages Sector • Agribusiness Gold Award 2015 – for Best Agriculture Exporter • Asia's responsible entrepreneurship award –Social empowerment category • Silver Award for the best innovation in 2015 • Ag-Biz and National Farmer Awards Ceremony - Best Agriculture Machinery & Equipment Supplier |

| Sector | Awards |
|--|--|
|  <p>Leisure</p> | <div> <p>The Kingsbury</p> <ul style="list-style-type: none"> Chef Guild Lanka Culinary art 2015 - Three Gold, Ten Silver & Twelve Bronze medals. Trip advisor 2015 winner- Certificate of Excellence Awarded to the Harbour Court, the Kingsbury based on ratings by guests on Trip Advisor Trip advisor 2015 winner- Certificate of Excellence Awarded to the Sky Lounge, the Kingsbury based on ratings by guests on Trip Advisor Luxury Hotel & Restaurant of the year by the Luxury Travel Guide 2015 World Luxury Hotel Awards - Best Luxury Business Hotel 2015 International Hotel Awards - Best City Hotel Asia Pacific 2016/17 International Hotel Awards - Highly Commended Classic/Heritage Hotel Sri Lanka 2016/17 International Hotel Awards - Best City Hotel Sri Lanka 2016/17 International Hotel Awards - Best Large Hotel Sri Lanka 2016/17 </div> <div> <p>Hunas Falls</p> <ul style="list-style-type: none"> International Hotel Awards Ceremony - Best Sustainable Hotel for Sri Lanka in the Asia Pacific Region" Trip Advisor - Certificate of Excellence </div> <div> <p>Amaya Lake</p> <ul style="list-style-type: none"> International Hotel Awards Ceremony - 5 Star Award in the category of 'Best Hotel Renovation/ Refurbishment for Sri Lanka in the Asia Pacific Region </div> <div> <p>Amaya Beach</p> <ul style="list-style-type: none"> Trip Advisor - Certificate of Excellence </div> |
|  <p>Transportation</p> | <ul style="list-style-type: none"> United Airlines - Highest Tonnage Achievement - Gold Award Saudi Arabian Airlines-Top 10 Tonnage Contribution - Award of Excellence Cathay Pacific Airlines - Outstanding Tonnage Contribution - Most Upcoming Agent The Institute of Chartered Shipbrokers - UK, Sri Lanka Branch Best Shipping Agent - Customer Service for Colombo Indian Sub-Continent Trade Annual Report Awards 2015-The Institute of Chartered Accountants of Sri Lanka- Service Organisations - Silver |

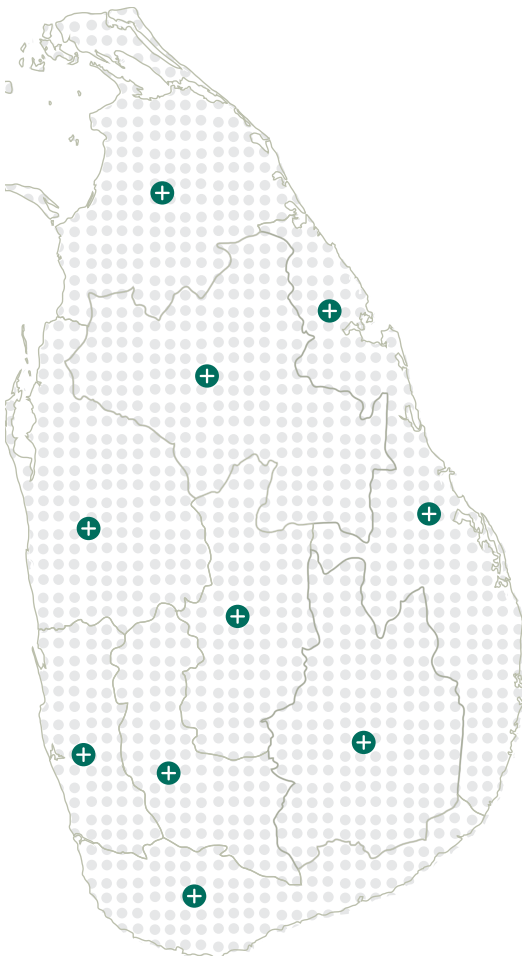
Hayleys at a glance

Global Footprint



“ In addition to Sri Lanka, the Group has manufacturing facilities in Thailand and Indonesia, marketing offices in the USA, UK, Australia, India, Italy, Japan, The Netherlands, Bangladesh and offers transportation and logistics solutions in Maldives, Myanmar, Africa, Singapore and Malayasia. ”

Islandwide Presence



5 Nos.
Regions

We export to all regions around the globe



Over 80,000
Customers

Local and international



Over 1,900
Suppliers

Local and international

Hayleys at a glance

Our History



Charles Pickering Hayley forms Chas P. Hayley & Co. in Galle.

1878

1958

Shipping agency department is formed, later to be reconstituted as Maritime Agencies Ltd. (forerunner of Hayleys Advantis Ltd.).



Haycarb Ltd., is formed to pioneer the manufacture and export of activated carbon from coconut shell charcoal.

1973

1968

Haychem Ltd., a collaboration with Bayer of Germany, is formed to formulate agrochemicals.



1954

Hayleys Ltd., becomes a public Company.





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.

1991



Hayleys becomes the No.1 Company in LMDs Top 100 Listed Companies in Sri Lanka.

2016

Hayleys enters into the aluminium extrusions industry by acquiring the Alumex Group. Hayleys re enters and wins the Best Corporate Citizens Award for the 4th consecutive year.

2011

Dipped Products Ltd., is incorporated to pioneer manufacture of Rubber Gloves.

1976



Hayleys acquires majority stake in Amaya Hotels & Spas

2012

Leadership and Governance

Chairman's Message



A GP margin growth of 6% and Profit before tax of Rs.6.8 bn recorded for the year reflect the leaner operating models enabling business sectors to compete effectively. Profit after tax was Rs. 5.1 bn, an increase of 4% over the previous year.

Dear Shareholder,

As your Chairman, it is my pleasure to report that Hayleys PLC, continued to maintain its growth momentum delivering growth in assets and profit before tax of 11% and 7% totalling Rs.103.3 bn and Rs.6.8 bn respectively for the financial year ended 31st March 2016. Group exports accounted for 2.36% of Sri Lanka's exports for 2015, making Hayleys one of the most economically significant conglomerates in the country. Our businesses are leading players in their respective fields, taking market leading positions in most instances.

Performance & Growth

Economic and financial headwinds, including slow growth in advanced economies, elevated geo political risks in key markets, declining commodity markets and impact of moderating growth in Far East markets, made the year under review an extremely challenging one. We have maintained our growth momentum with all sectors turning in profits for the second consecutive year. The Hayleys business model remains one that delivers value to diverse stakeholders with high levels of engagement ensuring that it is fit for the future, agile, and resilient.

Group revenues were Rs.92.3 bn as a combination of factors hindered revenue growth in the export sectors and a number of sectors consolidated a strategy of higher value addition resulting in more compact volumes in some cases. A GP margin growth of 6% and profit before tax of Rs.6.8 bn recorded for the year reflect the leaner operating models enabling business sectors to compete effectively. Profit after tax was Rs.5.1 bn, an increase of 4% over the previous year, as a higher effective tax rate dampened the gains in operating margins.

The Group has been well positioned for growth with investments in the expansion of four key business areas to enhance capacity and operational efficiency of existing businesses, contributing to growth in Group assets by 11% during the year. These significant investments further diversify the income streams while leveraging the core competencies of the Group. The largest such investment has been in Hayleys Global Beverages, a state of the art integrated tea extracts manufacturing plant, which will produce Pure Ceylon Tea extracts, catering to the global food and beverage market. This business will commence commercial operations in the first quarter 2016/17, integrating with the plantation portfolio of the Hayleys Group, creating a unique proposition for the global tea extracts market. The Transportation sector embarked on the second phase of the Free Zone project which is expected to commence commercial operations in June 2016 following the success of the first phase, which became operational in the previous financial year. We continue to grow the Power & Energy sector with investments in non-conventional renewable energy adding a total of 14.5 MW of capacity to the national grid consisting of mini hydros, solar and wind power. We also acquired Fentons, a 95-year-

old company with expertise in integrated solutions for Building Systems infrastructure, ICT infrastructure and fire protection that will extend our scope in the Construction sector, enabling us to offer a complete portfolio of services.

Portfolio Review

Transportation and logistics operations of the Advantis Group became the highest contributor to Hayleys Group profitability with a profit before tax of Rs.1.5 bn accounting for 18% of Group profits as the sector recorded a profit growth of 16%. It is the largest player in the transport and logistics sector offering the most comprehensive portfolio of services and handles around 14% of the total annual container traffic in the country. Profit growth is attributable to strong revenue growth of 12% and operating margin growth, as the first phase of Free Zones which became operational in the previous year reached 100% capacity utilisation supported by state of the art warehousing services, value addition capability and the leading position in the industry. The sector continues to expand its scope and markets transforming to a regional player, effectively buffering the decline in trade volumes with strategy and foresight; it is well positioned to play a key role in intra-regional freight and logistics activity.

Agriculture sector delivered revenue and profit growth of over 30% to become the second highest contributor to Group profits with Rs.1.1 bn profit before tax. A market leader in agriculture, the sector offers a comprehensive range of products which are manufactured or imported from globally reputed principals and commands 16% and 18% market share of the country's fertiliser and crop protection industries whilst being the market leader in seed paddy, combined harvesters and stainless steel agricultural sprayer equipment, it also connects rural communities to global export value chains as the country's largest exporter of processed fruits and vegetables, accounting for close to half of Sri Lanka's fruit and vegetable exports by value. The sector is keenly focused on transforming agriculture to be ecologically sustainable whilst optimising yields to address food security issues in the country. The strategy for a more sustainable future has included a number of interventions such as educating farmers on the use of safer and more targeted agrochemicals and good agricultural practices including the use of more automated farm equipment.

The Purification sector recorded a profit before tax of Rs. 1.1 bn, contributing 13% to Group profits, sustaining performance despite weak demand from the gold mining sector and intense competition from regional players as currencies devalued sharply. The sector pursued its strategy of focusing on higher value added products. As the world's largest manufacturer of coconut-shell based activated carbon, Haycarb operates six manufacturing facilities in Sri Lanka, Thailand and Indonesia producing high quality activated carbon for a range of applications including water

Leadership and Governance

Chairman's Message

treatment, gold extraction, air purification and energy storage. We continue to grow our markets in the US, Europe, Russia, and the Maldives focusing on water treatment and energy storage applications which are of growing importance in the present environment. The sector invested substantially during the year in enhancing capacity in higher value added applications and environmental engineering, which present significant opportunities for growth.

The Group's Industry Inputs and Power & Energy sector business delivered profit growth of 32% to contribute Rs.1.1 bn towards Group profits. This sector supplies 10% of the country's non-conventional renewable energy amounting to 35 MW from mini hydro and wind power plants and expects to add a further 14.5 MW during the year it also drives the Group's clean energy agenda with passion. Completion of the Mawanana mini hydro using the Gin Ganga will add 4.5 MW of capacity. This is expected to be commissioned in June 2016 while the solar farms in Weli Oya are expected to add 10 MW in December 2016. The Industry Inputs segment has also performed well, despite a moderation of the growth rate in the Industrial sector supported by increased demand from the Food and Beverage sector, success in large tenders for the Healthcare sector by the Lifesciences division and growth in the industrial water pumps and air conditioning business.

The Construction Materials sector witnessed strong growth of over 30% in both revenues and profits contributing Rs. 801 mn to Group profits, a testimony to the value added by the Hayleys Group which has turned the company around from its loss making position on acquisition 5 years ago. Strong demand coupled with increased capacity, favourable trends in raw material prices and improved employee productivity drives the growth of this sector. Commanding over 50% of the country's market share in aluminium extrusions, this sector continues to innovate and expand to new market segments and geographies maintaining the market leadership position held since 1998. LUMIN, a new range of products for the residential housing market launched last year, has received an encouraging response and this will be reinforced with concept design stores outside the Western Province and increased penetration in key international and regional markets to drive growth in this lucrative market.

The Leisure sector performance improved significantly with profit growth of 29%, largely supported by the performance of our city hotel, The Kingsbury, with the sector contributing 8% of the Group's Profit before tax amounting to Rs.679 mn for the year. The sector improved occupancy and operational efficiencies during the year, through robust training and development initiatives. The pipeline for growth includes intra group collaborations to develop boutique hotels utilising the bungalows of the Plantation sector and agri-farms of the Agriculture sector and extending the city hotel's capabilities to luxury apartments to drive operational efficiencies and growth.

“ Hayleys Group has transformed over the past 6 years becoming the No.1 Company in the LMD's top 100 listed companies ”

Hayleys Fabric performance improved significantly delivering profits of Rs.253 mn as it continued its focus on higher value added fabric, optimising resource allocation. A reputation for delivering high quality on time has strengthened its positioning in the market, enhanced by investments supporting future growth. The Company also re-branded during the year, reflecting its capability as the pioneer fabric mill in the Country that is able to cater to the customer entire range of requirements, producing cotton and polyester blends. Emerging as an innovator with its own line of fabric branded 'Inno', this Company is well positioned for growth in the country's fabric sector.

Performance of the Hand Protection sector was constrained as slow growth in key export markets and competitor currency devaluation arising from reduced trade flows in Asia resulted in intense competition in global markets. Impacted by a 14% decline in revenue and narrowing margins, Profits of the sector declined by 61%. The Sector has been cleared of accusations pertaining to the water discharge of the Weliweriya and Hanwella factories which disrupted operations in 2014. Relocation of these facilities within industrial zones was completed in the previous financial year which has enhanced capacity, positioning the company for future growth. Restructuring of the marketing functions to increase penetration in existing markets and explore new geographies has shown positive results in the last quarter. Coupled with a strong innovation capability, the restructured marketing is expected to propel the company's growth in the coming year as it continues to move to higher value added products.

The Consumer sector, which has an impressive portfolio of globally reputed brands, enhanced its scope to market the products manufactured by the Group to the local market with positive results. The sector delivered profits amounting to Rs.117 mn through improved margins. Growth prospects for this sector are exciting as the country's disposable incomes increase and efforts will be centred on widening the product range.

The Eco solutions sector also pursued a strategy of moving to higher value added production which yielded a turnaround to deliver Rs.92 mn in profits. The positioning of the Country as the largest exporter of coconut fibre, offers avenues for growth in a wide range of applications varying from Brushware, Floor Coverings, Erosion Control, Bio Engineering Products, Rubberized Coir and Mattresses which are all within the capabilities of the sector. The Eco Solutions sector will also seek enhancing its presence in the domestic market by developing distribution networks to diversify its markets which are predominantly overseas.

The Plantation sector woes exacerbated during the year as declining prices of oil and political turmoil impacted the Middle East and Eastern Europe which collectively account for approximately 70% of demand for Ceylon Tea. A 28% decline in revenue translated to an 86% decline in profits which amounted to Rs.50 mn for the financial year, a trend observed across almost the entire plantation sector in the country with a number of players recording losses. Urgent action is needed to change the archaic remuneration models in the plantation sector to drive productivity and performance while balancing the interests of key stakeholders in an equitable manner, for the 200-year-old industry to continue creating value. I commend the efforts of the team in achieving relatively high yields for tea and in reducing the extent of losses employing a number of strategies.

Moving Forward

Hayleys Group has transformed over the past 6 years becoming the No.1 Company in the LMD's top 100 listed companies of Sri Lanka, and is well positioned for future growth. Our growth during this period has been through expansion of capacity both overseas and in the country in our core areas of expertise and also through acquisitions which have enabled us to enhance our core competencies. All this is possible as we have a strong team in place who combine entrepreneurship with professionalism to deliver consistent results.

Moving forward, the Group's future expansion will focus on transport and logistics, agriculture, renewable energy, leisure and construction. We will also pursue geographical expansion to increase the top line and enhance our ability to create value. Acquisitions are also on the agenda as are joint ventures to facilitate accelerated growth and expansion into new areas.

Hayleys is looking forward to actively participate in the Government's proposal to drive Public Private Partnerships (PPP s) in the core business sectors of the Group.

A key concern for the Group is finding people with the right skills and manufacturing knowledge to manage businesses. We are also experiencing severe labour shortages in factories, creating an imbalance between our capacity to market and our capacity to produce although machine capacity is available. We believe that an urgent solution is required for the country's top talent and labour issues in order to drive economic growth, as this is fast becoming a limiting factor.

The Group continues to invest in reducing our carbon and water footprints and driving socio economic progress in rural communities through a number of initiatives linked to our supply chains. The Power & Energy sector supplies the national grid with 35 MW of power derived from renewable sources with zero emissions. Our flagship CSR Project Hayleys Sath diyawara has now established 11 water purification plants in 14 villages, which benefit over 20,000 people in areas with high incidence of Chronic Kidney Disease. We are committed to building these villages by creating livelihoods through organic vegetable cultivation which will also facilitate better nutrition. Plans have been drawn up to build schools and playgrounds facilitating education to uplift the communities in the long term. I also commend the work of our Purification and Plantation sectors in this regard whose achievements are outlined in the Community Engagement Report on pages from 125 to 130. On a personal note, having participated in all opening ceremonies of Hayleys Sath diyawara projects and witnessing the hardship of the people, it has given me tremendous personal satisfaction that Hayleys provide pure water to more than 20,000 people and has inspired me to drive this initiative even further.

Sustainability and CSR remains an enriching and rewarding aspect of my role and I look forward to build on the success achieved to date.

We are also proud to be subscribers and supporters of the United Nations Global Compact and will strive to apply the ten principles of the compact in all areas of our operations.

Acknowledgements

I thank all the stakeholders who have stood by Hayleys over the years. The most valuable relationships are those that remain resolute under all circumstances, and we respect such relationships. In particular, I thank the GMC members and staff of Hayleys who have worked hard amidst trying circumstances to deliver this year's results and our customers and business partners for their continued loyalty.

Mr. Mangala Goonatillake resigned from the Board of Directors of Hayleys in May 2016. I take this opportunity to convey my appreciation for his contribution to Hayleys and I wish him success in the future.

Finally I would like to express my sincere appreciation for the continued guidance provided by the Co-Chairman Dhammika Perera and the Board of Hayleys PLC.



Mohan Pandithage

Chairman and Chief Executive

20th May 2016

Leadership and Governance

Board of Directors

The Group has been well positioned for growth with investments in expansion of four key business areas to enhance capacity and operational efficiency of existing businesses...

● **Mohan Pandithage**
Chairman & Chief Executive

● **Dhammika Perera**
Co-Chairman



● **Nimal Perera**
Non-Executive Director



● **Rizvi Zaheed**

● **Sarath Ganegoda**

Leadership and Governance

Board of Directors

● **Dr. Harsha Cabral, PC**
Independent Non-Executive Director



● **Rajitha Kariyawasan**

● **Dr. Mahesha Ranasoma**

● **Lalin Samarawickrama**

● **Hisham Jamaldeen**
Independent Non-Executive Director



● **Ruwan Waidyaratne**

Leadership and Governance

Board of Directors

Mohan Pandithage

Chairman & Chief Executive

Joined Hayleys Group in 1969. Appointed to the Board in 1998. Chairman & Chief Executive of Hayleys PLC since July 2009. Fellow of the Chartered Institute of Logistics and Transport (UK). Honorary Consul of United Mexican States (Mexico) to Sri Lanka. Committee Member of the Ceylon Chamber of Commerce. Council Member of the Employers' Federation of Ceylon. Member of the Maritime Advisory Council of the Ministry of Ports & Shipping. Member of the Advisory Council of the Ceylon Association of Ships' Agents. Member of the National Steering Committee on Skills Sector Development of the Department of National Planning. Corporate Excellence Leadership Recognition by the Institute of Chartered Accountants of Sri Lanka in 2015.

Dhammika Perera

Co- Chairman- Non Executive

Appointed to the Board in 2008. Co- Chairman of Hayleys PLC since September 2014. He is the quintessential business leader, with interests in a variety of key industries including Hydropower generation, Manufacturing, Hospitality, Entertainment, Banking and Finance. He enriches the Board with over 27 years of experience in building formidable businesses through unmatched strategic foresight. He serves as the Chairman of Sampath Bank PLC, Vallibel One PLC, Vallibel Power Erathna PLC, Royal Ceramics Lanka PLC, The Fortress Resorts PLC, Delmege Limited. He also serves as the Executive Deputy Chairman of LB Finance PLC and Deputy Chairman of Horana Plantations PLC, and Lanka Ceramic PLC. He also serves on the Boards of Amaya Leisure PLC, Vallibel Finance PLC, Lanka Tiles PLC, Haycarb PLC, Hayleys Fabric PLC, The Kingsbury PLC, Sun Tan Beach Resorts Ltd, Dipped Products PLC and Hayleys Global Beverages(Pvt) Ltd.

Rizvi 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 an 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 (SLINTEC). Chairman of the National Agribusiness Council. Serves as Co-Chair of the National Biotechnology Council and is a Member of the University Grants Commission Standing Committee on Agriculture and Livestock and a Member of the Floriculture and Food & Beverage Advisory Committees of the Sri Lanka Export Development Board. Member of the Advisory Board of the Ministry of Agriculture. Council Member of the Sri Lanka Council for Agricultural Policy Research (CARP). Member of the main committee of the Ceylon Chamber of Commerce and formerly Chairman of the Agriculture & Livestock Steering Committee and Vice-Chairman of the Imports Section, Ceylon Chamber of Commerce. Vice Chairman of CSR Sri Lanka. Has responsibility for the Agriculture sector.

Nimal Perera

Non-Executive Director

Appointed to the Board in July 2009. He is a renowned business magnate, stock trader and shareholder of many companies in the country. He serves on the Boards of Pan Asia Banking Corporation PLC, Lanka Tiles PLC, Lanka Walltiles PLC, Lanka Ceramics PLC, Horana Plantations PLC, Swisstek Ceylon PLC, N P Capital Limited and N Capital (Pvt) Ltd as the Chairman, Royal Ceramics Lanka PLC as the Managing Director, Vallibel One PLC as the Deputy Chairman, LB Finance PLC as an Executive Director, Vallibel Power Erathna PLC and The Fortress Resorts PLC as an Alternate Director. He also holds directorships in Kingsbury PLC, Haycarb PLC, Talawakelle Tea Estates PLC, Amaya Leisure PLC and Tangalle Bay Hotels (Pvt) Ltd.

Sarath Ganegoda

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

Rajitha 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 of the Chartered Institute of Management Accountants, 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. Director of Dipped Products PLC and has responsibility for the Purification Products sector.

Dr. Harsha Cabral, PC

Independent Non-Executive Director

Appointed to the Board in February 2011. He is a President's Counsel with 28 years' experience in the field of Company Law, Intellectual Property Law, International Trade Law & Commercial Law, Commercial Arbitration. He is an appointed member of the ICC International Court of Arbitration. Holds a Doctorate in Corporate Law from the University of Canberra,

Australia. Member of the Law Commission of Sri Lanka, Council Member of the University of Colombo, UGC Nominee on the Post Graduate Institute of Medicine, Member of the Ministerial Committee to reform ailing companies, Member of the Corporate Governance Committee (CA- SEC) and Member of the Council of Legal Education in Sri Lanka. He was one of the main architects in the Advisory Commission on Company Law which drafted the Companies Act No 7 of 2007.

He serves as the Chairman of the Tokyo Cement Group of Companies which includes Tokyo Cement Co. (Lanka) PLC, Tokyo Super Cement Co Ltd, Tokyo Eastern Power Co Ltd, & Fuji Cement (Lanka) Pvt Ltd, Tokyo Super Aggregate Co Ltd, and serves as the Independent Non-Executive Director on the Boards of DIMO PLC, Alumex PLC, Richard Pieris Distributors Ltd, Lanka Orix Finance PLC, Browns Investments PLC, LOLC Life Assurance PLC. He is the author of several books on Corporate Law and Intellectual Property Law.

Dr. Mahesha Ranasoma

Joined Dipped Products Limited in August 2010 as an Executive Director and took over as Managing Director 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. Director of Kelani Valley Plantations PLC, Talawakelle Tea Estates PLC, Mabroc Tea and Hayleys Global Beverages (Pvt) Ltd. Has overall responsibility for the Hand Protection sector.

Lalin 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. The 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. Has several years of experience in the trade, having specialized in hotel designs and development, has been responsible for the careful planning and execution of Amaya Resorts & Spas refurbishment and rehabilitation programs. He is the Managing Director of the Amaya Hotels Group, The Kingsbury PLC, Hunas Falls PLC and Hayleys Tours (Pvt) Ltd. Director of The Fortress Resorts PLC, Royal Ceramics Lanka PLC, Royal Porcelain (Pvt) Ltd, Royal Ceramics Distributors (Pvt) Ltd, Rocell Bathware Ltd, and Kelani Valley Plantations PLC, and Board Member of Sri Lanka Tourism Development Authority. Is responsible for the Leisure Sector.

Ruwan Waidyaratne

Joined Hayleys Advantis Group in 1985. Appointed to the Hayleys Group Management Committee in February 2011. Was appointed as the Managing Director of Hayleys Advantis Group in April 2011 and appointed as an Executive Director of the Hayleys PLC Board in April 2013. He serves as the Vice Chairman of Ceylon Association of Shipping Agents. Former Chairman of the Sri Lanka Freight Forwarders' Association (SLFFA) and currently functions as a Member of the Advisory Council of the Association. Member of the Steering Committee on Ports, Shipping, Aviation and Logistics affiliated to the Ceylon Chamber of Commerce. Holds an MBA from the Edith Cowan University of Western Australia and has undergone executive development programmes with the National University of Singapore, Indian School of Business and INSEAD. Has responsibility for the Transportation Sector.

Hisham Jamaldeen

Independent Non-Executive Director

Appointed to the Board in February 2014. A Finance Professional with over 15 years of experience. Fellow of the Association of Certified Chartered Accountants, UK. Holds a degree in Engineering and Business from the University of Warwick, UK. A seasoned commercial property investor and advisor. Founder Managing Director of Steradian Capital Investments (Pvt) Ltd responsible for Financing, Corporate Structures, Acquisitions and Development. Executive Director of numerous real estate companies focusing on commercial property investment and development. Also serves as a Director of Peoples Bank.

Leadership and Governance

Group Management Committee



Left to Right

Chrisan Mendis, Johann Wijesinghe, Dr. Arul Sivagananathan, Dilhan De Silva, Roshan Rajadurai, Rohan Goonetilleke, M.S. Lakshminarasimhan, Ms. Darshi Talpahewa



Leadership and Governance

Group Management Committee

Mohan Pandithage

Please refer profile in Board of Directors

Rizvi Zaheed

Please refer profile in Board of Directors

Sarath Ganegoda

Please refer profile in Board of Directors

Rajitha Kariyawasan

Please refer profile in Board of Directors

Dr. Mahesha Ranasoma

Please refer profile in Board of Directors

Lalin Samarawickrama

Please refer profile in Board of Directors

Ruwan Waidyaratne

Please refer profile in Board of Directors

Chrisan Mendis

Joined Hayleys in 1983. Appointed to the Group Management Committee in 2001. Holds a B.Sc. (Hons.) Degree from the University of Colombo. Fellow Member of Chartered Institute of Management Accountants,(UK) and Chartered Institute of Marketing,(UK) and a Chartered Marketer . Was appointed as Managing Director of all Eco Solutions companies from 1st January 2014 and has overall responsibility for the sector.

Johann Wijesinghe

Joined the Group in 2008 and was appointed to the Group Management Committee in 2011. Currently serves as Managing Director of Aviation & Travels and Alufab PLC and Executive Director of S&T Interiors (Pvt) Ltd. He 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. Prior to joining Hayleys, held several senior positions for Sri Lankan Airlines including management positions in Europe, Middle East, the Far East and the Head Office in Colombo. Possesses over 5 years' senior management experience in the Hotel industry. He is responsible for the Aviation sector, hotel development, construction management, aluminium fabrication and interior fit-out businesses of the Group.

Dr. Arul Sivagananathan

Joined Hayleys in January 2011 as the Managing Director of Hayleys Business Solutions International Pvt Ltd. Appointed to Hayleys Group Management Committee in June 2011. Currently serves as the Managing Director of Hayleys Industrial Solutions Sector and Hayleys BPO and Shared Services Sector. 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, an MBA from Cranfield University (UK), Doctorate from USA and is a Fellow Member of the Chartered Institute of Management Accountants (UK). Deputy Chairman of CIMA Sri Lanka board and Vice Chairman of SLASSCOM and board member of Board of Studies of Postgraduate Institute of Management (PIM). Has responsibility for the Industry Inputs, Power & Energy, BPO & Shared Services Sectors.

Dilhan De Silva

Joined Hayleys in November 2011 as the Group Chief Financial Officer. Appointed to Group Management Committee in January 2012. Prior to joining Hayleys PLC, served Delmege Limited as Group Finance Director and progressed to the position of Group Chief Executive Officer. Has over 20 years of experience in numerous industries. Fellow 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. Has responsibility for Group Services.

Roshan Rajadurai

Rejoined the Group in January 2013 as the Managing Director of Kelani Valley Plantations PLC and Talawakelle Plantations PLC and was appointed to Group Management Committee in the same month. Prior to rejoining, served as Director/CEO of Kahawatta Plantations PLC and held Senior Plantation Management positions in Kelani Valley Plantations PLC from 1993 to 2001. Holds a BSc. in Plantation Management and holds an MBA from Post Graduate Institute of Agriculture, Peradeniya. Fellow Member of National Institute of Plantation Management, Institute of Management of Sri Lanka. Currently serves as the Chairman of the Planters' Association of Ceylon. Member of the Sri Lanka Tea Board, Tea Research Board, Rubber Research Board, Tea Council of Sri Lanka and Director Tea Small Holdings Development Authority. He was appointed to the Tea Advisory Board and also the Manufacturing and Cultivation & Production Committees of the Sri Lanka Quality Charter for Tea, Director of Maborc Teas (Pvt) Ltd and Hayleys Global Beverages (Pvt) Ltd. Has responsibility for the Plantations Sector and Mabroc Teas.

Rohan Goonetilleke

Joined the Group as Managing Director /CEO of Hayleys Fabric PLC in March 2013, and was appointed to the Group Management Committee in the same month. Prior to Joining the Group, served as Director of Brandix X'pressions (Pvt) Ltd and CLT Apparel (India) Pvt. Ltd, a fully owned subsidiary of Brandix Lanka Ltd. Has held the posts of Managing Director/ CEO of Textured Jersey Lanka (Pvt) Ltd, Linea Clothing (Pvt) Ltd, a subsidiary of MAS Holdings (Pvt) Ltd and the CEO of Elpitiya Plantations PLC. Holds a degree in Engineering (B.Sc. Eng.) from the United Kingdom. Has responsibility for the Textile Sector.

M.S. Lakshminarasimhan

Joined Hayleys in June 2015 as the Managing Director of Hayleys Consumer Products Ltd. A seasoned professional with 30 years of sales experience across regions/businesses in Asia, specifically SAARC countries and a Commerce Graduate from Madras University. Started his career in 1985 as an entry level stint in Godrej Soaps Ltd. In 1993 with the strategic alliance between Godrej and P&G, transitioned to P & G India as a Senior Key Account Manager and thereafter Country Market Manager - Sri Lanka, Regional Manager - State of Tamil Nadu, India and his last tenure was Business Manager- Bangladesh, Sri Lanka, Nepal and India for P & G business prior to his appointment. Has responsibility for the Consumer Sector.

Darshi Talpahewa


Joined Hayleys Group in January 2010 and appointed to the Group Management Committee in November 2015. A lawyer by profession, obtained LL.B from the University of Colombo and passed the final examinations in attorneys-at- law with first class honours from Sri Lanka Law College. Holds a Masters Degree in International Relations and also a Masters Degree in Law, from the University of Colombo. Has had the unique opportunity of working in the government, non-governmental, private/corporate sectors including the banking sector and academia. Has responsibility for Human Resources, Legal services, Security and Corporate Communications & Sustainability for the Hayleys Group.

Leadership and Governance

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PEACE, JUSTICE AND STRONG INSTITUTIONS



✓ Develop effective, accountable and transparent institutions at all levels

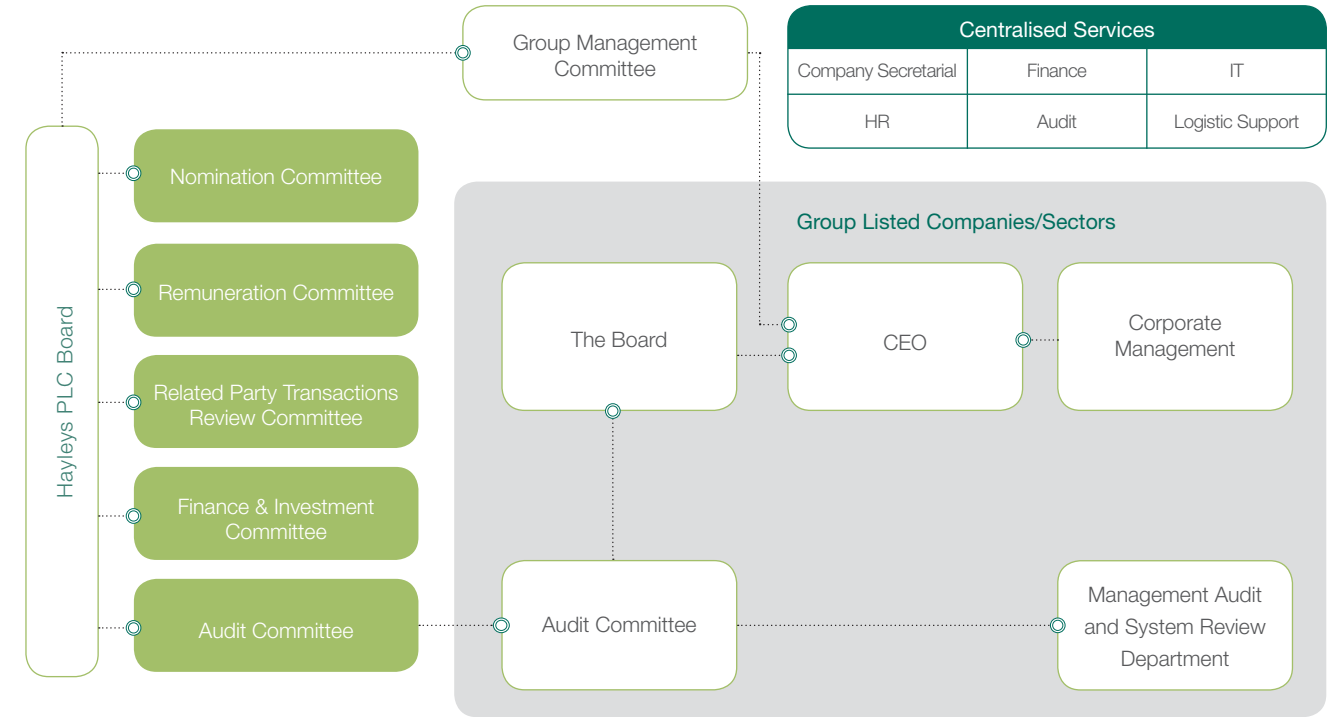
✓ Promote and enforce non-discriminatory laws and policies for sustainable development

✓ Substantially reduce corruption and bribery in all their forms

Corporate Governance is the art of balancing the legitimate interests of our key stakeholders within an agreed framework that defines how we do business. Regulatory compliance is the starting point which is built upon with international best practice, ethics and values. A robust framework of policies, codes, procedures and processes have been set in place

to ensure that our values and standards are upheld in the day to day operations of a vast conglomerate engaged in a variety of businesses. As a group with over a 138 year history, we understand that these change, as stakeholder expectations, regulations, and best practice evolve over time, setting new goal posts and benchmarks. Maintaining a proud tradition, Hayleys PLC upholds high standards of business conduct which are reviewed regularly ensuring that they are relevant for the times. This report is a brief description of how we maintain standards of sound business conduct within the Hayleys Group.

The Corporate Governance structure of the Group is graphically depicted below. The Board appointed by the shareholders is the highest decision making authority and determines the strategic direction of the Group. As a conglomerate with 167 legal entities, we are organised in to 12 sectors which are headed by a Group Management Committee comprising of heads of the business sectors who are responsible for driving business in their respective areas.



The operations of the Hayleys Group is governed by the Companies Act No.7 of 2007, the Continuing Listing Requirements of the Colombo Stock Exchange and the voluntarily adopted Code of Best Practice on Corporate Governance jointly issued by the Securities Exchange Commission and the Institute of Chartered Accountants of Sri Lanka. We are guided by the G4 Guidelines published by the Global Reporting Initiative and the IR Framework published by the International Integrated Reporting Council for determining materials aspects of our environmental and social performance which goes beyond regulatory requirements, promoting transparency in reporting.

This report follows the structure of the Code of Best Practice on Corporate Governance to facilitate comprehensive disclosure in a concise manner and is also referenced to the CSE Continued Listing Requirements where applicable.

| | Area of Governance | # of Principles |
|----------------|-----------------------------|-----------------|
| The Company | The Board | 11 Principles |
| | Directors' Remuneration | 3 Principles |
| | Relations with Shareholders | 3 Principles |
| | Accountability & Audit | 5 Principles |
| Shareholders | Institutional Investors | 2 Principles |
| | Other Investors | 2 Principles |
| Sustainability | Sustainability Reporting | 1 Principle |

An Effective Board (Principle A.1)

The highest decision making body of the Hayleys PLC is the Board of Directors which comprises of 7 executive directors, 5 Non Executive Directors of which 3 are independent non-executive directors.

- Mr.A.M. Pandithage – Chairman & Chief Executive
- Mr.K.D.D. Perera – Co Chairman (Non Executive Director)
- Mr.M.R. Zaheed – Executive Director
- Mr.W.D.N.H. Perera – Non Executive Director
- Mr.S.C. Ganegoda – Executive Director
- Mr.H.S.R. Kariyawasan – Executive Director
- Dr.H. Cabral PC – Independent Non Executive Director
- Dr.K.I.M. Ranasoma – Executive Director
- Mr.M.D.S Goonatilleke – Independent Non Executive Director (resigned w.e.f 12.05.2016)
- Mr.L.T. Samarawickrema – Executive Director
- Mr.L.R.V. Waidyaratne – Executive Director
- Mr.M.H. Jamaldeen – Independent Non Executive Director

Profiles of the Directors are given on pages 24 to 29.

Hayleys Group Services (Pvt) Ltd., provide company secretarial services with competent professionals who are registered as company secretaries with the Registrar of Companies.

The Board has appointed 05 committees in compliance with governance codes and best practice to ensure due attention is given to specific areas.

| Board Committee | Areas of Oversight | Composition & Executive support |
|---|---|--|
| Audit Committee Report of the Audit Committee is given on pages 155 to 156 | <ul style="list-style-type: none"> • Financial Reporting • Internal Controls • Internal Audit • External Audit | Comprises of four non-executive directors of whom three are independent directors including the Chairman. The Chairman & Chief Executive and the Group Chief Financial Officer attend the meetings by invitation together with other relevant senior management. The Company Secretary acts as the Secretary to the Committee. |
| Nominations Committee Report of the Nominations Committee is given on page 151. | <ul style="list-style-type: none"> • Appointment of Key Management Personnel • Succession Planning • Effectiveness of the Board and its Committees • Code of Ethics | Comprises of three non-executive directors of whom one is an independent director and one executive director who is the Chairman. The head of Group Human Resource provides support whenever needed. |

Leadership and Governance

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| Board Committee | Areas of Oversight | Composition & Executive support |
|---|--|--|
| Remuneration Committee Report of the Remuneration Committee is given on page 152. | <ul style="list-style-type: none"> • Remuneration policy for Group with particular reference to Key Management Personnel • Goals and targets for Key Management Personnel • Performance evaluation • HR Policy • Organisation structure | Comprise of five non-executive directors of whom three are independent directors including the Chairman. The head of Group Human Resource provides support whenever needed. |
| Related Party Transaction Review Committee Report of the Related Party Transaction Review Committee is given on page 154. | <ul style="list-style-type: none"> • Related party transaction policy • Disclosure of related party transactions | Comprise of two non executive directors and one executive director. Chairman & Chief Executive and the Group CFO attend the meetings by invitation together with other relevant senior management. The Company Secretary acts as the Secretary to the Committee. |
| Finance and Investment Committee | <ul style="list-style-type: none"> • Finance and investment functions • Integration Planning • Investor relations | Comprise of one non executive director, four executive directors and the Group Chief Financial Officer. |

Regular Meetings (Principle A 1.1)

Board meetings are held monthly while special Board meetings are convened as the need arises. During 2015/16 the Board held 12 scheduled meetings, 1 strategy meeting. Additionally the following sub-committees also met regularly as summarised below.

| Directors | Board | Audit Committee | Remuneration Committee | Nomination Committee | Related Party Transaction Review Committee | Finance and Investment Committee |
|--|-----------|-----------------|------------------------|----------------------|--|----------------------------------|
| Mr.A.M.Pandithage | 13/13 | | | 06/06 | | 01/01 |
| Mr.K.D.D.Perera | 9/13 | | 02/02 | 06/06 | | 01/01 |
| Mr.M.R.Zaheed | 13/13 | | | | | |
| Mr.W.D.N.H.Perera | 08/13 | 0/08 | 02/02 | 06/06 | | |
| Mr.S.C.Ganegoda | 13/13 | | | | 02/02 | 01/01 |
| Mr.H.S.R.Kariyawasam | 13/13 | | | | | 01/01 |
| Dr.H.Cabral PC | 9/13 | 07/08 | 02/02 | 06/06 | 02/02 | |
| Dr.K.I.M.Ranasoma | 13/13 | | | | | 01/01 |
| Mr.M.D.S Goonatilleke (resigned w.e.f 12.05.2016) | 13/13 | 08/08 | 02/02 | | 02/02 | |
| Mr.L.T.Samarawickrema | 10/13 | | | | | |
| Mr. L.R.V Waidyaratne | 13/13 | | | | | |
| Mr.M.H.Jamaldeen | 12/13 | 06/08 | 02/02 | | | |
| Total No. of Meetings | 13 | 08 | 02 | 06 | 02 | 01 |

Board Highlights 2015/16

- The recently established Related Party Transactions Review Committee commenced activities during the year.
- Mr. M.D.S Goonatilleke, Mr. W.D.N.H Perera, Mr. S.C Ganegoda and Mr. L.R.V Waidyaratne were re- elected to the Board as Directors.

Board members spent a minimum of 52 hours on matters related to the Board while members of the Audit Committee spent a further 24 hours on matters delegated to the Committee.

Board members are provided opportunities to gain an understanding or obtain clarifications on matters set before the Board or its sub-committees through presentations made by the Group Management Committee and their teams. The Board is also updated on matters including progress in implementation of the strategic goals, financial, social and environmental performance, changes and challenges presented by the operating environment, recommend policy frameworks and executive governance structures on a regular basis. Active participation of the Non Executive

Directors is facilitated by the Chairman to ensure that there is diverse perspective considered in the matters deliberated by the Board. All Directors receive minutes of the monthly Hayleys Group Management Committee meetings to provide further information on issues discussed and views expressed at the same.

Hayleys PLC has adopted an approach that empowers sectors to manage their performance within a common policy framework and risk appetite. Executive Committees have been established by the Board to support this approach whilst facilitating collaboration, discussion and debate on matters considered critical for the Group's operations as listed below.

| Management Committees | Purpose and tasks |
|---|---|
| Hayleys Group Management Committee (HGMC) | <p>HGMC members are responsible for the strategic planning, development and implementation of policy frameworks, risk management and the performance of the key business lines or support functions managed by them. The plans are approved by the Board as part of the annual strategic planning and budgeting process and they also monitor performance against agreed targets set out in the strategic plans on a monthly basis.</p> <p>The responsibilities of the HGMC are as follows:</p> <ul style="list-style-type: none"> • Recruitment, remuneration and discipline of all personnel • Training and succession planning • Negotiation with trade unions and manual and clerical personnel • Financial Planning and performance reviewing • Maintenance of safety and ethical standards • Management of risk and following implicit and explicit guidelines set by the Group • Safeguarding assets and avoiding deterioration of value through aging or obsolescence • Providing support to the Board and the HGMC in pursuing Hayleys Group objectives and standards. |
| Chief Executives' Forum (CEOs' Forum) | <p>The CEO's Forum is chaired by the Chairman and Chief Executive and brings together the management staff of all the companies on a quarterly basis to facilitate communication. Matters discussed at the forum include common group matters including policy direction, performance, areas of concern and sharing of best practice within the group.</p> |

Leadership and Governance

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| Management Committees | Purpose and tasks |
|-----------------------|--|
| Functional Clusters | <p>Finance, Corporate Communications, Information Technology & 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.</p> <p>All Financial Controllers of sectors are required to report in writing to the Group Chief Financial Officer on a quarterly basis, 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.</p> |

Board Responsibilities (Principle A 1.2)

The Board responsibilities are set out in the Board Charter which includes a schedule of powers reserved for the Board.

Key Board Responsibilities

- Setting strategic direction
- Financial Reporting
- Ensuring that Key Management Personnel have the required skills, experience and knowledge to implement strategy
- Succession Planning
- Ensuring effective systems to secure integrity of information, internal controls, business continuity and risk management
- Ensuring compliance with all laws, regulations and ethical requirements
- Ensuring that key stakeholder interests are considered in corporate decisions
- Ensuring that businesses are developed in a sustainable manner
- Ensuring adoption of appropriate accounting policies and fostering compliance with financial regulations
- Ensuring optimal resource allocation for sustainable value creation

The Board provides guidance for the formulation of the Group's short, medium and long term strategic plans and approves the same at meetings convened specifically for this purpose. The Board monitors performance against agreed Key Performance Indicators at monthly meetings of the Board while specialised areas identified for oversight by Board Committees are monitored by the Committees who have reported on progress and concerns to the Board.

Act in Accordance with laws (Principle A.1.3)

The Board has set in place a framework of policies, procedures and a risk management framework to ensure compliance with relevant laws, and international best practice with regards to the operations of the Group. Directors have the power to obtain independent professional advice as deemed necessary and these functions are co-ordinated by the Group Legal Department or Group Finance, as and when it is necessary.

During the year professional advice was obtained on various matters including following:

- Actuarial valuation of the retirement benefits
- Accounting, legal and tax aspects

The expenses in this regard were borne by the Hayleys Group.

Access to Advice and Services of Company Secretary (Principle A.1.4)

All Directors have access to the advice and services of the Company Secretarial function provided by Hayleys Group Service (Pvt) Ltd. who are responsible for ensuring follow-up of Board procedures, compliance with rules and regulations, directions and statutes, keeping and maintaining minutes and relevant records of the Group. The Company Secretary's responsibilities are as follows.

Board Meetings and Board Committee Meetings

- Ensure proper conduct of Board and Committee Meetings which have been constituted in the Group including proper recording of a minutes and smooth reporting mechanism of the Group's decisions in timely manner.

General Meetings

- Ensure all the general meetings are conducted in accordance with the Articles of Association of the Companies and the Companies Act 7 of 2007 with relevant approvals, adequate security and logistics.

Articles of Association of the Company

- Ensure compliance with the Articles of Association of the Companies and any amendments to the Articles are properly executed.

Reports, Accounts, Documentation

- Ensure publication of the Interim Reports and the Annual Reports in compliance with the Companies Act No 7 of 2007 and the listing rules.

Corporate Governance

- Ensure the adoption of mandatory listing rules and the Code of Best Practice on Corporate Governance and advise the Board accordingly to ensure the smooth functioning of the operations and administration and act as channel of communication for non- executive Directors and the shareholders.

Stock Exchange/Securities and Exchange Commission of Sri Lanka Rules (CSE /SEC Rules)

- Ensure that CSE/SEC rules are adopted and take prompt action on any changes to such Rules.

Returns with Registrar of Companies

- File the necessary returns and the accounts with the Registrar of Companies within the stipulated time and provide information required by the Registrar General on time where necessary.

Others

- Administration of Employees' share ownership plans of the Group, attend to the correspondence of shareholders, compliance of the requirements by the Companies Act No 7 of 2007, Articles of Association and the other regulatory rules and regulations.
- Obtain advices from legal experts where necessary

Independent judgement (Principle A.1.5)

Directors bring independent judgment to bearing on decisions taken by the Board on issues of strategy, performance, resources and business conduct. The composition of the Board ensures that there is a sufficient balance of power and contribution by all directors, minimising the tendency for one or few members of the Board to dominate Board processes or decision making. Many of the Board members are independent professionals who are required to conform to professional codes of conduct which require the exercise of independent judgement in the discharge of their duties.

Dedicate Adequate Time and Effort to Matters of the Board and the Company (Principle A.1.6)

Dates of regular Board meetings and Board Sub-Committee meetings are scheduled well in advance and the relevant papers are circulated a week prior to the meeting giving sufficient time for review. There is provision to circulate papers closer to the meeting on an exceptional basis. Directors are also encouraged to clarify matters with the Group Management Committee whose members are frequently required to make presentations to the Board as well.

It is estimated that non-executive directors dedicate not less than 13 days per annum for the affairs of the Group and those directors who are also on Audit Committee dedicate a further 8 days for the affairs of the Group.

Training for Directors (Principle A.1.7)

Every new Director and existing Directors are provided training on general aspects of directorship and matters specific to the industry. Directors recognise the need for continuous training and expansion of their knowledge and skills to effectively discharge their duties and are encouraged to attend sessions of the Sri Lanka Institute of Directors and other corporate forums on relevant matters. As independent professionals, many of the directors also conform to Continuing Professional Development requirements of their respective professional organisations.

Division of Responsibilities between the Chairman and CEO (Principle A.2)

The functions of Chairman and Chief Executive are vested in one person as the Board is of the opinion that it is the most appropriate arrangement for Hayleys PLC which is one of the largest conglomerates in the country with over twelve diverse business entities arranged in sectors. The Management structure of the Group has a sector focus with separate Boards of holding companies of key sectors which includes Independent non-executive Directors who plays a key role in facilitating effective Corporate Governance within the Group. The Executive Directors and HGMC Members are responsible for the business conducted by the Group and effectively function as CEO's of these businesses. The Board has also appointed Mr.K.D.D.Perera as Co-Chairman and Dr H. Cabral, PC as the Senior Independent Director, ensuring governance within the Board is preserved and stakeholder concerns are addressed.

Role of Co-Chairman

- Ensure that the stakeholder perspective is focused at the Board deliberations.
- High level independent review of performance of the Board and the GMC.
- Stakeholder views are considered in future growth policies.

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The Senior Independent Director is responsible for;

- Setting the Company's values and standards and ensuring that its obligations to shareholders and others are understood and met.
- Upholding high ethical standards of integrity and probity.
- Supporting executives in their leadership of the business, while monitoring their conduct.
- Promoting high standards of corporate governance and compliance with the provisions of the Combined Code whenever possible.
- Be available to shareholders in case they have concerns which cannot, or should not, be addressed by the Chairman or Executive Directors.
- Act on the results of any performance evaluation of the Chairman.
- Maintain sufficient contact with major shareholders, when requested, to understand their issues and concerns thereby assisting the Board to develop a balanced understanding.

The Chairman's Role (Principle A.3)

The Chairman is responsible for the efficient conduct of Board meetings and ensures the effective participation of both executive and non executive directors. He encourages all directors to make an effective contribution for the benefit of the Company and maintains a balance of power between executive and non executive directors. It is also the responsibility of the Chairman to ensure that views of Directors on issues under consideration are ascertained; and that the board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders. The Chairman maintains close contact with all Directors and, where necessary, holds meetings with non-executive directors without executive Directors being present.

Role of Chairman

- Efficient conduct of the Board Meetings.
- Maintain a balance of power
- Ascertained the views of Directors

Financial Acumen (Principle A.4)

The Board of Directors, collectively, have experience in all business sectors in which Hayleys operates and are supported by relevant academic

and professional qualifications. There are four Chartered/Management Accountants on the Board as follows

- Mr. S.C. Ganegoda
- Mr. M.D.S. Goonatileke (resigned w.e.f 12.05.2016)
- Mr. H.S.R. Kariyawasan
- Mr. M.H. Jamaldeen

Board Balance (Principle A.5)

The board comprises of 7 executive directors and 5 non executive directors of whom 3 are independent directors. The non-executive directors are professionals/academics/business leaders, holding senior positions in their respective fields. Three non-executive directors are independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement. Each non-executive director submits a declaration of independence/ non independence in a prescribed format and the Board has determined the independence of Directors based on these declarations. The following directors are deemed to be independent:

- Dr.H.C.Cabral, PC
- Mr.M.D.S. Goonatileke (resigned w.e.f 12.05.2016)
- Mr.M.H.Jamaldeen

The Board is of the opinion that Mr. M.H Jamaldeen has the capability to conduct himself in an independent and impartial manner on matters deliberated by the Board and his independence will not be affected by his spouse, Mrs. I.Jamaldeen being an Alternate Director of the Kingsbury PLC.

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. He is available for confidential discussions with other Directors who may have concerns which pertain to significant issues that are detrimental to the Group. The Chairman meets with NEDs only, without the Executive Directors being present as necessary.

Board minutes are prepared in order to record any concerns of the Board as a whole or as individual Directors regarding matters placed for their approval/guidance/action. These minutes are circulated and formally approved at the subsequent Board meeting. Additionally, Directors have access to the past Board papers and minutes in case of need.

If a Director resigns over an unresolved issue, the Chairman will bring the issue to the attention of the Board. The Director concerned is also required to provide a written statement to the Chairman for circulation to the Board.

Supply of Relevant Information (Principle A.6)

The Chairman ensures that all directors are properly briefed on issues arising at Board Meetings by requiring the management to provide comprehensive information including both quantitative and qualitative information for the monthly Board Meetings 7 days prior to the Board/ Sub-Committee meetings. The Directors have free and open access to Management at all levels to obtain further information or clarify any concerns they may have. As described above, they also have the right to seek independent professional advice at the Company's expense and copies of advice obtained in this manner are circulated to other directors who request it. Any director who does not attend a meeting is updated on proceedings prior to the next meeting through:

- Formally documented minutes of discussions.
- By clarifying matters from the Board Secretary
- Separate discussions at the start of the meeting regarding matters arising for the previous meeting.
- Archived minutes and board papers accessible electronically at the convenience of the directors.

Directors also have an open invitation to attend the meetings of the Management Committees and have the opportunity to interact with senior management after Board Meetings. 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.

Appointments to the Board (Principles A.7)

The Nomination Committee makes recommendations to the Board on all new Board appointments. Nomination Committee of Hayleys PLC consists of the following Directors.

- Mr.A.M. Pandithage - Chairman
- Mr.K.D.D. Perera
- Mr.W D N H Perera
- Dr. H. Cabral, PC

The Board believes it is appropriate for the Chairman & Chief Executive to chair this committee and that the composition of the committee ensures its balance. The Nomination Committee Report is given on page 151.

The Nomination committee annually assesses the 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. Following details of new Directors are disclosed on their appointment to the Colombo Stock Exchange, selected newspapers and Annual Report,

- A brief resume of the Director;
- The nature of his expertise in relevant functional areas;
- The names of companies in which the Director holds directorships or memberships in Board Committees; and
- Whether such a Director can be considered 'independent'.

Re-Election (Principle A.8)

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 re-election by the shareholders at that meeting. 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. The names of Directors submitted for election or re-election are accompanied by a resume to enable shareholders to make an informed decision on their election. The Provisions of the Articles of the Company do not require the Director who is the Chief Executive to retire by rotation.

Appraisal of Board Performance (Principle A.9)

The Chairman and Remuneration Committee is responsible for evaluating the performance of the Executive Directors. The Board undertakes an annual self evaluation of its own performance and of its Committees and the responses are collated by the Board Secretary who compiles a report which is submitted to the Chairman and discussed at a Board Meeting.

Board evaluated its performance according to following guidelines.

- Strategies developed and implemented.
- Board image.
- Compliance with laws and regulations.
- Quality of participation in the meetings.
- Effectiveness of systems and procedures.

Disclosure of Information with Respect to Directors (Principle A.10)

Information specified in the Code with regards to Directors are disclosed within this Annual Report as follows:

- Name, qualifications, expertise, material business interests and brief profiles on pages 24 to 29.

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- Related party transactions on pages 251 to 254.
- Membership of sub-committees and attendance at Board Meetings and Sub-Committee meetings on page 36.

Appraisal of Chief Executive Officer (Principle A.11)

Prior to the commencement of each financial year, the Board in consultation with the Chief Executive, set reasonable financial and non financial targets which are in line with the 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.

Directors' Remuneration Procedure (Principle B.1)

The Remuneration Committee determines the remuneration of the Chairman/Chief Executive and the Executive Directors and sets guidelines for the remuneration of the management staff within the Group. Please refer page 152 Remuneration Committee Report for the terms of reference for Remuneration Committee.

The Remuneration Committee comprises of the following non - executive Directors and the Chairman of this committee is appointed by the Board.

- Dr. H. Cabral, PC – Chairman
- K.D.D. Perera
- W.D.N.H. Perera
- M.D.S. Goonatilleke (resigned w.e.f 12.05.2016)
- M.H. Jamaldeen

The Board as a whole determines the remuneration of the NED's. The NED's receive a fee for being a Director of the Board and an additional fee for being a member of a Committee. They do not receive any performance related/ incentive payments.

The Remuneration Committee consults the Chairman about its proposal relating to the remuneration of other Executive Directors and has access to professional advice from within and outside Hayleys PLC, in discharging their responsibilities. No Director is involved in deciding his own remuneration.

Level & Make Up of Remuneration (Principle B.2)

The Remuneration Committee determines the combination of remuneration needed to attract, retain and motivate Executive Directors

of the quality required to achieve corporate goals. 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. The Remuneration Committee reviews data concerning executive pay among the Group Companies.

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. Presently the Group does not have an Executive Share Option Schemes. The Remuneration Committee follows the provisions set out in Schedule D of the Code as required. 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.

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.

Disclosure of Remuneration (Principle B.3)

The Report of the Remuneration Committee is set out on page 152 which includes a statement on Remuneration Policy. Please refer page 196 for the total Directors' Remuneration.

Relations with Shareholders (Principle C.1)

The Annual General Meeting is used for constructive engagement with shareholders. 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. Hayleys PLC proposes a separate resolution at the AGM on each substantially separate issue.

The adoption of the Annual Report of the Board of Directors and the Financial Statements is considered as a separate resolution. The Chairman of Hayleys PLC ensures that Chairmen of the Audit, Remuneration and Nomination Committees are available to answer questions at the AGM if so requested by the Chairman.

A copy of the Annual Report including financial statements, the Notice of Meeting and the Form of Proxy are sent to shareholders 15 working days prior to the date of the AGM as required by the Statute in order to provide and opportunity to all the shareholders to attend the AGM.

A summary of the procedures governing voting at the General Meeting is circulated to shareholders with every notice of the General Meeting.

Communication with Shareholders (Principle C.2.)

The shareholder engagement mechanisms are set out in the Stakeholder Engagement section of the report on pages 56 to 57 which includes the Annual General Meeting. A dedicated page of the Hayleys website www.hayleys.com/investor-relations provides the following information:

- Hayleys PLC Annual Report
- Stock information
- Stock Exchange announcements

Comments and suggestions can be sent through info@cau.hayleys.com

The Group has an open door policy, which enables shareholders to keep in constant touch, visit and obtain information from the Company Secretaries and engage in dialogue. Please refer “Stakeholder Engagement” provided on pages 56 to 57 for details of the policy and methodology for communication with shareholders. Details of the contact person disclosed on page 288 of the Annual Report.

The Company Secretary maintains a record of all correspondence received. All major issues and concerns of shareholders are referred to the Board of Directors with the views of the management.

For major issues, after referring to the Hayleys Board of Directors, the Company Secretary sends the response to the relevant shareholder, while for other issues the Company Secretary responds directly to shareholders.

Material Transactions (Principle C.3)

Transactions, if any, which materially affect the net asset base of Hayleys PLC, will be disclosed in the Quarterly / Annual Financial Statements. 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 the consolidated group net asset base.

Accountability & Audit (Principle D.1)

The Board recognises its responsibility to present a balanced and understandable assessment of the Group's financial position, performance and prospects in accordance with the requirements of the Companies Act No 07 of 2007. The Financial statements included in this Annual Report are prepared and presented in accordance with Sri Lanka Accounting Standards. The Annual Report also conforms to the G4 standard on Sustainability Reporting published by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council.

Hayleys PLC has complied with the reporting requirements prescribed by the Colombo Stock Exchange.

The following specialised information requirements are also included in this Annual Report:

- The Annual Report of the Board of Directors on the Affairs of the Company given on pages 144 to 146 cover all areas of this section.
- The “Statement of Directors’ Responsibilities” is given on page 153
- The Directors’ Statement on Internal Controls is given on page 150
- The “Independent Auditors’ Report” on page 159 For the Auditor’s responsibility.
- The Financial Review and the Value Creation Report on pages 118 to 121.

There has been no serious loss to convene an EGM, but the regulation would be complied with if situation arises.

Internal Control (Principle D.2)

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.

The Group's Management Audit & System Review Department plays a significant role in assessing the effectiveness and successful implementation of existing controls, strengthening these and establishing new controls where necessary. The MA & SRD's reports are made available to the Chairman & Chief Executive and the Chairman of the Audit Committee. Group's Management Audit & System Review Department (MA & SRD) is responsible for internal audit function.

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.

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.

The Audit Committee reviews internal control issues and risk management measures identified by Group's Management Audit & System Review

Leadership and Governance

Corporate Governance

Department (MA & SRD) and evaluate the adequacy and effectiveness of the risk management and internal control systems including financial reporting.

Audit Committee (Principle D.3)

The Board has established an Audit Committee which has the oversight and responsibility 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. The composition of the Audit Committee is as follows:

- Mr. M.D.S Goonatilleke – Chairman- (resigned w.e.f 12.05.2016)
- Mr. W.D.N.H Perera
- Dr. H. Cabral. PC
- Mr. M. H. Jamaldeen

Hayleys Group Services (Pvt) Ltd, serves as its Secretary. The Chairman & 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.

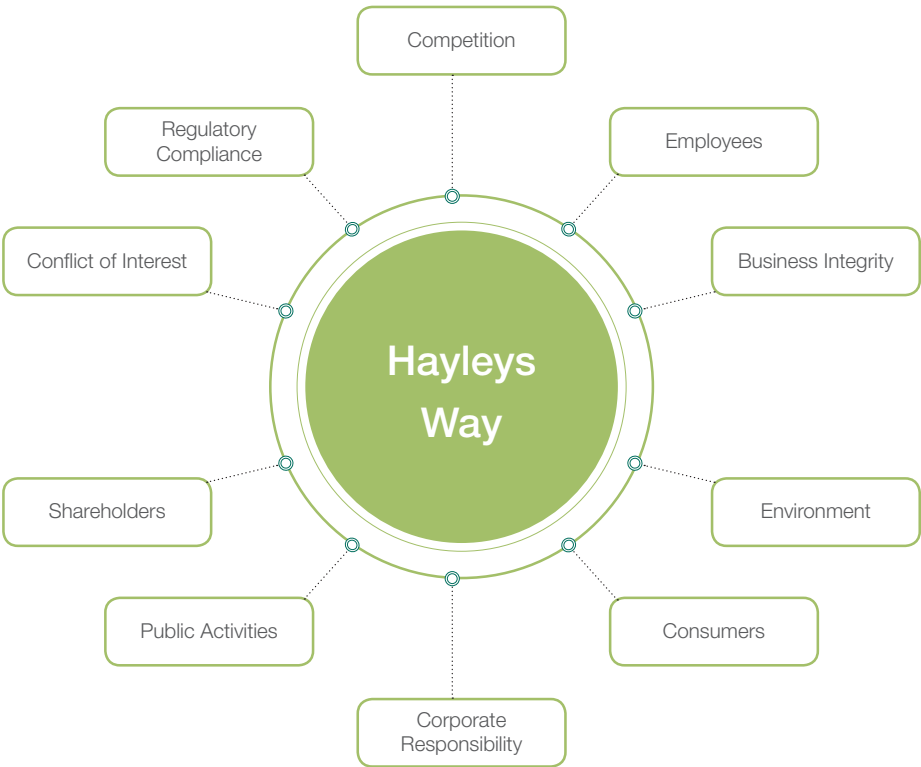
The Audit Committee reviews the scope and results of the audit and its effectiveness, and the independence and objectivity of the auditors. They also review the nature and extent of non-audit services provided by the auditors to ensure that auditors are able to maintain objectivity and independence.

The Terms of Reference of the Audit Committee have been approved by the Board. This addresses the purpose of the Committee, its duties and responsibilities including the scope and functions of the Committee which are summarised in the Audit Committee Report on page 155.

The disclosure of the independence of the Auditors is given in page 159 under the section on the “ External Audits” in the “Audit Committee Report” on pages 155 to 156 of this Report.

Code of Business Conduct & Ethics (Principles D.4)

Hayleys has developed “ The Hayleys Way”- The Ethical Road Map for the Code of Conduct of its employees including key management personnel. It is based on the following principles:



1. The Hayleys Group is committed to conducting its business operations with honesty, integrity and with respect to the rights and interests of all stakeholders.
2. All Hayleys companies and employees are required to comply with the laws and regulations of the countries in which it operates.
3. Every employee shall be responsible for the implementation of and compliance with the Code in his/her environment.

The Code of Conduct provides guidelines for employees on the conduct of its businesses and operations in all the countries we operate in.

Corporate Governance Disclosures (Principle D.5)

The Corporate Governance Report set out on pages 34 to 47 (of which this paragraph is part of) describes the extent to which Hayleys PLCs' adheres to established principles and practices of good Corporate Governance.

Institutional Shareholders (Principles E 1 & 2)

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 that the views of the shareholders are communicated to the Board as a whole.

Shareholders are provided with Quarterly Financial Statements and the Annual Report, which the Group considers as its principal communication with them and other stakeholders. These reports are also made available on the Group's website and are provided to the Colombo Stock Exchange. Any information that the board considered as price sensitive is disseminated to the shareholders by way of announcements to the CSE and press releases.

Shareholders may bring up concerns they have, either with the Chairman & Chief Executive or the Group's Secretarial Department as appropriate. Discussions are held with Institutional Investors, involving the Chairman, and other Executive Directors where necessary. This process is supported by the Strategic Business Development Unit and the Corporate Affairs Unit. During these meetings, the Directors ensure protection of share price sensitive information that has not been made available to the company's shareholders. The Institutional Investors are encouraged to give due weight to all relevant matters relating to the Board structure and composition.

Other Investors (Principles F1 & 2)

Individual investors are encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions. They are also encouraged to participate in General Meetings of companies and exercise their voting rights. Information is disseminated to all shareholders as specified in the Stakeholder Engagement section on pages 56 to 57.

Sustainability Reporting (Principle G)

Hayleys PLC has included Sustainability Reporting in this Integrated Annual Report which provides information on policies and procedures implemented to develop a sustainable business environment with disclosures on the following aspects:

- | | |
|--|------------------------|
| • Economic sustainability | Refer pages 63 to 65 |
| • The environment | Refer pages 137 to 140 |
| • Labour practice | Refer pages 131 to 136 |
| • Society | Refer pages 123 to 130 |
| • Product responsibility | Refer pages 63 to 65 |
| • Stakeholder identification, engagement & effective communication | Refer pages 56 to 57 |
| • Sustainable reporting and disclosure | Refer pages 63 to 65 |

Leadership and Governance

Corporate Governance

Compliance With CSE Continuing Listing Rules

| CSE Rule Reference | Corporate Governance Principles | Compliance Status | Hayleys Extent of Adoption |
|--------------------|--|-------------------|--|
| 7.10.1(a) | Non-Executive Directors | Compliant | Five out of Twelve Directors are NEDs |
| 7.10.2(a) | Independent Directors | Compliant | Three of Five Non-Executive Directors were 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 with 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 A.5 of SEC & CA Sri Lanka on page 40. |
| 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 24 to 29 for the brief resume 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 resumes of the Directors appointed during the year have been provided to the Colombo Stock Exchange. |
| 7.10.5 (a) | Composition of the Remuneration Committee | Compliant | Please refer the Remuneration Committee Report on page 152 and Principles B1 to B3 on page 42 of this Corporate Governance Report. The remuneration paid to Directors is given in the Note 10 to the financial statements on page 196. |
| 7.10.5(b) | Functions of the Remuneration Committee | Compliant | |
| 7.10.5(c) | Disclosure in the Annual Report relating to the Remuneration Committee | Compliant | |
| 7.10.6(a) | Composition of the Audit Committee | Compliant | Refer the Audit Committee Report on pages 155 to 156 and disclosures under Principle D3 on page 155 of this report. |
| 7.10.6(b) | Audit Committee Functions | Compliant | |
| 7.10.6 (c) | Disclosure in the Annual Report relating to the Audit Committee | Compliant | |

Compliance With CSE Continuing Listing Rules

| CSE Rule Reference | Corporate Governance Principles | Compliance Status | Hayleys Extent of Adoption |
|--------------------|--|-------------------|---|
| 9.2.1 & 9.2.3 | Related Party Transactions Review Committee | Compliant | The Committee was formed on 10th February 2015. The functions of the Committee are stated in Related Party Transactions Review Committee report in page 154. |
| 9.2.2 | Composition of the Related Party Transactions Review Committee | Compliant | Please refer the Related Party Transaction Review Committee Report on page 154. |
| 9.2.4 | Related Party Transactions Review Committee-Meetings | Compliant | The committee was formed on 10th February 2015 and met two times during the financial year of 2015/16 |
| 9.3.1 | Immediate disclosures | Compliant | Company did not have any non recurrent related party transactions which requires immediate disclosure to the Colombo Stock Exchange. |
| 9.3.2 (a) | Disclosure - Non-recurrent Related Party Transactions | Compliant | Company did not have any non recurrent related party transactions with aggregate value which exceeds 10% of the equity or 5% Total assets whichever is lower. Hence no disclosure is required. |
| 9.3.2 (b) | Disclosure - Recurrent Related Party Transactions | Compliant | Hayleys PLC provides services to its subsidiaries and which are carried out on a continuous basis and are expected to extend over a period of time in the ordinary course of the business of the Company. However, the aggregate values of these transactions were below 10 % of gross revenue of the 2014/15 Financial Statements. |
| 9.3.2 (c) | Report by the Related Party Transactions Review Committee | Compliant | Refer the Related Party Transaction Review Committee Report on page 154. |
| 9.3.2 (d) | A declaration by the Board of Directors | Compliant | Refer the Annual Report of Board of Directors for an affirmative statement of compliance of the Board on page 142. |

Leadership and Governance

Managing Risk

Risk management is a vital function for a conglomerate with diverse businesses spanning the globe, as risk could arise from any one of our operational units. The size of the Group, its geographic and sector diversity increases the complexities of managing risk while on the other hand it also provides a natural hedge in some aspects. The Hayleys Group adopts a broad definition of risk management interpreting risk to be any factor that can diminish the Group's capacity to create value to stakeholders. A structured and transparent Enterprise Risk Management (ERM) system, adopting the guidelines presented by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) is in place to identify, manage and mitigate risks in a consistent and structured manner. A comprehensive policy framework, risk governance structures, defined responsibilities for risk identification, measurement, mitigation and reporting nurtures a group wide risk culture, a key element for effective risk management.

Risk Governance

The Responsibility for managing risk rests with the Board of Directors who have set in place policies and processes to manage the same. They are assisted in the discharge of their duties by the Audit Committee who have oversight responsibility for risk and internal control. The Group Management Audit and Systems Review Unit (MA & SRD) of the Group provides assurance to the Audit Committee on internal control and compliance of the entire Group and encompasses financial and other operational risks. At a Hayleys Group level, the Group Treasury, the Group Tax and the Strategic Business Development Unit also assist in overall risk assessment and mitigation through their respective functions. As the different business sectors have relative autonomy in running their businesses which are conglomerates in their respective fields, the Group Management Committee Members and Audit Committee of their companies play a key role in identifying, monitoring and managing risk in a 3 lines of defence model as depicted below.

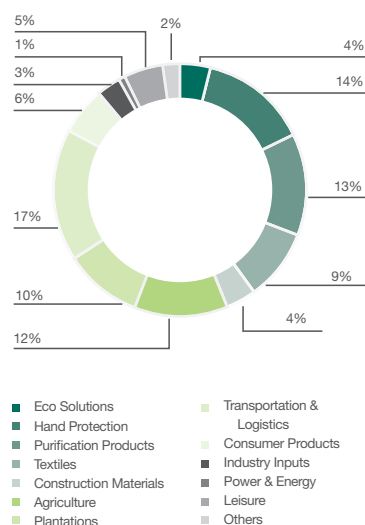
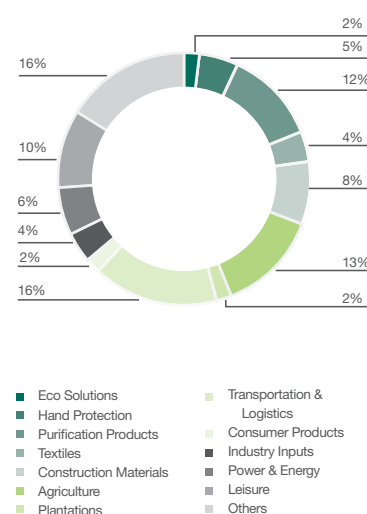
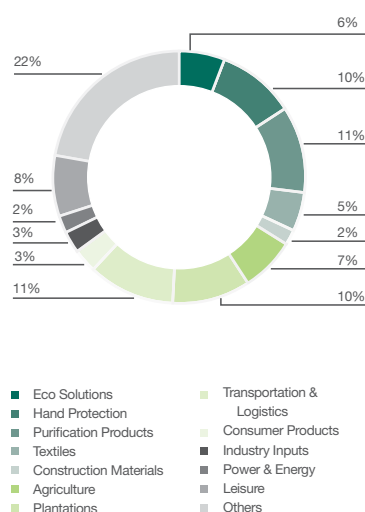
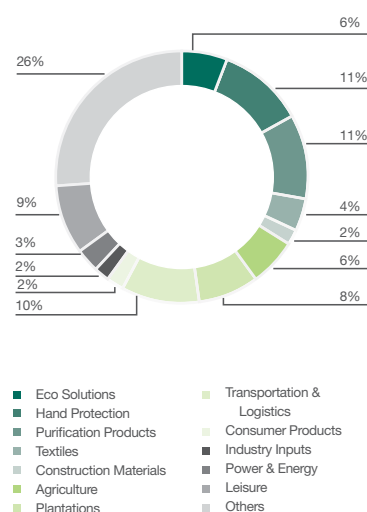
Risk Identification & Management

On a Group level, risk identification commences with the review of each sector's value creation model and shareholder concerns identified from the stakeholder engagement processes. Material aspects are determined through this exercise and then risk indicators are identified at a Group level, taking in to account materiality of the various aspects on the Group performance. Information from all sectors is collated and evaluated on a quarterly basis which are reviewed by GMC members. Key risks from this process will be reported to the Audit Committee and Board commencing from the first quarter of the 2016/17 financial year as the process was implemented during the year, replacing the previous risk reporting process.

Portfolio Concentration

Our diversity is a natural hedge and we continue to monitor the concentration with regards to reliance on business sector's for profit, group assets and exposure to geographies as given below. In terms of profit, the highest contribution from any sector is 18% which is an acceptable level of risk considering the industry dynamics, the comprehensive portfolio of services and the growth potential of the transportation sector. The highest asset value of 22% is the miscellaneous classification of others as a sector which is sufficiently diverse within itself. Geographical segmentation reflects the exposure to Sri Lanka with 46% of revenue derived from the country of domicile while the remaining 54% is sufficiently diverse with a growing appetite for intra regional trade within Asia.




Revenue

PBIT

Total Assets

Capital Employed


Leadership and Governance

Managing Risk

Principal Risks & Uncertainties

The principal risks identified from the above process are summarized below.

| Risk | Impact | Mitigating Activities | Net Risk Assessment |
|---|--|--|---|
| Geopolitical Risk | As 54% of the Group's turnover is derived from exports or indirect exports, with a fair amount of exposure to the Middle East and Eastern Europe arising from particularly from the Plantations sector, geopolitical risk has become a key risk that will impact our top line. | <ul style="list-style-type: none"> • Diversified export markets • Increasing penetration in stable markets • Developing new markets • Monitoring developments in formulating strategy | <p>Moderate</p> <p>Based on current levels of exposure to markets with elevated geopolitical risk</p> |
| Government Policy | Government policies on foreign relations, interest rates, inflation, energy and wages has a direct impact on HFP, impacting operating margins and profitability. | <ul style="list-style-type: none"> • Rising inflation, interest rates and wages is monitored and strategies are adjusted to minimise impact where possible. An example is the re-negotiation of interest rates on loans based on improved financial performance which has reduced finance costs. • Joint industry action to promote favourable terms of trade with other countries | <p>Moderate</p> <p>Based on assessment of foreign policy which may result in favourable terms of trade, declining energy costs adjusted for rising inflation, wages and interest rates.</p> |
| Availability of Raw Material | As many of our business sectors are engaged in manufacture and processing activities, it is critical that we have sufficient quantities of raw material available at predictable prices. | <ul style="list-style-type: none"> • Broad base of suppliers for raw materials • Supplier screening to ensure capability • Quality control processes from receiving point to ensure a match with specifications • Monitoring market trends for key inputs at sector level to ensure we receive competitive pricing | <p>Moderate</p> <p>Based on supplier screening and quality control processes in place at sector level</p> |
| Supply and Affordability of Energy | Energy is required at every stage of our manufacturing operations and has a direct impact on our carbon footprint | <ul style="list-style-type: none"> • Review energy mix and decrease dependency on non-renewable sources • Increased investments in renewable energy sources to supply power to main grid • Investing in energy efficient machinery and equipment • Continuous monitoring of energy intensity ratio to drive required action • Refer pages 137 to 139 of the Natural Capital segment for further information | <p>Low</p> <p>Based on continuous monitoring of energy intensity ratios at sector level and investments in renewable energy</p> |

| Risk | Impact | Mitigating Activities | Net Risk Assessment |
|-------------------------------------|--|--|---|
| Availability of Water | Water is required for a number of our manufacturing processes. | <ul style="list-style-type: none"> Principal sources of water are assessed for sufficiency and quality Recycling water withdrawn from source for cooling and heating purposes Review operations to reduce water usage intensity Compliance with licensing requirements of the Central Environment Authority Refer pages 137 to 139 of the Natural Capital segment for further information | <p>Moderate</p> <p>Based on rainfall patterns and investments in reducing water footprint</p> |
| Employee Health & Safety | We value our employees and recognize our responsibility to provide a safe working environment. We also understand that specific aspects of our processes may present higher levels of risk to employees' health and safety. | <ul style="list-style-type: none"> Establishment of worker management health and safety committees to ensure their views are understood and addressed Establishing safety procedures for all operations that present risks to employees and ensuring implementation of the same Maintaining and monitoring employee health and safety statistics Refer pages 131 to 136 of the Human Capital Report for further information. | <p>Low</p> <p>Based on established structures, procedures, monitoring and review mechanisms</p> |
| Employee Relations | Employee relations are a key concern as many employees in manufacturing operations are from the vicinity and 2% are members of politically allied trade unions as the Hayleys Group recognises the right to freedom of association | <ul style="list-style-type: none"> Open door policy for employees to discuss areas of concern Regular structured dialogue conducted with union representatives to identify areas of concern Balanced HR policies are applied in a consistent manner building trust with employees Communicating how personal goals are aligned with organisation at goals through an organisation wide performance management system Refer pages 131 to 136 of the Human Capital Report for further information | <p>Low</p> <p>Based on established structures, procedures, monitoring and review mechanisms</p> |
| Effluents & Waste | Effluents from our manufacturing processes containing chemicals are discharged only after treatment in compliance with the Central Environment Authority licensing requirements to ensure that it does not adversely affect the community and the bio diversity of the surrounding area. | <ul style="list-style-type: none"> Investing in effluent treatment and solid waste management Monitoring the quality of effluents on an hourly basis to ensure conformity with CEA requirements Residual sludge is dried and serves as raw material. Refer Natural Capital Report on page pages 137 to 139 | <p>Low</p> <p>Based on investments and rigorous monitoring processes in place</p> |

Leadership and Governance

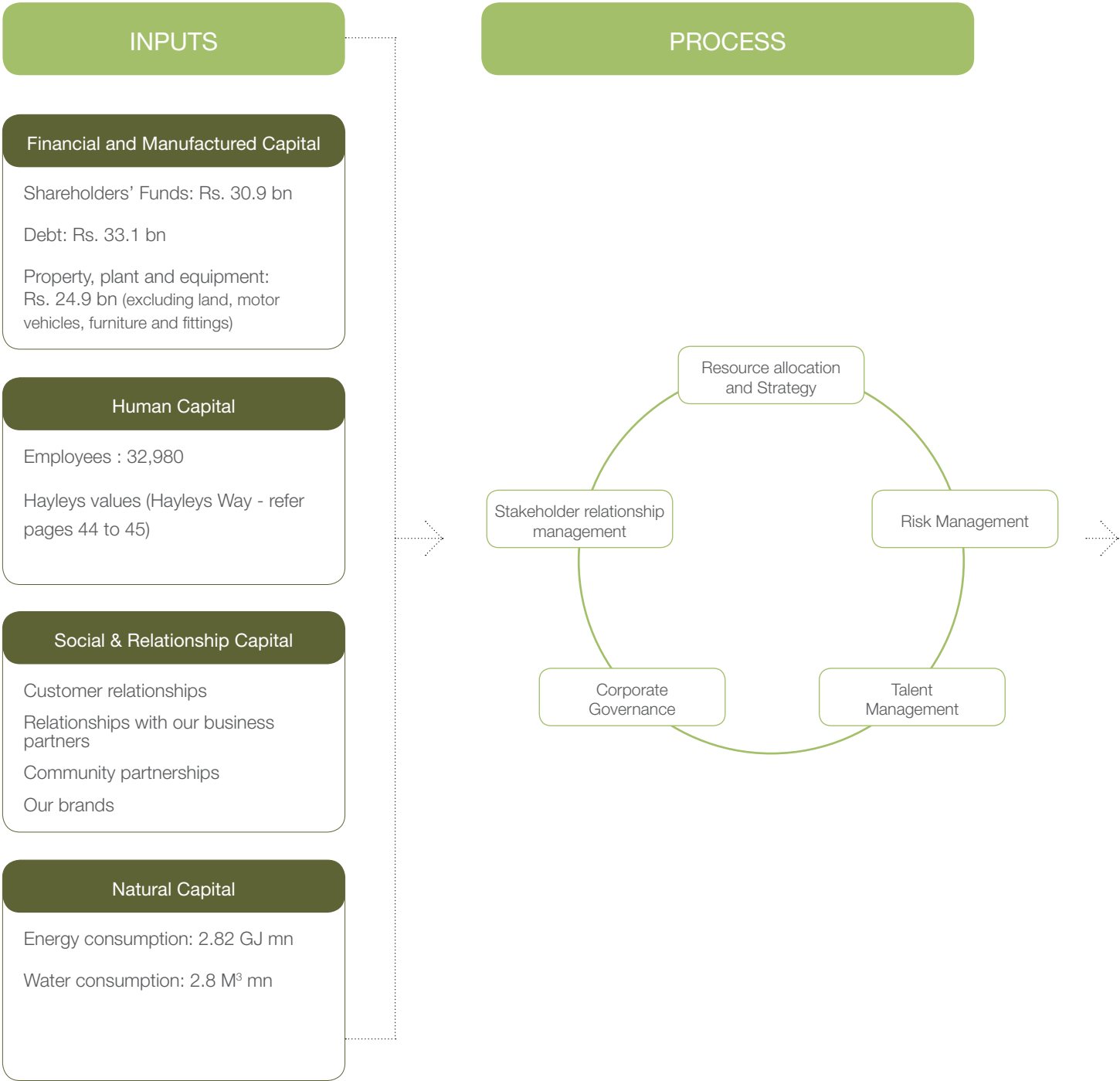
Managing Risk

| Risk | Impact | Mitigating Activities | Net Risk Assessment |
|---|--|---|---|
| Customer Satisfaction | Customer satisfaction is key to business growth | <ul style="list-style-type: none"> • High levels of customer engagement to understand areas of concern • Compliance with requirements and specifications • Focus on innovation • Monitoring customer rankings where possible • Refer Creating Value for Customers on page 123. | <p>Moderate</p> <p>Based on processes in place and adjusted to recognize the rapid pace of change in requirements</p> |
| Timely Delivery | Timely delivery is key to profitability as late delivery comes with penalties and loss of customer satisfaction | <ul style="list-style-type: none"> • Production scheduling to maximize capacity utilization and ensure timely delivery • Quality control checks conducted at each stage of the process to ensure compliance with specifications and timely delivery • Monitoring delivery time compliance and penalties incurred, if any. • Refer Creating Value for Customers on page 123. | <p>Moderate</p> <p>Based on processes in place and adjusted to recognize the complexity of production scheduling</p> |
| Product Responsibility | Product responsibility is critical to our reputation and growth | <ul style="list-style-type: none"> • Compliance with regulatory and certification requirements • Monitoring of customer complaints • Supplier screening for financial, social and environmental criteria • Quality control processes • Refer Creating Value for Customers on page 123. | <p>Low</p> <p>Based on processes in place and rigorous monitoring of product safety aspect</p> |
| Local Community Relations, Market Presence & Indirect Economic Impacts | We engage with local communities providing employment opportunities and indirect employment which are critical for the socio economic progress of these communities which create a level of interdependency requiring active management. | <ul style="list-style-type: none"> • High levels of engagement with employees and community • Robust employee and community value propositions to maintain an appropriate balance • Building pride in the organisation with employees and the community • Refer Human Capital Report and Creating Value for the Community on pages 123 to 136. | <p>Low</p> <p>Based on high levels of engagement with employees and community</p> |
| Training & Development | Training and development is a key aspect at all levels to drive employee productivity, safety and enhance the tacit knowledge of our team which gives us our competitive edge. | <ul style="list-style-type: none"> • Structured training programmes are in place for all employees • Training needs are identified through a robust performance management system • Many entities are approved training centres for NAITA and the Institute of Chartered Accountants of Sri Lanka • Refer Human Capital Report on pages 131 to 136 for further information | <p>Low</p> <p>Based on programmes and processes in place to develop our human capital</p> |

| Risk | Impact | Mitigating Activities | Net Risk Assessment |
|---------------------------------|---|---|--|
| Emissions | Directly impacts our carbon footprint, compliance with CEA license and the quality of air in the community. | <ul style="list-style-type: none"> Investments in energy efficient technology Managing the energy mix Continuous monitoring of emissions to ensure compliance with CEA requirements and certifications Refer Natural Capital Report on pages 130 to 140 for more information | <p>Low</p> <p>Based on current requirements and plans in place for reducing the carbon footprint</p> |
| Innovation | Our ability to innovate is key to growth and profitability | <ul style="list-style-type: none"> Investment in our own Research & Development facilities with state of the art equipment Ability to attract and retain highly qualified and experienced talent to operate the R&D facilities Continuous monitoring of performance to inspire and motivate these highly skilled employees | <p>Moderate</p> <p>Based on processes in place adjusted for the rapid pace of innovation in industry</p> |
| Marketing Communications | Marketing communications are key to growth requiring a fine balance that does not over promise while conveying our capability to potential and existing customers | <ul style="list-style-type: none"> Marketing communications are reviewed at Corporate Management level to ensure accuracy, integrity and appeal Monitoring fines, if any | <p>Low</p> <p>Based on the process in place to ensure accuracy of marketing cons and compliance to relevant regulations.</p> |
| Transport | Our finished products need to be transported to markets and customers in the country and in other countries. Similarly, we also source inputs from other countries for which the suppliers are responsible for transport. | <ul style="list-style-type: none"> Transportation arrangements are factored in to purchasing decisions Transport of our products are contracted to the Group company where possible Transport of hazardous chemicals is done under stringent conditions contracted with a third party provider with specialized capability to ensure safe transportation Employee transport is provided by a third party evaluated for safe driving Workmen compensation cover is extended to cover travel and from work | <p>Low</p> <p>Based on capability of our transport sector and a track record of zero incidents in transport hazards</p> |

Our Strategy

Value Creation Model



OUTPUTS

Tea and Rubber

Household, industrial and medical gloves

Activated Carbon

Agricultural produce

Guest Nights

Port and logistics operations

Aluminium extrusions

Fabric

Renewable energy

OUTCOMES

Financial Capital

Sustainable growth in shareholder earnings

Net Profit: Rs. 5.1 bn
Earnings per share Rs. 40.05
Dividends per share Rs. 6.5

Human Capital

Rewarding work environment with opportunities for career and skill development

Payments to employees: Rs. 13.4 bn
Training hours: 98,770

Social & Relationship Capital

Nurture mutually rewarding relationships

Community investment: Rs. 51 mn

Natural Capital

Preserve our planet through minimizing the negative impacts of our operations

Waste generated: 7,039.4 MT
Effluents generated: 2.13 M³ mn
Carbon footprint: 83,261 tCO₂e

Our Strategy

Our Key Relationships

Proactive stakeholder engagement is vital to ensuring that our sustainability is embedded in our day to day operations. We engage with stakeholders who potentially have the most significant impact on our value creation process and those who are affected most by our activities. At Hayleys, stakeholder engagement is also used as an effective tool in the identification and prioritization of material aspects.

| | |
|--------------|--|
| Shareholders | Methods of engagement: Annual General Meeting, Annual Report, Quarterly financial reports, press releases and announcements (ongoing) and the Corporate website (ongoing) |
| | Key topics arising from engagement: <ul style="list-style-type: none"> • Sustainable growth in earnings • Corporate Governance and ethics • Risk Management • Reputation • Growth opportunities and future outlook |
| | Our Management Approach: We aim to provide our shareholders with transparent, reliable and timely communication that facilitates informed decision making. |

| | |
|-------------------------|---|
| Employees/ Trade Unions | Methods of engagement: Performance appraisals (annual), monthly cluster meetings, CEOs forums (quarterly), employee Intranet and work life balance initiatives (ongoing), quarterly internal magazine, ongoing dialogue with trade unions |
| | Key topics arising from engagement: <ul style="list-style-type: none"> • Organisational developments • Remuneration considerations • Training and skills development • Focus on health and safety aspects and a conducive work environment |
| | Our Management Approach: We aim to provide a dynamic work environment which challenges and rewards our employees, providing numerous opportunities for career and personal development |

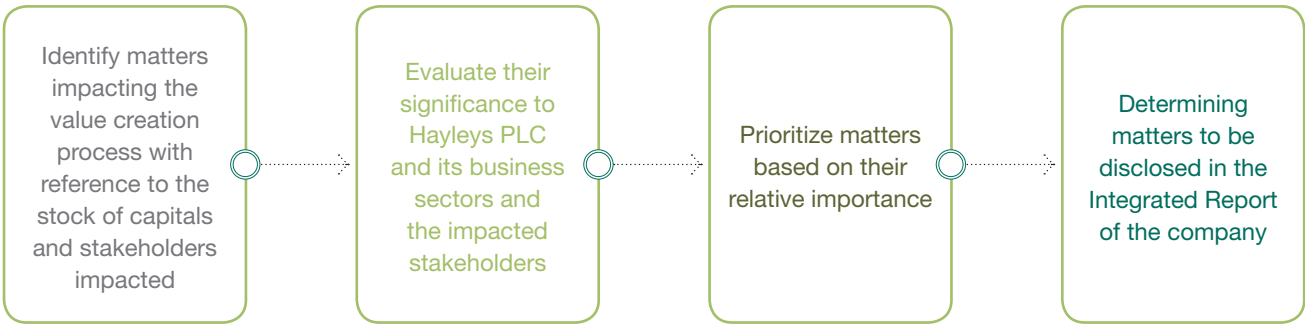
| | |
|-----------|--|
| Customers | Methods of engagement: Customer relationship management (ongoing), customer satisfaction surveys (ad-hoc basis), meetings (ongoing), customer visits (upon request) |
| | Key topics arising from engagement: <ul style="list-style-type: none"> • Product and service quality • Innovation that meets changing needs • Ease of transactions |
| | Our Management Approach: We aim to offer innovative products and high levels of customer service which enables the creation of long-term relationships with our diverse customer base. |

| | |
|-------------------|---|
| Business Partners | Methods of engagement: Annual conventions for business partners, distributors and dealers, corporate website (ongoing), brochures and other promotional material, supplier development programs (ongoing) |
| | Key topics arising from engagement: <ul style="list-style-type: none"> • Ease of transactions • Value addition and supplier development • Long-term partnerships • Quality of service |
| | Our Management Approach: Our commitment towards our business partners involves establishing long-term, mutually beneficial relationships while propagating sustainable business practices |
| Local Communities | Methods of engagement: Ongoing community development initiatives, open dialogue with community representatives on an ongoing basis |
| | Key topics arising from engagement: <ul style="list-style-type: none"> • Creation of job opportunities • Sponsorships and development initiatives • Environmental and social impacts of our business |
| | Our Management Approach: We aim to empower and uplift the living standards of the people in the communities we operate in, contributing towards their socio economic progress |
| The Government | Methods of engagement: Ongoing discussions with the government on National policy and sustainable development, representatives of multiple national committees, regular meetings |
| | Key topics arising from engagement: <ul style="list-style-type: none"> • Compliance to all relevant rules and legislation, including the timely payment of tax • Environmental and social impact of our business |
| | Our Management Approach: We strive to maintain respectful and mutually rewarding relationships with the government through providing inputs into issues affecting our business. |

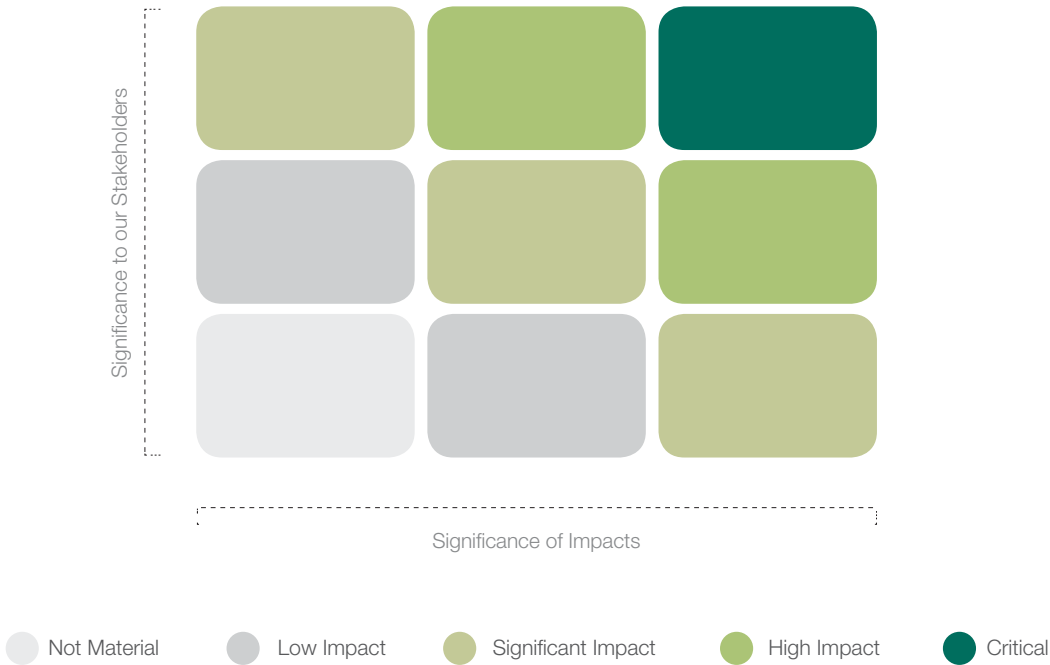
Our Strategy

Determining Material Issues

A structured materiality analysis was carried out during the year, consisting of a high level of employee engagement in all sectors together with the General Management Committee. While the GRI G4 Guidelines were used as a framework for guidance, the coverage and scope of the material aspects were widened in comparison to the previous year, taking into consideration material contextual trends and the Group's strategic priorities. The process for identifying and prioritising material issues is as follows;



The identified material aspects given below and are addressed in detail in the subsequent sections of this Report.

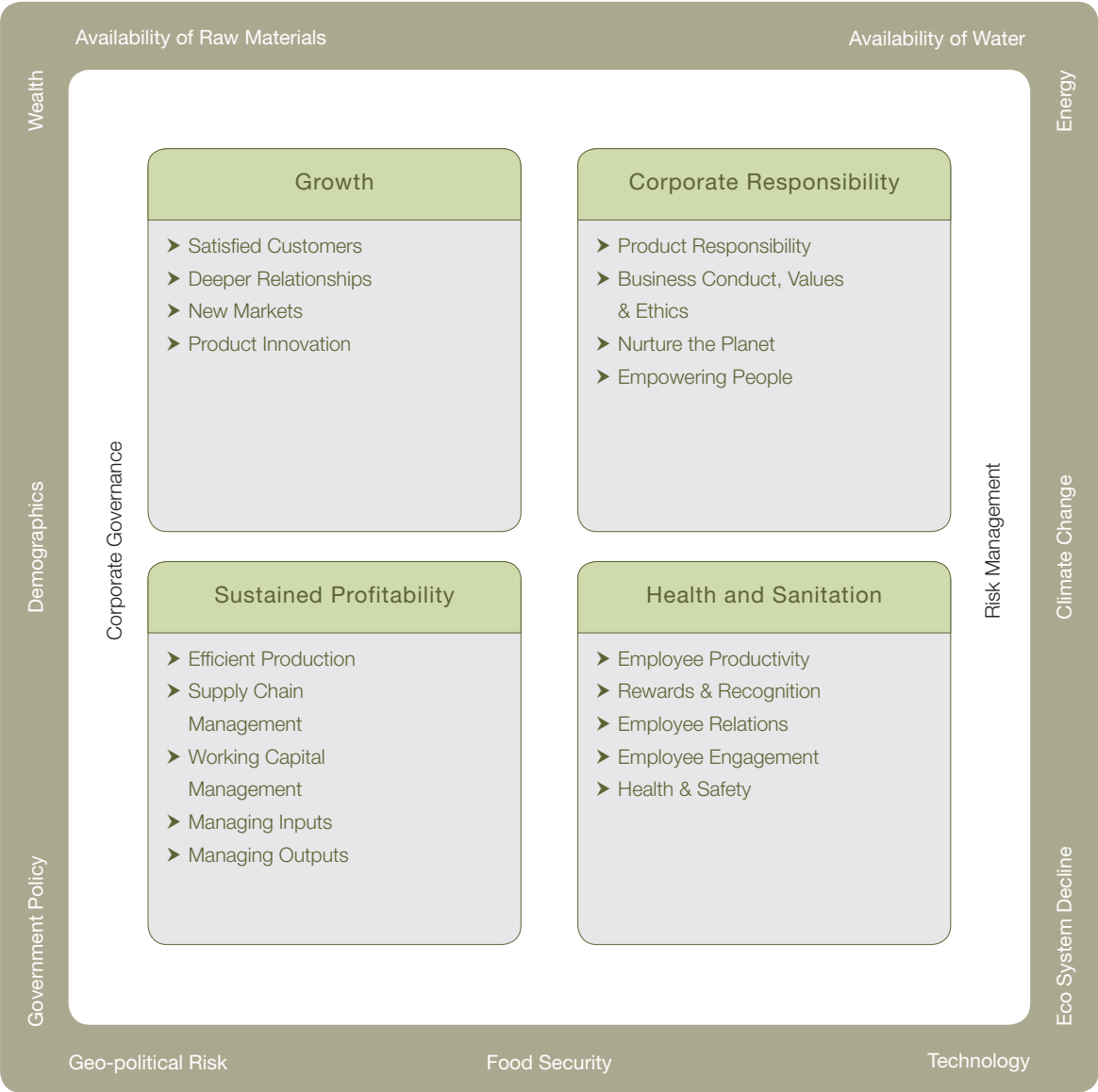


| | Material aspect | Corresponding GRI Requirement | UNGC Principle | Aspect Boundary |
|---------------------------|--------------------------------|--|--|-----------------------|
| Critical | Financial Performance | Economic Performance | | Internal |
| | Preserving the environment | Energy, Water, Waste and Effluents, Emissions, | Principle 7 Principle 8 Principle 9 | Internal and External |
| | Talent Management | Employment, Labour/Management Relations Training and Education, Freedom of Association and Collective Bargaining, Equal remuneration for men and women, Child Labour | Principle 1 Principle 3 Principle 4 Principle 5 | Internal |
| | Employee productivity | - | | Internal |
| | Employee health and safety | Occupational Health and Safety | | Internal |
| | Supply chain | Procurement practices, Supplier Assessment for labour | | External |
| | Compliance | Environmental compliance, Product Responsibility-compliance, | | Internal |
| High Impact | Customer Satisfaction | - | | Internal |
| | Innovation | - | | Internal |
| | Product Responsibility | Customer Health and Safety, Product Responsibility-Compliance | | Internal |
| | Community Engagement | Indirect Economic Impacts, Local Communities, Grievance mechanism for impact on community | | External |
| Significant Impact | Product and process efficiency | - | | Internal |
| | Anti-corruption | Anti-corruption | | Internal |
| | Marketing Communications | Marketing Communications | | Internal |

Our Strategy

Strategic Framework

Hayleys PLC's holistic strategy as graphically depicted below demonstrates the Group's four strategic priorities (in the center), the boundaries within which we operate (corporate governance and risk management) as well as economic and contextual trends that could potentially affect our value creation process (in the perimeter of the diagram). The key strategic priorities reflect the Group's critical, significant and high impact material aspects, the performance of which are addressed in the Value Creation Report from pages 122 to 139.



Delivering on Our Strategy

| Strategic Pillar | Key Performance Indicators | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|--|--------|---------------------------|------|------------------------|-------|-------|-------------|--------|--------|----------------------------|--------|--------|---------|-------|-------|-------------------|-------|-------|------------------------------------|-------|-------|--------|-------|-------|
| Growth | Revenue expansion | <div>Sector revenue growth in 2015/16</div> <table><thead><tr><th>Sector</th><th>2016</th><th>2015</th></tr></thead><tbody><tr><td>Construction materials</td><td>5,000</td><td>4,000</td></tr><tr><td>Agriculture</td><td>12,000</td><td>10,000</td></tr><tr><td>Transportation & Logistics</td><td>17,000</td><td>15,000</td></tr><tr><td>Leisure</td><td>5,000</td><td>4,500</td></tr><tr><td>Consumer Products</td><td>6,000</td><td>5,500</td></tr><tr><td>Power & Energy and Industry Inputs</td><td>4,000</td><td>3,500</td></tr><tr><td>Others</td><td>3,000</td><td>2,500</td></tr></tbody></table> | Sector | 2016 | 2015 | Construction materials | 5,000 | 4,000 | Agriculture | 12,000 | 10,000 | Transportation & Logistics | 17,000 | 15,000 | Leisure | 5,000 | 4,500 | Consumer Products | 6,000 | 5,500 | Power & Energy and Industry Inputs | 4,000 | 3,500 | Others | 3,000 | 2,500 |
| | Sector | 2016 | 2015 | | | | | | | | | | | | | | | | | | | | | | | |
| | Construction materials | 5,000 | 4,000 | | | | | | | | | | | | | | | | | | | | | | | |
| Agriculture | 12,000 | 10,000 | | | | | | | | | | | | | | | | | | | | | | | | |
| Transportation & Logistics | 17,000 | 15,000 | | | | | | | | | | | | | | | | | | | | | | | | |
| Leisure | 5,000 | 4,500 | | | | | | | | | | | | | | | | | | | | | | | | |
| Consumer Products | 6,000 | 5,500 | | | | | | | | | | | | | | | | | | | | | | | | |
| Power & Energy and Industry Inputs | 4,000 | 3,500 | | | | | | | | | | | | | | | | | | | | | | | | |
| Others | 3,000 | 2,500 | | | | | | | | | | | | | | | | | | | | | | | | |
| Customer acquisition | 978 new customers acquired in 2015/16 | | | | | | | | | | | | | | | | | | | | | | | | | |
| New Markets and Products New markets entered and new products developed | <ul style="list-style-type: none">• Agriculture Sector: New product offerings in the exports sector• such as spice infused virgin oil and organic products• Construction materials- LUMIN range of products targeting the household/residential market• Consumer- Developing domestic market for own-products such as Talawakelle tea, fibre mats and oxypura masks• Purification-entry into new markets such as Russia, Eastern Europe and Middle East | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sustained profitability | Profit Growth Sustainable growth in profits | <div>Profit after tax</div> <div>Rs. mn</div> <table><thead><tr><th>Year</th><th>Profit after tax (Rs. mn)</th></tr></thead><tbody><tr><td>2012</td><td>1,500</td></tr><tr><td>2013</td><td>3,400</td></tr><tr><td>2014</td><td>3,600</td></tr><tr><td>2015</td><td>4,800</td></tr><tr><td>2016</td><td>5,000</td></tr></tbody></table> | Year | Profit after tax (Rs. mn) | 2012 | 1,500 | 2013 | 3,400 | 2014 | 3,600 | 2015 | 4,800 | 2016 | 5,000 | | | | | | | | | | | | |
| Year | Profit after tax (Rs. mn) | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2012 | 1,500 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2013 | 3,400 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2014 | 3,600 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2015 | 4,800 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2016 | 5,000 | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sustained profitability | Shareholder Returns | <div>Return on Capital Employed (ROCE%)</div> <div>%</div> <table><thead><tr><th>Year</th><th>ROCE (%)</th></tr></thead><tbody><tr><td>2012</td><td>9.5</td></tr><tr><td>2013</td><td>12.2</td></tr><tr><td>2014</td><td>12.1</td></tr><tr><td>2015</td><td>11.5</td></tr><tr><td>2016</td><td>10.8</td></tr></tbody></table> | Year | ROCE (%) | 2012 | 9.5 | 2013 | 12.2 | 2014 | 12.1 | 2015 | 11.5 | 2016 | 10.8 | | | | | | | | | | | | |
| Year | ROCE (%) | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2012 | 9.5 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2013 | 12.2 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2014 | 12.1 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2015 | 11.5 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2016 | 10.8 | | | | | | | | | | | | | | | | | | | | | | | | | |

Our Strategy

Delivering on Our Strategy

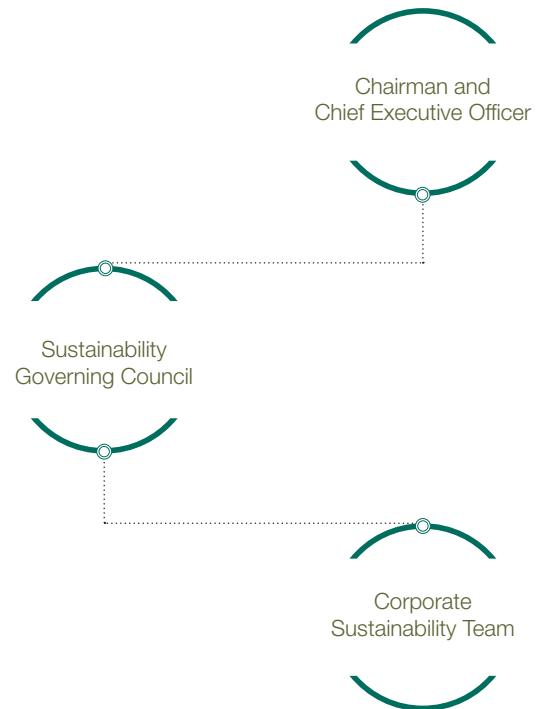
| Strategic Pillar | Key Performance Indicators | |
|--------------------------|---|---|
| Inspired team | Head Count | <div><div>Head count</div><div>Year</div><div><div><div></div><div></div></div><div><div>2015</div><div>2016</div></div><div><div>0</div><div>10,000</div><div>20,000</div><div>30,000</div><div>40,000</div></div><div>Rs. mn</div></div></div> |
| | Employee productivity Defined as profit (Rs. mn) per employee | <div><div>Productivity</div><div>Year</div><div><div><div></div><div></div></div><div><div>2015</div><div>2016</div></div><div><div>0</div><div>50</div><div>100</div><div>150</div><div>200</div></div><div>Rs. mn</div></div></div> |
| | Training hours | <div><div>Training hours</div><div>Year</div><div><div><div></div><div></div></div><div><div>2015</div><div>2016</div></div><div><div>0</div><div>20,000</div><div>40,000</div><div>60,000</div><div>80,000</div><div>100,000</div></div></div></div> |
| Corporate Responsibility | Investment in CSR Expenditure on corporate social responsibility | Rs. 51 mn |
| | Carbon footprint Measured in terms of metric tons of CO2 | (12%) - 83,261 tCO2e |
| | Energy consumption Energy consumed measured in GJ | 2.82 Mn GJ |
| | Water consumption | 2.8 Mn Litres |

Sustainability at Hayleys

The Group's Sustainability and Corporate Responsibility framework focuses on streamlining and combining the effects of the Group's diverse business sectors to encourage strategic and robust sustainable initiatives across the Group companies. Our approach is based on three material areas which form the Pillars of our Sustainability Strategy.



Sustainability performance is measured, tracked and reported through a set of standardized, pre-defined objectives across all sectors with leadership provided by the Group's Corporate Sustainability Team. We are committed to the annual communication of sustainability related performance through the Global Reporting Initiative (GRI) and the United Nations Global Compact (UNGC) principles.



Our Strategy

Our Commitment to the Sustainability Development Goals

| SDG | Around the World* | Hayleys' Commitment |
|---|---|--|
|  <p>1 NO POVERTY</p> | <ul style="list-style-type: none"> 836 million people live in poverty In developing regions 1 in 5 persons live on less than \$1.25 a day Manifestations of poverty include malnutrition, hunger, limited access to education etc. | <ul style="list-style-type: none"> The community empowerment projects such as the Purification sector's Haritha Angara and the Agriculture sector's Outgrower programme and Seaweed Project empower marginalised communities. |
|  <p>2 ZERO HUNGER</p> | <ul style="list-style-type: none"> 795 million people in the world are undernourished Southern Asia faces the greatest hunger burden, with about 281 million undernourished people Poor nutrition causes nearly half (45 per cent) of deaths in children under five | <ul style="list-style-type: none"> As one of the largest Sri Lankan exporters of processed food and vegetables with a market share of around 45%, Hayleys Agriculture plays a key role in ensuring food security. The Home for Every Plantation Worker project aims at 0% anaemia in our plantations. |
|  <p>3 GOOD HEALTH AND WELL-BEING</p> | <ul style="list-style-type: none"> More than six million children still die before their fifth birthday each year Four out of every five deaths of children under age five occur in the sub-Saharan Africa and Southern Asia | <ul style="list-style-type: none"> The Group's flagship project Puritas Sath Diyawara ensures the supply of clean potable water to areas affected by the Chronic Kidney Disease in Sri Lanka. The preventative health care program under the Home for Every Plantation Worker project includes comprehensive immunisation, nutrition, antenatal and post natal care, early childhood development and auxiliary medical services. |
|  <p>4 QUALITY EDUCATION</p> | <ul style="list-style-type: none"> Enrolment in primary education in developing countries has reached 91 per cent but 57 million children remain out of school 103 million youth worldwide lack basic literacy skills, and more than 60 per cent of them are women | <ul style="list-style-type: none"> Many sectors consistently provide school supplies and scholarships to the children of their employees and operating communities. The Home for Plantation Worker project awards scholarships to A/L and university students whilst also offering reschooling programmes to children of plantation workers. |
|  <p>5 GENDER EQUALITY</p> | <ul style="list-style-type: none"> About two thirds of countries in the developing regions have achieved gender parity in primary education In Southern Asia, only 74 girls were enrolled in primary school for every 100 boys in 1990. By 2012, the enrolment ratios were the same for girls as for boys. | <ul style="list-style-type: none"> The Hayleys group is proud to note that 45.4% of its permanent cadre is female. |
|  <p>6 CLEAN WATER AND SANITATION</p> | <ul style="list-style-type: none"> 2.6 billion people have gained access to improved drinking water sources since 1990, but 663 million people are still without Water scarcity affects more than 40 per cent of the global population and is projected to rise 2.4 billion people lack access to basic sanitation services, such as toilets or latrines | <ul style="list-style-type: none"> The Home for Every Plantation Worker project ensures that all plantation workers have access to proper sanitation facilities. Puritas Sath Diyawara provides clean water to over 20,000 people in areas affected by the Chronic Kidney Disease. |
|  <p>7 AFFORDABLE AND CLEAN ENERGY</p> | <ul style="list-style-type: none"> One in five people still lacks access to modern electricity Energy is the dominant contributor to climate change, accounting for around 60 per cent of total global greenhouse gas emissions | <ul style="list-style-type: none"> The Renewable Energy sector currently generates 5 MW of hydro power and 30 MW of wind power to the national grid. |
|  <p>8 DECENT WORK AND ECONOMIC GROWTH</p> | <ul style="list-style-type: none"> Global unemployment increased from 170 million in 2007 to nearly 202 million in 2012 Nearly 2.2 billion people live below the US\$2 poverty line | <ul style="list-style-type: none"> Employing a cadre of 32,980, the Hayleys group is one of Sri Lanka's largest employers. |

| SDG | Around the World* | Hayleys' Commitment |
|---|---|---|
|  | <ul style="list-style-type: none"> About 2.6 billion people in the developing world are facing difficulties in accessing electricity full time 2.5 billion people worldwide lack access to basic sanitation 1-1.5 billion people do not have access to reliable phone services | <ul style="list-style-type: none"> Innovation is harnessed in all manufacturing and product sectors through dedicated research and development teams. |
|  | <ul style="list-style-type: none"> On average, income inequality increased by 11 per cent in developing countries between 1990 and 2010 More than 75 per cent of the population in developing countries—are living today in societies where income is more unequally distributed than it was in the 1990s | <ul style="list-style-type: none"> The wide network of the Hayleys group spread across the world with manufacturing facilities not only in Sri Lanka but also in the Asian region, supports regional employment. |
|  | <ul style="list-style-type: none"> By 2030, almost 60 per cent of the world's population will live in urban areas 828 million people live in slums today and the number keeps rising | <ul style="list-style-type: none"> Sustainable and self-sufficient communities are built through Hayleys Agriculture's out grower programme and Aquagri's seaweed project where they empower small holder farmers and marginalised communities by buying their products. |
|  | <ul style="list-style-type: none"> Less than 3 per cent of the world's water is fresh (drinkable), of which 2.5 per cent is frozen in the Antarctica, Arctic and glaciers. One-fifth of the world's final energy consumption in 2013 was from renewables. 3 billion tonnes of food is wasted every year while almost 1 billion people go undernourished and another 1 billion hungry | <ul style="list-style-type: none"> The Plantations sector's Rainforest Alliance certification ensures that the business is carried out without harming the surrounding flora and fauna. The Hand Protection sector's First Light programme ensures that rubber farmers are paid a fair price for their latex. |
|  | <ul style="list-style-type: none"> From 1901 to 2010, the global average sea level rose by 19 cm as oceans expanded due to warming and ice melted. Global emissions of carbon dioxide (CO₂) have increased by almost 50 per cent since 1990 | <ul style="list-style-type: none"> Group-wide and sector-specific initiatives are in place to improve energy efficiency while over the long-term we hope to reduce dependence on fossil fuels through the increased generation of renewable energy. |
|  | <ul style="list-style-type: none"> Over three billion people depend on marine and coastal biodiversity for their livelihoods Oceans cover three quarters of the Earth's surface, contain 97 per cent of the Earth's water, and represent 99 per cent of the living space on the planet by volume | <ul style="list-style-type: none"> Hayleys Aquagri's Seaweed project contributes towards marine conservation as seaweeds have water purifying properties and enhances poly-culture production. |
|  | <ul style="list-style-type: none"> As of 2008, land degradation affected 1.5 billion people globally Arable land loss is estimated at 30 to 35 times the historical rate Due to drought and desertification each year 12 million hectares are lost | <ul style="list-style-type: none"> The Plantations Sector as a part of their commitment towards environmental stewardship, have taken several measure to conserve the habitats of flora and fauna. The protected areas include abandoned marshlands, aquatic systems and natural forest reserves including associated eco systems, flora and fauna. |
|  | <ul style="list-style-type: none"> Corruption, bribery, theft and tax evasion cost some US \$1.26 trillion for developing countries per year The rate of children leaving primary school in conflict affected countries reached 50 per cent in 2011 | <ul style="list-style-type: none"> A stringent system of policies, structures and codes ensure that there is transparency in our operations. The presence of an anti corruption policy ensures that there is zero tolerance for corruption within the company. The board of directors which acts as the highest authority within the company is appointed by the shareholders. |
|  | <ul style="list-style-type: none"> Official development assistance stood at \$135.2 billion in 2014 79 per cent of imports from developing countries | <ul style="list-style-type: none"> Hayleys is a signatory to the UN Global Compact Principles and is an active partner in achieving these goals. |

Management Discussion and Analysis

Operating Environment

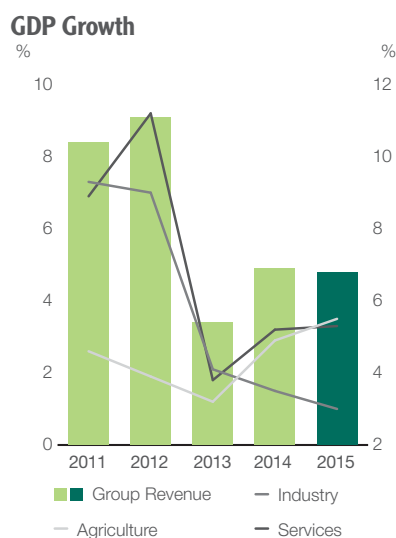
Economic Review

Hayleys PLC derives 54% of its revenues from exports and the balance 46% of revenues from Sri Lanka. Consequently, global developments have a significant impact on our group operations and on Sri Lanka which is our principal market. Europe, Asia and the Americas are the principal markets for the group accounting for 14%, 15% and 6% of group revenue respectively.

Sri Lanka

Sri Lanka's GDP growth in 2015 was 4.8%, marginally below 4.9% growth in 2014 as political uncertainty associated with two major elections resulted in a slowdown in investment and related economic activity. Growth was largely driven by consumption, as low interest rates, favourable credit availability, expansionary fiscal policy such as public sector wage increases, and lower administered prices of utilities and other commodities, all contributed to greater consumer spending power. Imports of vehicles and other durable goods expanded significantly during the year as disposable incomes increased. Strong private sector credit growth of 25.1% facilitated expansion of economic activity supporting both consumption and investment.

The Service sector continues to be the main driver of growth accounting for 57.6% of GDP and recording growth of 5.3% in 2015, compared to 5.2% in 2014. Key drivers of economic activity in the sector included trading (particularly import trade) and transportation (accounted for 22.5% of total contribution to economic expansion), finance and real estate (29.6% contribution to total economic expansion).



Source: Central Bank data

Growth of the industry sector was a mere 3% compared to 3.5% in 2014 largely attributable to the slower growth of the construction sector which declined by 0.9% reflecting the uncertain investment climate. The manufacturing sub-sector grew at moderate pace of 4.7% contributing

15.5% to overall growth of the economy in 2015 strongly supported by the Food & beverage, furniture, and machinery manufacturing sub-sectors in manufacturing.

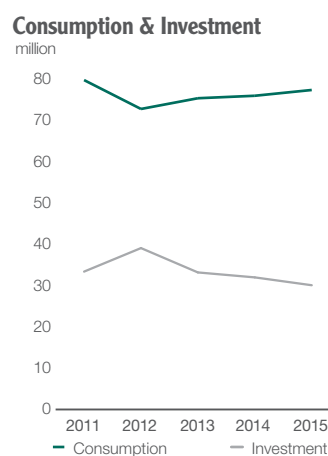
| Clusters in Sector | Sri Lanka | World | Emerging & Developing Markets | Emerging & Developing Asia |
|--------------------|-----------|-------|-------------------------------|----------------------------|
| GDP Growth | 5.0 | 3.1 | 4.0 | 6.6 |

Source: IMP World Economic Outlook April 2016

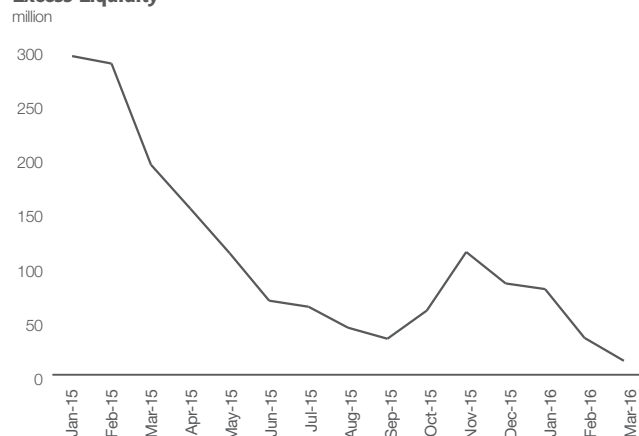
The agriculture sector demonstrated strong growth at 5.5% during the year, compared to 4.9% in 2014 strongly supported by the rice and vegetables sub-sectors which were the main positive contributors to growth, whilst growing of tea and rubber contracted for the second consecutive year. Total tea production declined by 2.7% to 329 million kg in 2015 compared to 338 million kg in 2014 as the supply side was impacted by adverse weather conditions and labour unrest while the demand side was affected by weak demand from Russia and the Middle East stemming from lower oil prices and political turmoil.

Interest Rates

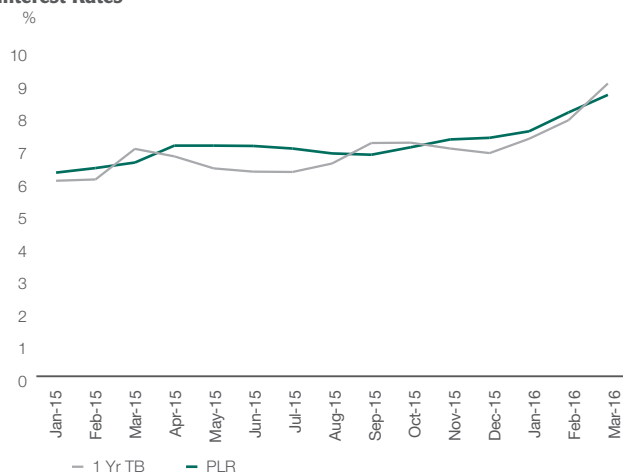
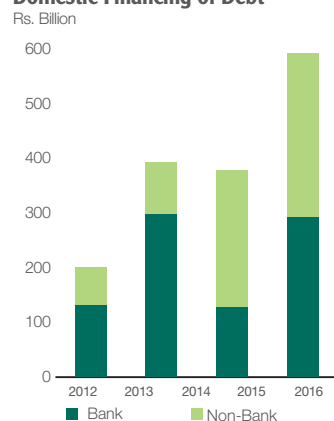
High levels of excess liquidity in the market and low interest rates that prevailed at the beginning of 2015 normalised as demand for credit increased during the year driven by consumption oriented borrowing, coupled with higher levels of public sector borrowing from the domestic market. Consequently, liquidity declined and interest rates edged up in 2015.



Source: Central Bank data

Excess Liquidity

Source: Central Bank data

Interest Rates**Domestic Financing of Debt**

Government borrowing from the domestic market increased by 56% driving local interest rates higher as there were delays in government borrowings from global capital markets. The government was scheduled to obtain a sovereign bond in January 2015, however this was delayed till May, and even then the volume was lower than expected at US\$ 650 million at yield of 6.125% while a second sovereign bond of US\$ 1.5 billion in October 2015 priced at 6.875%. With global capital markets beginning to price in a tightening of US monetary policy, rates and available volumes were less favourable than in the past. Subsequently, secondary market yields on the 10-year sovereign breached the 7% mark and increased further in the first quarter of 2016. All of these factors contributed to driving up domestic interest rates further as the government was compelled to borrow more from the domestic market. Furthermore, between January 2015 and March 2016, foreign investments in rupee denominated government securities declined by Rs. 236 billion (to Rs. 220 billion from Rs. 456 billion) contributing to driving up domestic treasury securities yields which act as a benchmark interest rate for the rest of the market.

Inflation

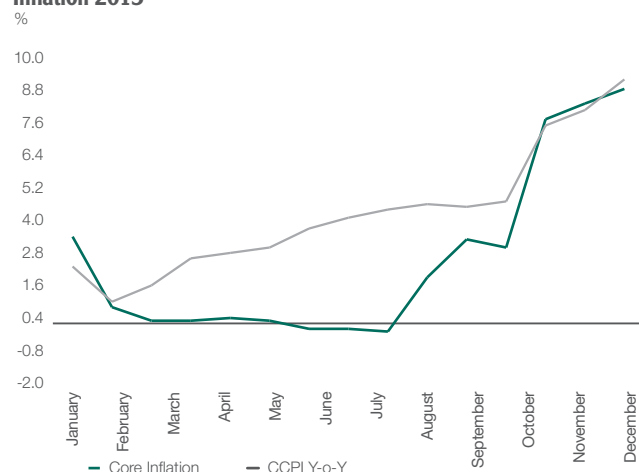
Prices remained low in 2015 as administered prices of utilities, particularly energy related prices, were reduced during the course of the year resulting in deflation during the months of July to September. Underlying demand driven inflation remained at higher levels as indicated by core inflation which steadily increased through the course of the year to reach 4.5% by December 2015. The differential between core inflation and headline inflation (CCPI year on year inflation) illustrates the fact that the low headline inflation was due to the more volatile items of fuel, electricity and related components such as transport.

CCPI Analysis

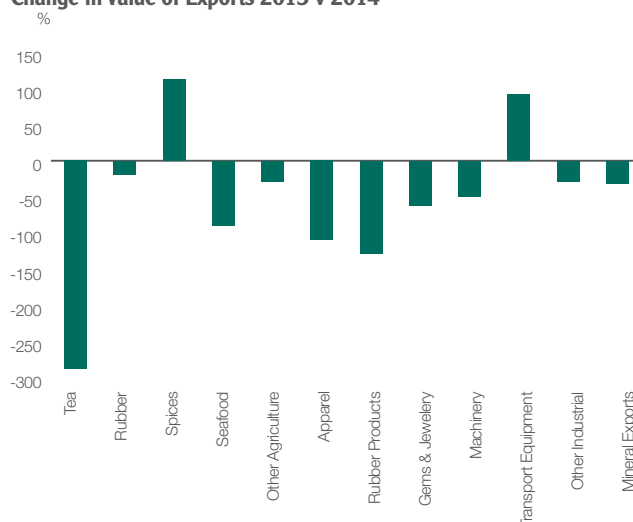
Management Discussion and Analysis

Operating Environment

Inflation 2015



Change in Value of Exports 2015 v 2014



External Sector

Sri Lanka's external sector weakened in 2015 as exports declined by 5.6% compared to the previous year to US\$ 10,505 million as most categories of exports declined during the year with sharp declines observed in export earnings tea, gems and jewellery and rubber products. The average export price of tea declined by 12.2% to US\$ 4.37 per kg in 2015 and volumes declined by 6.2% as demand from Russia, Middle East and Ukraine declined due to political and economic factors.

Imports also declined but by a smaller magnitude than the decline in exports. In spite of a 41% reduction in import expenditure on fuel, imports declined by only 2.5% as imports of consumer goods increased by 22.3%, particularly vehicles which grew by 51.6%.

The trade deficit expanded by 1.7% during the year as import contraction was lower than the export decline. Earnings from service exports continued to expand, led by tourism where arrivals increased by 17.8% and earnings reached US\$ 2.9 billion. Remittances also declined by 0.5% to US\$ 6.98 billion, as lower oil prices affected purchasing power in key remittance markets for Sri Lanka. On balance, the current account deficit narrowed to 2.4% of GDP in 2015 compared to 2.5% of GDP in the previous year.

The external sector was adversely affected by the capital account, with lower inflows of external investment in terms of FDI (24% contraction), and outflows of portfolio investment from local debt and equity markets. The overall balance of payments accordingly recorded a deficit of US\$ 1,489 million compared to a surplus of US\$ 1,369 million in 2014.

Exchange Rate

The Sri Lankan rupee faced significant depreciation pressure through the year due to net outflows on the capital account. The Central Bank defended the rupee as indicated by a spike in net sales of dollars in the middle of the year. However, in September 2015 the Central Bank decided to allow the rupee to float, resulting in a sharp depreciation of the currency. Accordingly, the full year depreciation of the Sri Lankan Rupee against the US Dollar was 9%, against the Japanese Yen 8.2%, against the Sterling Pound 4.5%, whilst appreciating 1.3% against the Euro.

Global Economy

Global economic growth for 2015 moderated further declining from 3.4% in 2014 to 3.1% in 2015 as estimated by the IMF in its April 2016 publication of the World Economic Outlook. Aptly titled "Too slow for too long", the report draws attention to the softening of activity in the 4th quarter of 2015 in advanced economies, stresses in several large emerging market economies, falling commodity prices, geopolitical tensions and the impacts from rebalancing of China's economy which were key factors shaping global growth in 2015. Advanced economies grew at 1.9% strongly supported by growth in the USA of 2.4% with attention increasing towards internal issues in both the USA and the Euro Zone stemming from heightened concerns over

issues stemming income inequality, effects of globalisation and terrorism. The Developing and Emerging Market economies slowed down to 4% for 2015 from 4.6% in 2014 despite China's ascension as the world's largest economy on a purchasing power parity basis. This reflects the decline in trade, particularly in India and China due to lower investments in commodity exports markets declined. Currencies in advanced economies strengthened including the US dollar, Euro and the Yen while those of

commodity exporters weakened. Notably the British Pound depreciated due to concerns over a potential Brexit with the referendum due in June 2016. The Indian Rupee remained stable while the Chinese Renminbi depreciated by around 2% reflecting repayment of dollar denominated debt by corporates and increased acquisition of off-shore assets by residents due to expectations of currency depreciation.

IMF projects global growth to be a modest 3.2% in 2016 increasing to 3.5% in 2017 with emerging market and developing economies still accounting for the greater part of global growth also at a modest pace of 4.1% in 2016 increasing to 4.6% in 2017. Advanced economies are expected to grow benefitting from lower energy prices and accommodative monetary policies despite the increasing of policy rates by the Federal Reserve in December 2015 after a decade. It is noteworthy that the IMF has revised its global growth forecasts downwards by 0.4% for 2016 and 0.3% for 2017 from its October 2015 forecast reflecting increasing uncertainties and risks of weaker growth scenarios becoming more tangible.

Outlook

The expansion in consumption and moderation in investment witnessed in 2015 is likely to reverse in 2016. Higher interest rates, higher taxes, a weaker rupee, legislative changes on vehicle imports, and an expected moderation in credit growth are expected to combine, curtailing growth of consumption in the economy. Investment is likely to pick up gradually as political uncertainty eases and pending projects kick off or resume, including the Port City project. Aggregate GDP growth is likely to remain moderate overall, around similar levels to that of 2015.

Interest rates continued to increase in early 2016 as the outlook for external capital flows remained uncertain but are expected to plateau from mid-year with the announcement of a IMF package. The outlook for interest rates is contingent on the credibility of the fiscal reform programme agreed between the government and the IMF and adherence to agreed programme milestones and conditions. Interest rates are likely to resume an upward trend if the government fails to adhere to the reform programme and the IMF holds back any of the tranches.

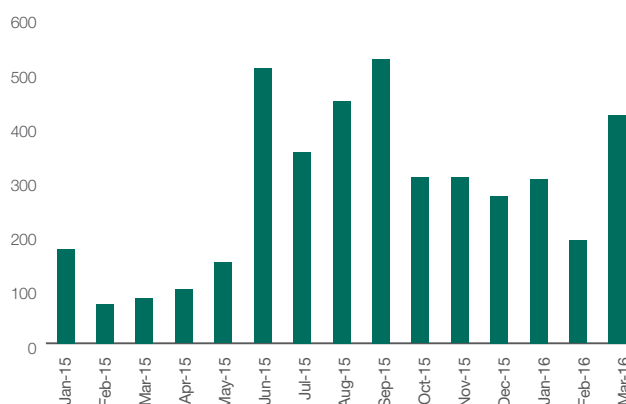
In 2015 the burden of macroeconomic adjustment was more on the exchange rate than interest rates which is also likely to reverse in 2016 as the burden of adjustment shifts to the interest rate. Consequently, the rupee is likely to remain stable in 2016, with a relatively mild depreciation of 2-4% during the year, assuming the IMF programme remains on track.

Inflation is likely to increase in 2016 as a number of factors such as the base effect, higher taxes and a weaker rupee will combine to result in higher inflation. Overall, inflation is expected to remain in mid to high single digits rather than the mid to low single digits experienced in the past three years.

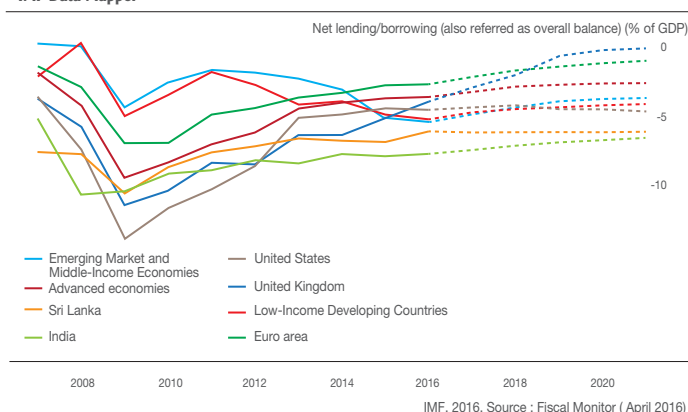
External sector performance is expected to remain weak as global economic growth has failed to regain much dynamism and global trade flows fail to pick up pace. China's moderation in growth and ensuing effects together with a potential Brexit may further weaken the country's export growth. Tourism is expected to be the bright spot as arrivals continue to grow. Global oil prices are expected to stabilise around the US\$ 40-US\$ 45 per barrel range although with general commodity prices remaining modest through the year.

CBSL Net Sales of US Dollars

US\$ Million



IMF Data Mapper



Sector Review

Eco Solutions

The Eco Solutions sector is Sri Lanka's leading eco fibre solutions provider, manufacturing and exporting a wide portfolio of value added coconut fibre based products to both consumer and industrial segments. Our product portfolio includes Brushware, Floor Coverings, Erosion Control & Bio Engineering Products, Rubberised Coir, Mattresses. Positioned as a preferred supplier to large retailers and DIY stores across advanced economies, we have built a reputation for innovative and customised eco fibre solutions. The sector manufactures and distributes more than 105 products in over 1,200 variations locally and internationally. We serve more than 650 customers distributed among 50+ countries representing all continents of the globe.

4%

Revenue

1%

PBT

6%

Assets

4%

Employees

3%

Carbon Footprint

| Clusters in Sector | Operations | Highlights | |
|--------------------|---|--------------------------------|----------------------------|
| | | Contribution to Sector Revenue | Contribution to Sector PBT |
| Eco fibre | Products include mattresses bristle fibre, twisted fibre, coir fibre pith, pith briquettes for horticulture, twine, woven geotextiles, erosion control blankets, vegetation fascines and coir beds for ornamental and decorative use. | 51% | 64% |
| Brush ware | Manufacture a range of brushware for Industrial and Household use. | 26% | 30% |
| Floor coverings | Produce a range of coir and rubber based mats including scraper mats, woven coir, flocked mats, textile based looped pile mats, bathroom mats and other specialty mats. | 23% | 6% |

Operating Context

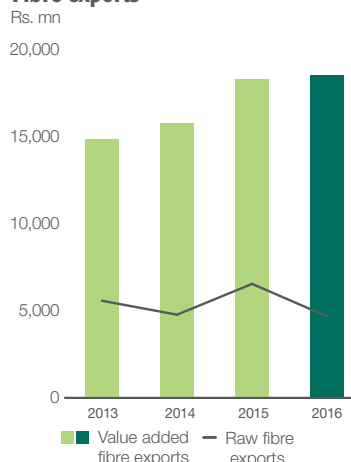
Sri Lanka is the world's leading exporter of coir fibre and coir fibre based products, supplying a range of raw fibre and value added products to multiple industries including agriculture, horticulture and automobiles. The country's top value added products include coir twine and ropes, geo textiles, brooms and brushes, carpets, door mats and coco peat. With a land extent of 455,000 hectares being used for coconut cultivation, fibre based products account for 31% of the country's coconut-related exports and employs a workforce of around 35,000. In recent years, global fibre demand of approximately 700,000 tonnes per annum has outstripped global supply, which is estimated at around 500,000 tonnes per annum. China is the world's leading consumer of raw fibre produce, absorbing nearly 75% of total production.

The year under review was a challenging one for the industry; prolonged economic woes in the European region dampened demand while profitability was further impacted by continued depreciation of the Euro during the year. Meanwhile, the steep depreciation of the Russian Rouble & economic downturn continued to impact demand from Eastern European which had in recent years been a dominant market. While the depreciation of the Sri Lankan Rupee positively impacted export earnings during the latter part of the year, a relatively stronger Sri Lankan Rupee vis-à-vis other South Asian currencies rendered our products less competitive. Overall, raw fibre exports from Sri Lanka declined 29% to Rs. 4.67 bn whilst value added fibre exports were relatively unchanged Y-o-Y at Rs. 18.51 bn.

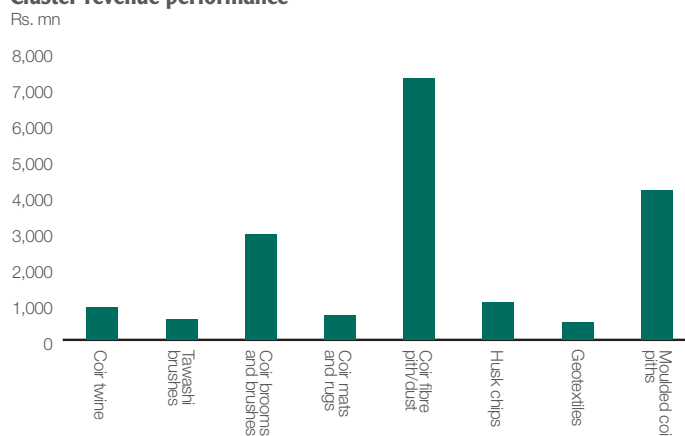
Material challenges in 2016

- Weak economic climate in the European region
- Depreciation of the Russian Rouble
- Difficulties in sourcing raw materials

Fibre exports



Cluster revenue performance



Sector Review

Eco Solutions

Strategy and Performance

| Economic | | 2016 | 2015 | % |
|--------------|--------|-------|-------|------|
| Revenue | Rs. mn | 3,791 | 4,419 | (14) |
| PBIT | Rs. mn | 167 | 66 | 153 |
| PBT | Rs. mn | 92 | 9 | 442 |
| PAT | Rs. mn | 69 | (20) | 922 |
| Total Assets | Rs. mn | 6,079 | 6,669 | (9) |
| Total Debt | Rs. mn | 1,530 | 1,684 | (9) |
| ROCE | % | 3.62 | 1.36 | 166 |

| Environmental | | 2016 |
|------------------------|--------------------|--------|
| Materials | | |
| (1) Coconut husk fibre | MT Mn | 15.5 |
| (2) Coir Fiber pith | MT Mn | 30 |
| Energy | GJ | 23,303 |
| Water | M ³ | 31,196 |
| Solid Waste | MT | 134.2 |
| Carbon Footprint | tCO ₂ e | 2,275 |
| Compliance | No. of incidents | 2 |

| Social | | 2016 |
|--|----------------------------|-------|
| Head Count | No. | 1,404 |
| Employee productivity | Profit (Rs. mn) / employee | 0.05 |
| Training hours | Hours | 2,635 |
| Investment in supplier development | Rs. mn | 4.9 |
| Beneficiaries of supplier development programs | No. | 76 |

The sector recorded strong turnaround during the year under review recording profit before tax of Rs. 92 mn compared to Rs. 9 mn in the preceding year, despite a 14% Y-o-Y reduction in turnover. We placed strategic emphasis on rationalizing our customer and product portfolio focusing on high value added products, enabling us to consolidate margins. Profit growth was also supported by strategic inventory management, optimising raw material usage and streamlining processes to enhance efficiency and productivity. This year, we also focused on penetrating the domestic Household and Industrial market segments for Brushware, Mattresses and Doormats.

The sector's key raw material is coconut husk fibre; changing demographics in Sri Lanka have resulted in labour shortages at traditional fibre mills, which have led to supply issues while volatile weather patterns in recent years have also adversely affected the availability of raw materials and predictability of prices. In response to these dynamics, the sector has continued to place emphasis on nurturing supplier relationships

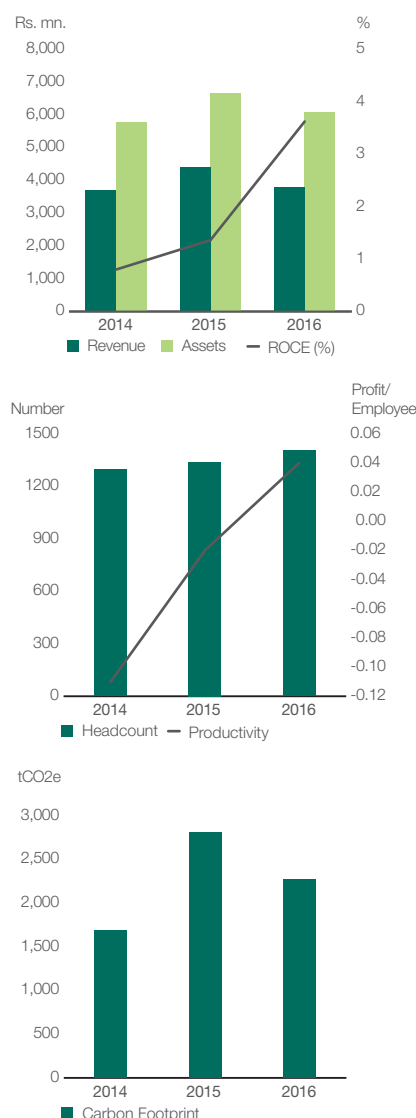


and backward integration initiatives, with the dual objectives of ensuring a sustainable supply of raw materials and generating value along our supply chain. The sector's key supplier development initiative Project Athwela, carried out by the Rileys Foundation for Community Development and community development programmes implemented by the Ravi Foundation for Community Development. These multi-faceted initiatives involve providing technical knowledge to enhance productivity and quality of suppliers, facilitating access to finance and introducing new production technologies. During the year, we invested Rs. 2.2 mn in these development programmes, directly benefitting approximately 350 individuals. We consumed 15,205 MT of coconut husk fibre during the year. Optimising the usage of the input materials enabled us to reduce waste generated from our manufacturing process by 40% to 134.2 MT from 224.3 MT the previous year. All solid waste generated in the manufacture of Brushware and Floor Coverings are incinerated. We will continue our efforts to sustain the backward integration and CSR initiatives.

Rileys, the floor covering segment of the sector won the Silver award under the Agriculture value added sector large category for positive turnaround of the business organised by the National Chamber of exports for the year 2014/2015. Project Athwela, the Rileys Foundation for community development also won the Ian Dias Abeyesinghe Mamorial CSR merit awards organized by the Japan Sri Lanka Technical & Cultural Association (JASTECA).

In ensuring that our products and processes persistently meet the requirements of our global consumers as well as established laws and regulations, we continue to comply with several local and international quality certifications. Several companies in the sector have obtained ISO 9001 Quality Management certification, ISO 14001 environmental management certification, Business Social Compliance Initiative (BSCI), Supplier Ethical Data Exchange and SEDEX Members Ethical Trade Audit Certifications (SEDEX / SMETA). Both Brushware and Floor Coverings segment also complies with the SA8000 certification, whilst Floor Coverings is en-route to obtain the British Retail Consortium certification (BRC). The sector's reputation for superior quality and reliability as a supplier has enabled it to continuously attract new customers through targeted marketing. During the year, we successfully secured 83 accounts in six new markets.

The Fibre sector provides employment to 1,404 individuals and we are committed to ensuring that all our employees operate in decent and healthy working conditions and are entitled to human and labour rights and regulations. Continuous focus is placed on up skilling our people and providing opportunities for development; in 2015/2016 we provided a total of 2,635 training hours supported by which employee productivity improved to 0.05 from (0.02) the previous year.



Way Forward

The sector will continue to focus on extending its value added product offering, while pursuing growth in new markets with emphasis on new product development. We hope to strengthen our presence in the American region which is showing definite signs of recovery by leveraging our existing network. Focus will also be placed on improving our domestic market share in Mattresses, Brushware and Doormat segments by developing the distributor network and dealer relationships. We remain optimistic regarding the prospects of the sector and anticipate that policy changes supporting export industries will further propel sector growth. Sustainability is at the heart of our business and we will continue to place emphasis on empowering suppliers and communities while minimizing the environmental impacts of our operations.

Sector Review

Hand Protection

Dipped Products PLC (“DPL”) is a global leader in protective hand-wear, serving around 5% of global demand for natural and synthetic-latex based household and industrial gloves. With manufacturing facilities in Sri Lanka and Thailand, DPL’s products are sold in over 70 countries worldwide. Four decades of industry insight has sharpened our understanding of customer needs and enabled us to create an agile and responsive operating model to capture growth opportunities in an increasingly competitive and dynamic market.

| | | | | |
|---------|-----|--------|-----------|------------------|
| 14% | 7% | 10% | 5% | 21% |
| Revenue | PBT | Assets | Employees | Carbon Footprint |

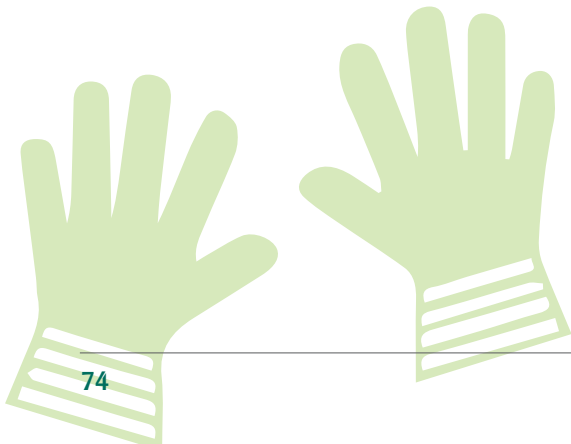
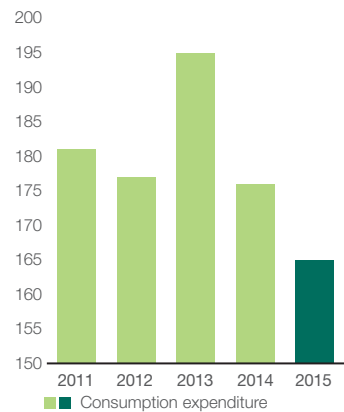
Operating Context

Sri Lanka is one of the largest exporters of rubber gloves in the world and earnings from rubber glove exports accounts for approximately 2% of the country’s total industrial exports. Sri Lanka’s rubber exports are also amongst the highest in terms of industrial value addition in the country’s export basket, which is estimated at around 70%. The demand for rubber gloves (primarily disposable gloves) stems mainly from industries such as healthcare, food and manufacturing. Global demand has grown at an estimated 8% over the last few years, driven by increased consumption of medical gloves and demand for cleanroom gloves from manufacturing industries. Developed economies, primarily USA, Europe and Japan

consume more than 60% of the global supply although in recent years there has been strong growth in demand from emerging economies such as India and China. The supply of rubber gloves is concentrated in the South East Asian region, led by Malaysia, Thailand and Indonesia and is intensely price competitive, with few large players dominating the global market. Demand has been relatively subdued over the last few years against the backdrop of a still recovering global economic climate while in 2015, macro-economic conditions in some of the key markets turned sluggish. While latex prices remained comparatively low during the year, sharp depreciation of the regional currencies intensified competitive pressures.

Glove export earnings

USD mn



“ We consolidated our operations at the newly established DPL Premier Gloves Factory in Biyagama. ”

Material challenges in 2016

- Sluggish macro-economic conditions in some of the key markets
- Relatively stronger depreciation of regional currencies versus LKR
- Consolidation of operations

The sector's revenue declined by 15% to LKR 12,725 mn, while profitability declined by 61%, reflecting the challenging market dynamics during the year where the order levels during the year remained lower than usual. During the year, we continued to focus on strategic initiatives to support our growth. We consolidated our operations at the newly established DPL Premier Gloves Factory in Biyagama as well as commissioned another Factory, namely, DPL Universal Gloves for industrial gloves manufacturing during the latter parts of the year. We also reorganized our business development function with the aim to extract the market potential in each geographical region including non-traditional markets for hand protection.

The medical glove operation, DPTL improved its overall performance in sales volumes and profitability compared to the previous year. Several improvements to manufacturing flexibility and supporting infrastructure were accomplished during the year enabling greater output for synthetic latex disposables with enhanced online chlorination capability. ICOGUANTI S.p.A, our marketing arm in Europe showed consistency in operations.

Sector Review

Hand Protection

Strategy and Performance

| Economic | | 2016 | 2015 | % |
|--------------|--------|--------|--------|------|
| Revenue | Rs. mn | 12,725 | 14,970 | (15) |
| PBIT | Rs. mn | 542 | 1,554 | (65) |
| PBT | Rs. mn | 584 | 1,503 | (61) |
| PAT | Rs. mn | 471 | 1,204 | (61) |
| Total Assets | Rs. mn | 10,743 | 10,737 | 0.05 |
| Total Debt | Rs. mn | 2,478 | 2,506 | (1) |
| ROCE | % | 6.14 | 17.71 | (65) |

| Environmental | | 2016 |
|-----------------------------|--------------------|-----------|
| Materials (1) Natural latex | MT | 8,610 |
| Energy | GJ | 1,206,224 |
| Water | M ³ | 1,415,600 |
| Carbon Footprint | tCO ₂ e | 17, 273 |

| Social | | 2016 |
|------------------------------------|---------------------------|-------|
| Head Count | No. | 1,848 |
| Employee productivity | Profit (Rs. mn) /employee | 0.26 |
| Training hours | Hours | 7,660 |
| Investment in community engagement | Rs. mn | 5.25 |
| Beneficiaries | No. | 2,025 |

Our efforts to towards R&D to drive innovation continued. We launched several new products during the year, including ‘Arctic’, for cold protection and “Neotherm” for heat protection. DPL has also obtained multiple certifications for its product portfolio and manufacturing process, including ISO 9001:2008, BRC Global standard and ISO 13485 among others (please refer page 62 for a full list of certifications). Strengthening our reputation as the Ethical Glove Manufacturer to the World continued during the year where we consolidated our DPL Firstlight initiative, a unique and multi-faceted program designed to develop our suppliers and communities they operate in. Through Firstlight, we provided financial support, agricultural advisory and farming inputs to over 830 farmers across 5 districts.

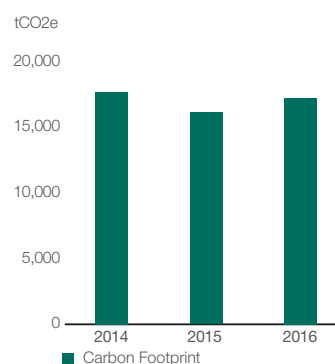
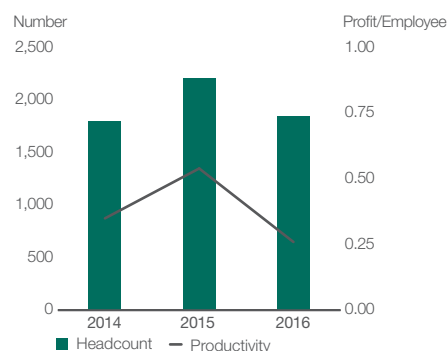
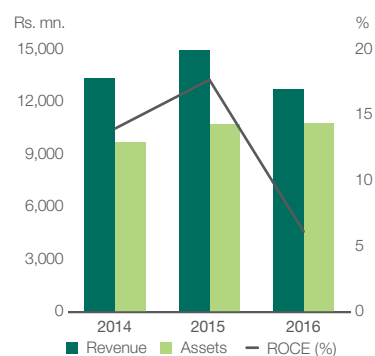
We also focused on a range of initiatives to enhance our employee value proposition, including Rs. 6.1 mn investments in skill development and safety training.





Way Forward

Having successfully withstood unprecedented challenges, we are now positioned for strong growth and will continue to drive our strategy towards customer acquisition and increased profitability. Continued focus will be placed on expanding the range and capacity of our portfolio and another production facility for the manufacture of nitrile industrial gloves will be commercialized in the coming financial year. Our sustainability objectives form a crucial component of our overall strategy and we will continue to invest in enhancing our social and environmental performance to fulfill the expectations of all our stakeholders.



Sector Review

Purification

Haycarb is one of the world's leading manufacturers of coconut-shell based activated carbon, with a global reputation for superior quality, innovation and sustainable methods of production. Drawing from over 43 years of deep industry insights, we produce high quality activated carbon for the full spectrum of applications, including water treatment, gold extraction, air purification and energy storage. The sector operates six manufacturing facilities in Sri Lanka, Thailand and Indonesia providing employment to over 1,500 individuals. Haycarb also provides environmental engineering systems solutions through its subsidiary, Puritas (Pvt) Ltd.

13%

Revenue

13%

PBT

11%

Assets

5%

Employees

7%

Carbon Footprint

| Clusters in Sector | Operations | Highlights | |
|---------------------------|---|--------------------------------|----------------------------|
| | | Contribution to Sector Revenue | Contribution to Sector PBT |
| Activated Carbon | Manufacture and marketing of coconut-shell based activated carbon and Regeneration Services | 91% | 87% |
| Environmental Engineering | Environmental engineering systems solutions | 9% | 13% |

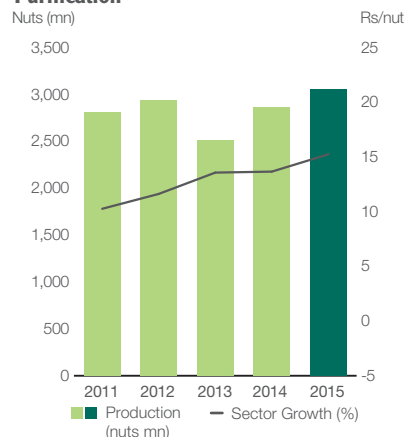
Operating Context

Global demand for activated carbon had generally been on the rise over the last decade or so, driven by more stringent environmental regulations and increasing manufacturing activity. However in recent years, the extent of the demand growth has been impacted by the slowdown in the gold mining industry, which accounts for a significant portion of the global activated carbon market. Demand growth was also impacted by the downturn in global economies while the depreciation of several global currencies including the Euro, Russian Rouble, Australian Dollar and Japanese Yen impacted the price competitiveness of our products. The resultant surplus capacity has led to intensifying price competition, which combined with the persistent price increases in its key raw material coconut charcoal, exerted substantial pressure on profitability margins. (Refer to Operating Environment for further information)

Material challenges in 2016

- Global slowdown in gold mining and manufacturing industries
- Depreciation of several key global currencies
- Persistent price increases of raw materials
- Increased price competition

Purification



“ We remain optimistic regarding the growth of activated carbon industry and higher demand for water and air purification systems. ”

Sector Review

Purification

Strategy and Performance

| Economic | | 2016 | 2015 | % |
|--------------|--------|--------|--------|-------|
| Revenue | Rs. mn | 11,706 | 11,934 | (2) |
| PBIT | Rs. mn | 1,216 | 1,304 | (7) |
| PBT | Rs. mn | 1,090 | 1,070 | 2 |
| PAT | Rs. mn | 870 | 874 | (0.4) |
| Total Assets | Rs. mn | 11,930 | 10,040 | 19 |
| Total Debt | Rs. mn | 3,174 | 2,516 | 26 |
| ROCE | % | 13.37% | 16.65% | (20) |

| Environmental | | 2016 |
|--------------------------------|--------------------|--------|
| Materials (1) Coconut charcoal | MT | 99,250 |
| Energy * | GJ | 89,432 |
| Water * | M ³ | 21,809 |
| Solid Waste * | MT | 3,569 |
| Carbon Footprint * | tCO ₂ e | 5,687 |

| Social | | 2016 |
|------------------------------------|---------------------------|-------|
| Head Count | No. | 1,515 |
| Employee productivity | Profit (Rs. mn) /employee | 0.57 |
| Training hours | Hours | 6,192 |
| Investment in community engagement | Rs. mn | 8.3 |
| Beneficiaries | No. | 3,000 |

* Sri Lanka operations only

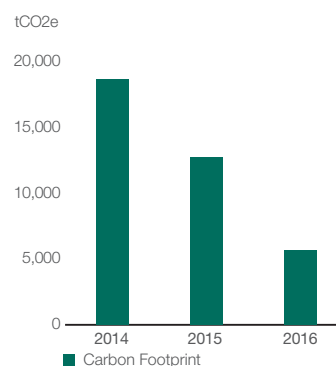
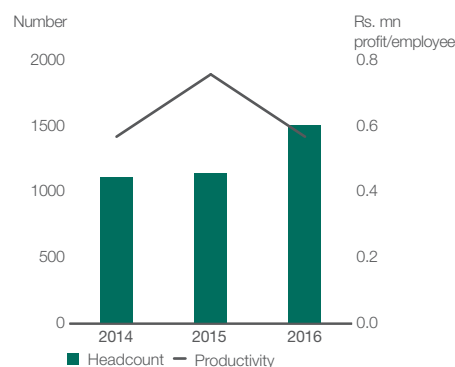
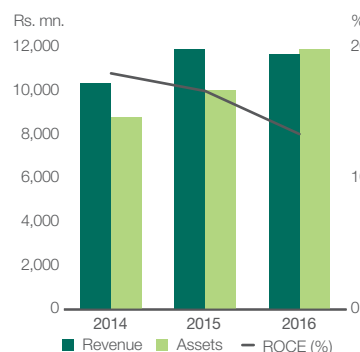
In effectively responding to market dynamics during the year we refined our strategic agenda to drive growth opportunities in high valued applications such as energy storage segment, premium air and water segments, while realigning our marketing strategy to renew focus in existing markets such as Europe, China, Indonesia and entry in to new markets such as Russia, Eastern Europe and Middle East. A new distribution model was introduced in the USA market, by strengthening our marketing subsidiary, Haycarb USA Inc. whilst significant progress was made by securing new customer accounts, distributors and entering into long-term strategic collaborations. At the same time, Haycarb remains committed to driving manufacturing excellence and process efficiencies to stay ahead of customer expectations to provide better value proposition to its customers. We have also positioned ourselves to expand the environmental engineering segment (Puritas) through a larger footprint in water and wastewater treatment systems by driving growth both locally and regionally, notably in Maldives and in Sri Lanka. Resultantly the Purification Sector revenue reduce by 2% to Rs. 11,706 mn during the year whilst profit grew by 2% Y-O-Y.





We also continued to drive efficiencies across our supply chains, engaging proactively with over 1,200 coconut smallholders in Sri Lanka alone through our unique 'Haritha Angara' initiative which aims to provide technical guidance on productivity improvements and sustainable practices whilst extending financial support. In line with our strategy of diversifying our raw material sources, we commissioned an environmentally friendly vertical kiln charcoaling facility in Thailand. Achievement of high efficiencies in energy consumption is also a key priority and during the year our total energy intensity (defined as energy consumed per MT of activated carbon produced) declined by 20%. Our energy and carbon footprint reduced by substantially reducing our dependence on fossil fuels. During the year we also invested Rs. 1.07 mn on training and development, targeted towards strengthening technical skills and improving employee productivity. Our health and safety record continues to be impressive with a staff injury rate of 0% during the year while a high level of engagement with union representatives enabled us to maintain cordial and productive industrial relations.

We continue to maintain harmonious relationships with the communities in which we operate, facilitated by a high level of engagement with community representatives, employment generation as well as continued compliance to relevant environmental regulations. We continue to be the driving force behind the Hayleys Group's flagship CSR initiative, Puritas Sath Diyawara through which we have provided access to purified water to over 20,000 people in 14 villages affected by the Chronic Kidney Decease.



Way Forward

We remain optimistic regarding the growth of activated carbon industry and higher demand for water and air purification systems against the backdrop of increasing industrialization, stringent regulations and continued emphasis placed on environmental sustainability. Our efforts over the short to medium term will be focused on widening our value added product portfolio, augmenting marketing resources in specific regions to capitalize on growth opportunities and expanding our carbon regeneration services business in existing and new geographies. At the same time, significant expansion is targeted in the environmental engineering systems arm through local & regional growth and collaboration with Strategic Partners for large scale water treatment systems.

Sector Review

Textiles

Hayleys Fabric PLC is the pioneer in fabric manufacturing in the country with the ability to cater to a customer's entire portfolio of fabric requirements. The Company offers end to end solutions to customers ranging from design, development, printing, brushing and sueding of pure and blended polyester and cotton fabric. The Company changed its identity from Hayleys MGT Knitting Mills PLC to Hayleys Fabric PLC during the year to reflect its current capability.

Catering to leading global fashion brands, the company relies on its innovation capability and disciplined execution of orders on time, in strict compliance with detailed specifications for success. A team of 1,059 employees deliver Rs. 2.5 mn meters of fabric each month to Sri Lankan apparel manufacturers, playing a key role in the country's growth as an apparel sourcing destination. Strengthening our position as the leading manufacturer of polyester in the country with a strong innovation capability, we launched our own branded fabric "Inno" in January 2014 which was a first in the country and a key milestone marking our transformation as an innovator from being a manufacturer. Nestled in a rural community among rubber estates alongside one of Sri Lanka's principal rivers, high levels of commitment to social and environmental performance are embedded in to the company's business model, driven by high levels of concern identified in our key stakeholder engagement processes and our own high standards of corporate responsibility.

9%

Revenue

3%

PBT

5%

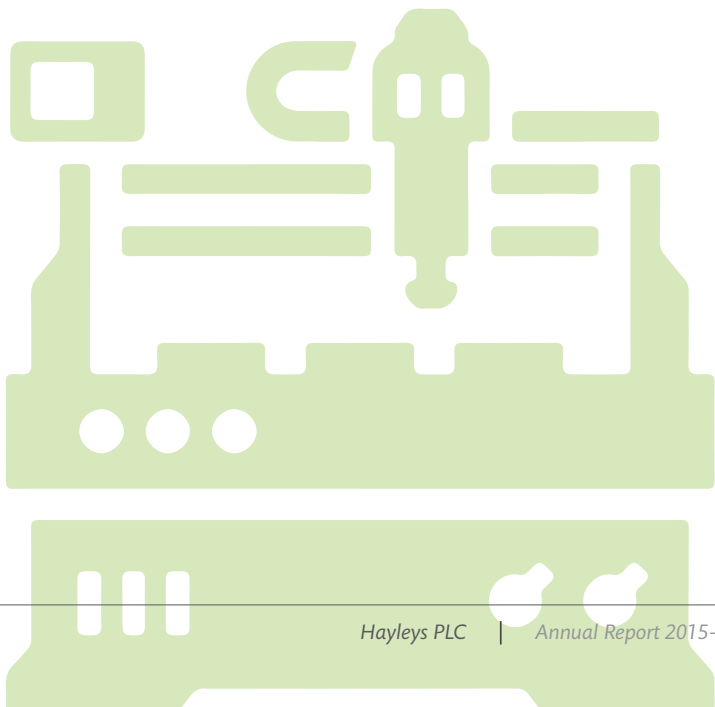
Assets

3%

Employees

26%

Carbon Footprint



Operating Context

Sri Lanka's textile and garment subsector is a key contributor to the country's economy accounting for 3.21% of total GDP, 12.2% of Industry sector GDP and employing over 300,000 persons directly and 600,000 indirectly. Growth of garment sector exports was marginal in 2015 as demand in key markets was relatively stagnant. It accounts for 60% of industrial exports which amounted to US\$ 654.8 bn in 2015. Key export markets are the US and the EU which account for 46% and 42% of exports in 2015. It is noteworthy that the US is now the largest export destination as demand in the EU was sluggish in 2015. The sector's aspirations of moving to higher value added items continues to gain ground as evinced by the diverging volume and value trade indices.

A socially responsible and preferred destination for apparel sourcing, Sri Lanka is the only outsourced apparel manufacturing country in Asia to ratify all 27 ILO (International Labour Organisation) conventions, providing a conducive framework for "Garments without Guilt" code which exceeds existing leading industry compliances. Collective efforts to reduce the carbon footprint made by Sri Lanka suppliers and manufacturers to make the local apparel industry more eco-friendly and sustainable has enhanced its positioning as a socially and environmentally responsible outsourcing destination, curtailing both emissions and costs.

The outlook for this key economic sector is positive with the likely reinstatement of GSP+ concessions and a strong reputation for high quality and consistency in delivery and social and environmental compliance.

Material challenges in 2016

- Stagnant demand in key overseas markets
- Dynamics of regional competitiveness
- Duplication of Company innovations by regional competitors

“ Hayleys Fabric delivered a profit of Rs. 253 mn, a growth of 193% over the previous year as it pursued its strategy of moving to higher value polyester blend fabric.”

Sector Review

Textiles

Strategy and Performance

| Economic | | 2016 | 2015 | % |
|--------------|--------|-------|-------|-----|
| Revenue | Rs. mn | 8,364 | 8,543 | (2) |
| PBIT | Rs. mn | 370 | 222 | 66 |
| PBT | Rs. mn | 253 | 86 | 193 |
| PAT | Rs. mn | 258 | 89 | 190 |
| Total Assets | Rs. mn | 4,831 | 4,661 | 4 |
| Total Debt | Rs. mn | 2,433 | 2,527 | (4) |
| ROCE | % | 10.39 | 6.86 | 51 |

| Environmental | | 2016 |
|------------------|--------------------|-----------|
| Materials | MT | 8.7 |
| Energy | GJ | 702,207 |
| Water | M ³ | 1,773,253 |
| Solid Waste | MT | 2,369 |
| Carbon Footprint | tCO ₂ e | 21,504 |

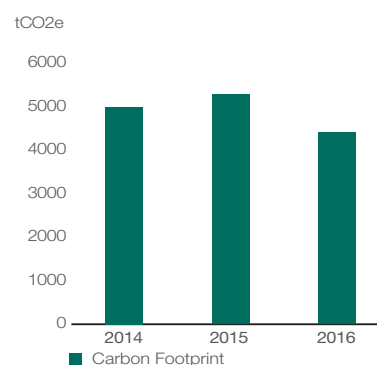
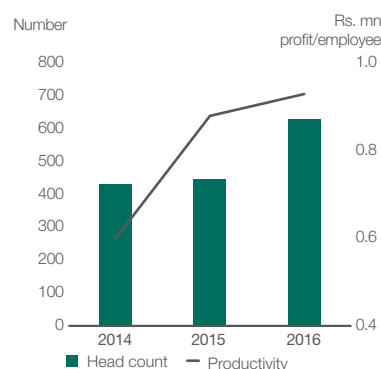
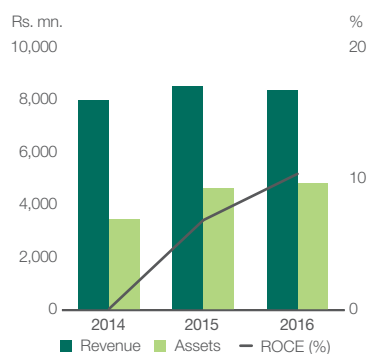
| Social | | 2016 |
|-----------------------|---------------------------|-------|
| Head Count | No. | 1,059 |
| Employee productivity | Profit (Rs. mn) /employee | 0.24 |
| Training hours | Hours | 6,691 |

Hayleys Fabric delivered a profit of Rs. 253 mn, a growth of 190% over the previous year as it pursued its strategy of moving to higher value polyester blend fabric which contributed to significant growth in margins. Key market for the company is the EU. Inno, the company's registered fabric brand, gained customer acceptance with high margins during the early part of the year although disappointingly, these were reduced during the latter part of the year as regional competitors duplicated the product. Margin growth was further supported by increased employee productivity and lower prices for both cotton and polyester yarns due to commodity market declines. Costs of chemicals and dyes increased during the year as the sector increased the use of environmentally friendly dyes which are typically higher priced. Energy costs declined as the price of furnace oil, a key source of energy, declined during the year by 11% together with initiatives to enhance energy efficiency and move towards renewable sources. Notably, benefits from lower prices are typically shared with customers as all business partners work together to reduce the cost of the finished articles of apparel and the length of the supply chain supporting the long term sustainability of the industry.





High levels of employee retention of 96% was encouraging facilitating higher employee productivity in line with strategy. Access to water is a key issue for the company which is largely mitigated by its location alongside the Kalu Ganaga which has the highest discharge of water to the sea in the country estimated 4,000 m3 annually. Investments during the year to upgrade machinery in production areas included the purchase of water and energy efficient dye machines, advanced knitting machines and finishing machines. The company continued to maintain high levels of engagement with the community with 75% of the workforce employed from within a 15 km radius, a policy of giving preference to local suppliers, sale of scrap to housewives for rug making, and philanthropic projects to support community building.



Way Forward

Strong relationships with leading fashion brands reinforced by a proven track record of timely delivery, consistent quality and innovation is expected to sustain the Company's growth momentum in the coming year. While the outlook for the EU, the principal market for the Company, is relatively moderate, growth prospects in the US have strengthened. Margins are expected to stabilize and remain under close scrutiny of all players in the supply chain as the industry continues to focus on reducing costs and the length of the supply chain. Competition from Asian competitors is also likely to intensify as trade flows decrease with the moderation of the growth rate in China. However, Sri Lanka's reputation as an ethical sourcing destination with high standards and social and environmental compliance and certification is expected to be a key factor in attracting customers.

Hayleys Fabric's multi-faceted strategy has been successful in delivering sustained value to shareholders over the past two years and we will continue to refine the same in a year that is likely to be challenging to many industries. A constant review of trends and innovations, deep industry insights, a stable and trained workforce, sound risk management processes and a customer service focus gives us a competitive edge which we look to sharpen in the coming year.

Sector Review

Construction Materials

Alumex PLC is Sri Lanka's premier manufacturer of aluminium extrusions, commanding a dominant market share of 53%, a leadership position it has maintained since 1998. As a fully integrated manufacturer, the Group offers a comprehensive range of architectural, residential and industrial products to the top and middle tier of the construction industry. Alumex is an ISO 9001:2008 certified company and its global reputation for exceptional quality has enabled it to establish itself internationally. It is the only approved applicator for leading international powder brands of JOTUN, DGL and Akzo Nobel and has also been awarded international contracts for brands such as AluK of Italy and Fletcher Aluminium of New Zealand to manufacture window and door profiles.

4%

Revenue

9%

PBT

2%

Assets

2%

Employees

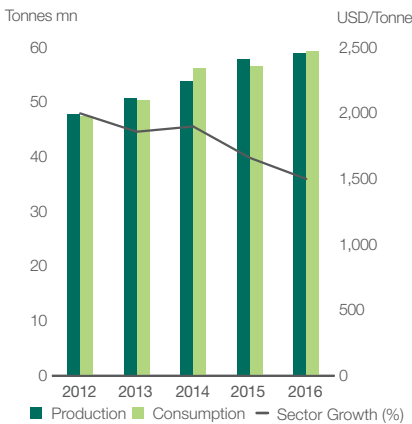
5%

Carbon Footprint

Contribution and Sector Growth



Production, Consumption and Sector Growth



Operating Context

Demand for aluminium extrusions has increased at a rapid pace in line with the expansion of Sri Lanka's construction sector, which has grown at an average CAGR of around 96% during the three years to 2014. In 2015, however, the construction sector contracted by 0.9% primarily due to the slow-down in infrastructure projects although this was offset by private sector developments project. Mega private sector projects, including high-rise buildings, apartment complexes and hotels have propelled demand for aluminium profiles in recent years. Meanwhile, global primary aluminium prices remained flat as the USA and European regions showed only modest signs of recovery; the price of primary aluminium has declined by approximately 4% over the last three years, favorably impacting profitability margins of manufacturers engaged in the processing of aluminium.

Material challenges in 2016

- Attracting and retaining skilled talent

“Alumex turned in a year of record growth and profitability achieving revenue and profit growth of 20% and 23% respectively in comparison to the previous year.”



Sector Review

Construction Materials

Strategy and Performance

| Economic | | 2016 | 2015 | % |
|--------------|--------|-------|-------|------|
| Revenue | Rs. mn | 3,944 | 3,287 | 20 |
| PBIT | Rs. mn | 813 | 611 | 33 |
| PBT | Rs. mn | 801 | 613 | 31 |
| PAT | Rs. mn | 589 | 477 | 23 |
| Total Assets | Rs. mn | 2,457 | 2,217 | 11 |
| Total Debt | Rs. mn | 3 | 18 | (83) |
| ROCE | % | 55.02 | 47.64 | 15 |

| Environmental | | 2016 |
|------------------|--------------------|------------|
| Materials | MT | 6,286 |
| Energy | GJ | 59,216,198 |
| Water | M ³ | 117,149 |
| Solid Waste | MT | 886 |
| Carbon Footprint | tCO ₂ e | 4,413 |

| Social | | 2016 |
|------------------------------------|---------------------------|-------|
| Head Count | No. | 631 |
| Employee productivity | Profit (Rs. mn) /employee | 0.93 |
| Training hours | Hours | 2,689 |
| Investment in community engagement | Rs mn | 1.6 |
| Beneficiaries | No. | 7,683 |

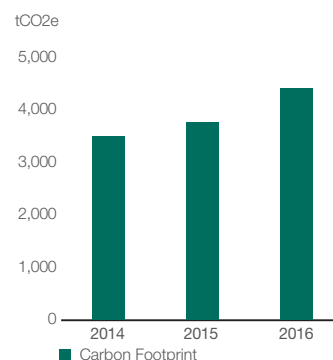
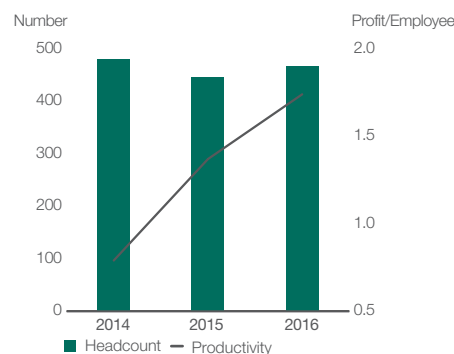
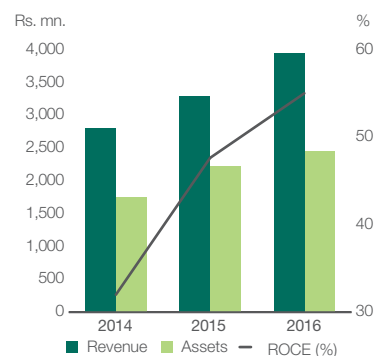
Alumex turned in a year of record growth and profitability achieving revenue and profit growth of 20% and 31% respectively in comparison to the previous year. The sector's well-timed capacity expansions enabled it to effectively respond to increasing demand stemming from large scale construction projects. Profitability margins also widened during the year due to the combined effects of falling raw material prices and improvements in operational efficiencies and employee productivity. The innovative LUMIN range of products targeting the household/residential market was launched during the year and market response has been extremely encouraging; we hope to further strengthen our presence in this segment through establishing several showrooms throughout the country, thereby widening our geographical reach.





During the year emphasis was placed on streamlining and rationalising manufacturing processes to ensure optimum production and productivity levels. We invested close to Rs. 1.6 mn in specific training initiatives targeted towards driving productivity and process improvements; resultantly, employee productivity (measured as profit per employee) increased by 27% during the year. Staff retention continues to be one of our key challenges and in 2015/16 we conducted an employee satisfaction survey covering 66% of our employees; this allowed us to clearly identify further areas for improvement in our employee value proposition. Product and process innovation is a key factor of our customer value proposition and during the year we invested Rs. 25 mn in R&D efforts. Product and process developments implemented during the year include sliding door/window series, double glazed casement window, wardrobe profiles, chemical polishing process and increasing capacity of the melting furnace and sludge dryer. The sector's waste and effluent management practices are in line with regulatory requirements and industry best practices. During the year under review there were no incidences of non-compliance to any environmental laws and regulations.

The customer value proposition was further strengthened during the year, with the investment of Rs. 9 mn in the Alumex Training School, through which we conducted 77 fabricator training programmes, with a participant base of over 1655. Ongoing community engagement initiatives include providing internship opportunities for students from selected institutions, supporting technical and vocational education and skills development of selected government sector institutions and regular donations for differently abled and underprivileged communities.



Way Forward

With our strategy of enhancing capacity as well as increasing the utilization of available capacity, we are well positioned to capture growth opportunities presented by the anticipated construction boom. The LUMIN range presents exciting opportunities for growth and we hope to strengthen our presence in this segment of the market through establishing concept/design centers in outstations. Strategic emphasis will be placed on continuous productivity and efficiency improvements and we will continue to enhance the skill base of our employees through focused training and development initiatives. We will also seek increased penetration in regional and international markets, including India and Bangladesh with the launch of our tested windows and door profiles.

Sector Review

Plantations

The Group is amongst the country's largest plantation sector operators, with its subsidiaries Kelani Valley Plantations PLC (KVPL) and Talawakelle Tea Estates PLC (TTE) collectively accounting for 3.8% and 3.4% of Sri Lanka's tea and rubber production. Both Regional Plantation Companies (RPC) lead the industry in quality, with TTE and KVPL consistently commanding premium pricing at the tea and rubber auctions respectively. Cultivating 44 tea and rubber estates covering 25000 hectares, the two RPCs provide employment to over 19,000 workers and have continued to make substantial investments in contributing to the socio economic progress of nearly 150,000 individuals in estate communities. Hayleys is also involved in the blending and export of value added tea, exporting its Mabroc range of branded tea to over 50 destinations.

10%

Revenue

1%

PBT

10%

Assets

58%

Employees

12%

Carbon Footprint

| Clusters in Sector | Operations | Highlights | |
|---------------------------|--|--------------------------------|----------------------------|
| | | Contribution to Sector Revenue | Contribution to Sector PBT |
| Kelani Valley Plantations | Production and processing of black tea, green tea and rubber | 34% | (225%) |
| Talawakelle Tea Estates | Production and processing of black and green tea | 36% | 264% |
| Tea Exports | Export of value added tea through blending, packaging and branding bulk tea and processing of instant tea. | 30% | 61% |

Operating Context

Tea is amongst the most consumed beverages in the world and supply of tea is limited to certain regions due to the specific agro climatic conditions required for its cultivation. Sri Lanka is the 4th largest tea producer in the world and has ranked among the worlds' finest due to its strong flavour and aroma. Prices commanded at the Colombo Tea Auction have consistently been at a premium in comparison to its regional global counterparts. The Plantation Sector is a vital component of Sri Lanka's economy, with tea and rubber generating 15% of total export earnings and accounting for more than 30% of the country's total agricultural workforce

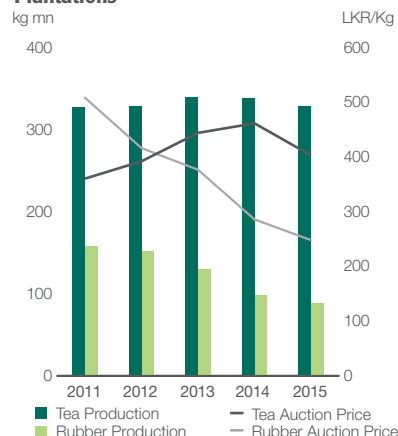
The country's plantation industry experienced one of the most challenging years in recent history attributed to a combination of external and internal factors. Geopolitical and economic risks in key buying markets resulted in a drastic drop in both tea and rubber prices while inclement weather and domestic labour issues adversely affected supply. In July 2015, tea estate workers initiated a 'go-slow' campaign demanding a wage increase. The 10 day industrial action resulted in output falling significantly. In Sri Lanka, labor costs account for nearly 70% of the cost of production of tea, much higher than that of other tea producing nations due to lower labor productivity and an archaic remuneration model which mandates 300 days of payment irrespective of the output produced.

As a combined result of the factors detailed above, total production declined by around 3% to 328 mn kg in 2015 while Average prices at the Colombo Tea Auction dipped by 13% during the year. Meanwhile, rubber production was also affected by inclement weather with total production and prices falling by 10% and 13% respectively during the year.

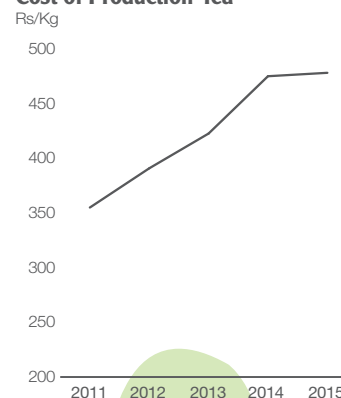
Material challenges in 2016

- Elevated economic and geo-political risk in key markets
- Industrial action
- Low labor productivity
- Adverse weather conditions

Plantations



Cost of Production-Tea



Sector Review

Plantations

Strategy and Performance

| Economic | | 2016 | 2015 | % |
|--------------|--------|--------|--------|-------|
| Revenue | Rs. mn | 9,096 | 12,678 | (28) |
| PBIT | Rs. mn | 218 | 566 | (61) |
| PBT | Rs. mn | 50 | 358 | (86) |
| PAT | Rs. mn | (9) | 257 | (103) |
| Total Assets | Rs. mn | 11,057 | 10,433 | 6 |
| Total Debt | Rs. mn | 3,041 | 1,894 | 61 |
| ROCE | % | 3.34 | 10.04 | (67) |

| Environmental | | 2016 |
|------------------|--------------------|---------------|
| Materials | | |
| (1) Bought leaf | KG | 10,091,132 |
| (2) Bought latex | KG | 241,387 |
| (3) Fertilizer | MT | 5,057 |
| Energy | GJ | 519,358.18 |
| Water | M ³ | 10,269,291.68 |
| Solid Waste | MT | 117,353 |
| Carbon Footprint | tCO ₂ e | 9,691 |

| Social | | 2016 |
|------------------------------------|--------|--------|
| Head Count | No. | 19,287 |
| Training hours | Hours | 47,874 |
| Investment in community engagement | Rs. mn | 39.7 |
| Beneficiaries | No. | 480 |

Despite the multitude of challenges we faced in 2015/16, KVPL and TTE placed continued emphasis on maintaining the unparalleled quality of its produce while staying true to its sustainability commitments. Demonstrating our commitment to preserving and enhancing the quality of our natural environment, both RPCs have obtained multiple local and international certifications on environmental management including Rainforest Alliance, Global Gap Certification and Forest Stewardship Council Certification among others.

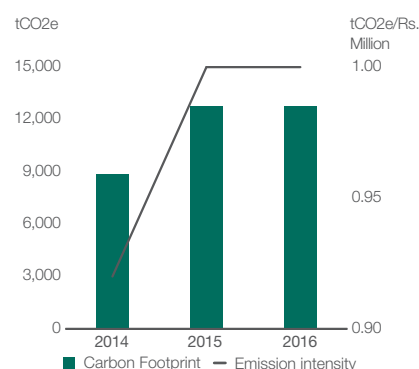
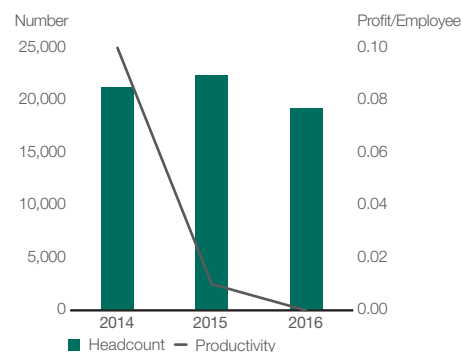
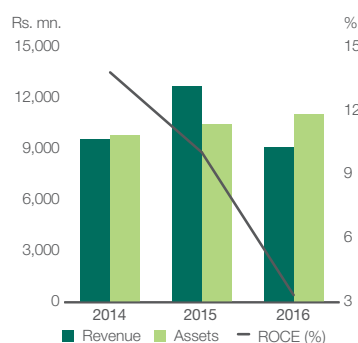
Total tea production volume for the year declined by 5% (compared to the overall industry's drop of 3%) and rubber production volume for the year declined by 8% (compared to the overall industry's drop of 11%) reflecting adverse weather conditions and impacts of prolonged industrial action. The sector's revenue fell by 28%, due to the decline in volumes together with tea and rubber prices falling by a respective 12.9% and 12.7%. This, together with an escalation in costs resulted in the sector's pre-tax profit declining by 86% to Rs. 50 mn during the year.





The go-slow campaign and resultant disruption to labor productivity caused substantial delays in the pruning of tea bushes, due to which the quantity and quality of growing shoots on plucking surfaces decreased. On the other hand, we continued to drive efficiencies in energy consumption and reduce dependence on fossil fuels. To extend the lifespan and improve the yields of our estates we invested Rs. 454 mn in replanting and maintaining our biological assets. This continued focus on the sustainability of our estates has enabled us to consistently achieve above average yields, both in tea and rubber.

Employees are key to maintaining sustainable and reliable operations and over the years we have continued to enhance our employee value proposition. Total payments made to employees decreased by 29% amounted to Rs 4.46 mn during the year. We also invested in health and safety training and awareness campaigns supported by which the employee injury rate declined to 0.36%. In creating an inclusive platform for the socio economic progress of our workers and their families, we invested Rs. 25 mn in our multi-dimensional “A home for every plantation worker” initiative through which we constructed/upgraded 183 houses, conducted 56 nutrition/medical campaigns and 19 community capacity building programmes.



Way Forward

The short term outlook for the plantation sector remains challenging as prevalent market conditions are not expected to improve significantly over the near term. In effectively responding to market dynamics, the Group has placed strategic importance on diversifying its product offering and expanding beyond its traditional markets. Focus will be placed on developing more value added products in both key product categories. We hope to effectively respond to changing dynamics in the beverages market, which signal increased consumer propensity towards more healthy alternatives to carbonated drinks. As such, plans are currently underway to manufacture a range of value added tea products targeting the export market. As a sector, we will also strive to leverage the extensive natural resources in our estates to develop a sustainable and unique hospitality offering, building on the Hayleys Group's expertise in the leisure sector.

Sector Review

Agriculture

Hayleys Agriculture Holdings is an industry pioneer and market leader in agriculture, offering a wide spectrum of products and services catering to both the domestic and export markets. The sector's product stewardship strategy has focused on transforming agriculture to be ecologically more sustainable through identifying and realizing opportunities for innovation while contributing towards community empowerment. The Group is the largest Sri Lankan exporter of processed fruits and vegetables commanding a market share of around 45%, and also leads the seed paddy, combine harvesters and stainless steel agricultural sprayer equipment. With its diverse portfolio of agri inputs, the sector also holds a respective 16% and 18% of the country's fertilizer and crop protection industries and is a formidable player in the animal health industry, particularly in the pet, poultry and large animal sectors.

12%

Revenue

13%

PBT

7%

Assets

5%

Employees

4%

Carbon Footprint

| | Clusters in the Sector | Operations | Highlights | |
|-----------------|--------------------------|--|--------------------------------|----------------------------|
| | | | Contribution to Sector Revenue | Contribution to Sector PBT |
| Domestic | | | | |
| Products | Crop Protection | Crop protection solutions for weed, pests and fungi. | 17 % | 16 % |
| | Crop Production | Supplier of potato seed, producer of seed paddy and other field crop seeds such as maize, B onion and Chili, and a supplier of specialty fertilizer. | 6 % | 1 % |
| | Fertilizer | Supplier of straight and blended fertilizers for a range of crops. | 12 % | 15 % |
| | Agricultural Equipment | Supplier of tractors, sprayers, combined harvesters, transplanters, milking machines etc. | 28 % | 24 % |
| Services | Animal Health | We represent global brands in the distribution of products and services which improve the quality of life and efficiency of livestock and companion animals. | 5 % | 7 % |
| | Pest Management | Provision of pest control solutions to the industrial and domestic markets. | 1 % | 3 % |
| Exports | | | | |
| | Food | Exporter of processed vegetables and fruit. | 20 % | 19 % |
| | Non-food | Producer of horticultural plants, tissue cultured plantlets, flower seeds and seaweed. | 2 % | 2 % |
| Foreign | | | | |
| | International Operations | Manufacturing, Importing and trading of agricultural products. | 9 % | 13 % |

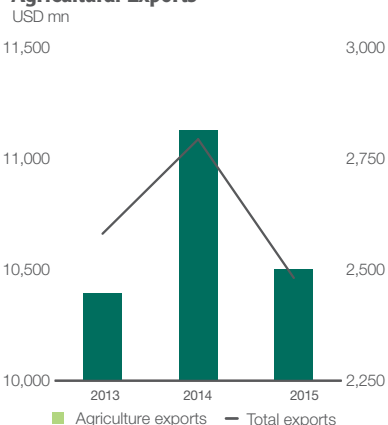
Operating Context

The agriculture sector is a key sector in the Sri Lankan economy as it provides substantial employment, income, foreign exchange income and food, despite its relatively low contribution to GDP in comparison to other economic sectors. In 2015, Sri Lanka's agriculture sector grew by 5.5% as favourable weather conditions enabled the strong growth of several domestic crops, including paddy, vegetables, fruits and animal production. Underscoring the importance of cohesive action plan towards harnessing the potential of the country's agriculture sector, the Ministry of Agriculture formulated a new National Agricultural Policy designed to assure food security, ensure environmental sustainability and develop economic activity. Through the 2016 Budget, the Government also took measures to convert the fertilizer subsidy given to farmers to a cash allowance, with the objective of encouraging farmers to minimize the use of chemical fertilizers. We also believe that engaging the farming community and raising awareness on the correct application of fertilizers is paramount in ensuring that the nutritional content of the agricultural produce is preserved while ensuring the long term sustainability of the crops. (Refer to Operating Environment for further information)

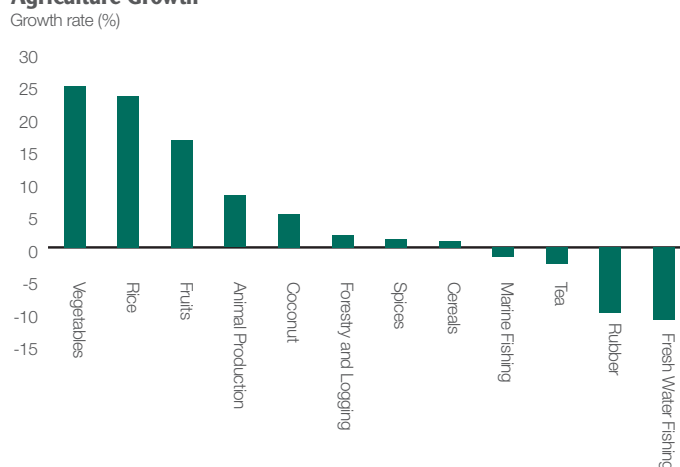
Material challenges in 2016

- Uncertainty regarding the Government's fertilizer policy
- Weak performance of the country's tea and rubber sectors due to adverse weather conditions and global demand

Agricultural Exports



Agriculture Growth



Sector Review

Agriculture

Strategy and Performance

| Economic | | 2016 | 2015 | % |
|--------------|--------|--------|-------|----|
| Revenue | Rs. mn | 11,023 | 8,424 | 31 |
| PBIT | Rs. mn | 1,287 | 1,039 | 24 |
| PBT | Rs. mn | 1,090 | 817 | 33 |
| PAT | Rs. mn | 784 | 632 | 24 |
| Total Assets | Rs. mn | 7,779 | 6,559 | 19 |
| Total Debt | Rs. mn | 2,675 | 2,510 | 7 |
| ROCE | % | 27.67 | 23.94 | 16 |

| Environmental | | 2016 |
|------------------|--------------------|--------|
| Energy | GJ | 16,385 |
| Water | M ³ | 39,484 |
| Solid Waste | MT | 1,510 |
| Carbon Footprint | tCO ₂ e | 3,111 |

| Social | | 2016 |
|--------------------------------------|---------------------------|--------|
| Head Count | No. | 1,583 |
| Employee productivity | Profit (Rs. mn) /employee | 0.5 |
| Training hours | Hours | 3,170 |
| Investment in agricultural extension | Rs. mn | 1.2 |
| Beneficiaries | No. | 15,350 |

The Agriculture sector turned in a year of strong growth, driven by our innovation-led strategy which enabled us to develop and enhance the markets for our products. The sector's revenue grew by 31% to Rs. 11,023 mn during the year, and this combined with continued focus on supply chain and operational efficiencies resulted in a profit growth of 24%. Sector performance was driven by robust expansion of the Group's Agricultural equipment, crop protection, animal health and export divisions, which saw profit growths of 900%, 225%, 20% and 14% respectively during the year. In the wake of the Government's plan over the abolishment of the point of import subsidy scheme and detailing the Policy for the industry, our approach was cautious in this segment, delivering a healthy but a measured performance. The pest management segment delivered a respectable performance and so did the crop production business.

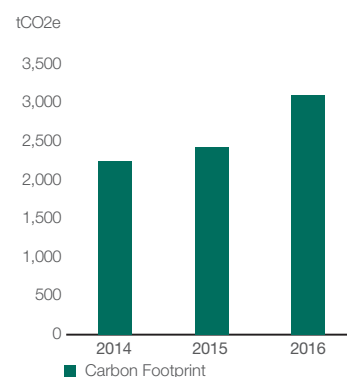
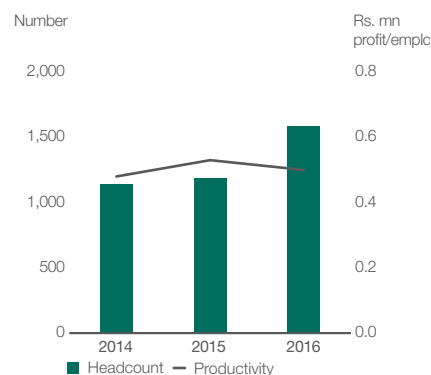
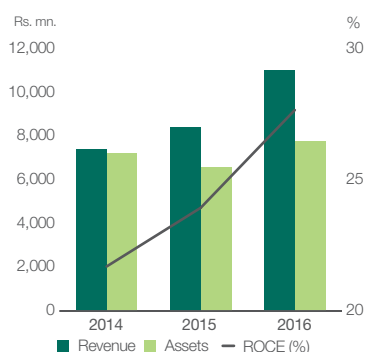
An industry leader in innovation, the sector continued to harness its capabilities with R&D investments of Rs. 12 mn during the year. Key innovations introduced by Hayleys Agriculture include the use of nozzle.





ecologically sustainable crop protection products. In exports, our focus was on developing premium products with enhanced value addition such as spice infused virgin coconut oil, dehydrated fruits and organic products. Collaboration plays a vital role in sharing technology, knowledge and efficiencies and we partnered with over five universities, research institutes and NGOs in developing and commercialising research that facilitates productive and sustainable agricultural practices.

Our unique and multi-faceted agricultural extension services program is designed to empower over 15,000 island wide farmers and out-growers through conducting training and awareness programmes on sustainable agricultural practices, provision of input materials, and equipment, among others. During the year, we invested Rs. 6.2 mn in this initiative and further increased our agricultural advisory force comprising of technicians and specialists. The sector's hugely successful aqua-agriculture project in the Northern Province has up to date generated over 1,000 employment opportunities and supported the socio economic progress of over 500 families. Meanwhile, we continued to strengthen our employee value proposition, investing Rs. 8.5 mn in training and development during the year.



Way Forward

Our growth agenda over the short-to medium term will be driven by our strategic pillars of innovation, collaboration and sustainable value creation across all our value chains. Innovation is expected to play a key role in the expansion of our exports business, as we strive to enhance our portfolio with new and improved products and applications, catering to niche markets and widening our export destinations. We also see tremendous opportunities for growth in our local dairy sector. Like-wise we see potential in the pest management services segment. Sustainability is at the heart of our operations and we will continue to invest and collaborate with research institutes in developing high yielding innovative and ecologically sustainable agricultural solutions while these findings will be propagated to the farming communities through our extension services.

Sector Review

Consumer

The Consumer sector markets a wide range of fast-moving consumer goods, lighting products, imaging solutions and healthcare products representing globally renowned brands including Proctor & Gamble, Phillips Lighting, Fujifilm and Xerox. Through an extensive distribution network our products are made available in more than 90,000 outlets across the island and are reputed for superior quality and value for money.

6%

Revenue

1%

PBT

3%

Assets

1%

Employees

0.1%

Carbon Footprint

| Cluster | Business Lines | Highlights | |
|---------------|---|--------------------------------|----------------------------|
| | | Contribution to Sector Revenue | Contribution to Sector PBT |
| Home Products | As the sole distributor for Proctor & Gamble, we take to the market a wide array of well known home and personal care brands including Gillette, Olay, Pampers, Pantene and Head & Shoulders. | 59% | 37% |
| Lighting | Consumer lighting solutions for domestic use, professional lighting for commercial, industrial, outdoor lighting, and other projects. | 29% | 55% |
| Imaging | Distributor for Fujifilm in Sri Lanka. We provide high quality photo film paper, chemicals, photo printing machinery and Fujifilm finepix cameras. | 9% | 7% |
| Healthcare | Sole distributor for Blue Cross Pharmaceuticals in Sri Lanka marketing a range of therapeutic drugs and vitamins. The cluster is also the distributor for 3M first aid dressings, Bayer Glucometers and a range of other reputed Brands in Sri Lanka. | 3% | 1% |



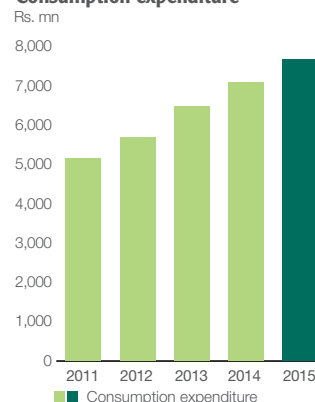
Operating Context

Economic conditions during the reviewed period was conducive for the Consumer sector, as the budget mandated downward revision of fuel prices and several key consumer goods together with an increase in public sector wages and private sector credit growth drove up consumption. Accordingly, private consumption expenditure grew by 8% in 2015, accounting for 70.1% of gross national income. Parallel to the consumption boom, Sri Lanka's FMCG sector, led by personal care products recorded strong growth during the year under review. That said tightening economic conditions and monetary policy is likely to result in a moderation of the increased consumption witnessed during the 2015/16 financial year. Meanwhile, the depreciation of the Sri Lankan Rupee against the US Dollar over the past few months has pushed up the price of imported goods, which can further impact demand for our products in the next financial year.

Material challenges in 2016

- Depreciation of the exchange rate
- Intensifying competitive pressures

Consumption expenditure



“As a key strategic initiative during the year, we focussed on strengthening the market presence of the Group’s own products.”

Sector Review

Consumer

Strategy and Performance

| Economic | | 2016 | 2015 | % |
|--------------|--------|-------|-------|-----|
| Revenue | Rs. mn | 5,718 | 5,185 | 10 |
| PBIT | Rs. mn | 228 | 140 | 63 |
| PBT | Rs. mn | 117 | 32 | 265 |
| PAT | Rs. mn | 68 | 10 | 580 |
| Total Assets | Rs. mn | 2,688 | 2,508 | 7 |
| Total Debt | Rs. mn | 1,508 | 1378 | 9 |
| ROCE | % | 13.47 | 9.14 | 47 |

| Environmental | | 2016 |
|------------------|-------|------|
| Carbon footprint | tCO2e | 108 |

| Social | | 2016 |
|-----------------------|---------------------------|-------|
| Head Count | No. | 293 |
| Employee productivity | Profit (Rs. mn) /employee | 0.23 |
| Training hours | Hours | 2,066 |

The Consumer sector's revenue grew by 10% to Rs. 5.72 bn during the year under review, upheld by impressive growth in all key business lines. Sector profitability increased by over 6-fold to Rs. 68 mn, as the sector pursued growth in premium, high margin products. The Hayleys' Home Products cluster, which is the largest contributor to sector profits recorded strong growth, supported by the consumption boom during the year as well as increased customer sophistication which drove up demand for premium products. We placed strategic importance on improving the visibility of our products through enhanced customer engagement and promotional activities.

As a key strategic initiative during the year, we focussed on strengthening the market presence of the Group's own products such as household gloves, Talawakelle tea, fibre mats and oxypura masks among others. The initial response for these products has been extremely encouraging and we are excited about the growth prospects presented by combining the

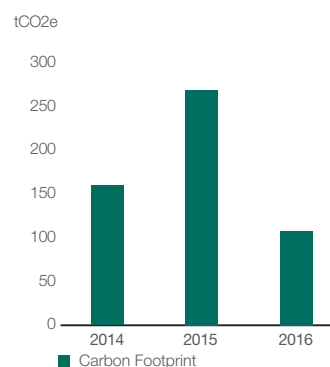
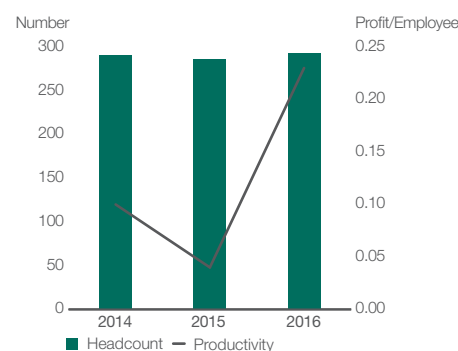
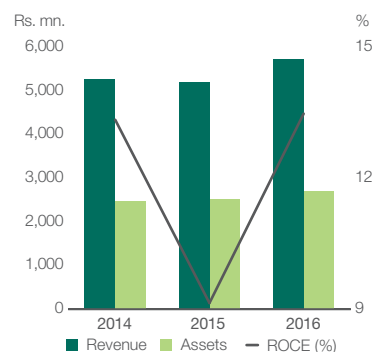




Group's wide-ranging product portfolio with the Consumer sector's deep industry insights while leveraging on our extensive distribution networks. Meanwhile, in Lighting, the sector provides a range of domestic and commercial lighting solutions, and during the year we pursued a strategy of volume expansion. As competition from imported low quality products continue to intensify, the premium quality of our products and value for money customer proposition is expected to sustain growth of this segment over the medium to long term. The healthcare cluster returned to black after two consecutive years of losses and is well positioned for growth.

The environmental footprint of the Consumer sector is relatively low, as its operations are mainly of a trading nature. The only significant environmental impact arises from the transportation of consumer goods; however, we do not currently track this indicator. Meanwhile, Hayleys Lighting has pioneered and popularised the use of energy efficient LED lighting in the country, contributing towards achieving reductions in the country's domestic energy footprint.

The Consumer sector's team comprises 293 employees, and during the year we enhanced our employee value proposition through training and development initiatives targeted towards improving productivity and driving our strategy. We also provide numerous opportunities for career and skill development, attractive financial and non-financial remuneration and a conducive work environment.



Way Forward

Over the short to medium term, focus will be placed on increasing product offerings and leveraging our existing distribution network to market a wider range of products. We also hope to pursue growth through joint venture partnerships in several key business lines, which will afford us more control and ability to leverage resources in our value creation process.

Sector Review

Leisure

Hayleys PLC is a leading player in Sri Lanka's hospitality sector, owning and operating over 642 hotel rooms in the 4-star, 5-star and boutique hotel categories and also the inbound tour operations bringing approximately 10,000 tourists per annum to Sri Lanka. The Group's portfolio comprises of seven resort hotels, operated through its flagship Amaya brand and The Kingsbury, a 5-star city hotel in the business capital of Colombo. Several of the Group's hotels (Signature by Amaya, Langdale by Amaya and Hunas by Amaya) have been selected as small luxury hotels by Small Luxury Hotels of World.

5%

Revenue

8%

PBT

8%

Assets

5%

Employees

15%

Carbon Footprint

| Clusters in Sector | Operations | Highlights | |
|--------------------|--|--------------------------------|----------------------------|
| | | Contribution to Sector Revenue | Contribution to Sector PBT |
| Resorts | The Group operates 659 4-star, 5-star and boutique hotel rooms in seven properties through the Amaya Resorts and Spas chain. | 38% | 49% |
| City Hotels | The Kingsbury, is a 229-room, five star hotel in Colombo | 60% | 49% |
| Inbound Tours | Inbound tour operations | 2% | 2% |

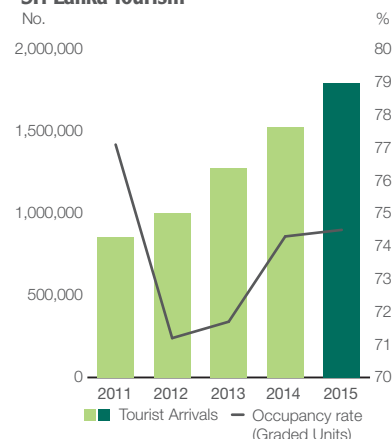
Operating Context

Tourist arrivals into Sri Lanka grew by 17.8% during 2015 and increased a further 22.1% in the first three months of 2016. The last few years have also seen a gradual shift in the country's source markets with China and India emerging as top contributors whilst arrivals from traditional markets of Western Europe have declined in proportion. Although increasing arrivals have augured well for the country's hotel and restaurants sector, the shift in source markets have also led to a change in spending patterns which have impacted yields. Further challenges faced by the sector include persistent increases in the country's inventory of rooms, alternate hospitality models such as home stays and apartments, as well as the shortage of skilled labour. (Refer to pages 66 to 69) for further information on the operating environment)

Material challenges in 2016

- Increasing competitive pressures
- Attraction and retention of skilled labor
- Pressure on profit margins due to changing spending patterns of guest

Sri Lanka Tourism



“The last few years have also seen a gradual shift in the country's source markets with China and India emerging as top contributors.”

Sector Review

Leisure

Strategy and Performance

| Economic | | 2016 | 2015 | % |
|--------------|--------|-------|-------|------|
| Revenue | Rs. mn | 4,501 | 3,968 | 13 |
| PBIT | Rs. mn | 991 | 789 | 26 |
| PBT | Rs. mn | 679 | 527 | 29 |
| PAT | Rs. mn | 558 | 475 | 17 |
| Total Assets | Rs. mn | 8,509 | 8,315 | 2 |
| Total Debt | Rs. mn | 3,664 | 4,059 | (10) |
| ROCE | % | 13.65 | 10.86 | 26 |

| Environmental | | 2016 |
|------------------|--------|--------------------|
| Materials | MT | Data not available |
| Energy | GJ | 124,355.71 |
| Water | litres | 4,156,513,350 |
| Carbon Footprint | tCO2e | 12,229 |

| Social | | 2016 |
|------------------------------------|---------------------------|----------|
| Head Count | No. | 1486 |
| Employee Productivity | Profit (Rs. mn) /employee | 0.38 |
| Training Hours | Hours | 11,532.6 |
| Investment in community engagement | Rs. mn | 1 |
| Beneficiaries | No. | 66 |

The leisure sector achieved a revenue growth of 13% during the year, supported by an increase in guest nights which enabled our hotels to record an average occupancy rate of 62%, 71% and 44% for Amaya, The Kingsbury and Hunas Falls. As industry factors inserted pressure on yields, internally we continued to focus on improving operational efficiency and employee productivity enabling the sector to contain growth and resulting in a profit growth of 17% during the year. Key challenges for the year included the increasing cost of imported inputs and servicing of US Dollar borrowings amidst the sharp depreciation of the Sri Lankan Rupee during the year.

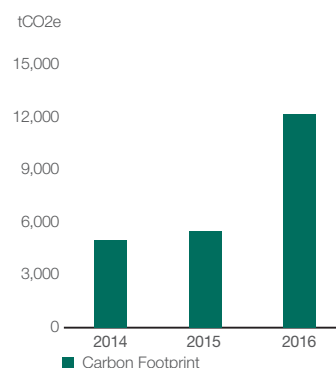
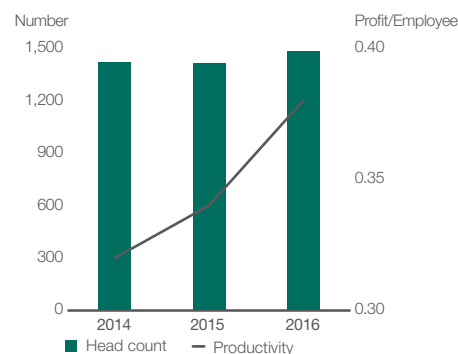
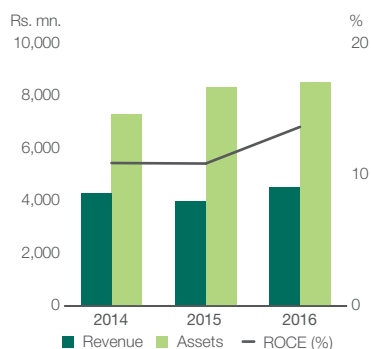
In our industry, people are key to driving strategy and facilitating the customer experience. All efforts are made to hire resort staff from adjacent communities and our employee value proposition ensures that we contribute directly to their socio-economic progress and skill development. Our people strategy during the year was aimed towards multi-skilling and





driving productivity improvements to optimize our human capital. We continue to invest in training and development initiatives which include multi-faceted training on language and communication skills as well as industry specific competencies such as stewardship and F&B skills. Employee productivity (measured as profit contribution per employee) improved to Rs. 0.38 mn profit per employee during the year.

In driving operational efficiencies, we focused primarily on optimising energy consumption in our properties. Some of all lighting requirements are fulfilled through energy efficient LED lights whilst guests are also engaged in energy preservation through awareness programmes, guest notices and brochures. Meanwhile, all properties have implemented mechanisms for recycling and discharging waste water and disposing solid waste appropriately. During the year, there were no incidences of non-compliances pertaining to the contravention of any applicable environmental laws and regulations.



Way Forward

The sector enjoys considerable potential for growth given its medium to long-term focus on expanding capacity. Our pipeline of rooms comprises of alternative hospitality models including collaborations with the Hayleys Group's plantation and agriculture sectors to develop boutique bungalows in estates and holiday homes in the Group's agri-farms. We remain optimistic regarding the growth potential of our city hotel and hope to complement the current 229 rooms with 40 luxury service apartments which includes 120 bedrooms with the objective of catering to tourists' increasing demand for apartment stays.

Sector Review

Industry Inputs and Power & Energy

Through this sector, the Group supplies close to 2% of the country's total renewable energy supply, with an installed capacity of 35 MW generated through hydro and wind power plants. The sector also engages in the supply of industrial raw materials, medical equipment, building management solutions and chemicals and dye for the textile industry among others.

4%

Revenue

13%

PBT

5%

Assets

1%

Employees

0.1%

Carbon Footprint

| Clusters in Sector | Operations | Highlights | |
|--|--|--------------------------------|----------------------------|
| | | Contribution to Sector Revenue | Contribution to Sector PBT |
| Renewable Energy Hydro Wind Solar | This cluster provides 5 MW of hydro power and 30 MW of wind power to the national grid. | 26% | 73% |
| Industrial Material Solutions and Colour Solutions | This cluster caters for food & beverage, plastic & resins, paint and rubber chemicals, cosmetic and detergents, and construction chemicals industries. It also provides colour solutions for the textile and non-textile industries. | 26% | 10% |
| Power Engineering Solutions | This cluster provides diesel power generating units, fire prevention and detection systems, security and network solutions, industrial automation solutions, central air conditioning and ventilation systems, material handling and storage systems, industrial pumps and related services. | 29% | 10% |
| Lifesciences and Medical Equipment | This cluster provides medical imaging and related products and services, scanning and analytical equipment and consumables for analytical and scientific testing. | 19% | 7% |

“ Our team consists of 273 employees who are a driving factor behind our success. ”

Operating Context

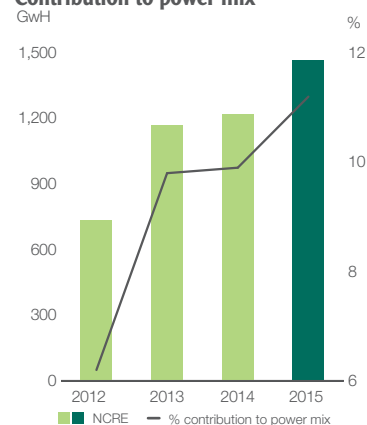
Thermal and hydro sources accounted for a respective 51% and 38% of Sri Lanka's energy production during 2015, followed by Non-Conventional Renewable Energy (NCRE) sources which contributed 11% to the power mix. The primary sources of NCRE are small hydro power plants (capacity less than 10 MW), wind, solar and bio-mass plants and over the last few years, these sources have accounted for an increased share of power generation. In 2015, power generated through NCRE sources increased by 20.4% to 1,466 GwH.

The Sri Lanka Sustainable Energy Authority (SLSEA) continues to actively promote the adoption and sustainable use of all forms of renewable energy in the country and the recently formulated Energy Sector Development Plan (2015-2025) envisages the development of the renewable energy sector to account for at least 34% of the country's power generation by 2030. Currently mini-hydros contribute 67% to the installed capacity of NCRE, however, Sri Lanka's geo-climatic conditions present a host of opportunities for the development of alternative NCRE sources. For instance, it is estimated that there is 1 GW of wind power potential available in Mannar, Puttalam and Jaffna while solar power also presents numerous opportunities, given its scalability and accessibility.

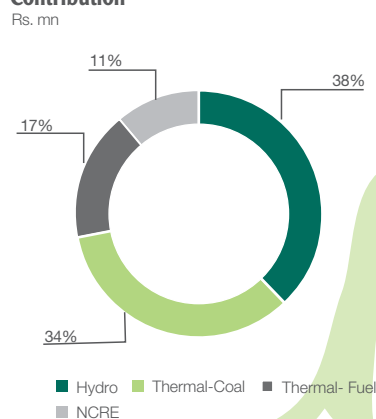
Material challenges in 2016

- Erratic weather conditions and climate change
- Depreciation of Sri Lankan Rupee and the resultant increase in the cost of imported inputs
- Growing domestic investments in solar energy

Contribution to power mix



Contribution



Sector Review

Industry Inputs and Power & Energy

Strategy and Performance

| Economic | | 2016 | 2015 | % |
|--------------|--------|-------|-------|------|
| Revenue | Rs. mn | 3,637 | 3,246 | 12 |
| PBIT | Rs. mn | 966 | 916 | 5 |
| PBT | Rs. mn | 1,090 | 824 | 32 |
| PAT | Rs. mn | 983 | 793 | 24 |
| Total Assets | Rs. mn | 5,272 | 4,571 | 15 |
| Total Debt | Rs. mn | 1,459 | 1,130 | 29 |
| ROCE | % | 24.38 | 27.42 | (11) |

| Environmental | | 2016 |
|-------------------|--------------------|-------|
| Materials | MT | 4.75 |
| Energy | GJ | 787 |
| Water | M ³ | 6,350 |
| Effluents & Waste | MT | 5,553 |
| Carbon Footprint | tCO ₂ e | 100 |

| Social | | 2016 |
|-----------------------|----------------------------|------|
| Head Count | No. | 225 |
| Employee productivity | Profit (Rs. mn) / employee | 4.37 |
| Training hours | Hours | 949 |

The sector turned in a year of strong performance, achieving revenue and profit growth of 12% and 32% respectively, supported by healthy growth in both business lines. The Power and Energy cluster recorded profit growth of 26% and contributed 73% to the sector's overall profits while the Industrial Inputs cluster turned in a profit growth of 54% during the year. Resultantly, the sector emerged as one of the main contributors to the Hayleys' Group's profits during the year under review.

The Power and Energy sector's balanced portfolio of hydro and wind power sources enables it to mitigate its exposure to extreme weather conditions given that rainfall is favourable to hydro power generation while drought conditions favour wind and solar. The addition of two wind power plants in Elephant Pass with a combined capacity of 20 MW supported profit growth of the sector. Globally, countries are increasingly focusing on renewable energy sources, given the rising threat of climate change and worldwide efforts to reduce emissions. The average CO₂ emission intensity of power generation through coal, fuel oil and natural gas are 960, 800 and 450 grams per kWh respectively, while emissions from renewables are zero. Against this backdrop, we will continue to expand our NCRE installed capacity through investments in wind, hydro and solar energy sources whilst bio-mass is also currently being explored as a viable option.

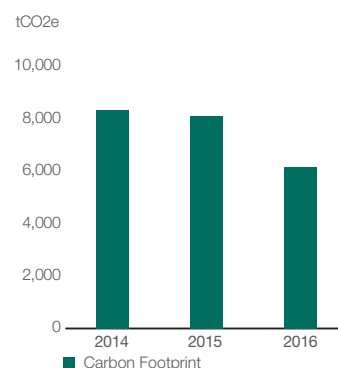
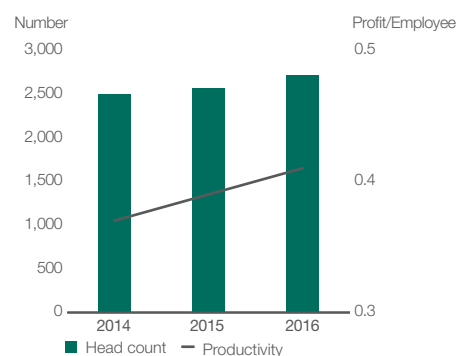
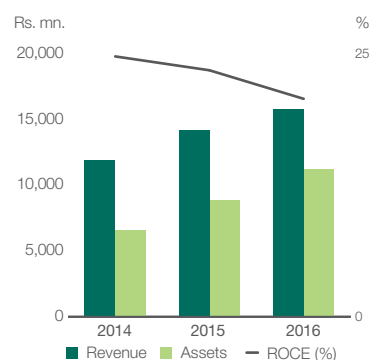




We are also well positioned to drive the Hayleys Group's clean energy agenda and championed the implementation of several energy initiatives at the Group. During the year under review, all lighting at the Head Office was replaced with energy efficient LED lighting which is anticipated to result in energy saving annually. Plans are also underway to commission solar panels at the Head Office to generate energy which can also facilitate the use of electric cars by our employees.

The industrial raw materials cluster benefited from the consumption boom in the country's food and beverage sector and we focused on strengthening our existing partnerships with multi-nationals. The colour solutions business which caters primarily to the textile industry recorded a modest performance, as exports were stagnant during the year. Power Engineering Solutions also performed commendably, benefiting from the increased demand for generators. We widened our product offering in this segment through entering into new agency partnerships for industrial water pumps and industrial air conditioners. In the Lifesciences business line, we consolidated our market position through further expansion of our product portfolio which enabled us to win several large tenders for the supply of equipment to the healthcare sector. Over the medium to long term we will place strategic focus on evolving to a one-stop-shop for all hardware requirements in the health sector.

Our team consists of 225 employees who are a driving factor behind our success. We have emphasized the importance of developing skills and providing opportunities for career progression and during the year we invested Rs. 5.14 mn in training and development providing 949 hours of training. Employee retention levels continued to remain relatively high during the year. The sector is an active contributor to the Hayleys Group's Sath diyawara Community Initiative and has so far invested Rs. 3.5 mn in a reverse osmosis plant in Phimbiyagollawa, through which we provide 10,000 liters of purified water to over 300 families.



Way Forward

Renewable energy is a key focus area for the Group and we will continue to invest in further expanding our generation capacity. We have already commenced the construction of a 4.5 MW hydro power plant in Mawanana, Galle which will be commissioned in 2016. We also hope to further diversify our portfolio through investments in solar energy and hope to commission a 10 MW plant in Polonnaruwa. In the industrial inputs cluster we will seek to further enhance our customer value proposition through widening our product and service portfolio while pursuing new markets. The Sector will also be rebranded as Hayleys Aventura becoming more agile and dynamic in key area of our businesses.

Sector Review

Transportation and Logistics

The Hayleys Advantis Group of Companies (Advantis) is the largest player in Sri Lanka's transportation and logistics industry, offering a vast gamut of services from packing personal effects, providing logistics support services for national infrastructure projects and the global movement of cargo. The Group currently handles approximately 14% of total annual container throughput of the Colombo Port. It is the country's largest freight forwarding and shipping agency house and is also the market leader in providing third-party logistics solutions in the country. Advantis offers the widest coverage of comprehensive and integrated end-to-end logistics solutions.

17%

Revenue

18%

PBT

11%

Assets

8%

Employees

7%

Carbon Footprint

| Cluster | Key Business Lines | Highlights | |
|----------------------------------|---|--------------------------------|----------------------------|
| | | Contribution to sector revenue | Contribution to sector PBT |
| International Freight Management | Shipping Freight Forwarding Air Express Transportation | 40% | 59% |
| Integrated Logistics | Third Party logistics Free Zone logistics Energy logistics | 14% | 10% |
| Marine Services | Chartering Ship Owning and Operating Marine Support | 25% | 19% |
| Terminals and Engineering | Inland Container Depot Operations Logistics Engineering Logistics Products Project Logistics | 8% | 12% |
| International Operations | Operations in India, Maldives and Myanmar. | 12% | 10% |
| Others | Strategic Investments in Sri Lanka and overseas | 1% | (10)% |

Operating Context

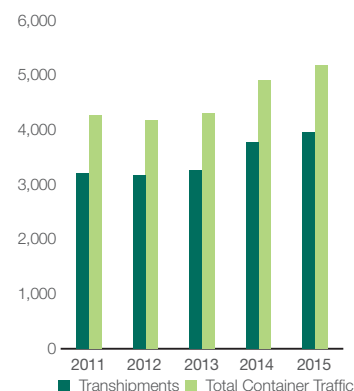
The global maritime industry which carries around 70% of global trade, continued to experience over capacity and declining freight rates in 2015 attributed to the slowdown in China, the slower than anticipated recovery of the European region and the failure of other emerging markets to perform in line with growth expectations. Global freight rates are estimated to have declined by 40% during the year ended March 2016, hitting a record low of USD 1.116 per 40ft container. Sri Lanka's port activities, however, was commendable during the year with total cargo handled at all four ports increasing by 4.3% to 77,579 MTs. The Port of Colombo, recorded its highest ever container throughput with twenty foot equivalent units (TEU) handled during the year increasing by 5.7% to 5.2 mn, propelled by the strong growth of the recently commissioned Colombo International Container Terminal (CICT) which is expected to be a catalyst in positioning the Port of Colombo as a regional maritime hub. In line with the Colombo South Harbour Development Project, the construction of phase 1 of the East Container Terminal at the Port of Colombo was completed in 2015, catering to a new generation of deep draft vessels and increased container handling capacity.

Material challenges in 2016

- Decline in global freight rates
- Steep fall in global oil prices
- Intense competitive pressures

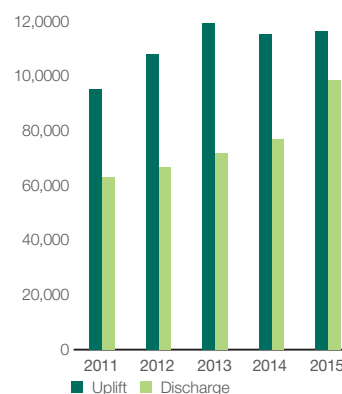
Ports

TEU's 000



Air Freight

MT



“The Group’s transportation and logistics sector recorded revenue growth of 12% during the year to Rs. 15.81 bn.”

Sector Review

Transportation and Logistics

Strategy and Performance

| Economic | | 2016 | 2015 | % |
|--------------|--------|--------|--------|------|
| Revenue | Rs. mn | 15,812 | 14,181 | 12 |
| PBIT | Rs. mn | 1,578 | 1,347 | 17 |
| PBT | Rs. mn | 1,545 | 1,333 | 16 |
| PAT | Rs. mn | 1,106 | 988 | 12 |
| Total Assets | Rs. mn | 11,225 | 8,844 | 27 |
| Total Debt | Rs. mn | 3,569 | 1,848 | 93 |
| ROCE | % | 20.76 | 23.48 | (12) |

| Environmental | | 2016 |
|------------------|--------------------|--------|
| Energy | GJ | 72,287 |
| Water | M ³ | 80,000 |
| Carbon Footprint | tCO ₂ e | 6168 |

| Social | | 2016 |
|-----------------------|---------------------------|------------|
| Head Count | No. | 2,714 |
| Employee Productivity | Profit (Rs. mn) /employee | 0.41 |
| Training Hours | Hours | 670 |
| Investment in CSR | Rs. mn | 11.83 |
| No. of beneficiaries | No. | over 4,000 |

The Group's transportation and logistics sector recorded revenue growth of 12% during the year to Rs.15.81 bn while profit after tax also widened by 12% to reach Rs.1.1 bn, making it the largest profit contributor to the Hayleys Group. Performance was upheld by increasing contributions from the sector's international operations and the Integrated Logistics sector. During the year we further expanded our operations in Male with the deployment of a second ship. In integrated logistics, the first phase of the specialised free-zone warehousing facility in Katunayake, turned in a year of strong performance with 100% capacity utilisation. The success of the facility can be attributed to the state of the art warehousing services it offers, as well its value addition capabilities and the sector's expertise in third party logistics.

The International Freight Management cluster was impacted by the prolonged decline in global freight rates which continued to insert pressure on profitability margins. Shipping services performed relatively well, against the backdrop of increased domestic and trans-shipment volumes at the Colombo Port while marine support arm continued to be adversely affected.

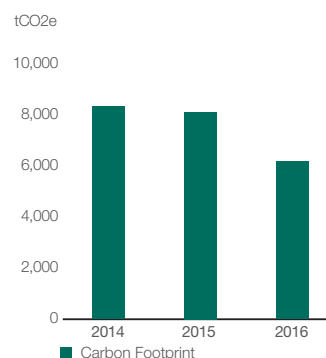
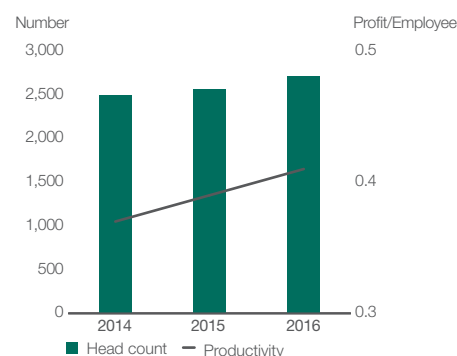
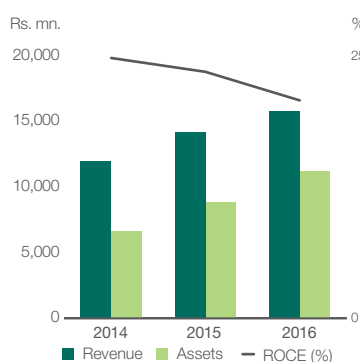
Several of our key clusters such as shipping and logistics are energy intensive, and during the year we engaged in several initiatives to improve our overall energy efficiency. In addition, we hope to embed several energy





saving mechanisms in the design of the second phase of our free zone facility, including the use of optimal energy efficient lighting and cooling while facilitating the increased use of natural light. The sector's carbon footprint for the year amounted to 6,168 tCO₂e; we take efforts to utilize battery operated machinery in the warehouses and facilities, which leads to lower energy consumption and zero emissions. Within the air express transportation business, we have emulated the practices of the Parent company by implementing the carbon neutral envelope shipping program, which tracks the CO₂ emitted through the shipment and also introduced the first ever electric delivery van as part of its green initiative to gradually convert to vehicles powered by renewable energy.

The Advantis team of 2,714 employees continues to drive our strategy and have enabled us to successfully differentiate ourselves in all our key business lines. During the year, we added 151 employees to our team and we further enhanced our employee value proposition through investing Rs. 20.8 mn in training and development, which translated to 670 hours of training. In 2015/16, we also launched an incentive program targeting our sales staff which allowed our employees to further widen their rewards base.



Way Forward

Government thrust towards stimulating exports and positioning Sri Lanka as a maritime hub is expected to augur well for the Advantis Group and we are well positioned to capitalise on growth opportunities presented by the expansion of the country's ports sector. We hope to build on the success of our free-zone logistics operation through the construction of the second phase in Katunayake, which will be a state of the art facility doubling our capacity. Re-inventing the Group's success in regional markets will be a key priority over the medium term and the Group will continue to proactively seek opportunities for growth outside Sri Lanka including Bangladesh, Myanmar, Maldives and Indonesia. As the slower than anticipated global recovery continues to impact trade volumes and hamper profitability margins, we will focus on refining and enhancing our customer value proposition through innovation and better customer service.

Sector Review

Others

Several of the Group's investments, projects and the Shared Services Operations (SSO) have been classified under a new sector. The sector comprises of the following businesses;

2%

Revenue

13%

PBT

22%

Assets

3%

Employees

0.1%

Carbon Footprint

| Clusters in Sector | Operations | Highlights | |
|---|--|--------------------------------|----------------------------|
| | | Contribution to Sector Revenue | Contribution to Sector PBT |
| Business Process Outsourcing (BPO) and Shared Services Operations (SSO) | Provides Finance and Accounting services, payroll processing services, IT operational services and Consultancy services to onshore and offshore clients. Finance and Accounting service and payroll processing for the Group's business sectors | 1% | 1% |
| Hayleys Group Services | Group Finance, Group HR, Group IT, Export Shipping, Legal and Secretarial Services | 34% | 91% |
| Aviation | <ul style="list-style-type: none"> General Sales Agent for several leading passenger and cargo airlines Hayleys Airport Services - flight handling supervision, terminal services and cargo handling for several international airlines Hayleys Aviation Supply Services - engages in supplying aviation handling material for cargo and ground handling operations | 51% | 4% |
| Alufab | Fabrication and installation of aluminium framed glazed architectural systems | 14% | 4% |

Operating Context

The BPO/KPO industry is anticipated to be an important driver in Sri Lanka's economic development as the country's high literacy rate, educated and English speaking workforce, talent pool for specific skills such as finance and IT, investor friendly policies, conducive business environment and infrastructure renders it an attractive location for offshore services. Global companies have increasingly pursued off-shoring of key business processes, driven by estimated cost savings of up to 50%, flexible cost structures, increased efficiency and higher service levels offered by BPO's together with increased ability to focus on core competencies. As a result, Sri Lanka now ranks at the fourteenth position on the 2016 A.T. Kearney Global Services Location Index (GSLI), moving up two notches from the position in 2015.

The sector specialises in providing a range of Business Process Outsourcing (BPO) solutions to domestic and overseas corporates and Shared Services Operations (SSO) catering to the Hayleys Group's diverse industry sectors. The Group's BPO sector caters primarily to the SME sector in the Australian market and we operate this business through HBSI (Hayleys Business Solutions International), a BOI Company.

“ The latest addition to the Hayleys Group's growing business interests, Fentons Limited, was acquired by the Group in March 2016 at a total investment of Rs 250 mn. ”



Sector Review

Others

Strategy and Performance

| Economic | | 2016 | 2015 | % |
|--------------|--------|--------|--------|----|
| Revenue | Rs. mn | 1,957 | 1,728 | 13 |
| PBIT | Rs. mn | 1,648 | 1,424 | 16 |
| PBT | Rs. mn | 1,075 | 890 | 21 |
| PAT | Rs. mn | 1,032 | 856 | 21 |
| Total Assets | Rs. mn | 23,665 | 21,363 | 11 |
| Total Debt | Rs. mn | 7,580 | 6,991 | 8 |
| ROCE | % | 8.02 | 7.25 | 11 |

| Environmental | | 2016 |
|-------------------|--------------------|----------|
| Materials | | |
| Aluminum - alufab | MT | 22 |
| Energy | GJ | 6,968.37 |
| Water | M ³ | 503,965 |
| Effluents & Waste | tonnes | 2 |
| Carbon Footprint | tCO ₂ e | 701 |

| Social | | 2016 |
|-----------------------|----------------------------|-------|
| Head Count | No. | 935 |
| Employee productivity | Profit (Rs. mn) / employee | 1.1 |
| Training hours | Hours | 383.5 |

Aviation, Travels

In the Aviation industry, the Group acts as a GSA for several leading global passenger and cargo airlines while Hayleys Airport Services offers flight handling supervision, terminal services and cargo handling services for several international airlines. Performance of this sector is highly dependent on margins, outbound passenger volumes and exports generated for the airlines from Sri Lanka. Given the inherent volatility from this business, the Group has placed strategic importance on diversifying its risk exposure through expanding its presence in the Aviation Supplies business which involves providing services and materials to airlines and airports. Although performance of the aviation sector moderated slightly in view of the decline in passenger revenue, this dip was offset by the strong performance of the Aviation Supplies sector which has gained traction through increased customer acquisition. Resultantly, the segment contributed profits of Rs. 43 mn to the Others Sector.





Alufab

Alufab is a leading manufacturer and supplier of high quality architectural aluminum joinery systems, glazing and façade products in Sri Lanka. The Company specialises in providing tailor-made solutions for the manufacture and installation of aluminium windows and doors, enclosures, shop fronts, curtain walls, louvers and awnings. Alufab came under the Hayleys Group in October 2014 and the review period marks its first year of full operations as a Hayleys subsidiary. The Group placed strategic emphasis on enhancing the human capital capabilities of Alufab and with a new leadership team in place, the Company is well positioned to exploit the opportunities presented by the anticipated boom in the country's construction sector. Since coming under the Hayleys Group, Alufab has also focused on continuously improving the quality of its products and also timely completion of projects through increased collaboration between design teams, procurement personal and the production floors.

The industry landscape during the year under review was a conducive one for Alufab supported by rising demand for aluminium profiles against the backdrop of mega private sector projects such as apartment complexes and high rise buildings. During the year, Alufab successfully secured several major projects in Sri Lanka, primarily in the hospitality sector, for the supply and installation of aluminium sun louvers, joinery systems, shower cubicles and other commercial applications. Resultantly, Alufab contributed Rs 43 mn to consolidated profit during the year under review.



S & T Interiors

S&T Interiors was formed under an exclusive joint venture agreement with S&T a leading Oman based interior fit-out and contracting company and Hayleys PLC. Through this strategic alliance, Hayleys is well positioned to benefit from the anticipate surge in private sector development projects particularly in the hospitality sector and apartment complexes. Despite being a new entrant to Sri Lanka, the Company was recently awarded a contract to execute the complete interior fit-out works for the upcoming Movenpick City Hotel which includes works for 219 well-appointed rooms including the presidential suite, 18 luxury suites, 200 standard rooms and public area. The business contributed Rs. 3 mn to sector profits during the year under review.

Fentons

The latest addition to the Hayleys Group's growing business interests, Fentons Limited, was acquired by the Group in March 2016 at a total investment of Rs 250 mn. With an established track record of over 95 years, Fentons is one of Sri Lanka's leading integrated solution providers for Building Systems and ICT infrastructure. The Company currently caters to over 600 B2B customers in multiple industry verticals including the banking and finance, hospitality, information technology, manufacturing and healthcare industries. The Group's deep insights and industry experience in the construction sector is anticipated to accrue multiple synergies for Fentons and is well positioned to benefit from the expected surge in the country's construction sector.

Our Value Creation Report

Financial Capital

Overview

The Group's performance during the year reflects challenges in the operating environment as well as the strategies and actions we put in place to effectively respond to these trends. We achieved asset and profit growth of 11% and 7 % respectively as focus was placed on higher value addition, operating efficiencies and investing for the future.

Our Financial Capital

Financial Capital is reinvested in the other capital inputs and is crucial in satisfying the Group's growth objectives. We ensure that our financial capital is managed effectively and proactively at all times

6.5%

Profit for the year

16.4 %

Earnings per share

8.3%

Dividend per share

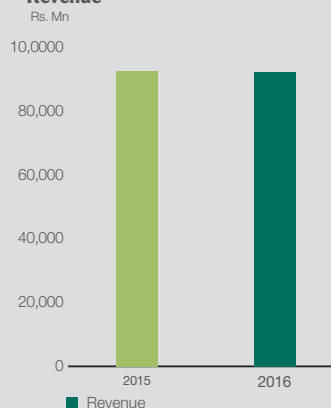
10.7%

Total Assets

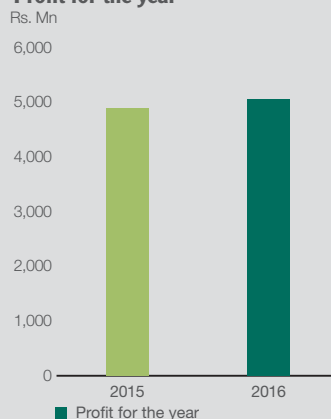
6.0%

Shareholders' Funds

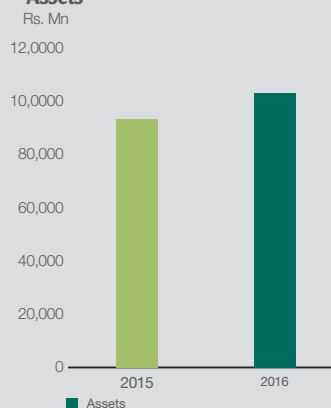
Revenue



Profit for the year



Assets

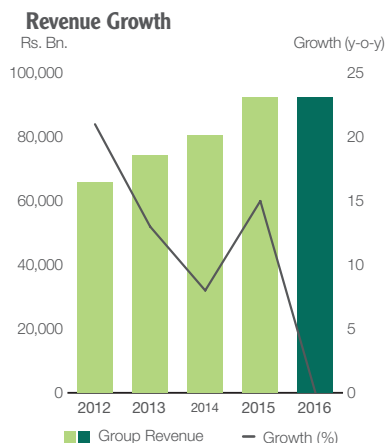


| Key Performance Indicator (KPI) | 2015/16 | 2014/15 | y-o-y |
|---------------------------------|---------|---------|----------|
| Revenue (Rs. mn) | 92,275 | 92,562 | - 0.3 % |
| Operating Profit (Rs. mn) | 8,505 | 8,511 | - 0.1 % |
| Profit before Tax (Rs. mn) | 6,816 | 6,400 | + 6.5 % |
| Net Profit (Rs. mn) | 5,060 | 4,886 | + 3.6 % |
| Earnings per share (Rs) | 40.05 | 34.42 | + 16.4 % |
| Total Assets (Rs. mn) | 103,322 | 93,326 | + 10.7 % |
| Total Debt (Rs. mn) | 33,114 | 29,062 | + 13.9 % |
| Shareholders' Funds (Rs. mn) | 30,855 | 29,104 | +6.0 % |
| Operating Cash flow (Rs. mn) | 7,863 | 8,631 | - 8.9 % |
| Dividends per share (Rs) | 6.50 | 6.00 | + 8.3 % |
| Share Price (Rs) | 245.70 | 300.00 | - 18.1 % |
| Market Capitalisation (Rs. mn) | 18,428 | 22,500 | -18.1 % |
| ROCE (%) | 10.67 | 11.61 | - 8.1 % |

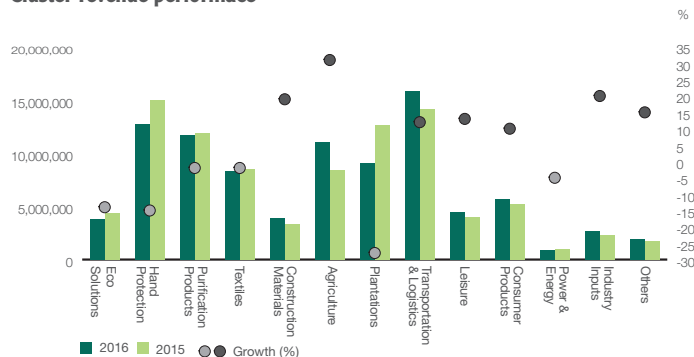
Revenue

The Hayleys' Group's revenue remained relatively unchanged at Rs. 92.3 bn during the year under review, as a combination economic and financial factors impacted revenue growth, particularly in the exports sector.

Meanwhile, several key sectors adopted a strategy of higher value addition as the Group moved away from pure volume growth strategies. Clusters recorded a mixed performance with sharp drops in revenue in certain sectors being offset by strong growth in others, thereby underscoring the strength of the Group's diversity. The Agriculture, Transportation & Logistics, Construction Materials, Leisure, Consumer, Industry inputs and Others achieved revenue growth during the year, while the other sectors recorded marginal or negative top line growth (Refer Cluster reviews for further details). Export oriented business interests have also enabled the Group to be geographically diversified, with revenue streams originating from multiple regions; during the year under review the domestic market contributed for an increased 46% of total revenue, compared to 43% the previous year.



Cluster revenue performance

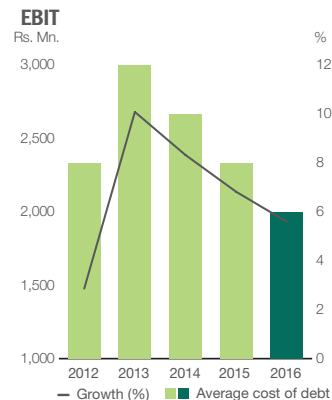


Earnings Before Interest and Tax

EBIT also remained relatively flat at Rs. 8.51 bn during the year, attributed to the unchanged top line and a 28% y-o-y growth in other income, which was offset by an 11% increase in overhead costs. Other income for the year increased to Rs.690mn, which included a gain of Rs. 107.5 Mn on the disposal of Negombo Hotels Ltd. The rise in overhead costs is reflective of increases in distribution expenses (+22%), administrative expenses (+8%) and other expenses (+22%). The Group's overall EBIT margin widened marginally to 9.22% from 9.19% during the year, as several sectors pursued a strategy of higher value addition. Largest contributors to Group EBIT were Transportation & Logistics (19%), Purification (14%), Agriculture (15%), Leisure (12%) and Construction Materials (10%).

Net Finance Cost

Although the Group's total debt increased by 14% during the year, favourable interest rates together the proactive management of our debt profile enabled a 10% reduction in net finance costs to Rs. 1.93 Bn. Finance income almost doubled to Rs. 843.77 Mn led by foreign exchange gains of Rs. 656.73 mn resulting from the depreciation of the Sri Lankan Rupee during the year, which benefited our export oriented businesses. Hayleys PLC accounts for 24% of Consolidated Finance costs, as 20% of the Group's debt lie at the holding company level. Overall, the Group's Average Weighted cost of debt dipped to 6%, compared to 7% the previous year



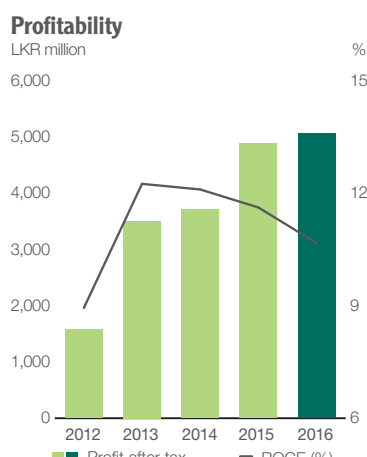
Our Value Creation Report

Financial Capital

Profitability

The Group's overall profits were strengthened by increased contributions from equity accounted investees, which widened by over 10-fold to Rs. 243 mn; this was supported primarily from profit contributions of Joule and Beta Wind Power companies which were fully operational during the year. Consolidated tax expenses increased by 16% to Rs. 1.76 Bn during the year, with all sectors turning in profits for the second consecutive year. The effective tax rate increased to 27%, compared to 24% last year, thereby dampening overall profitability. Resultantly, consolidated profit for the year clocked in at Rs.5.06 Bn during the year, an increase of 4% compared to the previous year. The Group's Return on Capital Employed (ROCE) declined marginally to 10.67% from 11.62% the previous year

| Sector | ROCE (%) | |
|-------------------------|----------|------|
| | 2016 | 2015 |
| Eco Solutions | 4% | 1% |
| Hand Protection | 6% | 18% |
| Purification | 13% | 17% |
| Textiles | 10% | 7% |
| Construction Materials | 55% | 48% |
| Agriculture | 28% | 24% |
| Plantations | 3% | 10% |
| Transport and logistics | 21% | 23% |
| Consumer | 13% | 9% |
| Power & Energy | 27% | 35% |
| Industrial solutions | 21% | 17% |
| Leisure | 14% | 11% |
| Others | 8% | 7% |

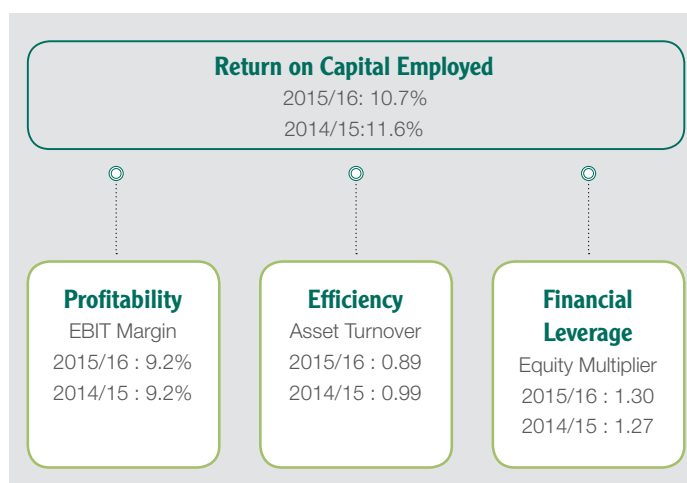


Strength of Our Financial Position

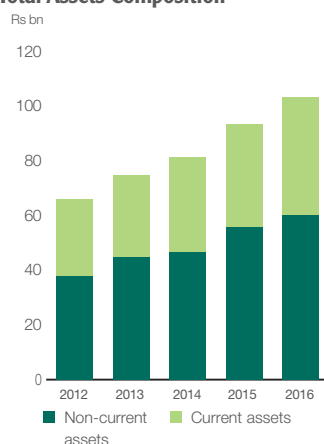
Group's consolidated assets increased by 10.7% to Rs.103.32 Bn during the year, surpassing the Rs.100 Bn milestone for the first time in its history. The Group's asset base has increased at a CAGR of over 12% over the last five years, led by an acquisition led strategy which resulted in increased diversity in its earnings profile. During the year under review, we invested Rs. 3.87 Bn in the following acquisitions and business expansions;

| Sector | Acquisition/ Expansion | Investment |
|----------------------------|---|-------------|
| Plantations | Hayleys Global Beverages | Rs. 1.36 Bn |
| | Replanting in Kelani Valley Plantations & Talawakelle Plantations | Rs. 443 Mn |
| Purification | Enhancing capacity | Rs. 595 Mn |
| Transportation & Logistics | First phase of free zone facility | Rs. 672 Mn |
| | Purchase bunker barges | Rs. 138 Mn |
| Hand Protection | Capital Expenditure on DPL Universal Gloves & DPL Premier Gloves | Rs. 508 Mn |
| Others | Fentons | Rs. 150 Mn |

Non-current assets accounted for 58% of the Group's asset base, relatively unchanged over the previous year. Meanwhile, the working capital requirements increased by 16% to Rs. 21.47 Bn during the year stemming primarily from the consolidation of Fentons Group and to cater to the increase in the customer requirements in the Agriculture and Purification Sector.



Total Assets Composition

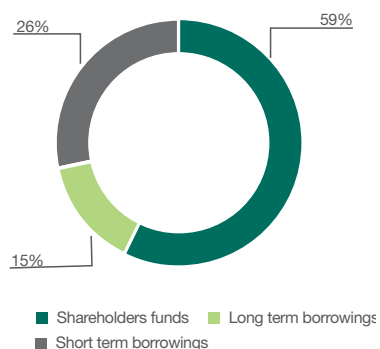


Capital Structure

The Group's asset base is funded by equity (45%), borrowings (32%) and other liabilities (23%). Total equity increased by 5% to Rs. 46.58 bn during the year supported by the profit generated during the year. Total equity accounted for 58% of the Group's capital employed during the year.

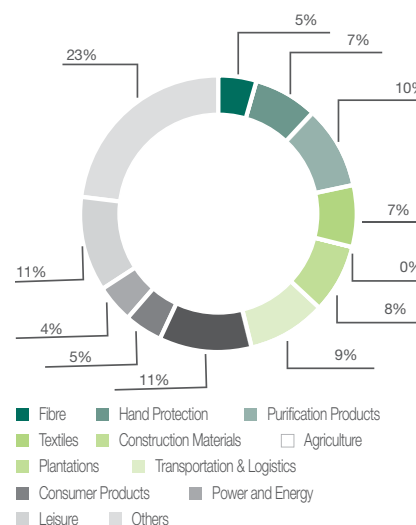
Total borrowings increased by 14% to Rs. 33.11 Bn, primarily to fund increased capital expenditure and investments in transportation, plantations, purification and others sectors. Borrowings tilted more towards short-term maturities with, borrowings maturing within less than 1 year accounting for

Group funding profile



63% of total debt, compared to 58% the previous year due to change in the maturity profile in the long term loans and increase in working capital requirements. Although debt at the holding company level amounted to 20% of the total debts of the Group, strong dividend up streaming from subsidiaries will enable the Company to meet its debt obligations comfortably. Despite the increase in borrowings, the Group's EBITDA/Debt cover was relatively healthy at 0.34 times (2015:0.38 times) while Operating Cash Flow to Debt cover dipped to 0.24 times (2015:0.30 times)

Sector-wise breakdown of borrowings



Cash Flow

Cash generated from operations increased during the year, although higher income tax payments against the backdrop of an overall increase in the effective tax rate resulted in the Group's net cash generated from operations declining by 8.9% to Rs. 7.86 bn. Meanwhile net cash outflows for investing activities amounted to Rs. 7.31 Bn primarily due to increased capex on acquisitions and capacity expansions by several sectors. Net cash outflow from financing activities was Rs. 1.72 Bn during the year, comprising primarily of debt repayment (Rs. 5.03 Bn), dividends to non-controlling interests (Rs. 1.13 Bn) and interest payments (Rs. 2.02 Bn) while proceeds from interest bearing borrowings clocked in at Rs. 6.80 Bn during the year.

Shareholder Returns

Impeccable execution of a focused strategy has enabled us to consistently deliver sustainable value to our shareholders, in the form of dividends, capital appreciation as well as net assets. With a market capitalization of Rs.18.43 Bn by end-March 2016, the Hayleys Group ranked among the top 15 most valuable entities in the country.

| Rs. | 2016 | 2015 |
|--------------------------|--------|--------|
| Basic earnings per share | 40.05 | 34.42 |
| Dividends per share | 6.50 | 6.00 |
| Net Assets per share | 411.40 | 388.05 |
| Share price (closing) | 245.70 | 300.00 |
| Dividend payout | 16.23 | 17.43 |
| P/E ratio | 6.13 | 8.72 |

Our Value Creation Report

Manufactured Capital

The Group's fixed assets comprising of property, plant and equipment enable us to manufacture and deliver goods and services efficiently, responsibly and reliably. Manufactured capital thus forms a crucial input in our value creation process and we continue to invest in maintaining and enhancing these assets. We also strive to consistently reduce the environmental impacts of our manufacturing activities, through investing in energy efficient technologies and environmentally sustainable technologies.

The following table details the key aspects of our manufactured capital classified based on the key sectors;

| Sector | Net Carrying Value as at end-31st March 2016 (Rs. '000) | | |
|----------------------------|---|-------------------|-------------------|
| | Buildings | Plant & Machinery | Total |
| Eco Solutions | 517,327 | 441,906 | 959,233 |
| Hand Protection | 1,096,379 | 2,531,938 | 3,628,317 |
| Purification Products | 955,761 | 2,155,889 | 3,111,650 |
| Textiles | 555,723 | 2,292,800 | 2,848,523 |
| Construction Materials | 377,986 | 399,292 | 777,278 |
| Plantations | 1,001,164 | 835,676 | 1,836,840 |
| Agriculture | 401,062 | 327,766 | 728,828 |
| Consumer Products | 15,557 | 29,568 | 45,125 |
| Leisure | 6,372,502 | 687,534 | 7,060,036 |
| Industry Inputs | 948 | 13,004 | 13,952 |
| Power & Energy | 362,014 | 1,812,342 | 2,174,357 |
| Transportation & Logistics | 577,048 | 811,510 | 1,388,559 |
| Others | 281,451 | 34,572 | 316,023 |
| Total | 12,514,922 | 12,373,798 | 24,888,720 |

Our Value Creation Report

Social and Relationship Capital

Overview

As an organization with an extensive breadth of operations and a wide geographical footprint, Social and Relationship Capital forms an integral component of our value creation process. Key elements of our Social and Relationship capital includes the relationships we have nurtured with our customers, business partners and communities.

Our Customers and Network

Through our diverse business interests we cater to more than 80,000 domestic and global customers, spread across 5 regions of the globe. Our customers are at the heart of our value creation process and strategic emphasis is placed on persistently enhancing our customer value proposition.



Innovation

In several of our key business lines, we have built distinctive brands through relentlessly pursuing innovation in our product and service offering. We take efforts to nurture a learning culture which stimulates innovation and employees are given the opportunity to share their knowledge and insights. Research capabilities are harnessed through dedicated R&D teams in several business sectors. We also collaborate with leading research institutions and universities in developing and commercializing research that facilitates innovation. Key innovations launched by the sectors include the following;

| Sector | Innovation |
|------------------------|---|
| Hand Protection | Specialised technical gloves |
| Fabrics | Inno, Sri Lanka's only patented fabric |
| Agriculture | Nozzle technology for spraying |
| | Slow-release fertilizers |
| | Paddy transplanters |
| | Ecologically sustainable crop protection products |
| | Exports- spice infused virgin coconut oil, dehydrated fruits and organic products |
| Construction Materials | Curtain walls, double glazed casement windows |

Product and Service Responsibility

Product Responsibility policy frameworks are in place at several of our key sectors ensuring a high level of product safety for our customers. In addition, the sectors have obtained and continue to comply with multiple domestic and international quality certifications which provide assurance to external stakeholders regarding our processes, systems and products (refer to pages 12 to 15 for a full list of certifications) During the year under review, there were no significant fines/penalties imposed on the Group for contravention of any product/service responsibility related regulations.

Customer Satisfaction and Service Quality

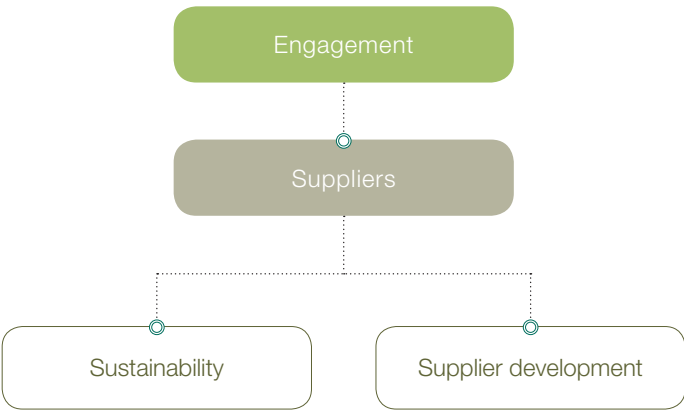
An important element of our competitive advantage is the quality of service we offer to our customers, which has enabled us to nurture and sustain mutually beneficial, long-term relationships with a diverse pool of clients. Several of our key sectors also conduct customer satisfaction surveys on a regular basis while other methods of engagement include face to face meetings, customer relationship management and site visits among others.

Suppliers and Business Partners

The Group engages with numerous suppliers in its raw material procurement and our supplier base includes smallholders and B2B suppliers. We strive to develop long-term relationships with our suppliers through providing a multi-faceted value proposition encompassing economic, social and environmental benefits

Our Value Creation Report

Social and Relationship Capital



- Chamber of Commerce Business Councils
- United Nations Global Compact
- Lanka Business Coalition for HIV-AIDS
- Institute of Chartered Shipbrokers
- National Agribusiness Council
- Sri Lanka Association of Inbound Tour Operators
- Ethical Tea Partnership
- Water Quality Association

Engagement

Multiple engagement mechanisms are in place to ensure that we understand supplier concerns and respond to them effectively. These include supplier forums, face to face meetings, annual conventions and supplier development programs among others.

Supplier Development and Sustainability

Sectors engage in multiple ongoing supplier development programs targeted at improving the quality of raw materials, propagating sustainable practices, preserving the environment and uplifting the socio economic status of our supplier community. The Group’s key supplier development programs are as follows and detailed information is available on pages 127 to 128 of this Report.

| Sector | Initiative |
|-----------------|--------------------------------------|
| Hand Protection | Firstlight by DPL |
| Purification | Haritha Angara |
| Agriculture | Farmer extension programs |
| | Sea weed project in the Mannar basin |
| Fibre | Athwela by Rileys |



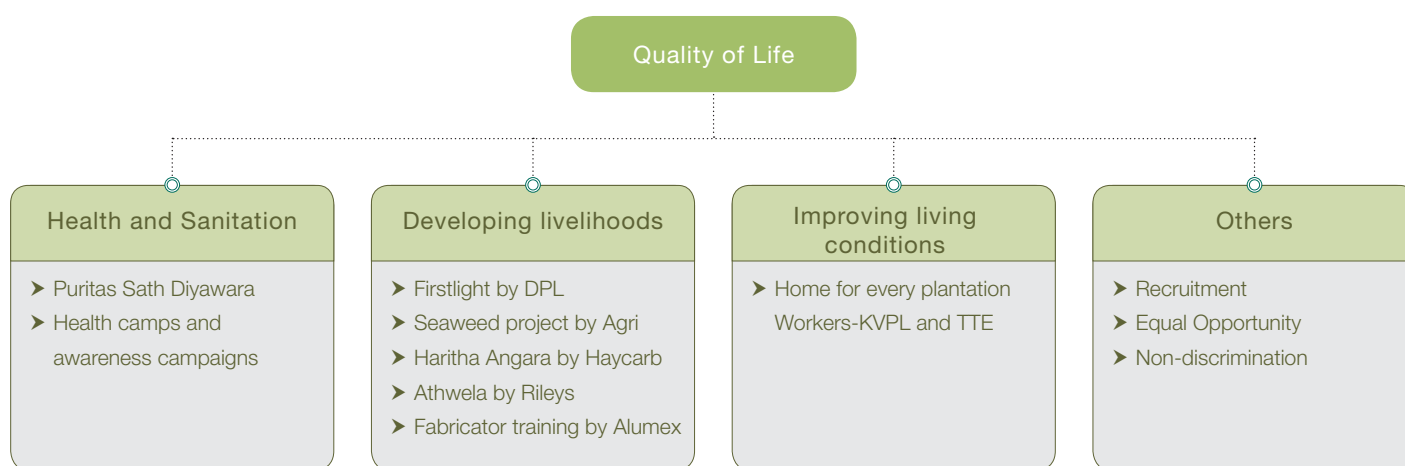
Our Network 17 PARTNERSHIPS FOR THE GOALS

The Group is an active participant in several industry and trade associations, engaging with industry stakeholders and contributing towards policy making with the objective of creating and enabling industry and regulatory environment. The Group holds membership in several associations a few of which are given below,

Community Engagement

We strive to develop mutually respectful, sustainable relationships with the communities we engage in, and our approach towards Corporate Social Investment (CSI) is based on meaningful and active collaboration, participation and dialogue. Through a range of multi-faceted community development initiatives, the Group empowers and supports tens of thousands of families living across the country. Our collective investments in CSI initiatives amounted to approximately Rs. 51.0 mn during the year.

From a holistic perspective, all initiatives carried out during the year aspired towards improving the Quality of Life of the communities we operate in. All projects can be classified into the following four key areas of focus.



Health and Sanitation **3** GOOD HEALTH AND WELL-BEING

Puritas Sath Diyawara

Background and rationale: The Group's primary motivation for this project stemmed from the increasing prevalence of Chronic Kidney Disease (CKD), particularly in the North Central Province of the country. CKD is estimated to have affected around 400,000 individuals (roughly 10%-15% of the population in the area) and has claimed more than 22,000 lives so far and is found to be spreading rapidly to Northern, North Western, Eastern and Uva Provinces. In addition to these losses of life, it is estimated that approximately 2.8 million people are at risk of contracting this deadly disease. Affecting predominantly male farmers in agricultural areas, the disease has resulted in a multitude of socio economic challenges for farming communities and has emerged as a major health problem in rural Sri Lanka.

Project description: Puritas Sath Diyawara, which was initiated and launched by Puritas (Private) Limited of the Purification Sector, has now emerged as the Group's flagship CSI initiative, with multiple sectors of the Hayleys Group supporting the project. The objective of Puritas Sath Diyawara is to combat the rising prevalence of CKD by leveraging on the Company's expertise in water purification, to provide purified water to the families of affected areas through commissioning central Reverse Osmosis water treatment systems and suitable water distribution network. The

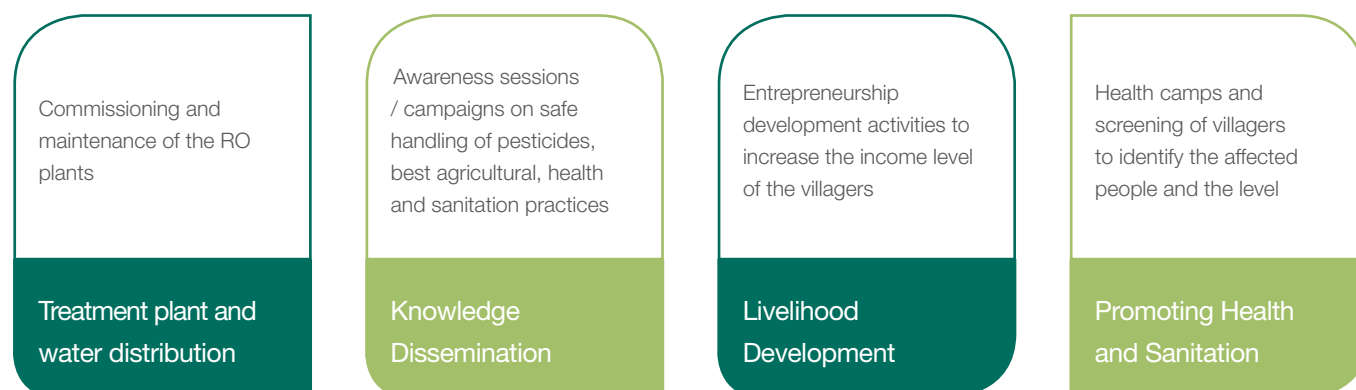
installation of the RO plants will enable residents of these villages to obtain high quality potable water. As CKD is believed to be a waterborne disease this initiative is aimed at contributing towards preventing the further spread of the disease whilst reversing the conditions of the existing patients. The project also takes a holistic approach to eradicate CKD from the affected regions while operating under the following strategic pillars;



Winner of Asia
Responsible
Entrepreneurship
Awards- 2015

Our Value Creation Report

Social and Relationship Capital



Once installed and commissioned the project management and operations are ultimately transferred to the Community Based Organization (CBO) of the village set up with joint efforts and facilitation by the Company and active village representatives. The CBO will be registered in the respective regional office of National Water Supply and Drainage Board (NWSDB) as well as the Divisional Secretariat (DS). The operation of the CBO is closely monitored by the Company & NWSDB.

Investment and Results: Following the launch of the first project in Maithreepura at Padaviya in 2014, Puritas Sath Diyawara has reached fourteen villages (11 projects) and now helps over 25,000 people in CKD affected areas in the North and North Central provinces as of June 2016. To date, the Group has invested over Rs. 44 Mn and commissioned 11 Reverse Osmosis plants which provide access to 110,000 liters of purified water per day. During the year under review, Hayleys Agriculture Holdings Ltd, Alumex PLC, Dipped Products Ltd and Haycarb PLC invested Rs. 15.7 Mn in four RO plants and two knowledge hubs (library and internet facility) in Nikawewa (left), Billewa, Parangiyawadiya and Ananthapuram which is estimated to directly benefit over 7800 individuals. The widely successful initiative also drew interest from other leading corporates in the country, and during the year we expanded the scope of the project by engaging with Pan Asia Bank PLC (project was completed in November 2015) and Singer PLC, which is anticipated to be commissioned in mid-2016.

| | Company | Village | District | No. of People Benefited | Investment | Completion |
|----|---|-----------------------------------|--------------|-------------------------|------------|--------------------|
| 1 | Haycarb PLC & Puritas (Private) Limited | D10, Maithreepura | Anuradhapura | 1,542 | LKR 3.2mn | 15th August 2014 |
| 2 | Hayleys Advantis | Balayawewa | Anuradhapura | 2,153 | LKR 3.5mn | 10th March 2015 |
| 3 | Hayleys Plantations Sector | Kiriketuwewa Sinhala Ataweerawewa | Anuradhapura | 2,495 | LKR 3.6mn | 10th March 2015 |
| 4 | Hayleys Industrial Solutions Ltd | Pihimbiyagollewa | Anuradhapura | 1,557 | LKR 3.6mn | 10th March 2015 |
| 5 | Hayleys Agriculture Holdings Ltd | Nikawewa – Left | Mullaitivu | 1,691 | LKR 4.4mn | 3rd September 2015 |
| 6 | Alumex PLC | Billewa | Anuradhapura | 1,953 | LKR 3.5mn | 3rd September 2015 |
| 7 | Dipped Products Ltd | Parangiyawadiya | Anuradhapura | 1,250 | LKR 3.5mn | 20th November 2015 |
| 8 | Haycarb PLC & Puritas (Private) Limited | Ananthapuram Sivanagar Iranapalai | Mullaitivu | 3,004 | LKR 4.3mn | 11th March 2016 |
| 9 | Hayleys PLC | Nelumwewa | Polonnaruwa | 1,442 | LKR 4.3mn | 29th April 2016 |
| 10 | Hayleys Advantis | Neriyakulam | Vavuniya | 2,243 | LKR 4.3mn | 30th April 2016 |
| 11 | Hayleys Fabrics PLC | Rathmalgahawewa | Anuradhapura | 2,112 | LKR 3.9mn | 10th June 2016 |

Our efforts have also been recognized externally where Puritas Sath Diyawara was awarded the Asia Responsible Entrepreneurship Awards in 2015. The Asia Responsible Entrepreneurship Awards are the most prestigious award for CSR in the region, and recognizes the best philanthropic initiatives undertaken by corporates in the Asian Continent.

‘Going Beyond...

As the second phase of this project, ‘Going Beyond’ strives to address the broader socio economic needs of the people living in affected villages where Hayleys Group sectors invest in the water purification projects through knowledge dissemination and empowerment. Key Initiatives carried out through this include provision of infrastructure & facilities for school children, empowering youth and women, building awareness of sustainable ways of waste management/re-greening villages and uplifting domestic entrepreneurship.

The Hayleys Group sectors plan to extend its CSI activities in these villages in a meaningful and proactive manner to ensure uplifting of the livelihood of the villagers by going beyond the basic necessity to provide purified drinking water.

Health Camps and Awareness Programs

During the year Hayleys Fabric organized a blood donation campaign in partnership with the National Blood Bank. More than 143 donors including employees from all categories in the Company donated blood at this campaign.

Developing Livelihoods



Our livelihood development initiatives are targeted primarily towards our suppliers and encompass skill development, technical guidance, job creation and facilitating marketing and distribution linkages. The ongoing programs carried out by the sectors are as follows;

Firstlight by Dipped Products

Background and Rationale: A multi-faceted program which effectively addresses a wide range of economic and social issues faced by rubber small holders, the primary focus of Firstlight is to ensure a fair price for rubber latex provided by farmers. Accordingly, DPL guarantees the rubber smallholders a price which is indexed to RSS1 (the highest grade of consumed rubber) for their field latex. The Company also contributes US 0.5 dollars for every pair of gloves sold with the Firstlight endorsement to the Firstlight Foundation, which is utilized to fund a wide range of education, health and infrastructure projects to improve the overall quality of life of smallholders and their families.

Project Description: The initiative is guided by several key principles;

- **Fair Price for Field Latex:** Through indexing the purchase price to RSS1 Firstlight allows smallholders to receive more transparent pricing as the margins of middlemen are eliminated and payments are made on fixed dates through the rural banking network, increasing the security of the fund transfer.
- **Technical support and Education:** Quarterly newsletters are published and distributed in the local language disseminating information on preparation of soil, importance of using high quality plant material, planting methods, harvesting techniques and Field up keep among others. Formal classroom sessions on implementing 5S in the rubber plantations are also conducted frequently.
- **Provision of Input Material:** In encouraging the adoption of best practices, Firstlight provides special collection cups and tapping knives to improve quality, efficiency and safety of production. We also provide high-grade planting material to set up and maintain plant nurseries.
- **Community Capacity Building:** The initiative also aims to improve the overall quality of life of smallholder families through sponsoring regular health clinics, provision of educational materials and other assistance, Recreational facilities for sports clubs and schools as well as cultural and religious events.

Investment and Results: To date, this project which has directly benefitted around 830 small holders and their families.

Seaweed Project by Hayleys Agriculture



Background and Rationale: This project was initiated as a partnership with AquAgri India in collaboration with National Aquaculture Development Authority (NAQDA) and National Aquatic Resources Research and Development Agency (NARA) and aims to improve the livelihoods of impoverished families in the Northern Province, by empowering women and providing them with a source of supplementary income through aqua-agriculture. The Project also contributes towards marine conservation as seaweeds have water purifying properties and enhances polyculture production. Carrageenan extracted from this variety of seaweed is used in the global food, pharma and cosmetic industries as an additive as well as in the production of organic fertilizer and hence has experienced a growing demand from countries such as Philippines, China, Australia and USA.

Project description: Key aspects of the project are as follows;

- Providing infrastructure, training and education on the cultivation of seaweed

Our Value Creation Report

Social and Relationship Capital

- Transparent and attractive buy back agreement which enables a secure source of income
- infrastructure and services needed for the production process are designed and constructed locally further providing work for local labour

Winner of Asia Responsible
Entrepreneurship Awards-
2015 (Social Empowerment)

Investment and Results: The seaweed project has created many job opportunities in the rural areas of the Northern Province, with currently over 1000 individuals employed in the neighbouring villages in Mannar and Jaffna while 250 families benefit indirectly from this in the first year of its inception. By the 4th year of operations, the project aims to provide 4000 direct employment opportunities. Approximately Rs. 2 mn per month is circulated monthly in the villagers for wages and transport costs.

Socio Economic Development in the Northern Province - by Hayleys Agriculture

Background and Rationale: The objective of the Local Empowerment through Economic Development (LEED) project is to promote inclusive economic development among the people in the Northern Province, providing opportunities for employment and long-term sustainable livelihoods.

Project description: HJS Condiments collaborated with the LEED project based in the north via establishment of a farmer out-grower network with a view to sourcing papaya for its value added fruits and vegetable exports range. The project aims to increase employment creation and livelihood opportunities for women, young women and men and the disabled by addressing their special needs and strengthening their capacity for productive self-employment.

Investment and Results: This project has developed partnerships with over 1000 farmer families in Kilinochchi district contributing directly towards poverty reduction and sustainable job creation.

Awards: A special award was presented to HJS Condiments Ltd. for 'Socio Economic Development in the Northern Province' at the National Chamber of Exporters (NCE) Annual Export Awards ceremony



Athwela by Rileys

Project Description: Athwela, launched by Rileys, one of the Group's fibre product manufacturers, strives to develop a sustainable supplier base through the provision of necessary assistance to rural families in Sri Lanka to develop skills and knowledge to supply coconut husk fibre for twisted fibre brushes and rods. Initially introduced in the Kurunegala district, the project reach has now been expanded to other areas. Rileys engages exporters in twisted fibre rod production from Japan to provide exclusive training to families, facilitating skill development, greener practices and high quality production. Transparent buy back agreements are in place to ensure a source of income to these families.

Investment and Results: The project currently benefits more than 150 suppliers, and fulfils around 50% of the Company's fibre requirements. The project has also enabled the emergence of small scale entrepreneurs, who have expanded capacity utilising the training and technical support provided thereby creating more job opportunities in the neighbourhoods.

Haritha Angara by Haycarb

Background and Rationale: Initiated and carried out by the Group's purification sector, Haritha Angara aims to empower Sri Lankan charcoal makers through the provision of technical support, guidance on ecologically friendly charcoaling processes and buy back agreements. By attracting domestic shells for charcoaling purposes, the initiative also minimizes waste at household level whilst providing a regular market for production inclusive of premium pricing mechanisms.

Project description: Haycarb provides technical support, guidance and long-term financing to convert traditional open pit charcoaling sites to environmentally friendly manufacturing. Haycarb has also partnered with a similar programme conducted by the Coconut Development Authority which provides technical support for greener charcoaling in all districts.

Investment and Results: To date, the initiative has supported nearly 500 suppliers and 3000 families in Polonnaruwa, Anuradhapura, Jaffna, Mullativu, Siyambalanduwa, Ampara, Balangoda, contributing directly towards uplifting their standard of living.

Fabricator Training Programs by Alumex

Background and Rationale: Launched in 1998, Alumex having recognized the need to propagate technical guidance to fabricators/technocrats engages in providing practical insights into the application and usage benefits of aluminium profiles, component usage, new products and technologies. The training is targeted towards a wide range of fabricators and technocrats including students of VTA affiliated Technical Colleges, CECB, Buildings Department, Provincial Councils, ICTAD, Contractors, Sri Lanka Army, Navy, Air Force and other Technical Colleges (Government/ Non-Government) island wide.

Project Description: In addition to training at the Company's own fully equipped training center at its factory premises, outstation training is carried out by three training teams at training centers in collaboration with the Vocational Training Authority. Key training initiatives carried under the program include,

- **Skill Development Programmes for Fabricators** - These programmes cover estimation, fabrication, identification of profiles, and correct usage of profiles etc.
- **Government, Non-Governmental, Private Sector Institutional training for industry stakeholders** - These programmes are held in accordance with the requests received by Alumex and are customised based on the requirements of the participants.
- **Technical Training Institutes** - The Alumex Training Center operates closely with the Vocational Training Authority (VTA) in order to upgrade the knowledge and skills of Aluminium Fabrication Training Instructors, affiliated to VTA, NAITA and Government Technical Colleges.
- **National Vocational Qualification (NVQ Level 3 & Level4):** The Alumex Training Center facilitates students at Aluminium Fabricator Training Center's under NGO's Island wide to obtain National Vocational Qualification Certification (NVQ).

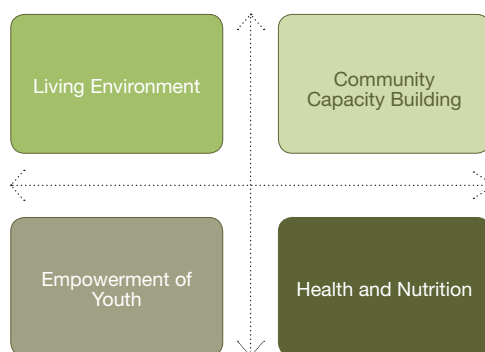
Investment and Results: During the year Alumex invested close to Rs. 9 mn in this initiative offering training to more than 655 individuals. To date the training programs have supported over 13,000 fabricators, technologists and technicians.

Improving Living Conditions

Home for Every Plantation Worker

Background and Rationale: Launched in 2006 as an ongoing project by our plantation companies, KVPL and TTE 'A Home for Every Plantation Worker' is a unique and multi-dimensional community initiative targeted at uplifting the living standards of employees and the estate community amounting to nearly 150,000 individuals

Project Description: The four key pillars of the project are as follows;



The four key pillars of the project are as follows;

Living Environment: We engage with our communities in multiple initiatives including the improvement of housing, water, sanitation, recreation and learning facilities which are implemented in collaboration with the Plantation Development Project (PDP), Plantation Human Development Trust (PHDT), National Housing Development Authority (NHDA), Ministry of Livestock and Rural Community Development, MJF Foundation and reputed non-government organizations.

Health and Nutrition: Our comprehensive health and nutrition initiatives include preventive healthcare through immunisations, antenatal and postnatal care, and guidance on nutrition, early childhood development support and auxiliary medical services. In addition to providing financial support for health and nutritional aspects, we conduct structured awareness programs and training sessions throughout the year.

Youth Empowerment: Working in collaboration with government institutes and reputed NGOs we provide vocational training on a range of subjects for estate community youth. These training initiatives are also inclusive of scholarships for tertiary education, based on merit and talent.

Community Capacity Building: These initiatives are done in collaboration with the Estate Worker Housing Co-operative Society, and include disbursement of micro financing loans, dental clinics, scholarships, eye clinics and other donations. In addition we also conduct awareness training programmes on an array of subjects including dengue prevention, waste management, and prevention of drugs/alcohol among others.

Investment and Results

The widely successful initiative has brought about significant improvements in the quality of life of our estate community families.

Our Value Creation Report

Social and Relationship Capital

| Initiative | Impact |
|--------------------------------------|--|
| Talawakelle Tea Estates | |
| Community infrastructure development | Water Schemes, Re-roofing houses, ramps and drains, sanitation, factory rest rooms, construction of houses, community centers among others |
| Community capacity development | EWHC Initiatives and awareness programs Beneficiaries: 15387 |
| Health and Nutrition | Immunization programs, preventive healthcare, antenatal programs, postnatal programs among others |
| Youth Empowerment | Beneficiaries: 211285 Awareness training and vocational programs Vocational programs: 4071 |
| Kelani Valley Plantations | |
| Living Environment | Electrification (housing)- 161 New toilets-183 Access roads-1 Km |
| Health and Nutrition | Dengue Awareness- 23 Eye clinics-15 AIDS Awareness-6 |
| Community Capacity Building | Loans granted- LKR 28.12 Mn Deposits accepted- LKR 16.9 Mn |
| Youth Empowerment | Home gardening programs - 4 Vocational training - 4 |

Others

During the year, sectors carried out several sector specific CSR initiatives a few of which are detailed below;

- Hayleys Fabric Helping Hand: For the third consecutive year, Hayleys Fabric distributed gift packs to 20 students who passed the Grade 5 Scholarship Examination
- The executive of Haycarb Madampe facility conducted an eye-lenses donation program for the patients at the eye clinic at the Kuliapitiya Hospital
- Alumex: Carried out as an ongoing program by the Group's construction material sector, by distributing 2,750 white canes in commemoration of the World White Cane day.
- Hayleys Agriculture initiated a responsible farming concept to educate farmers on safe use of agro chemicals, food safety management, integrated pest management, soil and water management to propagate sustainable agriculture practices

Human Capital

Overview

Our talent pool of 32980 employees is the Group's key success factor, whose industry insights, collective experience, expertise, and work ethic have enabled us to consistently deliver our strategic priorities. The Hayleys Group has consistently ranked among the country's most preferred employers and every year we strive to enhance our employee value proposition.

Our Human Capital

Human capital is vital for achieving our growth aspirations and driving our strategy

260%



Training hours

18%



Productivity

6%



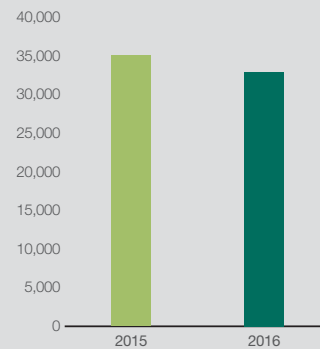
Headcount

13%

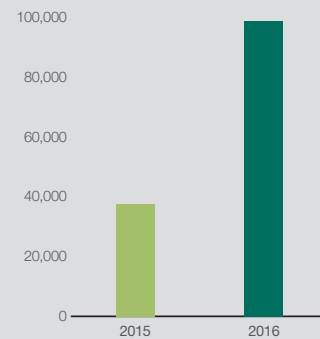


Training and Investment

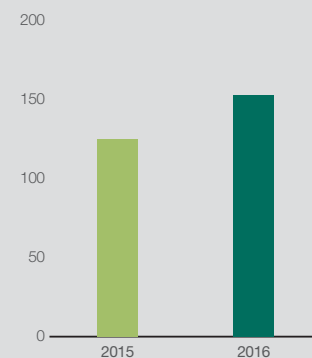
Headcount



Training hours



Productivity



Our Value Creation Report

Human Capital

| Key Performance Indicator (KPI) | 2015/16 |
|--|---------|
| Head count | 32,980 |
| Total payments (Rs. bn) | 13.4 |
| New hires | 2371 |
| Investment in training (Rs. mn) | 91.4 |
| Training Hours | 98,770 |
| Average training hours | 3.48 |
| Productivity (Rs.Mn profit per employee) | 153 |
| Retention rate (%) | 89% |
| Workplace Injuries | 250 |
| Lost Working Days | 1202 |

Our Employee Value Proposition

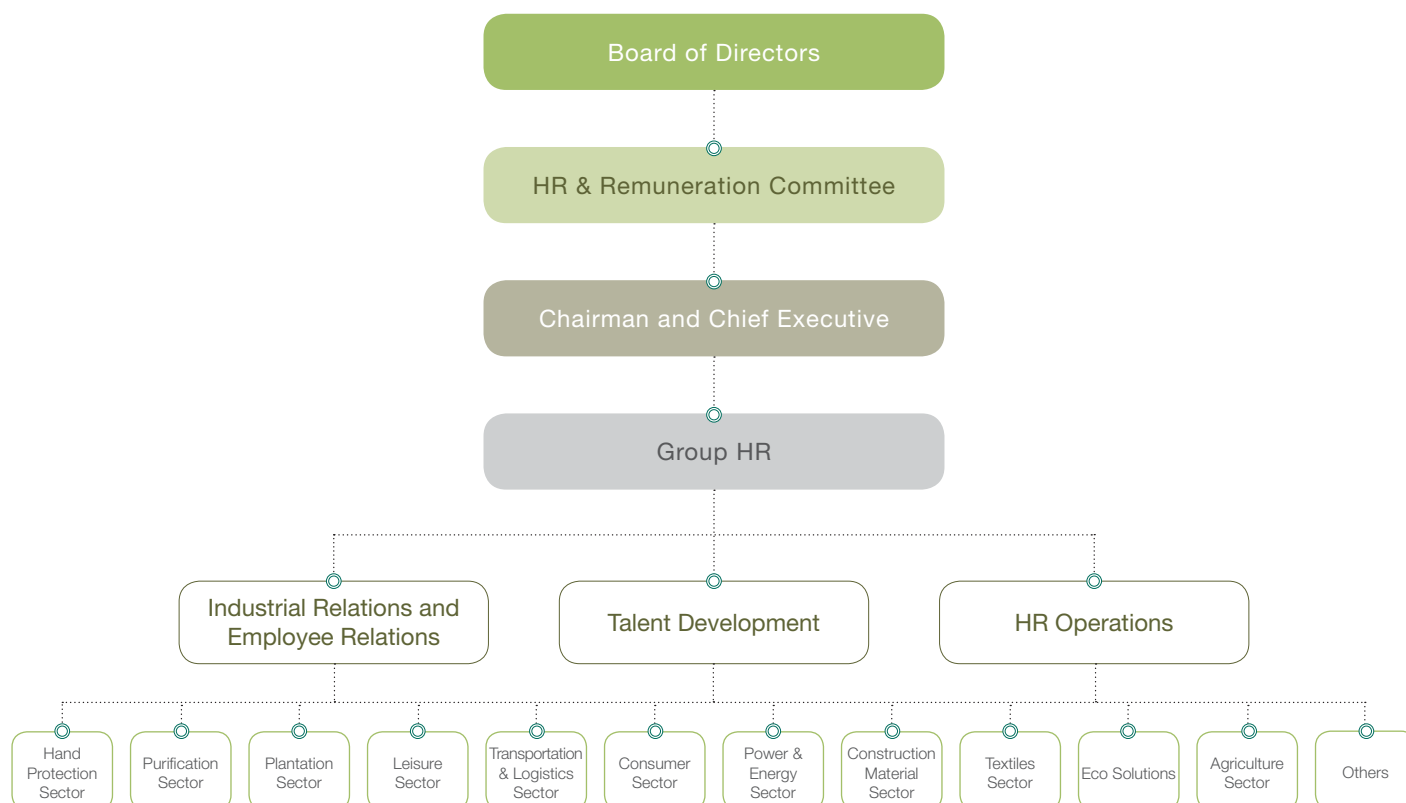
The Hayleys Group is amongst Sri Lanka's largest employers, providing employment to a cadre of 32,980 individuals bound by common goals and shared values. Our team is a driving factor behind our success and plays a vital role in fostering innovation, driving strategy and facilitating the customer experience. We, in turn provide exciting opportunities for career and skill development in a rewarding and conducive work environment. A diverse mix of skills, talent and experience managed through governance structures and policy frameworks combined with an organisation culture developed over 130 years gives the Hayleys Team a unique competitive advantage in today's competitive landscape and enabled us to attract the country's top talent.



HR Governance

The centralized HR function works closely with the HR departments in each sector to ensure uniformity in policy frameworks and implementation of policies. The Group HR function operates three specialised areas which are Industrial & Employee Relations, Talent Development and HR Operations. These three departments provide support to 12 sector HR departments which are our front liners for talent management. The governance structure for the group is given below;





Robust Group policy frameworks are in place ensuring that all companies within the group conform to agreed policies that are in accordance with regulation and standards of best practice voluntarily adopted by the Group. Voluntary standards impacting HR include the GRI G4 standards on Labor and Human Rights and the UN Global Compact Principles 1 to 6.



Our Value Creation Report

Human Capital

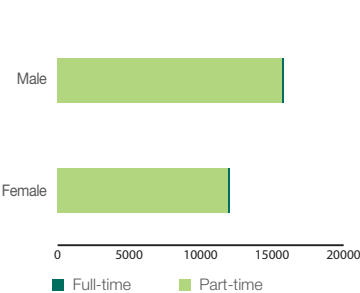
UN Global Compact Principles

- Principle One** - Support and respect protection of internationally proclaimed human rights
- Principle Two** - Ensure they are not complicit in human rights abuses
- Principle Three** - Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle Four** - The elimination of all forms of forced and compulsory labour;
- Principle Five** - The effective abolition of child labour
- Principle Six** - Eliminate discrimination in respect of employment and occupation

UNGC - 8 Decent Work and Economic Growth

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

Permanent employees by type and gender



Employees by region and gender

| | Male | Female |
|------------------------|------|--------|
| Western Province | 36% | 13% |
| Central Province | 41% | 65% |
| North Central Province | 1% | 0% |
| Eastern Province | 0% | 0% |
| Southern Province | 6% | 7% |
| North Western Province | 5% | 3% |
| Uva Province | 1% | 0% |
| Sabaragamuwa | 10% | 11% |
| Northern Province | 1% | 0% |
| TOTAL | 100% | 100% |

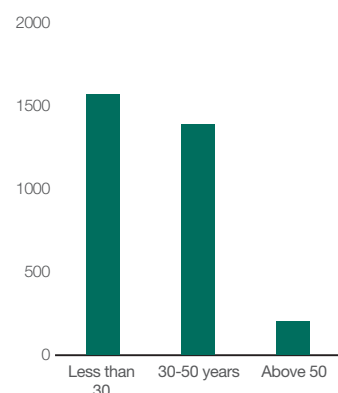
Employees by contract and gender



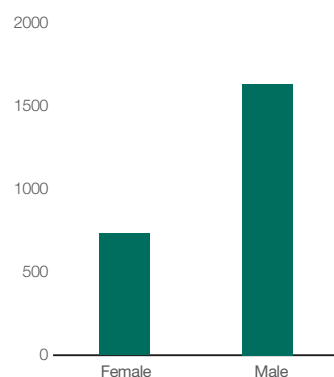
Talent Attraction

The lateral movement across business sectors, opportunities for development and the dynamism of the Group's operations have allowed it long-since to be recognized as a preferred employer. We focus on attracting young qualified professionals at junior executive level who undergo a 3 month induction program at sector level with a high level mentoring and on the job experience which is followed by a Group induction program within 3 months of recruitment. The induction program has been designed to ensure that our values and culture, as embodied in 'The Hayleys Way' are instilled in our employees. We are an equal opportunity employer with zero tolerance of child labour and forced labour in accordance with the UN Global Compact principles. During the year, we added a total of 3165 new recruits to the Group, which represented 9.6% of the total workforce.

New hires by age



New hires by gender



The Hayleys Way - Code of Conduct

The Group is committed to conducting its business operations with honesty, integrity and with respect to the rights and interests of all stakeholders

| Integrity | Competition | Employees | Environment | Consumer |
|--------------------------|-------------------|--------------|----------------------|-----------------------|
| Corporate Responsibility | Public Activities | Shareholders | Conflict of Interest | Regulatory compliance |

Engagement

We use multiple platforms to maintain a high level of engagement with our employees, particularly given the diversity and regional spread of our operations. Our primary engagement mechanisms include performance appraisals, face-to-face interviews, staff meetings, the intranet, and recreational events. We also publish a newsletter on a quarterly basis titled Connect in Sinhala and English which contains highlights of group activities. Group wide social activities are handled by the Hayleys Group Recreation Club to which employees subscribe.

A few of the engagement activities carried out during the year are follows;

- Chairman's Awards: Held for the third consecutive year, the Chairman's Awards aim to recognize the contributions of teams and individuals who demonstrate strong capabilities in the six areas

of Quality and lean management, Innovation, Leadership, Service Excellence, Environmental Stewardship and Social/Environment projects.

- Hayleys Family Fun Day
- Hayleys Sports Awards and Sing Along
- Mercantile sports competitions such as cricket, table tennis and swimming
- Hayleys Toastmasters Club
- Hayleys Wesak celebrations
- Annual Children's Christmas Party
- Annual Staff get together

Our Value Creation Report

Human Capital

Compensation and Benefits

Robust performance management systems are in place to ensure that employee rewards facilitate high performance and loyalty. All permanent employees have bi-annual performance evaluations. The Group's baseline package of benefits for executives include out-patient treatment schemes and hospitalization insurance, company maintained holiday bungalows, annual company trips and hotel discounts. The Group's gratuity policy offers employees with over 20 years of service a step up gratuity scheme where the entitlement is above the statutory ½ months salary for each year of service with the highest being 1 ½ months salary.

Training and Development

Our employee value proposition includes numerous structured and on-the-job training opportunities as well as cross functional and cross sectoral projects among others. A robust talent management framework is in place to monitor performance, identify training needs and develop their potential in alignment with corporate goals. During the year we invested approximately Rs. 56.44 Mn in training initiatives providing 98,770 training hours which translated to 3.48 average training hours per employee.

Key training initiatives that were carried out during the year are,

| |
|---|
| Total training hours: 98,770 |
| Average training hours per employee: 3.48 |

| | Average Training hours |
|------------------------|------------------------|
| Fibre | 0.73 |
| Hand protection | 5.4 |
| Purification | 7.89 |
| Textiles | 5.4 |
| Construction Materials | 5.8 |
| Plantations | 2.41 |
| Agriculture | 8.9 |
| Consumer | 7 |
| Leisure | N/A |
| Industry inputs | 0.73 |
| Power and Energy | 0.55 |
| Transportation | 0.54 |

We are also approved training organizations for the following professional bodies

- Institute of Chartered Accountants of Sri Lanka,
- Chartered Institute of Management Accountants, UK
- Chartered Institute of Marketing, UK

Health and Safety

We strive to create an injury-free, safe environment for our employees and group policy is in place in this regard which establishes a baseline standard across the group. Some sectors have established Occupational Health & Safety (OHS) Committees with workforce representatives

and management included in the committees to facilitate OHS risk management and implement use of protective equipment in the workplace. These are as follows;

| Sector | No. of Formal Committees | Workforce Representation |
|------------------------|--------------------------|--------------------------|
| Agriculture | 1 | 16% |
| Construction Materials | 1 | 100% |
| Fiber | 4 | 13% |
| Plantations | 3 | 5% |
| Purification | 4 | 100% |
| Shared Services | 1 | 100% |
| Transport | 1 | 100% |

The Group's health and safety performance during the year is given below

| Health and Safety at the Workplace | Total Number |
|--|--------------|
| Injuries (occurring within the Organisation) | 250 |
| Occupational Disease | 7 |
| Lost working days | 1,202.5 |
| Work-related fatalities | 0 |

Industrial Relations

Our employees have freedom of association and consequently many of our operations have active trade unions that negotiate on behalf of their members. Approximately 60% of the Group's employees are covered by collective agreements. A separate department of the group HR function supports our sector HR functions in this regard as it involves specialised knowledge and skills. Collective bargaining agreements are in place for the sectors specified in the table inset and strict adherence to minimum notice periods regarding operational changes is observed. We engage proactively with union representatives on a regular basis and have continued to maintain an open and congruous relationship with them for over three decades.

| Sector | Collective agreement in place | % of employees covered by collective agreement | Minimum notice periods regarding operational changes |
|-----------------|-------------------------------|--|--|
| Plantations | Yes | 98% | 1 month |
| Purification | Yes | 60% | 2 weeks |
| Hand Protection | Yes | 56% | |
| Agriculture | Yes | 8% | |
| Fibre | Yes | 55% | 1 month |

Natural Capital

Overview

As a Group, we believe that a balanced approach is necessary to ensure environmental sustainability whilst supporting economic and business growth. As such, persistent efforts are made to reduce the Group's environmental footprint through focusing on the efficiency of our natural inputs and minimizing adverse environmental impacts. This year, we have significantly strengthened our data measurement and disclosure mechanisms, pertaining to all material environmental inputs, outputs and outcomes enabling better monitoring while further increasing the transparency of our operations.

| Key Performance Indicator (KPI) | 2015/16 |
|--|-----------|
| Energy consumption (GJ Mn) | 2.82 |
| Water consumption (M ³ Mn) | 2.8 |
| Waste Generated (MT) | 7,039.4 |
| Effluents discharged (M ³ Mn) | 2.13 |
| Carbon Footprint (tCO ₂ e) | 83,261.39 |
| Investment in environmental preservation (Rs. Mn) | 665.6 |
| Carbon intensity (Tco ₂ e/Revenue Rs. Mn) | 0.9 |

The Group's Approach to Environmental Sustainability

As an Organisation which consumes several key natural resources in its value creation process, we are cognizant of the role we can play in minimizing our environmental footprint and ensuring that natural resources are preserved for a sustainable future. Comprehensive and standardized policy frameworks have been implemented across all sectors detailing the measurement, tracking and monitoring of material environmental indicators. Meanwhile multiple sectors within the Group have obtained and

Our Natural Capital

Elements of our natural capital are key inputs in the value creation activities of several of our business sectors, and are crucial to the long-term sustainability of our businesses

continue to comply with domestic and global environmental certifications, demonstrating our commitments towards safeguarding the natural capital

The Precautionary Principle

Hayleys PLC applies the precautionary approach, prescribed under the Principles of the UNGC, across all group companies when determining the balance between expansion and social and environmental sustainability. All new initiatives and business ventures are subject to comprehensive feasibility and impact assessment studies which include environmental and social considerations.

Managing Our Natural Inputs



Raw Materials

As a Group with substantial interests in the manufacturing sector, a wide variety of raw materials are utilized in our value creation process. These account for a significant portion of our manufacturing costs and determine the overall quality of our products. Material usage is tracked on a consistent basis using suitable indicators across all our sectors with actionable plans to optimize material usage. Several of our sectors have also implemented ongoing supplier development initiatives to ensure the sustainability of key supply chains (Refer to Supplier Development on pages 127 to 128 of this Report). As discussed in last year's Annual Report, we have increased the scope and coverage of our raw material disclosures.

Environmental Management Framework



Our Value Creation Report

Natural Capital

| Sector | Type of Raw Material | 2015/16 |
|-----------------------|----------------------|---------------|
| Construction Material | Aluminum Billets | 6393 MT |
| Fibre | Coconut fibre | 14,220,684 MT |
| Fibre | Coir Fibre Pith | 30,000,666 MT |
| Plantations | Bought leaf | 10,091 MT |
| Plantations | Bought latex | 241 MT |
| Plantations | Fertilizer | 2 MT |
| Purification | Coconut charcoal | 70573 MT |

Energy 7 AFFORDABLE AND CLEAN ENERGY

Our primary energy sources are fossil fuels, electricity from the national grid, and renewable energy. Group-wide and sector-specific initiatives are in place to improve energy efficiency while over the long-term we hope to reduce dependence on fossil fuels through the increased generation of renewable energy.

| Sector | Initiative |
|-----------------|--|
| Power & Energy | Generating renewable energy through hydro and wind power plants |
| Plantations | Generation of renewable energy through four hydro plants and fuel wood plantation |
| | Installation of energy efficient capacitor banks, equipment and lighting systems |
| | Employee awareness building |
| Textiles | Installation of energy efficient dye machines and variable frequency motors |
| Purification | Pollutant gases and heat discharged from the production process are used to generate electricity |
| Eco Solutions | Installation of a bio-energy plant in the industrial fibre facility to reduce dependence on fossil fuels |
| Leisure | Energy efficient lighting and cooling systems have been implemented in all hotels |
| | Hunas by Amaya generates hydro power which is used to power garden lights. |
| Hand Protection | Introduction of inverter technology for motors |
| | Introduction of electronic ballast for fluorescent lamps |
| | Monitoring and replacing steam traps |

This year, we have widened the scope and fine-tuned the systems in place to measure the Group's energy footprint thereby providing a more accurate view of the Group's energy consumption. Based on these measurements the Group's overall energy footprint is estimated to be 2.82 Mn GJ during the year

| GJ | 2015/16 |
|-------------------------------|--------------|
| Diesel | 1,976,629.62 |
| Petrol | 2809.753 |
| Furnace Oil | 2410.83 |
| LPG | 11,306.00 |
| Electricity | 414,015.11 |
| Direct Energy (GJ) | 2,407,171.31 |
| Indirect Energy (GJ) | 414,015.11 |
| TOTAL ENERGY CONSUMPTION (GJ) | 2,821,186.42 |

Water 6 CLEAN WATER AND SANITATION

Water is an important natural resource consumed by most of business sectors and minimizing our water usage is a key focus area in the Group's environmental sustainability agenda. Mechanisms are in place to continuously monitor water consumption trends and identify areas for improving water efficiency. In addition to water stewardship, all our business sectors are mandated to ensure that water discharge meets all applicable regulatory requirements. Most of our sectors engage in recycling used water prior to being re-used in operations or discharged.

This year, we have disclosed the Group's water consumption statistics for the first time and hope to use the year as a base year in reporting in the Group's water consumption.

| Water withdrawal by Source | M ³ |
|---------------------------------------|----------------|
| Surface water (rivers, lakes, oceans) | 1,430,880 |
| Ground water | 357,563 |
| Rainwater | 22,583 |
| Municipal lines | 998,509 |
| Waste water and other | 1,651.7 |
| TOTAL | 2,811,186.7 |

Effluents and Waste

All sectors engage in the segregation and disposal of waste, in compliance with regulatory requirements and industry best practice. We have widened the scope and coverage of this indicator and the following disclosure includes the waste and effluents generated from all sectors of the Group. All sectors ensure that effluents discharged from our operations comply with the requisite water quality standards as prescribed by the Government. All such effluent plants are checked on a regular basis by independent assessors to ensure it meets compliance levels. Our discharge water quality levels (BOD, COD, TSS, pH and oil and grease levels) comply with government standards.

| Water discharge by destination | M ³ |
|---------------------------------------|----------------|
| Municipality sewerage, drainage lines | 6,069.2 |
| Recycled through Effluent treatment | 262,583 |
| To rivers, lakes, wetlands | 1,856,370 |
| To ground through soakage pits | 9,512.7 |
| TOTAL | 2,134,535.7 |

| Total waste (Tonnes) | Hazardous | Non-hazardous |
|--------------------------|-----------|---------------|
| Reuse | - | 509.43 |
| Recycling | 9.42 | 578.87 |
| Incineration (mass burn) | 1,427.57 | 923.00 |
| Deep well injection | - | 5.75 |
| On-site storage | 740.13 | - |
| Other | - | 2,845.18 |
| TOTAL | 2,177.2 | 4862.23 |

Carbon Footprint

13 CLIMATE ACTION

Impacts of climate change

Climate change and eco-system decline impacts the Group directly through supply and demand for raw materials which are derived from

natural sources, availability of water, erratic weather conditions and impacting the demand for agro chemicals in numerous ways. Having understood the potential impacts of climate change on our value creation process, we understand and monitor these impacts as part of the Group's risk management process.

The calculation of the carbon footprint is based on the WBCSD/WRI Greenhouse Gas Protocol Corporate Standard, and we have used the most recent versions of applicable calculation tools. We have continued to extend our coverage of calculation and our reporting of Greenhouse Gas emissions now covers all our sectors under Scope 1 and 2, whilst Scope 3 remains selective based on data availability. The data presented is analysed at Sector level and not from an individual company perspective.

The Group's total carbon footprint declined by 12% to 83261 tCO₂e during the year, as sectors engaged in specific initiatives targeted towards improving energy efficiency and reducing emissions. Eco solutions, Purification, Textiles, Construction Materials, Plantations, Transportation and logistics, Consumer, Power & Energy all recorded reductions in the carbon footprint during the year, despite increased operational activity.

| Sector | Scope 1 | Scope 2 | Scope 3 | Sector Total (15/16) | % Share by sector (15/16) | Sector Total (2014/2015) |
|------------------------------|-----------|-----------|----------|----------------------|---------------------------|--------------------------|
| Eco Solutions | 427.63 | 1635.18 | 212.19 | 2275 | 2.73% | 2,809 |
| Hand Protection | 12,761 | 4513 | - | 17,274 | 20.75% | 16,132 |
| Purification | 1,856.24 | 3,830.27 | | 5,686.51 | 6.83% | 12,785 |
| Textiles | 14,321.78 | 7,183.04 | | 21,504.82 | 25.83% | 26,604 |
| Construction Materials | 2,009.44 | 2,403.81 | | 4,413.25 | 5.30% | 5,279 |
| Agriculture | 2,367.99 | 719.57 | 23.81 | 3,111.37 | 3.74% | 2,432 |
| Plantations | 2,048.41 | 7,642.29 | | 9,690.7 | 11.64% | 12,768 |
| Transportation and logistics | 732.81 | 883.74 | 4,551.88 | 6,168.43 | 7.41% | 8,106 |
| Consumer | - | 64.79 | 43.66 | 108.45 | 0.13% | 269 |
| Leisure & Resorts* | 218.7 | 12,009.49 | | 12,228.19 | 14.69% | 5,513 |
| Power & Energy | 20.78 | 79.2 | | 99.98 | 0.12% | 305 |
| Others | 22.05 | 678.64 | | 700.69 | 0.84% | 2,040 |
| Total by Scope | 36,786.83 | 41,643.02 | 4,831.54 | 83,261.39 | 100.00% | 9,5042 |

* Last year's data consists only of Kingsbury Hotel, whereas the scope of the calculation has been widened this year to include Amaya Lake.

Investment and Compliance

Compliance to all relevant environmental standards are monitored at sector level on a continuous basis. During the year under review no fines or levies were imposed upon the Company pertaining to non-compliance/violations of any environmental laws and regulations. The Group's total investment and expenditure in environmental protection aspects during the year amounted to Rs 665.59 Mn.

Annual Report of the Board of Directors

1. General

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 2016. The details set out herein provide the pertinent information required under Section 168 of the Companies Act No. 07 of 2007, the Colombo Stock Exchange Listing Rules and the recommended best practices on Corporate Governance.

2. Review of the Business

2.1 Principle Business activities of the Company and the Group .

Hayleys PLC is a holding company that owns, directly or indirectly, investments in the numerous companies constituting the Hayleys Group and provides services to its 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 213 to 220.

The Principle activities of the Group are categorized into different business groupings i.e. Global Markets & Manufacturing, Agriculture & Plantations, Transportation & Logistics, Consumer Products, Power & Energy , Leisure & Others. A grouping may consist of a number of sectors. The main activities of the sectors are described in the Management Discussion & Analysis section (pages 70 to 117) of this Report.

2.2 Review of operations of the Company and the Group

The Group's businesses and their performance during the year, with comments on financial results, as well as future business developments are appraised in the Chairman's message (pages 20 to 23), and Management Discussion & Analysis (pages 70 to 117) sections of this Annual Report. Those also provide an overall assessment of the state of affairs of the Group and the Company with details of important events that took place during the period . The investment activities during the year include the following;

The Company, in March 2016, acquired the majority stake of Fentons Ltd, the holding company of the Fentons Group, a leading integrated solutions provider for building systems infrastructure and information communication technology infrastructure.

2.3 Financial Statements of the Company and the Group

The Financial Statements of the Company and the Group are given on pages 158 to 264 of this report.

2.4 Auditors' Report

The Auditor's Report on the Financial Statements of the Company and the Group is given on page 159.

2.5 Accounting Policies and changes during the year

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. The detailed accounting policies adopted in the preparation of the Financial Statements are given on pages 172 to 193 Changes in accounting policies made during the accounting period are described under 4.3 of the Accounting Policies.

2.6 Entries in the Interests Register

The Company, in compliance with the Companies Act No.7 of 2007, maintains an Interests Register. As further required by the Act, particulars of entries in the interest registers of the Company and those subsidiaries which have not dispensed with the requirement to maintain interest registers, as permitted under Section 30 of the Companies Act, are detailed below.

2.6.1 Directors' interest 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.7 of 2007. Note 39 to the Financial Statements dealing with related party disclosures includes details of their interests in transactions.

2.6.2 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.

Hayleys PLC

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

- 547,514 shares were purchased by Mr.K.D.D. Perera.
- 1,001 shares were purchased by Mr.M.D.S. Goonatileke. (resigned w.e.f 12.05.2016)
- 2,500 shares were purchased by Mr.S.C.Ganegoda
- 20,000 shares were disposed by Mr.M.R.Zaheed
- The undernoted share allotments were made upon dissolution of the Hayleys PLC Employees Share Trust.

| Name of Director | No of Shares |
|-------------------------|--------------|
| Mr. A.M. Pandithage | 123,019 |
| Mr. M.R. Zaheed | 56,908 |
| Mr. S.C. Ganegoda | 18,914 |
| Mr. H.S.R. Kariyawasan | 9,427 |
| Dr. K.I.M. Ranasoma | 8,883 |
| Mr. L.T. Samarawickrama | 3,988 |
| Mr. L.R.V. Waidyaratne | 36,465 |

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.

The Kingsbury PLC

- 974,098 shares were purchased by Vallibel One PLC (Mr.K.D.D.Perera has the controlling interest in Vallibel One PLC).

Amaya Leisure PLC

The following shares were allotted from the scrip dividend paid by the Company.

| Name of Director | No of Shares |
|--|--------------|
| Mr.K.D.D. Perera | 22,383 |
| Mr.C.J.Wickramasinghe | 71,564 |
| Mr. S.Senaratne | 18,644 |
| Mr.L.T.Samarawickrama - 3,000 | 223,160 |
| HSBC/Mr.L.T.Samarawickrama - 21,487 | - |
| People's Leasing Finance PLC/ Mr.L.T.Samarawickrama - 198,673 | - |
| Mr.W.D.N.H.Perera | 4 |
| Mr.S.H.Amarasekera - 619 (Jointly with Mr.B.M.Amarasekera) | 1,043 |
| HSBS/Mr.S.H.Amarasekera - 424 (Jointly with Mr.B.M.Amarasekera) | - |
| Mr.D.E.Silva | 2,571 |

The following related Companies were issued shares from the scrip dividend.

Hayleys PLC - 968,311

Mr. K.D.D. Perera has the controlling interest.

Elles (Pvt) Ltd. - 16,963

Mr. L.T. Samarawickrama has the controlling interest.

2,401 shares were disposed by Mr.C.J.Wickramasinghe

8,462 shares were purchased by Mr.S.Senaratne

1,364 shares were purchased by Mr.D.E. Silva

Alumex PLC

- 10,714,400 shares were purchased by Akbar Brothers (Pvt) Ltd (Mr.A.A. Akbarally, a Director and Mr.T.Akbarally, an alternate Director of Alumex PLC are also Directors of Akbar Brother (Pvt) Ltd)
- 725,000 shares were disposed by Rosewood (Pvt) Ltd (Mr.R.P.Pathirana, a Director and Mr.A.J.Hirdaramani, an alternate Director of Alumex PLC are also Directors of Rosewood (Pvt) Ltd)
- 10,000 shares were purchased by Mr.R.P.Pathirana.
- 27,535 shares were disposed by Ceylon Knit Trend Ltd (Mr.R.P.Pathirana, a Non-Executive Director of Alumex PLC is also a Director of Ceylon Knit Trend Limited)
- 936,500 shares were disposed by Zenith Insurance Brokers (Pvt) Ltd (Mr.A.J.Hirdaramani an alternate Director of Alumex PLC is also a Director of Zenith Insurance Brokers (Pvt) Ltd.)

Hayleys Fabric PLC

- 15,000 shares were purchased by Mr.R.N.Somarathne
- 20,000 shares were purchased by Mr.H.Somashantha

Dipped Products PLC

* 1,300 shares were purchased by Mr.S.P.Peiris.

Talawakelle Tea Estates PLC

* 1,000 shares were purchased by Mr.W.G.R.Rajadurai.

2.6.3 Payment of remuneration to Directors

Executive Directors' remuneration is structured 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 2016, which is given in note 2.7, includes the value of perquisites granted to them as part of their terms of service.

Annual Report of the Board of Directors

The total remuneration of Non Executive Directors for the year ended 31st March 2016, which is given in note 2.7, is determined according to scales of payment decided upon by the Board. The Board is satisfied that the payment of remuneration is fair to the Company.

2.6.4 Insurance & Indemnity

The Company has obtained a Corporate Guard insurance policy from AIG Insurance 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. 4.6 mn. The limit on liability of the cover is US\$5mn.

2.7 Directors' remuneration

Directors' remuneration, in respect of the Company for the financial year 2015/16 is Rs 219.1mn (Rs. 187.2 mn) consisting of Rs. 210.9mn for Executive Directors and Rs. 8.2 mn for Non Executive Directors.

Directors' remuneration in respect of the Company's Subsidiaries for the financial year 2015/16 is Rs 576.6mn (Rs.489.3mn.) consisting of Rs. 554.6mn for Executive Directors and Rs. 22mn for Non Executive Directors

2.8 Corporate Donations

Donations by the Company amounted to Rs. 551,106.00 (Rs. 310,089.64) which includes a sum of Rs167,000 (Rs 139,000) made to Government approved charities.

Donations by the Subsidiaries amounted to Rs. 17.3 mn (Rs 16.1mn).

3. Future Developments

Information on future developments are contained in the Chairman's message (pages 20 to 23), and Management Discussion & Analysis (pages 70 to 117) sections of this Annual Report.

4. Group Revenue and International trade

The revenue of the Group was Rs 92.3 bn (Rs 92.6 bn.) in the year under review. A detailed analysis of the Group's revenue, profit and asset allocation relating to different segments of the Group's businesses is given in Note 41 to the Financial Statements.

The Group's exports from Sri Lanka, amounted to Rs. 33.7 bn (Rs.41.9 bn) at f.o.b. value in the year under review.

The Group's revenue from International Trade, which includes the revenue of overseas subsidiaries in addition to exports from Sri Lanka, amounted to Rs 50.3.bn (Rs. 53.1 bn) in the year under review.

Trade between Group Companies is conducted at fair market prices.

5. Dividends and Reserves

5.1 Dividends

The Group's profit before taxation amounted to Rs. 6.8bn (Rs.6.4 bn). After deducting Rs.1.8bn (Rs 1.5bn) for taxation the profit was Rs. 5.1bn (Rs.4.9bn). When an amount of Rs.2.1bn (Rs2.3bn.) for non-controlling interests was deducted , the Group profit attributable to owners of the Parent for the year was Rs. 3.0bn (Rs 2.6bn.). A sum of Rs.487.5mn(Rs 450mn .) has been set aside for proposed dividends.

The Directors have confirmed that the Company satisfies the solvency test requirement under section 56 of the Companies Act No.7 of 2007 for the first & final dividend proposed. A solvency certificate has been sought in respect of the first & final dividend of Rs. 6.50 per share (Rs. 6.00) proposed to be paid to the holders of issued ordinary shares of the Company as at the close of business on 29th June 2016 The dividend represents a redistribution of dividends received by the Company and therefore will not be subject to the 10% tax deduction otherwise applicable.

5.2 Reserves

Total Group Reserves at 31st March 2016 amounts to Rs29.3bn (Rs.27.7bn) comprising Capital Reserves of Rs 1.1 bn(Rs1.3bn), Other components of equity of Rs. 11.6bn (Rs. 11.6bn) and Revenue Reserves of Rs.16.6 bn (Rs 14.8bn). The composition of reserves is shown in the Statement of Changes in Equity in the Financial Statements.

6. Property, plant and equipment

Capital expenditure during the year, on Property, Plant & Equipment (including capital work –in-progress), Biological assets, Investment properties, Intangible assets by the Group and the Company amounted to Rs 6.4 bn (Rs5.6bn) and Rs58.6 mn.(Rs64.3mn) respectively.

Information relating to capital expenditure on Property, Plant & Equipment (including capital work –in-progress), Biological assets, Investment properties, Intangible assets, are given in Note 14,15,16 and 17 to the Financial Statements.

Extents, locations, number of buildings and valuations of the properties of the Group are given in Statement of Value of Real Estate on page ...

7. Market value of Freehold land

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 2015. 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 266 gives details of freehold land held by the Group.

8. Issue of Shares and Debentures

8.1 Issue of Shares and Debentures by the Company

The Company did not issue any shares during the year ended 31st March 2016.

No Debentures were issued by the company in 2015/16. The Company, on 17th May 2016, issued a prospectus offering Twenty million (20,000,000) Senior, Unsecured, Listed, Redeemable, Rated three year (2016/2019) debentures at a face value of Rs.100/- each to raise Rs.2bn. The issue opens on 25th May 2016.

8.2 Issue of Shares and Debentures by subsidiaries and equity accounted investees.

Subsidiaries and equity accounted investees did not issue any shares and debentures during the year ended 31st March 2016

8.3 Stated Capital and Debentures

The stated capital of the Company, consisting of 75,000,000 Ordinary shares, amounts to Rs.1,575mn as at 31st March 2016. There was no change in stated capital during the year.

The debentures of the Company, consist of the following:

- Two Million (2,000,000) Listed, Rated, Senior, Unsecured, redeemable, three year (2013/16) debentures amounting to Rs. 2bn.
- Twenty Million (20,000,000) Listed, Rated, Senior, Unsecured, redeemable, four year (2015/2019) and five year (2015/2020) debentures amounting to Rs.2bn

9. Share Information

Information relating to earnings, dividend, net assets, market value per share, share trading and distribution of shareholding is given on pages 265 and 269 to 271.

10. Substantial Shareholdings

10.1 Major shareholdings

Details of the twenty largest shareholders of ordinary shares with the percentage of their respective holdings are given on page 269.

10.2 Public holding

There were 6,416 (3,102) registered shareholders as at 31st March 2016. The percentage of shares held by the public, as per the Colombo Stock Exchange rules, being 37.61 %(38.66%) representing 6,401 shareholders.

11. Directors

Hayleys PLC

The names of the Directors who held office during the financial year are given below. The brief profiles of the Board of Directors appear on pages 24 to 29.

Executive Directors

Mr.A.M. Pandithage (Chairman & Chief Executive)
Mr.M.R. Zaheed
Mr.S.C. Ganegoda
Mr.H.S.R. Kariyawasan
Dr. K.I.M. Ranasoma
Mr.L.T. Samarawickrama
Mr. L.R.V Waidyaratne

Non-Executive Directors

Mr. K.D.D Perera- (Co-Chairman-Non Executive)
Mr.W.D.N.H Perera

Non-Executive Independent Directors

Dr. H. Cabral, PC
Mr M.H. Jamaldeen

Mr M.D.S Goonatilleke who served as a Non-Executive Independent Director resigned with effect from 12th May 2016.

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

Messrs. M.R. Zaheed, H.S.R. Kariyawasan and Dr.H.Cabral, PC retire by rotation and being eligible offer themselves for re-election.

Subsidiaries

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.

Annual Report of the Board of Directors

| Eco Solutions | | | |
|----------------------------|----------------------------|-----------------------------|---------------------------|
| A.M.Pandithage | S. C. Ganegoda | H.C.S Mendis | F.R. Alles |
| (J.A.W.M. Jayasekera) | Dr. S.A.B.Ekanayake | T. G.Thoradeniya | B. D. A. Perera |
| N. Udage | Dr.P.C. Vermunt | K.S.Padiwita | T.Samarawickrama |
| G.S. De Silva | Ms.M.Hirai | Ms. A.M.C. Holder - Vermunt | A. Venugopal |
| A.R.K.Jayawardena | Ms. I. Weiland | C.D.Weiland | Ms.K.Enkhtuvshin |
| M.A.Werker (Alternate) | Ms. M. Shiraishi | J. A. M. V. D. Hout | T.Fukushima |
| S.Fukushima | | | |
| Hand Protection | | | |
| A.M.Pandithage | K.D.D. Perera | S.C.Ganegoda | Dr.K.I.M. Ranasoma |
| F. Mohideen | N. A. R. R. S. Nanayakkara | K.A.L.S. Fernando | M. Bottino |
| (R.K. Withanachchi) | S Rajapakse | B.A Mahipala | S.P.Peiris |
| M. Orlando | A. Orlando | T.G.Thoradeniya | S.A.N.Pushpakumara |
| Ms.Y.Bhaskaran (Alternate) | D.B.K.Pathirage | S.M.Shaikh(alternate) | D.K.Welmillage |
| K.D.G.Gunaratne | | | |
| Purification Products | | | |
| A.M.Pandithage | K.D.D. Perera | W D N H Perera | S.C.Ganegoda |
| H.S.R.Kariyawasan | Ms. M.J.A.S.Abeyratne | D.E.Ranarajah | A. M. Senaratna |
| Dr. S A K Abayawardana | M.S.P.Udaya kumara | Ms.S.S.Ragunathan | P. Rousseau |
| S. Rajapakse | J. D. Naylor | D.J.Perera | B.Balaratnarajah |
| P.Karnchanabatr | B.Karnchanabatr | K.Karnchanabatr | A.Parashar |
| Y.P.A.S.Pathiratna | A.A.M.Caderbhoy | Ms.M.Grignon | Ms.Y.Bhaskaran(Alternate) |
| (F. Brochet) | (B. Dasgupta) | Ms. C Karnchanabatr | T. Karnchanabatr |
| R.Bittel | M.Marques | D.M.Thomas | N.E.Megonnel |
| E.Senduk | S.H.C.Winston | J.Yaurai | R.K.A.Karim |

Construction Materials

| | | | | |
|------------------|-----------------|-----------------------------|------------------------|---------------|
| A.M.Pandithage | S.C. Ganegoda | Dr H. Cabral | R.P.Pathirana | A.A.Akbarally |
| D.W.P.N.Dediwela | H.H.Abdulhusein | A.J.Hirdaramani (Alternate) | T.Akbarally(Alternate) | R.P.Peris |
| S. Munaweera | | | | |

Agriculture

| | | | | |
|-------------------|---------------|----------------|------------------|------------------|
| A.M.Pandithage | M.R.Zaheed | S.C. Ganegoda | L.K.B. Godamunne | S.M.Gamage |
| Ms. J. Dharmasena | D.Nilaweera | K.R. Rajapakse | R Seevaratnam | A.N.K. Perera |
| M.Symons | H.P.Lin | G.Olbrechts | A.C.Pathirage | S.Yamada |
| S.Kodama | D.G.Talpahewa | P.Patnaik | A.Patnaik | S.I.H.M.Musfigur |
| L.N.Abesekara | | | | |

Plantations

| | | | | |
|------------------------------|-----------------------------|--------------------------|----------------------|-----------------------|
| A.M.Pandithage | K.D.D.Perera | W.D.N.H. Perera | S.C.Ganegoda | Dr K I M Ranasoma |
| L.T.Samarawickrama | J.A.G. Anandarajah | G.K. Seneviratne | Merrill J Fernando | F. Mohideen |
| S. Siriwardana | Dr.S.S.S.B.D.G. Jayawardena | Malik J. Fernando | L.N.De S Wijeyeratne | W.G.R. Rajadurai |
| (Prof.U Liyanage) | Ms M D A Perera | D.S.Seneviratne | N.R.Ranatunge | N A R R S Nanayakkara |
| N. Weeraratne | R.M.Hanwella | D.C.Fernando (Alternate) | M.F.M. Ismail | C.V. Cabraal |
| N.T. Bogahalanda | R A B Ranatunga | D.S. Wijesekera | S.Rajapakse | G.A.R.D.Prasanna |
| J.M.Kariyapperuma(Alternate) | Tomokatsu Ishida | Takashi Ishida | C.Perera | |

Industry Inputs

| | | | | |
|------------------|--------------------|-----------------------|---------------------|----------------|
| A.M.Pandithage | M.R.Zaheed | S.C.Ganegoda | M.D.S. Goonatilleke | D. Hewageegana |
| L.J.C.De Silva | D.D.W. Siriwardene | Dr. A. Sivagananathan | C.Wijesundera | |
| (P.T.S De Silva) | | | | |

Power & Energy

| | | | | |
|--------------------|--------------------|---------------------|-----------------------|------------------|
| A.M.Pandithage | H.S.R. Kariyawasan | Dr. K.I.M. Ranasoma | A.R.De Silva | B.Balaratnarajah |
| D.D.W. Siriwardene | D.S.Arangala | V.K. Hirdaramani | Merill J Fernando | Malik J Fernando |
| M.Najmudeen | R.P.Pathirana | A.A. Akbarally | Dr. A. Sivagananathan | W.G.R.Rajadurai |

Consumer Products

| | | | | |
|-------------------|---------------|--------------|------------------------|------------------------|
| A.M.Pandithage | M.R.Zaheed | S.C.Ganegoda | M.D.S. Goonatilleke | G.A.B.I.Silva |
| D.D.W.Siriwardena | R Seevaratman | A.R.Zubair | H.D.M.P.S.Karunatileka | M.S. Lakshminarasimhan |

Annual Report of the Board of Directors

Others

| | | | | |
|------------------------|--------------------------|------------------|-----------------------|------------------------|
| A.M.Pandithage | M.R.Zaheed | S.C.Ganegoda | H.S.R.Kariyawasan | Dr.K.I.M.Ranasoma |
| K.D.D.Perera | W.D.N.H.Perera | Dr.H.Cabral | M.D.S.Goonatilleke | M.H.Jamaldeen |
| L.T.Samarawickrama | L.R.V.Waidyaratne | S.J.Wijesinghe | A.S.Jayatilleke | S.Munaweera |
| P.J.Claesson | D.V.Press | S.Senaratne | D.E.Silva | C.J.Wickramasinghe |
| J.G.Victoria | K.A.Y.P.Sumanapala | Ms.V.Jayasundera | E.J.Pietersz | D.J.A.Wijesinghe |
| S.D.D.K.Senaratne | W.S.M.Ai Adawi | B.R.Parthan | R.K.Siriniwasan | H.D.M.P.S.Karunatilaka |
| D.D.W.Siriwardene | (Ms.L.Y.Pararasasegaram) | L.D.E.A.de Silva | Ms.M.P.Abeyesekera | T.G.Thoradeniya |
| Ms.S.Abeytunge | Dr.A.Sivagananathan | (G.A.Dandeniya) | R.W.Abhayaratne | |
| Chandev W. Abhayaratne | Chandresa W. Abhayaratne | Ms.D.G.Talpahewa | A.Govindan(Alternate) | |

Transportation & Logistics

| | | | | |
|--------------------|------------------------|-------------------------------|-----------------------|-----------------------|
| A.M.Pandithage | S.C. Ganegoda | L.R.V. Waidyaratne | S.R. Sadanandan | T.U.K. Peiris |
| A.B.Ratnayake | (Ms) E.M.C.S. Gamage | A.M.Senaratna | R. Seevaratnam | P.L. Cumaratunga |
| F.T. Salem | C.D.La Ferriere | L.B Culas | M.G. Gomez | I. Saleem |
| K.L.C.Fernando | P.S Gunawardena | (K.Wai Chak) | R.W.P.Polonowita | S.I. Ramakrishnan |
| D.D.W. Siriwardene | Ms.Y.N.Perera | C.I.J. Charles | M.I.S. Sabar | A.H.Kulasinghe |
| M.D.D.Pieris | (O. Kubota) | (N.P. Samarasinghe) | M. Masri | F.S.Abeygoonnewardena |
| P. Jayanetti | J.R.Hill | M.R.S.M.S.R.C. Samaratunge | I.A.M. Gahazali | J.C. Anandappa |
| H.A.H. Rodrigo | S. Mahadeva | A.F.K. Kulasinghe (Alternate) | V.V.P. Daluwatte | K. Wada |
| P.H. Rohani | T.J.G. Decarpentrie | L.L.Quan | Ma Honghan | M. Hajjiao |
| I.I. Rushdhee | A. Saaïd | R.Hassan | R.S. Ramakrishnan | M.Nabeel |
| D.Janik | W.D.K.de Silva | S.N.Wickremesooriya | T.K.Wijemanne | M.G.I.Ahamed |
| M.A.J.Ranatunge | N.P.Samarasinghe | S. Mizukami | C.K.de Zoysa | (L.C.Poh) |
| Y.Uebo | D.N.W.Y.Min(Alternate) | J.Mathew | W.Y.Fei | M.R.B.A.Tajuddin |
| R.A.Perera | T.Hanajima | U.T.Z. Tun | H.Ishizaki(Alternate) | |

Leisure

| | | | | |
|---------------------|-----------------------|----------------------------|--------------------|--------------------|
| A.M.Pandithage | K.D.D. Perera | W.D.N.H.Perera | S.C.Ganegoda | L.T.Samarawickrama |
| S.J.Wijesinghe | N.J.De S. Deva-Aditya | L.N.De.S.Wijeyeratne | Ms.R.N.Ponnambalam | K.A.Y.P.Sumanapala |
| C.J. Wickramasingha | D.E. Silva | B.C.S.A.P. Gooneratne | S.B. Rangamuwa | J.P. Van Twest |
| A.K. Dheerasinghe | J.A.S.S. Adihetti | M.H. Jamaldeen | P.S. Ariyaratne | S.H. Amarasekera |
| (Ms) I. Jamaldeen | K.D.H. Perera | H. Somashantha (Alternate) | S. Senaratne | R.S.Tissanayagam |
| J.A.S.S. Adihetti | W.D. De Costa | Capt. J.L.C.Fernando | D.L.C. Fernando | |
| P.N.R.Dias | T.W.De Silva | K.T.M. De Soysa | T.P.Juay | |

Textiles

| | | | | |
|----------------|--------------------|------------------|-------------------------|----------------|
| A.M.Pandithage | K.D.D Perera | S.C. Ganegoda | E.R.P.Goonetilleke | H. Somashantha |
| R.N. Somaratne | Dr.N.S.J.Nawaratne | A.S. Jayatilleke | Y. Bhaskaran(Alternate) | |

12. Disclosure of Directors' dealing in Shares and Debentures

Directors' dealings in shares are given under note 2.6.2 of this report.

Directors' holdings, in ordinary shares of the Company are given on page 270.

None of the Directors hold debentures in Hayleys PLC

13. Employee share ownership plans

The Group does not operate any share option schemes.

The Hayleys PLC Employees Share Trust was dissolved during the year, in accordance with the Circular 'CSE 02/2012' Issued by the Colombo Stock Exchange, after distributing the shares held by the Trust among the eligible beneficiaries.

14. Directors' disclosure of interest

Disclosure of interest by the Directors of the Company and its subsidiaries are detailed in Note 2.6 above.

15. Related Party Transactions

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

The related party transactions of the Company during the financial year have been reviewed by the Related Party Transactions Review Committee and are in compliance with the Section 09 of the CSE Listing Rules.

16. 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 Performance section of the Sustainability Review on page 137 to 139.

17. Statutory payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the Government, other regulatory institutions and those related to employees have been made on time.

The declaration relating to statutory payments is made in the Statement of Directors' Responsibilities on page 153.

18. Events after the reporting date

No event of material significance that requires adjustment to the Financial Statements, has occurred subsequent to the date of the reporting date, other than those disclosed in Note 35 to the Financial Statements on page 248.

19. Going concern

The Directors, after considering the financial position, operating conditions, regulatory and other factors including matters addressed in the Corporate Governance Code, 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.

20. Exposure to risk

The Group has a structured risk management process in place to support its operations. The Hayleys Board Audit Committee and the sector Audit Committees play a major role in this process. The Risk Management section of this report elaborates these practices and the Group's risk factors.

21. Appointment of Auditors

Messrs Ernst & Young, Chartered Accountants, are deemed reappointed, in terms of section 158 of the Companies Act No.7 of 2007, as Auditors of the Company.

22. Auditors' Remuneration and Interest in contracts

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

The Auditors, Messrs Ernst & Young were paid Rs. 1.7mn (Rs1.6mn), and Rs. 42.1mn (Rs 39.6mn) as audit fees by the Company and its Subsidiaries respectively. In addition, they were paid Rs. 0.7mn (Rs. 0.6mn) and Rs 16.1mn (Rs 17.4mn.), 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 amount to Rs 12.3mn (Rs16.5mn.) and Rs 5.6mn (Rs. 8.1mn) respectively.

Annual Report of the Board of Directors

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.

23. Ratios and Market price information

The ratios relating to equity and debt as required by the listing requirements of the Colombo Stock Exchange are given in pages 270 to 271 of this Report.

24. Employees & Industrial Relations

The Group has a structure and a culture that recognizes the aspirations, competencies and commitment of its employees. Career growth and advancement within the Group is promoted.

Details of Group's human resource practices and employee and industrial relationships are given in Social Performance section of the Sustainability Review.

The number of persons employed by the Group at year-end was 32,980 (35,093).

25. Shareholders

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

26. Internal Controls

The Directors acknowledge their responsibility for the Group's system 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 system of internal controls, 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.

27. 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 Report on pages 34 to 47 discusses this further.

28. Annual General Meeting

The Annual General Meeting will be held at Balmoral Ballroom, The Kingsbury Hotel, No. 48, Janadhipathi Mawatha, Colombo 01, at 10.00 a.m. on Wednesday, 29th June 2016. The Notice of the Annual General Meeting appears on page 292

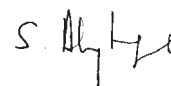
For and on behalf of the Board



A.M. Pandithage
Chairman & Chief Executive Director



S.C. Ganegoda
Director



Hayleys Group Services (Pvt) Ltd
Secretaries

20th May 2016

Comparative figures are shown in brackets.

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 2016 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;
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.
- 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 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 recognized in weighing the assurances provided by any system of internal controls and accounting.

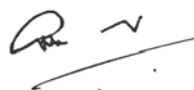
The Audit Committee of the Company meets periodically with the Internal Auditors and the Independent Auditors to review the effectiveness of the audits, and to discuss auditing, internal control and financial reporting issues. The Independent Auditors and the Internal Auditors have full and free access to the Audit Committee to discuss any matter of substance.

The Financial Statements were audited by independent external auditors, Messers Ernst & Young , Chartered Accountants, the independent external auditors. Their report is given on page 159 of the Annual Report.

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.

We confirm that,

- the Company and its subsidiaries have complied with all applicable laws, regulations and prudential requirements;
- there are no material non compliances; and
- there are no material litigations that are pending against the Group other than disclosed in the Note 32 to the Financial Statements in this Annual Report.



A.M. Pandithage

Chairman & Chief Executive



L.D.E.A. De Silva

Group Chief Financial Officer

20th May 2016

Directors' Statement on internal controls

The following statement fulfills the requirement to publish the Directors' Statement on internal control as per the Code of best practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka.

The Board of Directors is responsible for maintaining a sound system of internal controls to safeguard shareholder's investments and the Company's assets. The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and Group. This process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements.

The Board has implemented the following to obtain reasonable assurance that proper systems of internal controls are in place:

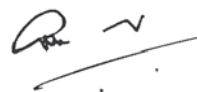
- Instituted various committees to assist the Board in ensuring the effectiveness of Company's operations and the operations are in accordance with the corporate strategies and annual budget.
- The Management Audit and System Review Division (MA & SRD) to review and report on the internal control environment in the Company and Group. Audits are carried out on all subsidiaries in accordance with the annual audit plan approved by the Audit Committee. Findings are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee reviews internal control issues identified by MA & SRD and management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled at the Board meetings of Hayleys PLC.
- The adoption of new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2013, processes that are required to comply with new requirements of recognition, measurement, presentation and disclosures were introduced and implemented. Continuous monitoring is in progress to ensure effective implementation of the required processes.

- The comments made by External Auditors in connection with the internal control system during the financial year 2014/15 were taken into consideration and appropriate steps have been taken to incorporate them where appropriate.

Conclusion

The Board having implemented the above is aware that such systems are designed to manage rather than eliminate the risk of failure to achieve business objective and can only provide reasonable and not absolute assurance against material misstatements of loss.

The Board of Directors confirm that the financial reporting system of Hayleys PLC has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the Sri Lanka Accounting Standards, requirements of the Company's Act no 7 of 2007 and the Listing Rules of the Colombo Stock Exchange.



Mohan Pandithage
Chairman and Chief Executive



Sarath Ganegoda
Director



Dr. Harsha Cabral, PC
Member, Audit Committee

20th May 2016

Nomination Committee Report

Composition of the Committee

The Nomination Committee comprises three Non-Executive Directors and one Executive Director. The Nomination Committee comprised of the following members;

A. M. Pandithage (ED) - Chairman

K.D.D.Perera (NED)

W.D.N.H.Perera (NED)

Dr. H. Cabral PC (IND/NED)

(ED - Executive Director, IND - Independent Director, NED - Non-Executive Director)

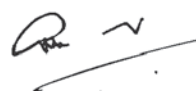
The brief profiles of the Directors are given on pages 24 to 29 of the Annual Report.

The duties of the Committee

- Consideration of making any appointment of new Directors or re-electing current Directors to the Board.
- Provide advice and recommendations to the Board on any such appointment.
- Review criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment to the Board and Key Management Personnel in the Company.
- Consider if a Director is able to and has been adequately carrying out his or her duties as a Director, taking in to consideration the Director's number of Listed Company Boards on which the Director is represented and other principal commitments..
- Review the structure, size, composition and competencies of the Board and make recommendations to the Board with regard to any changes.
- Recommend the requirements of new expertise and succession arrangements for retiring Directors.
- Recommend on any matter referred by the Board of Directors.

Re- election of Directors at the Annual General Meeting

Messrs M.R. Zaheed, H.S.R Kariyawasan, Dr. H. Cabral PC were proposed for re-election to the Board at the Annual General Meeting to be held on 29th June 2016 and the Committee decided to recommend the said names to be approved by the Board of Directors.



Mohan Pandithage
Chairman
Nomination Committee

20th May 2016

Remuneration Committee Report

Composition of the Committee

The Remuneration Committee appointed by and responsible for the Board of Directors comprises five Non-Executive Directors of whom three including the Chairman are independent Directors. The Remuneration Committee comprised of the Following members;

Dr. H.Cabral, PC (IND/NED)- Chairman

K.D.D.Perera (NED)

W.D.N.H.Perera (NED)

M.D.S. Goonetilleke (IND/NED)- (resigned w.e.f 12.05.2016)

M.H. Jamaldeen (IND/NED)

(IND- Independent Director, NED - Non-Executive Director)

The brief profiles of the Directors are given on pages 24 to 29 of the Annual Report.

The Chairman & 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 Scope of the Committee

The Committee is vested with power to evaluate, assess, decide and recommend to the Board of Directors on any matter that may affect Human Resources Management of the Company and the Group and specifically include:

- Determining the compensation of the Chairman & Chief Executive, Executive Directors and the Members of the Group Management Committee.
- Lay down guidelines and parameters for the compensation structures of all management staff within the Group taking into consideration industry norms.
- Formulate guidelines, policies and parameters for the compensation structures for all Executive staff of the Company .
- Review information related to executive pay from time to time to ensure same is in par with the market/industry rates .
- Evaluate the performance of the Chairman & Chief Executive and Key Management Personnel against the predetermined targets and goals.
- Assess and recommending to the Board of Directors of the promotions of the Key Management Personnel, address succession planning.
- Approving annual salary increments, bonuses

Remuneration Policy

The remuneration policy 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.

Meetings

The Committee held 2 times during the year under review. The attendance at the meetings given in table on page 35 of the Annual Report.



Dr. Harsha Cabral, PC.

Chairman

Remuneration Committee

20th May 2016

Statement of Directors' Responsibilities

The Directors are responsible under sections 150 (1), 151, 152 (1), & 153 of the Companies Act No. 7 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 (SLFRS/ LKAS), 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.

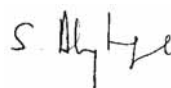
As required by section 56 (2) of the Companies Act, the Board of Directors has authorized distribution of the dividend now proposed, being satisfied based on information available to it that the Company would satisfy the solvency test after such distribution in accordance with section 57 of the Companies 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 deemed re-appointed in terms of Section 158 of the Companies Act No. 7 of 2007 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 159 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

20th May, 2016

Related Party Transactions Review Committee Report

Composition of the Committee

The Board established the Related Party Transaction Review Committee with effect from 10th February 2015 in terms of the Code of Best practice on Related Party Transactions issued by the Securities & Exchange Commission of Sri Lanka and the Section 9 of the Listing Rules of the Colombo Stock Exchange .

The Related Party Transactions Review Committee comprises two Independent Non-Executive Directors and one Executive Director. The Committee comprised of the Following members;

Dr H Cabral, PC (IND/NED) - Chairman

M. D. S. Goonatilleke (IND/NED) (resigned w.e.f 12.05.2016)

Mr. S C Ganegoda (ED)

(ED - Executive Director, IND - Independent Director, NED - Non-Executive Director)

The brief profiles of the Directors are given on pages 24 to 29 of the Annual Report.

The duties of the Committee

- To review in advance all proposed related party transactions of the group either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.
- Seek any information the Committee requires from management, employees or external parties to with regard to any transaction entered into with a related party.
- Obtain knowledge or expertise to assess all aspects of proposed related party transactions where necessary including obtaining appropriate professional and expert advice from suitably qualified persons.
- To recommend, where necessary, to the Board and obtain their approval prior to the execution of any related party transaction.
- To monitor that all related party transactions of the entity are transacted on normal commercial terms and are not prejudicial to the interests of the entity and its minority shareholders.
- Meet with the management, Internal Auditors/External Auditors as necessary to carry out the assigned duties.
- To review the transfer of resources, services or obligations between related parties regardless of whether a price is charged.
- To review the economic and commercial substance of both recurrent/ non recurrent related party transactions

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

Meetings

The Committee held 2 times during the year under review. The attendance at the meetings given in table on page 36 of the Annual Report.



Dr. Harsha Cabral, PC

Chairman

Related Party Transactions Review Committee

18th May 2016

Audit Committee Report

Composition of the Audit Committee

The Audit Committee, appointed by and responsible to the Board of Directors, comprises the following three Independent Non-Executive Directors and a Non- Executive Director.

Mr. M D S Goonatilake (Chairman) – (IND/NED) (resigned w.e.f 12.05.2016)

Mr. N Perera (NED)

Dr. H Cabral (IND/NED)

Mr. M H Jamaldeen (IND/NED)

(IND - Independent Director, NED - Non-Executive Director)

The Chairman of the committee, Mr. M D S Goonatilake, an Independent Non - Executive Director, is finance professional with over 25 years of post qualification experience. He is a 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 Jayawardenepura.

Brief profiles of each member are given on pages 24 to 29 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.

Company Secretary act as the Secretary to the Audit Committee. The Chairman & Chief Executive, Group Chief Finance officer and Head – Group Management Audit & System Review attend meetings of the Committee by invitation.

Charter of the Audit Committee

The audit committee Charter is periodically reviewed and revised with the concurrence of Board of Directors. The terms of reference of the committee are clearly defined in the Charter of the Audit Committee.

Rules on Corporate Governance' under listing rules of corporate governance under Colombo Stock Exchange and 'Code of Best Practice on Corporate Governance' issued jointly by Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka further regulate the composition, role and functions of the Board Audit Committee.

Meetings of the Audit Committee

The Committee met 8 times during the year. The attendance of the members at these meetings is stated in the table on page 36.

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.

The Objective and 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 44.

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 Financial Reporting 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 recognized 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 & 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 implementing within the group.

Audit Committee Report

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 meeting 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., continued as Auditors for the financial year ending 31st March 2017.

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.

Ethics and Good Governance

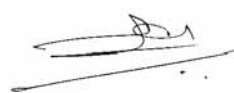
The committee continuously emphasized on upholding ethical values of the staff members. In this regard, Code of Ethics and Whistle-Blowers Policies were put in place and followed educating and encouraging all members of the staff. All appropriate procedures are in place to conduct independent investigations into incidents reported through Whistle-Blowing or identified through other means. The Whistle-Blower Policy guarantees strict confidentiality of the identity of the Whistle-Blowers.

Sri Lanka Accounting Standards

Committee reviewed the revised policy decisions relating to adoption of new and revised Sri Lanka Accounting Standards (SLFRS/LKAS) applicable to the Group companies and made recommendation to the Board of Directors.

The Committee would continue to monitor the compliance with relevant Accounting Standards and keep the Board of Directors informed at regular intervals.

The committee has pursued the support of Messers Ernst and Young to assess and review the existing SLFRS policies and procedures adopted by the Group.



Dr. Harsha Cabral, PC

Member
Audit Committee

18th May 2016

The World Of Hayleys

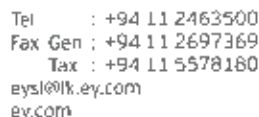
A World of Care

Financial Reports

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Financial Calendar 2015/16

| | |
|-----------------------------------|---------------------|
| 1st Quarter Report | 7th August, 2015 |
| 2nd Quarter Report | 6th November, 2015 |
| 3rd Quarter Report | 10th February, 2016 |
| 4th Quarter Report | 20th May, 2016 |
| Annual Report 2015/16 | 3rd June, 2016 |
| 65th Annual General Meeting | 29th June, 2016 |
| First and Final Dividend Proposed | 29th June, 2016 |
| First and Final Dividend Payable | 11th July, 2016 |



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Statement of Profit or Loss

| For the year ended 31st March | Notes | Consolidated | | Company | |
|--|-------|-----------------|-----------------|-----------------|-----------------|
| | | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Revenue | 6 | 92,274,683 | 92,561,865 | 330,083 | 284,949 |
| Cost of sales | | (69,642,934) | (71,268,719) | (169,221) | (164,457) |
| Gross profit | | 22,631,749 | 21,293,146 | 160,862 | 120,492 |
| Group dividend | | - | - | 1,467,416 | 1,316,149 |
| Other income | 7 | 689,956 | 537,750 | 1,489 | 24,448 |
| Distribution expenses | | (3,171,259) | (2,589,099) | - | - |
| Administrative expenses | | (11,466,920) | (10,585,170) | (139,434) | (62,453) |
| Other expenses | 8 | (178,314) | (146,081) | - | (75,578) |
| Results from operating activities | | 8,505,212 | 8,510,546 | 1,490,333 | 1,323,058 |
| Finance income | 9 | 843,766 | 452,332 | 71,407 | 104,455 |
| Finance cost | 9 | (2,775,241) | (2,587,346) | (672,845) | (664,543) |
| Net finance cost | | (1,931,475) | (2,135,014) | (601,438) | (560,088) |
| Share of profit of equity accounted investees (net of tax) | 18 | 242,537 | 24,383 | - | - |
| Profit before tax | 10 | 6,816,274 | 6,399,915 | 888,895 | 762,970 |
| Tax expense | 11 | (1,756,533) | (1,513,581) | (21,132) | (8,565) |
| Profit for the year | | 5,059,741 | 4,886,334 | 867,763 | 754,405 |
| Profit for the period attributable to: | | | | | |
| Owners of the parent | | 3,003,913 | 2,581,298 | | |
| Non-controlling interest | | 2,055,828 | 2,305,036 | | |
| Profit for the year | | 5,059,741 | 4,886,334 | | |
| Earnings per share | | | | | |
| Basic, profit for the year attributable to ordinary equity holders of the parent (Rs.) | 12 | 40.05 | 34.42 | | |
| Diluted, profit for the year attributable to ordinary equity holders of the parent (Rs.) | 12 | 40.05 | 34.42 | | |

Notes from pages 172 to 264 form an integral part of these Financial Statements. Figures in brackets indicate deductions.

Statement of Comprehensive Income

| For the year ended 31st March | Notes | Consolidated | | Company | |
|---|-------|-----------------|-----------------|-----------------|-----------------|
| | | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Profit for the year | | 5,059,741 | 4,886,334 | 867,763 | 754,405 |
| Other comprehensive income | | | | | |
| Items that will not be reclassified subsequently to Statement of Profit or Loss | | | | | |
| Revaluation of land | | - | 3,108,054 | - | 1,453,000 |
| Share of other comprehensive income of equity accounted investees | | - | 119,796 | - | - |
| Actuarial (loss)/ gain on employee benefit obligations | 28 | (378,352) | (7,228) | (70,694) | 80,652 |
| Income tax on other comprehensive income | 11 | 50,304 | 5,392 | - | - |
| Items that will be reclassified subsequently to Statement of Profit or Loss | | | | | |
| Net exchange differences on translation of foreign operations | | 367,727 | (157,632) | - | - |
| Share of other comprehensive income of equity accounted investees | | (469) | 867 | - | - |
| Net change in fair value of available-for-sale financial assets | | (6,850) | 20,555 | - | - |
| Total other comprehensive income for the year, net of tax | | 32,360 | 3,089,804 | (70,694) | 1,533,652 |
| Total comprehensive income for the year, net of tax | | 5,092,101 | 7,976,138 | 797,069 | 2,288,057 |
| Total comprehensive income for the year attributable to : | | | | | |
| Owners of the parent | | 2,972,574 | 5,319,922 | | |
| Non- controlling interest | | 2,119,527 | 2,656,216 | | |
| | | 5,092,101 | 7,976,138 | | |

Statement of Financial Position

| | | Consolidated | | Company | |
|--|-------|--------------|------------|------------|------------|
| As at 31st March | | 2016 | 2015 | 2016 | 2015 |
| | Notes | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| Assets | | | | | |
| Non-current assets | | | | | |
| Property, plant & equipment | 14 | 50,441,828 | 46,163,919 | 6,674,109 | 6,654,666 |
| Investment properties | 15 | 1,396,312 | 1,412,822 | - | - |
| Biological assets | 16 | 342,797 | 307,476 | - | - |
| Intangible assets | 17 | 6,227,104 | 5,715,803 | - | - |
| Investments in subsidiaries | 18 | - | - | 9,881,296 | 9,365,343 |
| Investments in equity accounted investees | 18 | 671,797 | 489,096 | - | - |
| Other non-current financial assets | 19 | 223,038 | 241,478 | 141,764 | 154,234 |
| Other non-current assets | 20 | 595,977 | 1,022,155 | | |
| Deferred tax assets | 27 | 399,193 | 386,698 | - | - |
| Total non-current assets | | 60,298,046 | 55,739,447 | 16,697,169 | 16,174,243 |
| Current assets | | | | | |
| Inventories | 21 | 15,136,119 | 12,617,120 | 1,421 | 1,854 |
| Amounts due from subsidiaries | 39 | - | - | 1,111,039 | 1,400,260 |
| Amounts due from equity accounted investees | 39 | 42,162 | 49,854 | 5,762 | - |
| Trade and other receivables | 22 | 19,498,173 | 17,859,520 | 13,983 | 15,302 |
| Other current assets | 22 | 1,533,231 | 1,273,295 | 11,134 | 10,036 |
| Income tax recoverable | 30 | 218,899 | 219,469 | 2,287 | 1,752 |
| Other current financial assets | 19 | 929,875 | 39,562 | 445,180 | 11,170 |
| Short term deposits | | 1,985,845 | 2,413,781 | - | 546,292 |
| Cash in hand and at bank | | 3,676,171 | 3,111,428 | 98,559 | 39,562 |
| Assets classified as held for sale | 40 | 3,021 | 3,021 | - | - |
| Total current assets | | 43,023,496 | 37,587,050 | 1,689,365 | 2,026,228 |
| Total assets | | 103,321,542 | 93,326,497 | 18,386,534 | 18,200,471 |
| Equity and liabilities | | | | | |
| Stated capital | 23 | 1,575,000 | 1,575,000 | 1,575,000 | 1,575,000 |
| Employee share trust loan | 23 | - | (148,558) | - | (148,558) |
| Capital reserves | | 1,102,676 | 1,303,980 | 13,226 | 13,226 |
| Other components of equity | | 11,576,897 | 11,573,045 | 6,314,023 | 6,314,023 |
| Revenue reserves | | 16,600,264 | 14,800,483 | 3,096,965 | 2,767,884 |
| Total equity attributable to equity holders of the Company | | 30,854,837 | 29,103,950 | 10,999,214 | 10,521,575 |
| Non-controlling interest | | 15,728,293 | 15,105,525 | - | - |
| Total equity | | 46,583,130 | 44,209,475 | 10,999,214 | 10,521,575 |

| As at 31st March | Notes | Consolidated | | Company | |
|---|-------|--------------------|-------------------|-------------------|-------------------|
| | | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Non-current liabilities | | | | | |
| Interest-bearing borrowings | 25 | 12,265,720 | 12,069,274 | 3,555,665 | 5,667,819 |
| Grants | 26 | 739,677 | 713,495 | - | - |
| Deferred tax liabilities | 27 | 1,496,269 | 1,363,237 | - | - |
| Employee benefit obligations | 28 | 5,673,028 | 4,958,643 | 521,012 | 415,617 |
| Total non-current liabilities | | 20,174,694 | 19,104,649 | 4,076,677 | 6,083,436 |
| Current liabilities | | | | | |
| Trade and other payables | 29 | 13,163,671 | 11,943,409 | 241,627 | 293,963 |
| Provisions | 29 | 22,662 | 25,479 | - | - |
| Other current liabilities | 29 | 1,817,552 | 497,790 | 10,823 | 11,650 |
| Other current financial liabilities | 19 | 553 | 15,942 | - | 15,942 |
| Amounts due to subsidiaries | 39 | - | - | 27,376 | 21,597 |
| Amounts due to equity accounted investees | 39 | - | 20,888 | - | - |
| Income tax payable | 30 | 710,414 | 515,624 | - | - |
| Current portion of long term interest-bearing borrowings | 25 | 6,235,591 | 3,686,844 | 2,987,765 | 1,214,729 |
| Short-term interest-bearing borrowings | 31 | 14,612,943 | 13,306,065 | 43,052 | 37,579 |
| Liabilities directly associated with assets classified as held for sale | 40 | 332 | 332 | - | - |
| Total current liabilities | | 36,563,718 | 30,012,373 | 3,310,643 | 1,595,460 |
| Total liabilities | | 56,738,412 | 49,117,022 | 7,387,320 | 7,678,896 |
| Total equity and liabilities | | 103,321,542 | 93,326,497 | 18,386,534 | 18,200,471 |

I certify that the Financial Statements have been prepared in compliance with the requirements of Companies Act No. 7 of 2007.



Dilhan De Silva

Group Chief Financial Officer

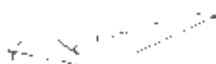
The Directors are responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board.



Mohan Pandithage

Chairman & Chief Executive



Sarath Ganegoda

Director

20th May, 2016

Notes from pages 172 to 264 form an integral part of these Financial Statements. Figures in brackets indicate deductions.

Statement of Changes in Equity

For the year ended 31st March 2016

Consolidated

| | Stated capital | Employee share trust loan | Capital reserves | |
|---|------------------|---------------------------|------------------------|-----------------------|
| | | | Reserve on scrip issue | Other capital reserve |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at 1st April 2015 | 1,575,000 | (148,558) | 816,801 | 487,179 |
| Charge relating to super gain tax (Note 24) | - | - | - | - |
| Profit for the year | - | - | - | - |
| Other comprehensive income | | | | |
| Net exchange differences on translation of foreign operations | - | - | - | - |
| Share of other comprehensive income of equity accounted investees | - | - | - | - |
| Net change in fair value of available-for-sale financial assets | - | - | - | - |
| Actuarial (loss)/ gain on employee benefit obligations | - | - | - | - |
| Income tax on other comprehensive income | - | - | - | - |
| Total other comprehensive income | - | - | - | - |
| Total comprehensive income for the year | - | - | - | - |
| Transactions with owners, recorded directly in equity | | | | |
| Dividends to equity holders | - | - | - | - |
| Unclaimed dividend-write-back | - | - | - | - |
| Recovery for the year | - | 148,558 | - | - |
| Transfers | - | - | - | 3,245 |
| Total contributions by and distributions to owners | - | 148,558 | - | 3,245 |
| Changes in ownership interests in subsidiaries | | | | |
| Acquisition of non-controlling interest with a change in control | - | - | - | - |
| Acquisition of non-controlling interest without a change in control | - | - | (204,617) | 68 |
| Total changes in ownership interests in subsidiaries | - | - | (204,617) | 68 |
| Total transactions with owners | - | 148,558 | (204,617) | 3,313 |
| Balance as at 31st March 2016 | 1,575,000 | - | 612,184 | 490,492 |

Revaluation reserve relates to the revaluation of land.

Details of the **Capital reserves** are given in Note 24 to the Financial Statements.

Foreign currency translation reserve comprises all foreign currency differences arising from the translation of the Financial Statements of foreign operations.

| Attributable to equity holders of the Company | | | | | | | | | |
|---|----------------------------|--------------------------------------|------------------|----------------|-------------------|---------------------|--------------------------|--------------|---------|
| Other components of equity | | | Revenue reserves | | | Shareholders' funds | Non-controlling interest | Total equity | |
| Revaluation reserve | Available-for-sale reserve | Foreign currency translation reserve | General reserve | Timber reserve | Retained earnings | | | | |
| Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| 10,857,027 | 10,199 | 705,819 | 2,216,088 | 63,387 | 12,521,008 | 29,103,950 | 15,105,525 | 44,209,475 | |
| - | - | - | - | - | (655,989) | (655,989) | (283,840) | (939,829) | |
| - | - | - | - | 10,258 | 2,993,655 | 3,003,913 | 2,055,828 | 5,059,741 | |
| - | - | 233,007 | - | - | - | 233,007 | 134,720 | 367,727 | |
| - | - | - | - | - | (448) | (448) | (21) | (469) | |
| - | (4,730) | - | - | - | - | (4,730) | (2,120) | (6,850) | |
| - | - | - | - | - | (297,579) | (297,579) | (80,773) | (378,352) | |
| - | - | - | - | - | 38,409 | 38,409 | 11,895 | 50,304 | |
| - | (4,730) | 233,007 | - | - | (259,618) | (31,341) | 63,700 | 32,360 | |
| - | (4,730) | 233,007 | - | 10,258 | 2,734,037 | 2,972,572 | 2,119,529 | 5,092,101 | |
| - | - | - | - | - | - | - | - | - | |
| - | - | - | - | - | (450,000) | (450,000) | (1,134,028) | (1,584,028) | |
| - | - | - | - | - | 5,867 | 5,867 | - | 5,867 | |
| - | - | - | - | - | - | 148,558 | - | 148,558 | |
| (208,858) | (3,738) | - | 14,411 | - | 194,939 | - | - | - | |
| (208,858) | (3,738) | - | 14,411 | - | (249,194) | (295,575) | (1,134,028) | (1,429,603) | |
| - | - | - | - | - | - | - | (289,510) | (289,510) | |
| (12,141) | 88 | 224 | 2,859 | (785) | (55,816) | (270,121) | 210,617 | (59,504) | |
| (12,141) | 88 | 224 | 2,859 | (785) | (55,816) | (270,121) | (78,893) | (349,014) | |
| (220,999) | (3,650) | 224 | 17,270 | (785) | (305,010) | (565,696) | (1,212,921) | (1,778,617) | |
| 10,636,028 | 1,819 | 939,050 | 2,233,358 | 72,860 | 14,294,046 | 30,854,837 | 15,728,293 | 46,583,130 | |

Available-for-sale reserve relates to change in fair value of available-for-sale financial assets.

Timber reserve relates to change in fair value of managed trees includes commercial timber plantations cultivated on estates.

Notes from pages to form an integral part of these Financial Statements. Figures in brackets indicate deductions.

Statement of Changes in Equity

For the year ended 31st March 2015

Consolidated

| | Stated capital | Employee share trust loan | Capital reserves | |
|---|-------------------|---------------------------------|---------------------------|--------------------------|
| | | | Reserve on scrip issue | Other capital reserve |
| | Rs. '000 | Rs. '000 | Rs.'000 | Rs.'000 |
| Balance as at 1st April 2014 | 1,575,000 | (488,261) | 816,773 | 612,907 |
| Profit for the year | - | - | - | - |
| Other comprehensive income | | | | |
| Net exchange differences on translation of foreign operations | - | - | - | - |
| Share of other comprehensive income of equity accounted investees | - | - | - | - |
| Net change in fair value of available-for-sale financial assets | - | - | - | - |
| Revaluation of land | - | - | - | - |
| Actuarial (loss)/ gain on employee benefit obligations | - | - | - | - |
| Income tax on other comprehensive income | - | - | - | - |
| Total other comprehensive income | - | - | - | - |
| Total comprehensive income for the year | - | - | - | - |
| Transactions with owners, recorded directly in equity | | | | |
| Dividends to equity holders | - | - | - | - |
| Recovery for the year | - | 339,703 | - | - |
| Transfers | - | - | (47,787) | 3,484 |
| Total contributions by and distributions to owners | - | 339,703 | (47,787) | 3,484 |
| Changes in ownership interests in subsidiaries | | | | |
| Acquisition of non-controlling interest with a change in control | - | - | - | - |
| Acquisition of non-controlling interest without a change in control | - | - | 47,815 | (129,212) |
| Total changes in ownership interests in subsidiaries | - | - | 47,815 | (129,212) |
| Total transactions with owners | - | 339,703 | 28 | (125,728) |
| Balance as at 31st March 2015 | 1,575,000 | (148,558) | 816,801 | 487,179 |

| Attributable to equity holders of the Company | | | | | | | | | |
|---|----------------------------|--------------------------------------|------------------|----------------|-------------------|---------------------|--------------------------|--------------|---------|
| Other components of equity | | | Revenue reserves | | | Shareholders' funds | Non-controlling interest | Total equity | |
| Revaluation reserve | Available-for-sale reserve | Foreign currency translation reserve | General reserve | Timber reserve | Retained earnings | | | | |
| Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| 8,082,601 | (4,857) | 892,166 | 2,229,519 | 50,854 | 9,956,340 | 23,723,042 | 12,614,224 | 36,337,266 | |
| - | - | - | - | 11,914 | 2,569,384 | 2,581,298 | 2,305,036 | 4,886,334 | |
| - | - | (84,751) | - | - | - | (84,751) | (72,881) | (157,632) | |
| 119,796 | 867 | - | - | - | - | 120,663 | - | 120,663 | |
| - | 14,189 | - | - | - | - | 14,189 | 6,366 | 20,555 | |
| 2,677,465 | - | - | - | - | - | 2,677,465 | 430,589 | 3,108,054 | |
| - | - | - | - | - | 6,634 | 6,634 | (13,862) | (7,228) | |
| - | - | - | - | - | 4,424 | 4,424 | 968 | 5,392 | |
| 2,797,261 | 15,056 | (84,751) | - | - | 11,058 | 2,738,624 | 351,180 | 3,089,804 | |
| 2,797,261 | 15,056 | (84,751) | - | 11,914 | 2,580,442 | 5,319,922 | 2,656,216 | 7,976,138 | |
| - | - | - | - | - | - | - | - | - | |
| - | - | - | - | - | (375,000) | (375,000) | (1,150,814) | (1,525,814) | |
| - | - | - | - | - | - | 339,703 | - | 339,703 | |
| - | - | - | (28,023) | - | 72,326 | - | - | - | |
| - | - | - | (28,023) | - | (302,674) | (35,297) | (1,150,814) | (1,186,111) | |
| - | - | - | - | - | - | - | 525,495 | 525,495 | |
| (22,835) | - | (101,596) | 14,592 | 619 | 286,900 | 96,283 | 460,404 | 556,687 | |
| (22,835) | - | (101,596) | 14,592 | 619 | 286,900 | 96,283 | 985,899 | 1,082,182 | |
| (22,835) | - | (101,596) | (13,431) | 619 | (15,774) | 60,986 | (164,915) | (103,929) | |
| 10,857,027 | 10,199 | 705,819 | 2,216,088 | 63,387 | 12,521,008 | 29,103,950 | 15,105,525 | 44,209,475 | |

Statement of Changes in Equity

| For the year ended 31st March | | | Capital reserve | Other component of equity | Revenue reserve | | |
|--|----------------|---------------------------|-----------------------|---------------------------|-----------------|-------------------|--------------|
| Company | Stated capital | Employee share trust loan | Other capital reserve | Revaluation reserve | General reserve | Retained earnings | Total equity |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at 1st April 2015 | 1,575,000 | (148,558) | 13,226 | 6,314,023 | 382,087 | 2,385,797 | 10,521,575 |
| Charge relating to super gain tax (Note 24) | - | - | - | - | - | (22,674) | (22,674) |
| Profit for the year | - | - | - | - | - | 867,763 | 867,763 |
| Other comprehensive income | | | | | | | |
| Actuarial (loss)/ gain on employee benefit obligations | - | - | - | - | - | (70,694) | (70,694) |
| Total other comprehensive income | - | - | - | - | - | (70,694) | (70,694) |
| Total comprehensive income for the year | - | - | - | - | - | 797,069 | 797,069 |
| Transactions with owners, recorded directly in equity | | | | | | | |
| Recovery for the year | - | 148,558 | - | - | - | - | 148,558 |
| Unclaim dividend - write-back | - | - | - | - | - | 4,686 | 4,686 |
| Dividends to equity holders | - | - | - | - | - | (450,000) | (450,000) |
| Total contributions by and distributions to owners | - | 148,558 | - | - | - | (445,314) | (296,756) |
| Total transactions with owners | - | 148,558 | - | - | - | (445,314) | (296,756) |
| Balance as at 31st March 2016 | 1,575,000 | - | 13,226 | 6,314,023 | 382,087 | 2,714,878 | 10,999,214 |
| Balance as at 1st April 2014 | 1,575,000 | (488,261) | 13,226 | 4,861,023 | 382,087 | 1,925,740 | 8,268,815 |
| Profit for the year | - | - | - | - | - | 754,405 | 754,405 |
| Other comprehensive income | | | | | | | - |
| Actuarial (loss)/ gain on employee benefit obligations | - | - | - | - | - | 80,652 | 80,652 |
| Revaluation of land | - | - | - | 1,453,000 | - | - | 1,453,000 |
| Total other comprehensive income | - | - | - | 1,453,000 | - | 80,652 | 1,533,652 |
| Total comprehensive income for the year | - | - | - | 1,453,000 | - | 835,057 | 2,288,057 |
| Transactions with owners, recorded directly in equity | | | | | | | |
| Dividends to equity holders | - | - | - | - | - | (375,000) | (375,000) |
| Recovery for the year | - | 339,703 | - | - | - | - | 339,703 |
| Total contributions by and distributions to owners | - | 339,703 | - | - | - | (375,000) | (35,297) |
| Total transactions with owners | - | 339,703 | - | - | - | (375,000) | (35,297) |
| Balance as at 31st March 2015 | 1,575,000 | (148,558) | 13,226 | 6,314,023 | 382,087 | 2,385,797 | 10,521,575 |

Statement of Cash Flows

| | | Consolidated | | Company | |
|--|-------|-----------------|-----------------|-----------------|-----------------|
| For the year ended 31st March | Notes | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Cash flows from operating activities | | | | | |
| Cash generated from operations (Note A) | | 10,616,083 | 10,482,201 | 1,815,004 | 1,042,650 |
| Employee benefit paid | 28 | (410,898) | (509,685) | (14,835) | (25,804) |
| Income tax paid | 30 | (1,402,217) | (1,341,151) | (21,667) | (12,005) |
| Super gain tax paid | 30 | (939,829) | - | (22,578) | - |
| Net cash inflow from operating activities | | 7,863,139 | 8,631,365 | 1,755,924 | 1,004,841 |
| Cash flows from investing activities | | | | | |
| Purchase and construction of property, plant & equipment | | (6,361,888) | (5,451,733) | (58,637) | (64,261) |
| Investments in other non-current assets | | (132,076) | (714,713) | - | - |
| Investments in other non-current financial assets | | (895,285) | - | (402,832) | - |
| Development of biological assets | 16 | (7,511) | (9,285) | - | - |
| Grants received - capital | 26 | 90,288 | 25,090 | - | - |
| Improvements to investment property | 15 | (2,488) | (2,331) | - | - |
| Proceeds from disposal of property, plant & equipment/ investment property | 14/15 | 204,198 | 344,469 | 5,312 | 1,100 |
| Proceeds from disposal of intangible assets | | 1,147 | 12,109 | - | - |
| Proceeds from disposal of current financial assets | | - | - | - | 18,426 |
| Proceeds from disposal of group companies | | - | - | - | 371,041 |
| On acquisition of right to generate hydro power/ ERP system | | (65,713) | (147,529) | - | - |
| Proceeds from the sale of equity accounted investees | 37 | 460,000 | - | - | - |
| Proceeds from sale of other current financial assets | | - | 23,741 | - | - |
| Long term investments in group companies and others | | (121) | (345) | (515,952) | (664,277) |
| Investments in equity accounted investees | | - | (7,800) | - | - |
| Acquisition through business combinations | 37 | (983,581) | (669,058) | - | - |
| Interest received | 9 | 177,793 | 155,689 | 33,077 | 22,051 |
| Dividends received from equity accounted investees | | 194,353 | 18,088 | - | - |
| Dividends received from non-group companies | 9 | 6,191 | 83,613 | 802 | 73,876 |
| Net cash used in investing activities | | (7,314,693) | (6,339,994) | (938,230) | (242,044) |
| Net cash inflow before financing | | 548,446 | 2,291,371 | 817,694 | 762,797 |

Statement of Cash Flows

| | | Consolidated | | Company | |
|---|-------|-----------------|-----------------|-----------------|-----------------|
| For the year ended 31st March | Notes | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Cash flows from financing activities | | | | | |
| Capital payment on finance lease | | (29,251) | (20,257) | - | - |
| Recovery of employee share trust loan | | 148,558 | 339,703 | 148,558 | 339,703 |
| Interest paid (including interest capitalised) | | (2,011,580) | (2,129,399) | (605,470) | (597,995) |
| Dividend paid to non-controlling interest | | (1,134,028) | (1,150,814) | - | - |
| Proceeds from non-controlling intrest on issue of right in subsidiary | | - | 215,976 | - | - |
| Proceeds from interest-bearing borrowings | 25 | 6,799,581 | 6,260,150 | 1,442,000 | 3,000,000 |
| Repayment of interest-bearing borrowings | 25 | (5,026,408) | (3,286,820) | (1,833,517) | (1,120,083) |
| Forward contract liability payment | | (15,389) | (42,711) | (12,033) | (51,067) |
| Debenture redemption | | - | (40,000) | - | - |
| Debenture issue fee | | - | (4,106) | - | (11,604) |
| Dividends paid to equity holders of parent | 13 | (450,000) | (375,000) | (450,000) | (375,000) |
| Net cash inflow / (outflow) from financing activities | | (1,718,517) | (233,279) | (1,310,462) | 1,183,954 |
| | | | | | |
| Net increase / (decrease) in cash and cash equivalents | | (1,170,071) | 2,058,092 | (492,768) | 1,946,751 |
| Cash and cash equivalents at the beginning of the year | | (7,779,741) | (9,837,833) | 548,275 | (1,398,476) |
| Cash and cash equivalents at the end of the year (Note B) | | (8,949,812) | (7,779,741) | 55,507 | 548,275 |

Notes from pages 172 to 264 form an integral part of these Financial Statements. Figures in brackets indicate deductions.

| For the year ended 31st March | Notes | Consolidated | | Company | |
|---|-------|-----------------|-----------------|-----------------|-----------------|
| | | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| A. Cash generated from operations | | | | | |
| Profit before tax | | 6,816,274 | 6,399,915 | 888,895 | 762,970 |
| Adjustments for: | | | | | |
| Net finance costs | 9 | 1,931,475 | 2,135,014 | 601,438 | 560,088 |
| Share of profits from equity accounted investees | 18 | (242,537) | (24,383) | - | - |
| Depreciation on property, plant & equipment | 14 | 2,514,125 | 2,433,786 | 35,370 | 32,624 |
| Depreciation on investment properties | 15 | 6,076 | 5,998 | - | - |
| Impairment of property, plant & equipment | 14 | 27,405 | 16,520 | - | - |
| Change in fair value of biological assets | 16 | (27,810) | (31,682) | - | - |
| (Gain)/loss on the disposal of property, plant & equipment | 7/8 | (60,577) | (25,093) | (1,489) | (60) |
| (Gain)/loss on the disposal of long term investment | | - | (1,253) | - | (23,471) |
| (Gain)/loss on the disposal of current financial assets | | - | - | - | - |
| Scrip dividend | | - | - | - | (77,465) |
| Gain on bargain purchase of subsidiary | 7 | (3,862) | - | - | - |
| Amortisation of intangible assets | 8 | 140,626 | 120,802 | - | - |
| Net gains/(loss) on translation of foreign currency | | 398,280 | (110,231) | - | - |
| Impairment of trade & other receivables | 22 | 56,646 | (40,814) | - | - |
| Provision for unrealised profit and write-down of inventories | 21 | 112,715 | (2,873) | - | - |
| Impairment of other non-current assets | 20 | 33,254 | 42,981 | - | - |
| Gain on the disposal of equity accounted investees | 7 | (107,485) | - | - | - |
| Provision for post employee benefit obligations | 28 | 645,178 | 813,861 | 49,536 | 71,513 |
| Grants amortised | 7 | (64,106) | (53,673) | - | - |
| Impairment of investments in subsidiaries | | - | - | - | 75,000 |
| | | 12,175,677 | 11,678,875 | 1,573,750 | 1,401,199 |
| (Increase)/decrease in trade and other receivables | | (538,186) | (159,467) | 283,942 | (314,511) |
| (Increase)/decrease in inventories | | (2,034,563) | (494,976) | 432 | (808) |
| Increase/(decrease) in trade and other payables | | 1,013,155 | (542,231) | (43,120) | (43,230) |
| | | 10,616,083 | 10,482,201 | 1,815,004 | 1,042,650 |
| B. Analysis of cash and cash equivalents | | | | | |
| Cash in hand and at bank | | 3,677,286* | 3,112,543* | 98,559 | 39,562 |
| Short - term deposits | | 1,985,845 | 2,413,781 | - | 546,292 |
| | | 5,663,131 | 5,526,324 | 98,559 | 585,854 |
| Short-term interest bearing borrowings | 31 | (14,612,943) | (13,306,065) | (43,052) | (37,579) |
| Cash and cash equivalents | | (8,949,812) | (7,779,741) | 55,507 | 548,275 |

* Includes discontinued operations.

Notes to the Financial Statements

1. Corporate Information

1.1 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 are given on page 288.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements of Hayleys PLC, as at and for the year ended 31st March 2016 encompasses the Company, its Subsidiaries (together referred to as the "Group") and the Group's interest in Equity Accounted Investees (Associates and Joint Ventures).

1.3 Nature of Operations and Principal Activities of the Company and the Group

Descriptions of the nature of operations and principal activities of the Company, its Subsidiaries and Equity Accounted Investees are given on page 288 and on pages 275 to 277. There were no significant changes in the nature of the principal activities of the Company and the Group during the financial year under review.

Hayleys PLC does not have an identifiable parent of its own.

1.4 Approval of Financial Statements

The Consolidated Financial Statements of Hayleys PLC and its subsidiaries (collectively, the Group) for the year ended 31st March 2016 were authorised for issue by the Directors on 20th May 2016.

1.5 Responsibility for Financial Statements

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

2. Basis of Preparation

2.1. Statement of Compliance

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

2.2 Basis of Measurement

The Consolidated Financial Statements have been prepared on the historical cost basis, except for;

- Lands which are recognized as property plant and equipment which are measured at cost at the time of the acquisition and subsequently carried at fair value
- Financial instruments reflected as fair value through profit or loss which are measured at fair value.
- Financial instruments designated as available-for-sale financial assets which are measured at fair value.
- Consumable biological assets which are measured at fair value

Where appropriate, the specific policies are explained in the succeeding notes.

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

2.3. Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees (Rs), which is the Group's functional and presentation currency. Subsidiaries whose functional currencies are different as they operate in different economic environments are reflected in Note 34.

All financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand (Rs'000), except when otherwise indicated.

2.4 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 Basis of Consolidation

Subsidiaries and Equity accounted investees are disclosed in Note 18 to the Financial Statements.

3.1 Subsidiaries

Subsidiaries are those entities controlled by the Group. Control is achieved when the Group is exposed, or rights to variable returns from its involvement with the investee and when it has the

ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has the power over an investee.

- The contractual arrangement(s) with the other vote holders of the investee.
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting right.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Financial Statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in the Statement of Profit or Loss. Any investment retained is recognised at fair value.

3.1.1 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Transaction costs, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combinations are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss recognised in Statement of Profit or Loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with LKAS 39 either in the Statement of Profit or Loss or to Other Comprehensive Income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of LKAS 39, it is measured in accordance with the appropriate SLFRS/LKAS.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to

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measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in this circumstance is measured based on the relative values of the disposed operation and the portion the cash-generating unit retained.

3.1.2 Non - controlling interests

Profit or loss and each component of Other Comprehensive Income are attributed to equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

3.1.3 Equity accounted investees (Investment in associates and joint ventures)

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The Statement of Profit or Loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in Other Comprehensive Income of those investees is presented as part of the Group's Other Comprehensive Income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the Statement of Changes in Equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the Statement of Profit or Loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The Financial Statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of profit/ (loss) of an associate and a joint venture' in the Statement of Profit or Loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the Statement of Profit or Loss.

3.1.4 Transactions eliminated on consolidation

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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.

3.1.5 Foreign currency

3.1.5.1 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 transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Foreign currency differences arising on retranslation are recognised in the Statement of Profit or Loss. All differences arising on settlement or translation of monetary items are taken to Statement of Profit or 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 initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in Other Comprehensive Income or Statement of Profit or Loss.

3.1.5.2 Foreign operations

The results and financial position of all Group entities that have a functional currency other than the Sri Lankan Rupee are translated into Sri Lankan Rupees as follows:

- assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on the acquisition are translated to Sri Lankan Rupees at the exchange rate prevailing at the reporting date;
- Income and expenses are translated at the average exchange rates for the period.

The exchange differences arising on translation for Consolidation are recognised in Other Comprehensive Income. When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to the Statement of Profit or Loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to the Statement of Profit or Loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation.

3.1.6 Consolidation of subsidiaries with different accounting periods

The Financial Statements of all subsidiaries in the Group other than those mentioned in Note 36 to the Financial Statements are prepared for a common financial year, which ends on 31st March.

The subsidiaries with 31st December financial year ends prepare for Consolidation purpose, additional financial information as of the same date as the Financial Statements of the parent.

The subsidiaries which are unable to prepare additional financial information then the parent uses the most recent Financial Statements of the subsidiaries and it's adjusted for the effects of significant transactions or events that occur between the date of those Financial Statements and the date of the Consolidated Financial Statements. The difference between the date of the subsidiary's Financial Statements and that of the Consolidated Financial Statements will not be more than three months.

3.1.7 Current versus non-current classification

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

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

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All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

3.1.8 Fair value measurement

The Group measures financial instruments such as derivatives, and non-financial assets such as owner occupied land, at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions Note 19
- Quantitative disclosures of fair value measurement hierarchy Note 19
- Property (land) under revaluation model Note 14
- Financial instruments (including those carried at amortised cost) Note 19

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

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

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

3.2 Assets and Bases of Their Valuation

3.2.1 Property, plant & equipment

The group applies the requirements of LKAS 16 on 'Property Plant and Equipment' in accounting for its owned assets which are held

for and use in the provision of the services or for administration purpose and are expected to be used for more than one year.

3.2.1.1 Basis of recognition

Property, plant and equipment is recognised if it is probable that future economic benefit associated with the assets will flow to the Group and cost of the asset can be reliably measured.

3.2.1.2 Basis of measurement

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

3.2.1.3 Owned assets

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

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

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

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

3.2.1.4 Subsequent costs

The cost of replacing a component of an item of property, plant & equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the 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 repair and maintenance of property, plant & equipment are recognised in the Statement of Profit or Loss as incurred.

3.2.1.5 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. Any gains and losses on derecognition are recognised (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) in the Statement of Profit or Loss. Gains are not classified as revenue.

3.2.1.6 Depreciation

Depreciation is recognised in the Statement of Profit or Loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant & equipment, in reflecting the expected pattern of consumption of the future economic benefits embodied in the asset.

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 – 10 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. The asset's residual values, useful lives are reviewed, and adjusted if appropriate, at each financial year end and adjusted prospectively, if appropriate.

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3.2.1.7 Leased assets

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

3.2.1.8 Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a Finance Lease,

Finance leases are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the Statement of Profit or Loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognised as an operating expense in the Statement of Profit or Loss on a straight-line basis over the lease term.

3.2.1.9 Group as a lessor for operating leases

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.2.2 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 and accumulated impairment losses, if any. 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.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the Statement of Profit or Loss in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. Transfers between investment property, owner-occupied property do not change the carrying amount of the property transferred. Land, if transferred from owned property to investment property is transferred at the carrying value, which would be the deemed cost for subsequent accounting purposes.

3.2.3 Intangible assets

3.2.3.1 Basis of recognition

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

3.2.3.2 Basis of measurement

Intangible assets acquired separately are measured on initial recognition at cost. The costs of intangible assets acquired in a business combination are their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the Statement of Profit or Loss in the year in which the expenditure is incurred.

3.2.3.3 Useful economic lives and amortisation

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

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

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

3.2.3.4 De-recognition of intangible assets

Intangible assets are de-recognised on disposal or when no future economic benefits are expected from its use. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Statement of Profit or Loss when the asset is derecognised.

3.2.3.5 Leasehold rights

In respect of operating leases acquired under a business combination where the Group is 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.

3.2.3.6 Research and development

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale

- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually if there are indicators of impairment.

3.2.3.7 Brand name

Brands acquired as part of a business combination, are capitalized as part of a Brand Names if the Brand meets the definition of an intangible asset and the recognition criteria are satisfied. Brand Names, being determined to have an indefinite useful life, are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

3.2.3.8 Customer list

The present value of the income anticipated deriving from repeat customer lists of travel agents as at the acquisition date is recognised as an intangible asset based on a valuation carried out by an independent valuer. Subsequent to initial recognition, the intangible asset is carried at cost less accumulated amortisation and accumulated impairment losses. Customer list recognised at the acquisition date will be amortised over the period over which income is anticipated to derive from repeat customers and reviewed annually for any impairment in value if there are indicators of impairment.

3.2.3.9 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.

3.2.3.10 Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which

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it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit and loss as incurred.

3.2.3.11 Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and brand name, 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- 20 years |
| • Customer List - | 5 years |
| • ERP Systems - | 5-10 years |
| • Operating Lease - The Kingsbury PLC - | 55 years |
| Amaya Leisure PLC - | 21 years |

3.3 Financial instruments

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

3.3.1 Financial assets

3.3.1.1 Initial recognition and measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, amounts due from subsidiaries, amounts due from equity accounted investees, quoted and unquoted financial instruments and derivative financial instruments.

3.3.1.2 Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories;

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by LKAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in finance income or finance costs in the Statement of Profit or Loss.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under LKAS 39 are satisfied.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the Statement of Profit or Loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the Statement of Profit or Loss. The losses arising from impairment are recognised in the Statement of Profit or Loss in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate, less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the Statement of Profit or Loss. The losses arising from impairment are recognised in the Statement of Profit or Loss in finance costs.

Available-for-sale financial assets

Available-for-sale financial assets include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and

that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the Statement of Profit or Loss in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold these assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to the Statement of Profit or Loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the Statement of Profit or Loss.

3.3.1.3 Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired

Or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group

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has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3.3.1.4 Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that have occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.3.1.4.1 Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether

significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Profit or Loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the Statement of Profit or Loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the Statement of Profit or Loss.

3.3.1.4.2 Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment

loss on that investment previously recognised in the Statement of Profit or Loss – is removed from Other Comprehensive Income and recognised in the Statement of Profit or Loss. Impairment losses on equity investments are not reversed through the Statement of Profit or Loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates among other factors, the duration or extent to which the fair value of the investment is less than its cost.

3.3.2 Financial liabilities

3.3.2.1 Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, amounts due to equity accounted investees and derivative financial instruments.

3.3.2.2 Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by LKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the Statement of Profit or Loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss so designated at the initial date of recognition, and only if criteria of LKAS 39 are satisfied. The group has not designated any financial liability at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the Statement of Profit or Loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

3.3.2.3 Derecognition

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

3.3.3 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if:

Notes to the Financial Statements

- There is a currently enforceable legal right to offset the recognised amounts And
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

3.3.4 Derivative financial instruments

3.3.4.1 Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the Statement of Profit or Loss.

3.3.5 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 19 to the Financial Statements.

3.3.6 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 through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the

assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3.3.7 Inventories

Inventories are measured at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- All inventory items, except manufactured inventories and work-in-progress are measured at weighted average directly attributable cost.
- Manufactured inventories and work-in-progress are measured at weighted average factory cost which includes all direct expenditure and appropriate share of production overhead based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business less, the estimated cost of completion and the estimated costs necessary to make the sale.

3.3.8 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the 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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to Other Comprehensive Income. For such properties, the impairment is recognised in Other Comprehensive Income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 31 March and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is

less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 March at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Formers - Provision for impairment

In respect of formers, a 10% provision on the written down value is recognized as impairment in Statement of Profit or Loss.

3.3.9 Cash and cash equivalents

Cash in hand and at bank and short-term deposits in the Statement of Financial Position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts and short term borrowings as they are considered an integral part of the Group's cash management.

3.4 Liabilities and Provisions

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 Provident and Trust Funds covering all employees are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

The 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 LKAS 19 – "Employee benefits".

Notes to the Financial Statements

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 28. Any changes in these assumptions will impact the carrying amount of defined benefit obligations.

Provision has been made for retirement gratuities from the beginning of service for all employees, in conformity with LKAS 19 on employee benefit. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded. This liability is computed on the following basis:

| Length of each service (Years) | No. of month's salary for completed year of service |
|--------------------------------|---|
| Up to 20 | 1/2 |
| 20 up to 25 | 3/4 |
| 25 up to 30 | 1 |
| 30 up to 35 | 1 1/4 |
| Over 35 | 1 ½ |

3.4.2 Recognition of actuarial gains or losses

Actuarial gains or losses are recognised in full in the Other Comprehensive Income.

3.4.3 Short-term benefits

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

3.4.4 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the

Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3.4.5 Warranties

Provisions for warranty-related costs are recognised when the product is sold or service provided to the customer. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

3.4.6 Capital commitments and contingencies

Capital commitments and contingent liabilities of the Group are disclosed in the Note 32 to the Financial Statements.

3.4.7 Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

3.5 Statement of Profit or Loss

For the purpose of presentation of the Statement of Profit or Loss, the function of expenses method is adopted.

3.5.1 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

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.

Rendering of services

Revenue from services rendered is recognised in profit and loss in proportion to the stage of completion of the transaction at the reporting date.

Hospitality revenue

Room revenue generated by the hospitality sector is recognised on the rooms occupied on a daily basis. Food and beverage revenue is recognised at the time of related sale.

Rental income

Rental income is recognised in profit and loss as it accrues.

Dividend

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.

Commission

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the commission earned by the Group.

Grants

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

Gains and losses on disposal of an item of property, plant & equipment are determined by comparing the net sales proceeds with the carrying amounts of property, plant & equipment and are recognised net within "other income" in the Statement of Profit or Loss.

Other income

Other income is recognized on an accrual basis.

3.5.2 Expenses

Expenses are recognized in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earnings of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

Repairs and renewals are charged to profit and loss in the year in which the expenditure is incurred.

3.5.2.1 Operating leases

Payments made under operating leases are recognised in profit and loss on a straight-line basis over the term of the lease.

3.5.2.2 Borrowing costs

Borrowing costs are recognized 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.

3.5.2.3 Finance income and finance cost

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in the Statement of Profit or Loss. Interest income is recognised as it accrues in the Statement of Profit or Loss.

Finance cost comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognised in the Statement of Profit or Loss.

Notes to the Financial Statements

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.

Foreign currency gains and losses are reported on a net basis.

3.5.3 Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the Statement of Profit or Loss except to the extent that it relates to a business combination, or items recognised directly in Equity or in Other Comprehensive Income.

3.5.3.1 Current tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current tax relating to items recognised directly in Other Comprehensive Income is recognised in Other Comprehensive Income and not in the Statement of Profit or Loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

3.5.3.2 Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, equity accounted investee and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, equity accounted investee and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside the Statement of Profit or Loss is recognised outside the Statement of Profit or Loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or in the Statement of Profit or Loss.

Tax on dividend income from subsidiaries is recognised as an expense in the Consolidated Statement of Profit or Loss at the same time as the liability to pay the related dividend is recognised.

3.5.3.3 Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- Receivables and payables that are stated with the amount of sales tax. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

4. General

4.1 Events Occurring After the Reporting Date

All material post reporting date events have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the Financial Statements.

4.2 Earnings Per Share

The 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.

4.3 Standards Issued but not yet Effective

SLFRS 9 – Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Pending the completion of the detailed impact analysis, possible Impact from SLFRS 9 and SLFRS 15 is not reasonably estimable as of the reporting date.

The following amendments and improvements are not expected to have a significant impact on the Company's/ Group's Financial Statements.

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to LKAS 16 and LKAS 38)
- Equity Method in Separate Financial Statements (Amendments to LKAS 27)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SLFRS 10 and LKAS 28)
- Annual Improvements to SLFRSs 2012–2014 Cycle – various standards

Notes to the Financial Statements

- Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28)
- Disclosure Initiative (Amendments to LKAS 1)

4.4 Plantations

The plantation companies in the Group adopt certain accounting policies, which differ from that of the rest 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 LKAS 41 Agriculture and the CA Sri Lanka ruling on bearer biological assets.

Those accounting policies that significantly vary from the rest of the Group are given below.

4.4.1 Property, plant & equipment

4.4.1.1 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 Statement of Profit or Loss in full or reduced to the net carrying amounts of such assets in the year of occurrence after ascertaining the loss.

4.4.1.2 Biological asset

Biological assets are classified as either mature biological assets or immature biological assets. Mature biological assets are those that have attained harvestable specifications or are able to sustain regular harvests. Immature biological assets are those that have not yet attained harvestable specifications. Tea, rubber, other plantations and nurseries are classified as biological assets.

Biological assets are further classified as bearer biological assets and consumable biological assets. Bearer biological asset includes tea and rubber trees, those that are not intended to be sold or harvested, however used to grow for harvesting agricultural produce from such biological assets. Consumable biological assets includes managed timber trees those that are to be harvested as agricultural produce or sold as biological assets.

The main variables in DCF model concerns

| Variable | Comment |
|----------------------|--|
| Currency valuation | Rs. |
| Timber content | Estimate based on physical verification of girth, height and considering the growth of the each spice in different geographical regions. Factor all the prevailing statutory regulations enforced against harvesting of timber coupled with forestry plan of the Group |
| Economic useful life | Estimated based on the normal life span of each species by factoring the forestry plan of the Group |
| Selling price | Estimated based on prevailing Sri Lankan market price. Factor all the conditions to be fulfilled in bringing the trees in to saleable condition |
| Planting cost | Estimated costs for the further development of immature areas are deducted. |
| Discount Rate | Future cash flows are discounted at following discount rates: Timber trees 17.5% |

The entity recognize the biological assets when, and only when, the entity controls the assets as a result of past event, it is probable that future economic benefits associated with the assets will flow to the entity and the fair value or cost of the assets can be measured reliably.

The bearer biological assets are measured at cost less accumulated depreciation and accumulated impairment losses, if any, in terms of LKAS 16 – Property Plant & Equipment as per the ruling issued by CA Sri Lanka.

The managed timber trees are measured on initial recognition and at the end of each reporting period at its fair value less cost to sell in terms of LKAS 41. The cost is treated as approximation to fair value of young plants as the impact on biological transformation of such plants to price during this period is immaterial. The fair value of timber trees are measured using DCF method taking in to consideration the current market prices of timber, applied to expected timber content of a tree at the maturity by an independent professional valuer. All

other assumptions and sensitivity analysis are given in Note 16 to the Financial Statements.

The gain or loss arising on initial recognition of biological assets at fair value less cost to sell and from a change in fair value less cost to sell of biological assets are included in the Statement of Profit or Loss for the period in which it arises.

4.4.1.3 Immature and mature plantations

The cost of land preparation, rehabilitation, new planting, replanting, crop diversification, interplanting and fertilising, etc., incurred between the time of planting and harvesting (when the planted area attains maturity), are classified as immature plantations. These immature plantations are shown at direct costs plus attributable overheads, including interest attributable to long-term loans used for financing immature plantations. The expenditure incurred on bearer biological assets (Tea, Rubber, Timber fields) which comes into bearing during the year, is transferred to mature plantations. Expenditure incurred on consumable biological assets are recorded at cost at initial recognition and thereafter at fair value at the end of each reporting period.

Permanent impairments to Biological Assets are charged to the Statement of Profit or Loss in full and reduced to the net carrying amounts of such asset in the year of occurrence after ascertaining the loss.

4.4.1.4 Infilling cost on consumable biological assets

The land development costs incurred in the form of infilling have been capitalised to the relevant mature field, only where the number of plants per hectare exceeded 3,000 plants and, also if it increases the expected future benefits from that field, beyond its pre-infilling performance assessment. Infilling costs so capitalised are depreciated over the newly assessed remaining useful economic life of the relevant mature plantation, or the unexpired lease period, whichever is lower.

Infilling costs that are not capitalised have been charged to the Statement of Profit or Loss in the year in which they are incurred.

4.4.1.5 Depreciation

Depreciation is recognized in the Statement of Profit or Loss on a straight line basis over the estimated useful lives of each item of

property, plant and equipment as follows,

| Description | Years |
|--|-------|
| Mature plantations - Tea | 33 |
| - Rubber | 20 |
| Sanitation, water & 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.

4.4.1.6 Leased assets

The leasehold rights of assets taken over from JEDB/SLSPC are amortised in equal 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 (Tea & rubber) | 30 |
| Buildings | 25 |
| Machinery | 20 |

4.4.2 Borrowing costs

Borrowing costs incurred in respect 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.

4.4.3 Inventories

4.4.3.1 Finish good manufactured from agricultural produce of biological assets

These 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.

Notes to the Financial Statements

4.4.3.2 Input material, spares and consumables

At actual cost on weighted average basis.

4.4.3.3 Agricultural produce harvested from biological assets

Agricultural produce harvested from its biological assets are measured at their fair value less cost to sell at the point of harvest. The finished and semi-finished inventories from agriculture produce are valued by adding the cost of conversion to the fair value of the agricultural produce.

4.4.4 Grants and subsidies

Grants and subsidies are recognised at their fair value where there is a reasonable assurance 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 at arriving at the carrying value of the asset (or are deferred in the Statement Financial Position and credited to the Statement of Profit or Loss over the useful life of the asset).

4.5 Statement of Cash Flows

The Statement of Cash Flows has been prepared using the “indirect method”.

Interest paid is classified as an financing cash flow. Grants received, which are related to purchase and construction of property, plant & equipment are classified as investing cash flows. Dividend and interest income 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.

4.6 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Chairman to make decisions about resources to be allocated

to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Chairman 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 and equipment, and intangible assets other than goodwill.

5 Critical Accounting Estimates and Judgements

The preparation of Financial Statements in conformity with SLFRS/LKAS's requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgements and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence actual experience and results may differ from these judgements and estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period and any future periods.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes.

5.1 Going Concern

The Directors have made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

5.2 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 17 to the Financial Statements.

5.3 Taxation

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

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

5.4 Measurement of the Employee Benefit Obligations

The present value of the employee 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 28 to the Financial Statements. Any changes in these assumptions will impact the carrying amount of employee benefit obligations.

5.5 Impairment of property, plant and 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. Further details are disclosed in Note 14 and 17 to the Financial Statements.

5.6 Revaluation of Land

The Group measures lands which are recognised as property, plant & equipment at revalued amount with change in value being recognised in the Statement of Other comprehensive income. The valuer has used valuation techniques such as open market value. Further details on Revaluation of land are disclosed in Note 14 to the Financial Statements.

5.7 FairValuation of Biological Assets

The group measures consumable Biological Assets at fair value with changes in value being recognised in the statement of income. Fair valuation involves assumptions which are given in page 210. Such estimations are subject to significant uncertainties.

5.8 Consolidation of Entities with the Group Holds 50% of the Voting Rights

Group holds 50% of the issued share capital of Carbokarn Co Ltd.,(CK) Thailand which in turn is the Parent Company of two fully-owned subsidiaries; CK Regenco Systems Ltd. and Shizuka Co. Ltd. Although the Group holds 50% of the issued capital of CK, it is considered as a subsidiary for financial reporting after due consideration of the agreements with partners and the current operating arrangement.

Notes to the Financial Statements

6. Revenue

6.1 Industry Segment Revenue

| For the year ended 31st March | Consolidated | | | | | |
|-------------------------------|--------------------------|----------------------------------|----------------------------------|--------------------------|----------------------------------|----------------------------------|
| | Sale of goods Rs.'000 | Rendering of services Rs.'000 | Total revenue 2016 Rs.'000 | Sale of goods Rs.'000 | Rendering of services Rs.'000 | Total revenue 2015 Rs.'000 |
| Eco solutions | 3,791,081 | - | 3,791,081 | 4,418,594 | - | 4,418,594 |
| Hand protection | 12,725,304 | - | 12,725,304 | 14,970,312 | - | 14,970,312 |
| Purification products | 11,705,824 | - | 11,705,824 | 11,933,849 | - | 11,933,849 |
| Textiles | 8,364,207 | - | 8,364,207 | 8,542,539 | - | 8,542,539 |
| Construction materials | 3,944,150 | - | 3,944,150 | 3,307,181 | - | 3,307,181 |
| Agriculture | 11,023,145 | - | 11,023,145 | 8,423,938 | - | 8,423,938 |
| Plantations | 9,095,537 | - | 9,095,537 | 12,678,649 | - | 12,678,649 |
| Transportation & logistics | - | 15,812,275 | 15,812,275 | - | 14,181,330 | 14,181,330 |
| Leisure | - | 4,501,214 | 4,501,214 | - | 3,967,663 | 3,967,663 |
| Consumer products | 5,718,155 | - | 5,718,155 | 5,184,704 | - | 5,184,704 |
| Power & energy | 935,278 | - | 935,278 | 988,034 | - | 988,034 |
| Industry inputs | 2,701,321 | - | 2,701,321 | 2,257,496 | - | 2,257,496 |
| Others | 282,676 | 1,674,516 | 1,957,192 | 69,975 | 1,637,601 | 1,707,576 |
| | 70,286,678 | 21,988,005 | 92,274,683 | 72,775,271 | 19,786,594 | 92,561,865 |

6.2 Geographical Segment Revenue

| For the year ended 31st March | Consolidated | |
|-------------------------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 |
| Asia (excluding Sri Lanka) | 14,065,386 | 11,990,424 |
| Australia | 1,757,596 | 1,902,381 |
| Europe | 13,163,681 | 13,557,112 |
| United States of America | 5,457,405 | 8,270,397 |
| Africa | 1,803,911 | 1,386,209 |
| Indirect exports | 14,027,117 | 16,083,665 |
| Sri Lanka | 41,999,587 | 39,371,677 |
| | 92,274,683 | 92,561,865 |

6.3 Gross Revenue

| For the year ended 31st March | Company | |
|----------------------------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 |
| Rent and building related income | 330,083 | 284,949 |
| | 330,083 | 284,949 |

7. Other Income

| For the year ended 31st March | Consolidated | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Grants amortised* | 64,106 | 53,673 | - | - |
| Gain on disposal of property, plant & equipment | 70,860 | 33,852 | 1,489 | 60 |
| Change in fair value of biological assets | 27,810 | 31,682 | - | - |
| Gain on disposal of long-term investment | - | - | - | 23,471 |
| Gain on disposal of equity accounted investees | 107,485 | - | - | - |
| Gain on disposal of current financial assets | - | 1,253 | - | 917 |
| Sundry income/scrap sales | 276,564 | 306,707 | - | - |
| Rent income | 43,043 | 54,470 | - | - |
| Gain on bargain purchases | 3,862 | - | - | - |
| Indent commission | 96,226 | 56,113 | - | - |
| | 689,956 | 537,750 | 1,489 | 24,448 |

* Details of the grants are given in Note 26 to the Financial Statements.

8. Other Expenses

| For the year ended 31st March | Consolidated | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Loss on disposal of property, plant & equipment | 10,283 | 8,759 | - | 578 |
| Impairment of property, plant & equipment | 27,405 | 16,520 | - | - |
| Impairment of investment in subsidiary | - | - | - | 75,000 |
| Amortisation of intangible assets | 140,626 | 120,802 | - | - |
| | 178,314 | 146,081 | - | 75,578 |

9. Net Finance Cost

| For the year ended 31st March | Consolidated | | Company | |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |

9.1 Finance Income

| | | | | |
|---|----------------|----------------|---------------|----------------|
| Interest income on loans and receivables | 46,823 | 32,662 | 12,625 | 20,759 |
| Interest income on bank deposits | 130,970 | 123,027 | 20,548 | 1,435 |
| Guarantee income | - | - | 254 | 495 |
| Dividend income on available-for-sale financial assets | 6,191 | 83,613 | 802 | 73,876 |
| Net change in fair value of financial assets at fair value through profit or loss | 3,053 | 10,608 | - | 7,890 |
| Foreign exchange gain | 656,729 | 202,422 | 37,178 | - |
| Total finance income | 843,766 | 452,332 | 71,407 | 104,455 |

Notes to the Financial Statements

| For the year ended 31st March | Consolidated | | Company | |
|---|--------------------|--------------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| 9.2 Finance cost | | | | |
| Interest on long term loans | (1,080,929) | (1,054,987) | (611,104) | (474,250) |
| Interest on short term loans | (857,449) | (986,402) | (10,464) | (137,580) |
| Finance charges payable under finance leases | (89,300) | (94,347) | - | - |
| Net change in fair value of financial assets at fair value through profit or loss | (7,758) | (2,488) | (1,275) | (1,118) |
| Impairment of financial assets | (12,470) | (12,470) | (12,470) | (12,470) |
| Foreign exchange loss | (727,335) | (436,652) | (37,532) | (39,125) |
| Total finance cost | (2,775,241) | (2,587,346) | (672,845) | (664,543) |
| Net finance cost | (1,931,475) | (2,135,014) | (601,438) | (560,088) |

10 Profit Before Tax

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

| For the year ended 31st March | Notes | Consolidated | | Company | |
|---|-------|--------------|------------|---------|---------|
| | | 2016 | 2015 | 2016 | 2015 |
| | | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| Directors' emoluments | | 795,680 | 676,484 | 219,117 | 187,200 |
| Auditors' fees (includes overseas subsidiaries) | | | | | |
| Audit services | | | | | |
| - Ernst & Young | | 43,792 | 41,261 | 1,705 | 1,636 |
| - Other auditors | | 12,393 | 16,534 | - | - |
| Non audit services | | | | | |
| - Ernst & Young | | 16,826 | 18,020 | 706 | 578 |
| - Other auditors | | 5,550 | 8,135 | - | - |
| Depreciation on property, plant & equipment | 14 | 2,514,125 | 2,433,786 | 35,370 | 32,624 |
| Donations | | 17,884 | 16,418 | 551 | 310 |
| Impairment/ (reversal) for bad trade and other receivables | 22 | 56,646 | (40,814) | - | - |
| Provision/ (reversal) for unrealised profit and write-down of inventories | 21 | 112,715 | (2,873) | - | - |
| Staff cost | | | | | |
| - Defined contribution plan cost | | 1,207,864 | 1,220,244 | 68,061 | 58,862 |
| - Employee benefit cost | 28 | 645,178 | 813,859 | 49,536 | 71,513 |
| - Other staff cost (excluding defined contributions & defined benefits) | | 11,542,489 | 11,983,991 | 648,800 | 566,404 |
| Staff training and development cost | | 56,440 | 49,952 | 12,813 | 8,041 |
| Legal fees | | 79,978 | 38,105 | - | - |
| Operating leases | | 349,548 | 317,906 | - | - |
| Research and development cost | | 49,289 | 45,143 | - | - |

11 Taxation

11.1 Tax Expense

| For the year ended 31st March | Consolidated | |
|--|------------------|------------------|
| | 2016 Rs.'000 | 2015 Rs.'000 |
| Consolidated Statement of Profit or Loss | | |
| Current income tax | | |
| Income tax on current year profits | | |
| Parent | 3,672 | 4,094 |
| Subsidiaries | 1,315,747 | 1,064,244 |
| | 1,319,419 | 1,068,338 |
| Under provision in respect of previous years | 59,075 | 80,396 |
| Irrecoverable ESC | 4,410 | 406 |
| Deferred tax expense | | |
| Origination of temporary differences | | |
| Parent | - | - |
| Subsidiaries | 142,342 | 93,555 |
| | 142,342 | 93,555 |
| Tax on dividend income | 231,287 | 270,885 |
| Tax expense reported in the Statement of Profit or Loss | 1,756,533 | 1,513,581 |

11.2 Consolidated Statement of Other Comprehensive Income

| For the year ended 31st March | Consolidated | |
|--|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 |
| Deferred tax related to items credited directly to other comprehensive income during the year : | | |
| Actuarial losses on defined benefit plans | (50,304) | (5,392) |
| Income tax credited directly to other comprehensive income | (50,304) | (5,392) |

Notes to the Financial Statements

11.3 Reconciliation of Accounting Profit to Income Tax Expense

| For the year ended 31st March | Consolidated | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Profit before tax | 6,816,274 | 6,399,915 | 888,895 | 762,970 |
| Share of profit of equity accounted investees | (242,537) | (24,383) | - | - |
| Intra-group adjustments | 2,934,282 | 2,170,844 | - | - |
| | 9,508,019 | 8,546,376 | 888,895 | 762,970 |
| Disallowable expenses | 3,965,556 | 3,991,676 | 352,998 | 259,396 |
| Tax deductible expenses | (5,040,117) | (3,958,325) | (104,506) | (81,607) |
| Tax exempt income | (3,705,460) | (2,922,140) | (1,501,645) | (1,437,103) |
| Tax loss b/f | (6,565,902) | (5,500,565) | (2,804,742) | (2,658,425) |
| Adjustment for tax loss b/f | 170,137 | 214,163 | 1,966,623 | 364,648 |
| Tax loss c/f | 6,447,485 | 6,565,902 | 1,215,490 | 2,804,742 |
| Taxable income | 4,779,718 | 6,937,086 | 13,113 | 14,621 |
| Income tax @ 28% | 728,065 | 509,836 | 3,672 | 4,094 |
| Income tax @ 15% | 86,231 | 47,182 | - | - |
| Income tax @ 12% | 126,001 | 172,680 | - | - |
| Income tax at other tax rates | 379,122 | 338,640 | - | - |
| Income tax on current year profit | 1,319,419 | 1,068,338 | 3,672 | 4,094 |
| Under provision in respect of previous years | 59,075 | 80,396 | 17,460 | 4,471 |
| Irrecoverable ESC | 4,410 | 406 | - | - |
| | 1,382,904 | 1,149,140 | 21,132 | 8,565 |
| Origination of temporary differences | 142,342 | 93,555 | - | - |
| Tax on dividend income | 231,287 | 270,885 | - | - |
| Tax expense | 1,756,533 | 1,513,581 | 21,132 | 8,565 |
| Effective tax rate (%) | 27% | 24% | 2% | 1% |

11.4 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 Statement of Profit or Loss.

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 year of assessment 2015/16 (Y/A 2014/15 - 28 %)

11.5 Tax Exemptions

11.5.1 In terms of the Inland Revenue Act

- Ultracarb Pvt Ltd is entitled for a 6 years income tax holiday. The tax holiday period has commenced during the Y/A 2013/14.
- Haycarb Value Added Products (Pvt) Ltd is entitled for a 6 year income tax holiday. The tax holiday has commenced during the Y/A 2013/14.
- Hayleys Aquagri (Pvt) Ltd is entitled for a 4 year income tax holiday. The tax holiday has commenced during Y/A 2014/15.
- DPL Premier Gloves Ltd and DPL Universal Ltd are in the finalising stage of the relevant tax exemptions
- Profits of Civaro International Ltd is exempted in terms of section 13(ddd) of the Inland Revenue Act No.10 of 2006.
- Foreign dividends received are exempt from income tax in terms of the Inland Revenue Act.

11.5.2 In terms of BOI Agreements

Companies enjoying Tax Holidays under BOI Law are as follows;

| | |
|---|---|
| TTEL Somerset Hydro Power (Pvt) Ltd. | 5 year tax holiday ended 22nd Sept, 2015 (After expiry of tax holiday, income tax rate of 10% will be applicable) |
| TTEL Hydro Power Company (Pvt) Ltd. | 5 year tax holiday ended 16th Oct, 2015 (After expiry of tax holiday income tax rate of 10% will be applicable) |
| Hayleys Business Solutions International (Pvt) Ltd. | 5 year tax holiday ending March 31, 2017 |
| Hayleys Agro Biotech (Pvt) Ltd. | 8 year tax holiday ending March 31, 2018 |
| Nirmalapura Wind Power (Pvt) Ltd. | 6 year tax holiday ending March 31, 2019 |
| Sun Tan Beach Resorts Ltd. | 15 year tax holiday ending March 31, 2027 |

11.5.3 Exemptions outside Sri Lanka

| | |
|-----------------|---|
| Shizuka Co.Ltd. | 8 year tax holiday commenced during Y/A 2011/12 |
|-----------------|---|

11.6 Concessionary Tax Rates

11.6.1 In terms of the Inland Revenue Act

In terms of Sections, 46, 48A, 51, 56, 56B, 59 and 59E of the Inland Revenue Act No 10 of 2006 as amended, the profits of companies listed below enjoy a concessionary tax rate of income tax

| | |
|--------------------------------------|--|
| Kelani Valley Plantations PLC | Profits from agriculture |
| Talawakelle Tea Estates PLC | Profits from agriculture |
| Sunfrost (Pvt) Ltd. | Profits from agriculture |
| HJS Condiments Ltd. | Profits from agriculture |
| Hayleys Agro Farms (Pvt) Ltd. | Profits from agriculture |
| Haycarb PLC | Profits from qualifying exports |
| Haycolour (Pvt) Ltd. | Profits from qualifying exports |
| Mabroc Teas (Pvt) Ltd. | Profits from qualifying exports and agriculture |
| Meridian Exports (Pvt) Ltd. | Profits from qualifying exports and agriculture |
| Blue Mountain Tea Exports (Pvt) Ltd. | Profits from qualifying exports and agriculture |
| Hayleys Fabric PLC | Profits from qualifying exports & indirect exports |
| Hayleys Fiber PLC | Profits from qualifying exports & indirect exports |

Notes to the Financial Statements

| | |
|--|--|
| Creative Polymats (Pvt) Ltd. | Profits from qualifying exports & indirect exports |
| Ravi Industries Ltd. | Profits from qualifying exports & indirect exports |
| Rileys (Pvt) Ltd. | Profits from qualifying exports & indirect exports |
| Haymat (Pvt) Ltd. | Profits from qualifying exports & indirect exports |
| Toyo Cushion Lanka (Pvt) Ltd. | Profits from qualifying exports & indirect exports |
| Chas P Hayley & Co (Pvt) Ltd. | Profits from qualifying exports & indirect exports |
| Logiventures (Pvt) Ltd. | Profits from qualifying exports |
| Puritas (Pvt) Ltd. | Profits from qualifying exports |
| 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 |
| Lanka Orient Express Lines Ltd. | Profits from transshipment and services to foreign ships |
| Cosco Lanka (Pvt) Ltd. | Profits from transshipment and services to foreign ships |
| Clarion Shipping (Pvt) Ltd. | Profits from transshipment and services to foreign ships |
| N.Y.K Line Lanka Pvt Ltd. | Profits from transshipment and services to foreign ships |
| The Kingsbury PLC | Profits from promotion of tourism |
| Hunas Falls Hotels PLC | Profits from promotion of tourism |
| Culture Club Resorts (Pvt) Ltd. | Profits from promotion of tourism |
| Bhagya Hydro (Pvt) Ltd. | Profits from operating project for alternative energy |
| Kalupahana Power Company (Pvt) Ltd. | Profits from operating project for alternative energy |

11.6.2 BOI Companies

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 below:

| | |
|---------------------------------------|--|
| Kandyan Resorts (Pvt) Ltd. | 02% on turnover for 15 years up to Y/A 2026/27 |
| Texnil (Pvt) Ltd. | 12% for 10 years up to Y/A 2022/23 |
| Hanwella Rubber Products Ltd. | 12% for 10 years up to Y/A 2020/2021 |
| Grossart (Pvt) Ltd. | 12% for 10 years up to Y/A 2019/2020 |
| Dipped Products PLC | 12% for 10 years up to Y/A 2018/2019 |
| Neoprex (Pvt) Ltd. | 12% for 10 years up to Y/A 2017/2018 |
| Neluwa Cascade Hydro Power (Pvt) Ltd. | 10% for 02 years up to Y/A 2016/2017 |
| Logistics International Ltd. | 15% for 20 years upto Y/A 2016/2017 |
| Alco Industries (Pvt) Ltd. | 10% for 2 years up to Y/A 2016/2017 |
| Logiwiz NW (Pvt) Ltd. | 10% for 2 years up to Y/A 2016/2017 |
| Bonterra Ltd. | 12% for 20 years up to Y/A 2015/2016 |
| Moceti International (Pvt) Ltd. | 15% Indefinitely |
| Lanka Maritime Services Ltd. | 15% Indefinitely |
| Lanka Bunkering Services (Pvt) Ltd. | 15% indefinitely |
| Logiwiz Ltd. | 20 % Indefinitely |

11.6.3 Non-Resident Companies

Corporate Income Taxes of non-resident companies are:

| | |
|--|-------|
| Haychem (Bangladesh) Ltd. | 35% |
| PT Mapalus Makawanua Charcoal Industry | 25% |
| Haycarb USA Inc | 34% |
| Logiwiz Logistics India (Pvt) Ltd. | 30% |
| Eurocarb Products Ltd. | 20% |
| Haycarb Holding Australia (Pty) Ltd. | 30% |
| Carbokarn Co. Ltd. | 20% |
| ICOGUANTI S.p.A. | 27.5% |
| CK Regen Systems Co.Ltd. | 20% |
| Haylex Ltd. | 20% |
| Haylex BV | 20% |
| Haylex Japan | 36% |
| Charles Fibre (Pvt) Ltd. | 30% |
| PT Haycarb Palu Mitra | 25% |
| Dipped Products (Thailand) Ltd. | 20% |
| Total Transport Solutions Maldives (Pvt) Ltd. | 15% |
| Nautical Maldives (Pvt) Ltd. | 15% |
| One World Logistics Maldives (Pvt) Ltd. | 15% |
| Super Logistics (Pvt) Ltd. | 15% |
| Advantis Kusuvara Sedate (Pvt) Ltd. | 25% |
| Premium Global Logistics Sdn Bhd | 20% |
| Advantis Singapore Pte Ltd. | 17% |

Notes to the Financial Statements

12 Earnings Per Share

Basic Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to owners of the parent 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 owners of the parent and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares.

There were no potentially dilutive ordinary shares outstanding at any time during the year /previous year.

Basic/diluted earning per share calculated as follows.

| For the year ended 31st March | Consolidated | |
|---|--------------|------------|
| | 2016 | 2015 |
| Profit attributable to equity holders of the Parent (Rs.'000) | 3,003,913 | 2,581,298 |
| Weighted average number of ordinary shares of the parent | 75,000,000 | 75,000,000 |
| Basic/ diluted earnings per share (Rs.) | 40.05 | 34.42 |
| Qualifying ordinary shares at the 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

| For the year ended 31st March | Consolidated | |
|--|--------------|---------|
| | 2016 | 2015 |
| First and Final proposed Rs. 6.50 per share (2015 - Rs. 6 per share) (Rs.'000) | 487,500 | 450,000 |
| Dividend per ordinary share (Rs.) | 6.50 | 6.00 |

- (i) The dividends represent re-distribution of dividends received by the Company and are therefore not subject to the 10% tax deduction.
- (ii) The directors have recommended a Rs 6.50 per share first and final dividend for the year ended 31st March, 2016 to be approved at the Annual General Meeting on 29th June 2016.

14 Property, Plant and Equipment

14.1 Consolidated

| As at 31st March | Land Rs. '000 | Mature/ immature plantations Rs.'000 | Buildings Rs.'000 | Machinery & stores equipment Rs.'000 | Motor vehicles Rs.'000 | Furniture, fittings & office equipment Rs.'000 | Total 2016 Rs.'000 | Total 2015 Rs.'000 |
|---|------------------|---|----------------------|---|------------------------------|--|--------------------------|--------------------------|
| Cost or valuation: | | | | | | | | |
| Gross book value | | | | | | | | |
| At the beginning of the year | 14,381,656 | 6,094,679 | 14,333,990 | 21,069,327 | 1,101,564 | 3,254,316 | 60,235,532 | 50,589,862 |
| Revaluation of land | - | - | - | - | - | - | - | 3,108,054 |
| Acquisition through business combinations | - | - | 45,294 | 681,711 | 134,256 | 85,572 | 946,833 | 2,145,150 |
| Additions | 121,524 | 443,410 | 940,085 | 2,388,797 | 284,108 | 385,297 | 4,563,221 | 4,919,680 |
| Transfer from/ (to) investment property | - | - | - | - | - | - | - | 38,864 |
| Transfer from biological assets | - | - | - | - | - | - | - | 3,273 |
| Disposals | (9,200) | - | (596) | (298,273) | (122,305) | (85,106) | (515,480) | (927,789) |
| Effect of movements in exchange rates | 39,428 | - | 80,368 | 432,816 | 5,092 | 25,192 | 582,896 | 358,438 |
| At the end of the year | 14,533,408 | 6,538,089 | 15,399,141 | 24,274,378 | 1,402,715 | 3,665,271 | 65,813,002 | 60,235,532 |
| Depreciation: | | | | | | | | |
| At the beginning of the year | 184,410 | 1,399,168 | 2,441,960 | 9,850,243 | 642,683 | 1,906,012 | 16,424,476 | 14,194,320 |
| Acquisition through business combinations | - | - | 9,736 | 502,802 | 94,942 | 65,488 | 672,968 | 128,515 |
| Depreciation for the year | 31,431 | 158,565 | 403,156 | 1,447,771 | 157,885 | 315,317 | 2,514,125 | 2,433,786 |
| Transfer from/ (to) investment property | - | - | - | - | - | - | - | 2,018 |
| Disposals | - | - | (78) | (188,873) | (102,444) | (72,667) | (364,062) | (594,651) |
| Effect of movements in exchange rates | - | - | 29,444 | 229,732 | 2,967 | 19,706 | 281,849 | 260,488 |
| At the end of the year | 215,841 | 1,557,733 | 2,884,218 | 11,841,675 | 796,033 | 2,233,856 | 19,529,356 | 16,424,476 |
| Impairment | | | | | | | | |
| At the beginning of the year | 2,260 | - | - | 50,629 | - | - | 52,889 | 50,493 |
| Effect of movements in exchange rates | - | - | - | 1,592 | - | - | 1,592 | (252) |
| Disposals | - | - | - | (20,721) | - | - | (20,721) | (13,872) |
| Impairment for the year | - | - | - | 27,405 | - | - | 27,405 | 16,520 |
| At the end of the year | 2,260 | - | - | 58,905 | - | - | 61,165 | 52,889 |
| Net book value as at 31st March | 14,315,307 | 4,980,356 | 12,514,922 | 12,373,798 | 606,682 | 1,431,415 | 46,222,481 | 43,758,167 |
| Capital work-in progress | | | | | | | 4,219,347 | 2,405,752 |
| Carrying amount as at 31st March | | | | | | | 50,441,828 | 46,163,919 |

Notes to the Financial Statements

14.2 Company

| As at 31st March | Freehold land | Buildings | Machinery & stores equipment | Motor vehicles | Furniture, fittings & office equipment | Total 2016 | Total 2015 |
|----------------------------------|------------------|-----------|------------------------------------|-------------------|---|---------------|---------------|
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| Cost or valuation: | | | | | | | |
| At the beginning of the year | 6,321,000 | 274,527 | 45,730 | 46,215 | 286,890 | 6,974,362 | 5,444,245 |
| Revaluation of land | - | - | - | - | - | - | 1,453,000 |
| Additions | - | - | 55 | 21,400 | 10,020 | 31,475 | 80,393 |
| Disposals | - | - | - | (12,274) | (3,584) | (15,858) | (3,276) |
| At the end of the year | 6,321,000 | 274,527 | 45,785 | 55,341 | 293,326 | 6,989,979 | 6,974,362 |
| Depreciation | | | | | | | |
| At the beginning of the year | - | 55,757 | 37,945 | 11,538 | 217,380 | 322,620 | 291,655 |
| Depreciation for the year | - | 5,507 | 1,536 | 4,629 | 23,698 | 35,370 | 32,624 |
| Disposals | - | - | - | (8,551) | (3,483) | (12,034) | (1,659) |
| At the end of the year | - | 61,264 | 39,481 | 7,616 | 237,595 | 345,956 | 322,620 |
| Net book value as at 31st March | 6,321,000 | 213,263 | 6,304 | 47,725 | 55,731 | 6,644,023 | 6,651,742 |
| Capital work in progress | - | - | - | - | - | 30,086 | 2,924 |
| Carrying amount as at 31st March | - | - | - | - | - | 6,674,109 | 6,654,666 |

14.3 Carrying Value

| As at 31st March | Consolidated | | Company | |
|-------------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| At cost | 32,420,027 | 28,621,231 | 353,109 | 333,666 |
| At valuation | 11,453,645 | 11,457,692 | 6,321,000 | 6,321,000 |
| On finance leases | 6,568,156 | 6,084,996 | - | - |
| | 50,441,828 | 46,163,919 | 6,674,109 | 6,654,666 |

(I) Hayleys Global Beverages (Pvt) Ltd, a subsidiary of Hayleys PLC has capitalised borrowing cost amounting to Rs. 64.4 mn (2015 - nil)

- (ii) Group property, plant & equipment includes capitalized finance leases and leasehold rights on land. The carrying amount of these assets are:

| As at 31st March | Consolidated | | | |
|---|------------------|--|---------------------|---------------------|
| | Cost | Accumulated depreciation/ amortisation | Carrying value 2016 | Carrying value 2015 |
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| Land | 704,527 | 106,413 | 598,114 | 577,497 |
| Mature/Immature Plantation | 4,315,367 | 1,062,660 | 3,252,707 | 3,002,733 |
| Buildings | 2,993,528 | 348,768 | 2,644,760 | 2,439,695 |
| Machinery & Store Equipment's | 49,201 | 49,201 | - | 15,288 |
| Motor Vehicles | 233,294 | 162,484 | 70,810 | 49,641 |
| Furniture fittings and office equipment | 6,807 | 5,042 | 1,765 | 142 |
| Total | 8,302,724 | 1,734,568 | 6,568,156 | 6,084,996 |

- (iii) Unexpired lease periods of land:

| | |
|---------------------------------------|--------------------------------|
| Kelani Valley Plantations PLC | 31 Years |
| Kaluapahana Power Company (Pvt) Ltd. | 31 Years |
| HJS Condiments Ltd. | 84 Years / 77 Years / 19 Years |
| Talawakelle Tea Estates PLC | 29 Years |
| The Kingsbury PLC | 53 Years |
| Culture Club Resorts (Pvt) Ltd. | 26 Years |
| Sun Tan Beach Resorts Ltd. | 92 Years |

- (iv) Amounts by which values have been increased to in respect of land revalued by independent qualified valuers are indicated below, together with the last date of revaluation:

| Company As at 31st March | Location | Revaluation surplus | |
|---------------------------------|-------------------------|---------------------|-----------------|
| | | 2016 Rs.'000 | 2015 Rs.'000 |
| Hayleys PLC | Colombo (31.03.2015) | 6,314,023 | 6,314,023 |
| Volanka (Pvt) Ltd. | Kotugoda (31.03.2015) | 677,100 | 677,100 |
| | Katana (31.03.2015) | 179,519 | 179,519 |
| | Galle (31.03.2015) | 128,827 | 128,827 |
| | Galle (31.03.2015) | 463,225 | 463,225 |
| Chas P. Hayley & Co.(Pvt) Ltd. | Kottawa (31.03.2015) | 123,676 | 123,676 |
| Dipped Products PLC | Weliweriya (31.03.2013) | 70,973 | 70,973 |
| | Malabe (31.03.2015) | 164,439 | 164,439 |
| | Weliweriya (31.03.2013) | 50,925 | 50,925 |
| Venigros (Pvt) Ltd. | | | |

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| Company As at 31st March | Location | Revaluation surplus | |
|--|---------------------------------|---------------------|-----------------|
| | | 2016 Rs.'000 | 2015 Rs.'000 |
| Alco Industries (Pvt) Ltd. | Gonawala (31.03.2013) | 35,224 | 35,224 |
| Haycarb PLC | Badalgama & Madampe(31.03.2015) | 128,571 | 128,571 |
| | Wewalduwa (31.03.2015) | 156,945 | 156,945 |
| Recogen (Pvt) Ltd. | Badalgama (31.03.2015) | 35,606 | 35,606 |
| Carbokarn Co. Ltd. | Bangkok (31.03.2015) | 55,461 | 55,461 |
| Shizuka Co. Ltd. | Ratchaburi (31.03.2015) | 22,828 | 22,828 |
| PT Mapalus Makawanua Charcoal Industry | Bitung (31.03.2015) | 60,367 | 60,367 |
| Lignocell (Pvt) Ltd. | Kuliyapitiya (31.03.2015) | 32,918 | 32,918 |
| Hayleys Agriculture Holdings Ltd. | Dambulla (31.03.2015) | 2,404 | 2,404 |
| | Kottawa (31.03.2015) | 79,414 | 79,414 |
| Haychem Bangladesh Ltd. | Mymensingh (31.03.2015) | 34,395 | 34,395 |
| Haycolour (Pvt) Ltd. | Kalutara (31.03.2015) | 32,292 | 32,292 |
| Hayleys Fibre PLC | Ekala (31.03.2015) | 189,000 | 189,000 |
| Hayleys Advantis Ltd. | Welisara (31.03.2015) | 1,128,688 | 1,128,688 |
| Ravi Industries(Pvt) Ltd. | Ekala (31.03.2015) | 243,375 | 243,375 |
| Volanka Exports Ltd. | Nattandiya (31.03.2015) | 20,887 | 20,887 |
| Rileys (Pvt) Ltd. | Ekala (31.03.2015) | 287,491 | 287,491 |
| Toyo Cushion Lanka (Pvt) Ltd. | Katana (31.03.2015) | 48,174 | 48,174 |
| Sunfrost (Pvt) Ltd. | Allawwa (31.03.2015) | 29,890 | 29,890 |
| Hayleys Fabric PLC | Neboda (31.03.2015) | 52,267 | 52,267 |
| Hayleys Electronics Lightning (Pvt) Ltd. | Hokandara (31.03.2015) | - | 4,047 |
| Hunas Falls Hotels PLC | Elkaduwa (31.03.2015) | 8,000 | 8,000 |
| Kandyan Resorts (Pvt) Ltd. | Kandy (31.03.2015) | 254,042 | 254,042 |
| The Beach Resorts Ltd. | Wadduwa (31.03.2015) | 184,836 | 184,836 |
| Culture Club Resorts (Pvt) Ltd. | Dambulla (31.12.2015) | 480 | 480 |
| Alumex PLC | Makola (31.03.2015) | 157,383 | 157,383 |
| | | 11,453,645 | 11,457,692 |
| Revaluation reserve attributable to Non-controlling interest | | (805,476) | (799,459) |
| Share of revaluation reserves of equity accounted investees | | - | 221,629 |
| | | 10,648,169 | 10,879,862 |
| Adjustment due to change in holding | | (12,141) | (22,835) |
| | | 10,636,028 | 10,857,027 |

- (v) Land owned by the Group was revalued as at 31st March 2015 by an independent Chartered Valuation Surveyor. The fair value of the land was determined based on transactions observed in the market, appropriately adjusted for differences in the nature, location or condition of the specific property.
- Directors believe that there are no significant differences in the market values compared to the last year.
- (vi) Land owned by the Group other than those mentioned above have been stated at cost as the appreciation in value is insignificant. Further information is provided on page 266. There are no tax implications or tax liabilities pertaining to revaluation of land.
- (vii) There has been an impairment of property, plant & equipment amounting to Rs 27.4 mn (2015-Rs.16.5 mn) which is disclosed in Note 8 to the Financial Statements.
- (viii) Property, plant & equipment with a carrying value of Rs.11,916 mn (2015- Rs.12,133 mn) and Rs. Nil (2015- Nil) for the Group and Company respectively have been pledged as security for term loans obtained. The details are shown in Note 25 to the Financial Statements.
- (ix) The carrying value of revalued land given above, had the said land been included at cost, would amount to Rs.2,862mn (2015-Rs. 2,737 mn) for the Group and Rs 7 mn (2015- Rs 7 mn) for the Company.
- (x) The cost of fully depreciated property plant and equipment which are still in use at the reporting date is as follows.

| As at 31st March | Consolidated | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Buildings | 88,435 | 80,995 | - | - |
| Machinery and equipment | 2,836,812 | 2,581,027 | 38,642 | 38,702 |
| Furniture, fittings and office equipment | 1,210,954 | 1,307,736 | 169,643 | 159,065 |
| Motor vehicles | 301,158 | 205,590 | 3 | 12,277 |
| | 4,437,359 | 4,175,348 | 208,288 | 210,044 |

14.4 Capital Expenditure Commitments

The approximate amounts of capital expenditure approved by the Directors as at 31st March 2016 were: Capital expenditure contracted for which no provision is made in the financial statements for the Group - Rs.947 mn (2015 - Rs.605 mn) and for the Company Rs. Nil (2015- Nil). Capital expenditure approved by the directors but not contracted for the Group Rs.2,318 mn (2015 - Rs.1,570 mn) and for the Company Rs. 212 mn (2015- Rs. 147 mn).

Notes to the Financial Statements

14.5 Unobservable Inputs used in Measuring Fair Value

The table below sets out information about significant unobservable inputs used in measuring fair value of land.

| Type of instrument | District | Valuation technique | Significant unobservable input | Range of estimate (weighted average) for unobservable input Rs.'000 | Fair value measurement sensitivity to unobservable input |
|--------------------|-------------|---------------------|--------------------------------|---|--|
| Freehold land | Colombo | Open Market basis | Land -Rate per perch | 85 to 8,000 | Significant increases / (decreases) in estimated price per perch in isolation would result in a significantly higher / (lower) fair value. |
| | Gampaha | | | 25 to 1,000 | |
| | Kurunegala | | | 20 to 65 | |
| | Galle | | | 400 to 1,000 | |
| | Puttalam | | | 19 to 40 | |
| | Matale | | | 13 to 600 | |
| | Kalutara | | | 30 to 475 | |
| | Kandy | | | 65 | |
| | Ampara | | | 2 to 7 | |
| | Trincomalee | | | 125 | |

15 Investment Properties

| As at 31st March | Consolidated | | | |
|---|------------------|----------------|------------------|------------------|
| | Land | Buildings | Total | Total |
| | Rs.'000 | Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Cost | | | | |
| At the beginning of the year | 1,050,736 | 460,967 | 1,511,703 | 1,548,362 |
| Additions | - | 2,488 | 2,488 | 2,331 |
| Disposals | - | (14,097) | (14,097) | (126) |
| Transfer to property, plant & equipment | - | - | - | (38,864) |
| At the end of the year | 1,050,736 | 449,358 | 1,500,094 | 1,511,703 |
| Depreciation | | | | |
| At the beginning of the year | - | 98,881 | 98,881 | 94,918 |
| Charge for the year | - | 6,076 | 6,076 | 5,998 |
| Disposals | - | (1,175) | (1,175) | (17) |
| Transfer to property, plant & equipment | - | - | - | (2,018) |
| At the end of the year | - | 103,782 | 103,782 | 98,881 |
| Net book value | 1,050,736 | 345,576 | 1,396,312 | 1,412,822 |

15.1 Rental Income

| For the year ended 31st March | 2016 Rs.'000 | 2015 Rs.'000 |
|--|-----------------|-----------------|
| Rental income derived from investment properties | 77,727 | 79,671 |
| Direct operating expenses generating rental income | (7,862) | (8,960) |
| Net profit arising from investment properties | 69,865 | 70,711 |

15.2 Investment property is stated at cost. The fair value of investment property as at 31st March, 2015 based on a valuation performed by Mr. P.B. Kalugalgedara (Chartered Valuation Surveyor), an accredited independent, industry specialist is given below. The valuations had been carried out based on transactions observed in the market.

The details of fair value of investment property of the Group.

| Company | Location | Building area (Sq Ft) | Land in acres | Value of building Rs.'000 | Value of land Rs Rs.'000 | Total Rs.'000 |
|------------------------------|---|-----------------------------|------------------|---------------------------------|--------------------------------|------------------|
| Hayleys Fibre PLC | "Ekala Estate", Minuwangoda Road, Ekala. | 53,880 | 6.30 | 6,893 | 328,000 | 334,893 |
| Carbotels (Pvt) Ltd | Weyagala Estate, Elkaduwa, Matale. | - | 65.06 | - | 34,600 | 34,600 |
| Eastern Hotels (Pvt) Ltd | Nilakara Estate, Nilaweli, Trincomalee. | 600 | 23.47 | 1,670 | 469,500 | 471,170 |
| Hayleys Advantis Group | 49/4 -18A, Galle Road, Kollupitiya | 2,450 | - | 80,000 | - | 80,000 |
| | 46/12, Sayuru Sevana, Nawam Mawatha, Colombo 2 | 45,980 | 0.24 | 210,000 | 226,900 | 436,900 |
| Dipped Products PLC | Nadungamuwa, Weliweriya | - | 7.85 | - | 81,588 | 81,588 |
| Venigros (Pvt) Limited | Nadungamuwa, Weliweriya | 55,581 | 7.09 | 37,311 | 68,106 | 105,417 |
| Toyo Cushion Lanka (Pvt) Ltd | 105, Thimbirigaskatuwa Road, Katana | 27,945 | 3.40 | 17,741 | 80,872 | 98,613 |

| Type of instrument | District | Valuation technique | Range of estimate for unobservable input Rs'000 |
|--------------------|-------------|---------------------|---|
| Freehold land | Colombo | Open market basis | 5,000 - 6,500 |
| | Gampaha | | 50 - 350 |
| | Matale | | 3 |
| | Trincomalee | | 115 |

15.3 The Group has no restriction on the realisability of its investment property and no contractual obligations to either purchase, construct or develop investment property or for maintenance and enhancement.

15.4 Directors believe that there are no significant differences in the market values compared to last year.

Notes to the Financial Statements

16 Biological Assets

| For the year ended 31st March | Consolidated | |
|---|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 |
| At the beginning of the year | 307,476 | 266,508 |
| Increase due to development | 10,320 | 12,559 |
| Change in fair value of biological assets | 27,810 | 31,682 |
| Decrease due to harvest | (2,809) | - |
| Transfer to immature plantation | - | (3,273) |
| As at 31 March / December | 342,797 | 307,476 |

Managed trees include commercial timber plantations cultivated on estates. The cost of immature trees is treated as approximate fair value particularly on the ground of little biological transformation has taken place and impact of the biological transformation on price is not material. When such plantations become mature, the additional investments since taken over to bring them to maturity are transferred from immature to mature.

The fair value of managed trees was ascertained since the LKAS 41 is only applicable for managed agricultural activity in terms of the ruling issued by The Institute of Chartered Accountants of Sri Lanka. The valuation was carried by Messers Sunil Fernando Associates, accredited chartered valuers, using Discounted Cash Flow (DCF) methods. In ascertaining the fair value of timber a physical verification was carried out covering all the estates.

16.1 Other Key Assumptions used in Valuation

- 1 The harvesting is approved by the PMMD and the Forest Department based on the Forestry Development Plan.
- 2 The prices adopted are net of expenditure
- 3 Discount rate is 17.5%
- 4 Though the replanting is a condition precedent for harvesting yet the costs are not taken in to consideration.

The valuations, as presented in the external valuation models based on net present values, take into account the long term exploitation of the timber plantations. The Board of Directors retains their view that commodity markets are inherently volatile and that long term price projections are highly unpredictable. The Board of Directors is of the opinion that the sensitivity analysis regarding selling price and discount rate variations as included in this note allows every investor to reasonably challenge the financial impact of the assumptions used in the LKAS 41 valuations as included in the Financial Statements against his own assumptions.

The carrying amount of biological assets pledged as securities for liabilities as at the date of the Statement of Financial Position is nil. (2015 - nil).

16.2 Sensitivity Analysis

Sensitivity variation sales price

Values as appearing in the Statement of Financial Position are very sensitive to price changes with regard to the average sales prices applied. Simulations made for timber show that a rise or decrease by 10% of the estimated future selling price has the following effect on the net present value of biological assets:

| | | |
|-------------------------|---------|----------|
| Sales Price fluctuation | +10% | -10% |
| Managed Timber | Rs.'000 | Rs.'000 |
| As at 31 March 2016 | 27,300 | (28,577) |
| As at 31 March 2015 | 21,798 | (25,935) |

Sensitivity variation discount rate

Values as appearing in the Statement of Financial Position are very sensitive to changes of the discount rate applied. Simulations made for timber show that an increase or decrease by 1.5% of the discount rate has the following effect on the net present value of biological assets:

| | | |
|---------------------------|---------|---------|
| Discount rate fluctuation | +1.5% | -1.5% |
| Managed Timber | Rs.'000 | Rs.'000 |
| As at 31 March 2016 | (7,804) | 7,645 |
| As at 31 March 2015 | (3,357) | 6,754 |

17 Intangible Assets

| As at 31st March | Right to generate hydro power/development cost Rs. '000 | Goodwill Rs.'000 | ERP system Rs.'000 | Brand name Rs.'000 | Customer list Rs.'000 | Operating lease Rs.'000 | Total 2016 Rs.'000 | Total 2015 Rs.'000 |
|---|--|---------------------|-----------------------|-----------------------|--------------------------|----------------------------|-----------------------|-----------------------|
| Cost | | | | | | | | |
| At the beginning of the year | 97,790 | 4,192,943 | 519,454 | 148,183 | 152,420 | 1,177,111 | 6,287,901 | 5,962,047 |
| Acquisition through business combinations | - | 579,955 | 156 | - | - | - | 580,111 | 158,313 |
| Additions | - | - | 61,171 | - | - | - | 61,171 | 179,903 |
| Disposals | - | - | (4,836) | - | - | - | (4,836) | (15,360) |
| Effect of movements in exchange rates | - | - | 14,566 | - | - | - | 14,566 | 2,998 |
| At the end of the year | 97,790 | 4,772,898 | 590,511 | 148,183 | 152,420 | 1,177,111 | 6,938,913 | 6,287,901 |
| Amortisation | | | | | | | | |
| At the beginning of the year | 29,880 | 145,959 | 206,173 | - | 93,484 | 98,791 | 574,287 | 455,323 |
| Amortization for the year | 5,577 | - | 83,994 | - | 31,500 | 19,555 | 140,626 | 120,803 |
| Disposals | - | - | (3,689) | - | - | - | (3,689) | (3,251) |
| Acquisition through business combinations | - | - | 32 | - | - | - | 32 | 106 |
| Effect of movements in exchange rates | - | - | 7,284 | - | - | - | 7,284 | 1,306 |
| At the end of the year | 35,457 | 145,959 | 293,794 | - | 124,984 | 118,346 | 718,540 | 574,287 |
| Net book value | 62,333 | 4,626,939 | 296,717 | 148,183 | 27,436 | 1,058,765 | 6,220,373 | 5,713,614 |
| Capital work in progress | - | - | 6,731 | - | - | - | 6,731 | 2,189 |
| Carrying amount | | | | | | | 6,227,104 | 5,715,803 |

Notes to the Financial Statements

17.1 The aggregate carrying amount of goodwill allocated to each unit is as follows

| | Rs. Mn |
|---------------------------------------|--------|
| Dipped Products PLC | 97 |
| Dipped Products' Group Companies | 33 |
| Advantis Group Companies | 433 |
| Haycarb Group Companies | 202 |
| Hunas Falls Hotels PLC | 8 |
| The Kingsbury PLC | 633 |
| Hayleys Plantation Services (Pvt) Ltd | 134 |
| Alumex PLC | 1,052 |
| Amaya Leisure Group Companies | 1,553 |
| Alufab PLC | 20 |
| Fentons Group Companies | 461 |
| | 4,627 |

Methods used in estimating recoverable amounts are given below

The recoverable value of Dipped Products PLC, Hunas Falls Hotels PLC, Alumex PLC, were based on fair value less cost to sell and others were based on value in use calculations. Value in use was determined by discounting the future cash flows generated from the 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 the inflation

Discount Rate - Average market borrowing rate adjusted for risk premium

Margin - Based on current margin and business plan

17.2 There has been no impairment of intangible assets.

17.3 The remaining amortisation period of right to generate hydro power excluding development cost amounted to Rs. 35,772 mn.

| Remaining amortisation period | Carrying amount (Rs.'000) |
|-------------------------------|------------------------------|
| 71 months | 2,512 |
| 92 months | 1,718 |
| 131 months | 22,331 |
| | 26,561 |

- 17.4** Group has recognised an intangible asset in respect of operating leases acquired from the acquisition of The Kingsbury PLC and Amaya Leisure PLC since terms of operating lease is favourable relative to market terms.

Intangible asset from the Leasehold right is the revalued value of the land over the present value of future lease rentals to be paid.

The Kingsbury PLC - 53 years

Amaya Leisure PLC - 19 years

- 17.5** Group has recognised an intangible asset for the Amaya chain of hotels from the acquisition of Amaya Leisure PLC.

“Amaya” brand name is a well established name in the leisure sector. Management is of the opinion that the brand name will be a key attraction in the future booming leisure sector.

- 17.5** Group has recognised an intangible asset in respect of customer relationship through the acquisition of Amaya Leisure PLC.

The established customer lists of Amaya Hotels is acknowledged as a key component in generation of revenue through travel agents and tour operators.

The management is of the opinion that the company is capable of retaining the travel agents through business relationship strategies and this would ensure retention and lead to repeat business over the future years and inflow of future economic benefits from them.

18 Investments

18.1 Company Investment in Subsidiaries

| As at 31st March | % Holding | | No. of Shares | | | Value Rs.'000 | | |
|------------------------------------|-----------|------|---------------|----------|-------------|---------------|----------|-----------|
| | 2016 | 2015 | 2016 | Movement | 2015 | 2016 | Movement | 2015 |
| Investee | | | | | | | | |
| Quoted investments* | | | | | | | | |
| Haycarb PLC (Rs.3,220 mn) | 68 | 68 | 20,125,103 | - | 20,125,103 | 47,204 | - | 47,204 |
| Hayleys Fibre PLC (Rs.198 mn) | 65 | 65 | 5,200,000 | - | 5,200,000 | 3,575 | - | 3,575 |
| Dipped Products PLC (Rs. 1,840 mn) | 42 | 42 | 25,210,938 | - | 25,210,938 | 408,490 | - | 408,490 |
| Hayleys Fabric PLC (Rs. 2,205 mn) | 59 | 59 | 122,487,023 | - | 122,487,023 | 1,355,791 | - | 1,355,791 |
| Amaya Leisure PLC (Rs. 1,230 mn) | 40 | 40 | 20,334,545 | - | 20,334,545 | 2,161,551 | - | 2,161,551 |
| Alumex PLC (Rs.2,351 Mn) | 51 | 51 | 152,644,500 | - | 152,644,500 | 1,277,353 | - | 1,277,353 |
| Alufab PLC (Rs. 244 Mn) | 63 | 63 | 7,538,454 | - | 7,538,454 | 174,292 | - | 174,292 |
| The Kingsbury PLC (Rs. 1,685 mn) | 46 | 46 | 112,307,057 | - | 112,307,057 | 1,864,073 | - | 1,864,073 |
| | | | 465,847,620 | - | 465,847,620 | 7,292,329 | - | 7,292,329 |
| Unquoted Investments | | | | | | | | |
| Hayleys Photoprint (Pvt) 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 (Pvt) Ltd. | 86 | 86 | 10,791,694 | 1,500 | 10,790,194 | 15,935 | 46 | 15,889 |
| Hayleys Group Services Ltd. | 100 | 100 | 10,000 | - | 10,000 | 100 | - | 100 |

Notes to the Financial Statements

| As at 31st March | % Holding | | No. of Shares | | | Value Rs.'000 | | |
|---|-----------|------|---------------|------------|-------------|---------------|----------|-----------|
| | 2016 | 2015 | 2016 | Movement | 2015 | 2016 | Movement | 2015 |
| Hayleys Electronics Ltd. | 98 | 98 | 951,855 | - | 951,855 | 95,687 | - | 95,687 |
| Dean Foster (Pvt) Ltd. | 49 | 49 | 5,882,351 | - | 5,882,351 | 9,904 | - | 9,904 |
| Hayleys Advantis Ltd. | 94 | 94 | 34,129,707 | 182,149 | 33,947,558 | 366,161 | 17,306 | 348,855 |
| Volanka Exports (Pvt) Ltd. | 4 | 4 | 123,103 | - | 123,103 | 1,999 | - | 1,999 |
| Sunfrost (Pvt) Ltd. | 5 | 5 | 423,300 | - | 423,300 | 4,233 | - | 4,233 |
| Rileys (Pvt) Ltd. | 6 | 6 | 2,500,000 | - | 2,500,000 | 10,333 | - | 10,333 |
| Volanka (Pvt) Ltd. | 62 | 62 | 6,440 | - | 6,440 | 23,107 | - | 23,107 |
| Toyo Cushion Lanka (Pvt) Ltd. | 19 | 19 | 1,222,708 | - | 1,222,708 | 13,339 | - | 13,339 |
| 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. | 9 | 9 | 1,218,277 | - | 1,218,277 | 16,532 | - | 16,532 |
| Hayleys Agriculture Holdings Ltd. | 97 | 97 | 18,990,770 | 23,483 | 18,967,287 | 256,145 | 2,199 | 253,946 |
| Hayleys Consumer Products Ltd. | 99 | 99 | 19,416,240 | 25,111 | 19,391,129 | 251,317 | 519 | 250,797 |
| Hayleys Industrial Solutions (Pvt) Ltd. | 100 | 100 | 38,748,400 | - | 38,748,400 | 387,484 | - | 387,484 |
| Hayleys Business Solutions International (Pvt) Ltd. | 100 | 100 | 15,000,000 | - | 15,000,000 | 150,000 | - | 150,000 |
| Haydea Business Solutions (Pvt) Ltd. | 100 | 100 | 249,999 | - | 249,999 | 2,500 | - | 2,500 |
| Hayleys Leisure Holdings (Pvt) Ltd. | 100 | 100 | 2,000,000 | - | 2,000,000 | 20,000 | - | 20,000 |
| Nirmalapura Wind Power (Pvt) Ltd. | 30 | 30 | 29,900,000 | - | 29,900,000 | 154,204 | - | 154,204 |
| Hayleys Global Beverages (Pvt) Ltd. | 60 | 49 | 39,000,000 | 24,588,235 | 14,411,765 | 390,000 | 245,882 | 144,118 |
| Fentons Ltd. | 75 | - | 3,347,329 | 3,347,329 | - | 250,000 | 250,000 | - |
| Hayleys Tours (Pvt) Ltd. | 100 | - | 1 | 1 | - | 0 | 0 | - |
| Quality Seed Company (Pvt) Ltd. | 74 | 74 | 1,878,000 | - | 1,878,000 | 3,707 | - | 3,707 |
| | | | 254,619,868 | 28,167,807 | 226,452,061 | 2,759,654 | 515,952 | 2,243,701 |
| Company investment in subsidiaries (at cost) | | | 720,467,488 | 28,167,807 | 692,299,681 | 10,051,983 | 515,952 | 9,536,030 |
| Provision for fall in value of investment made by the company | | | | | | | | |
| Hayleys Electronics (Pvt) Ltd. | | | | | | (95,687) | - | (95,687) |
| Hayleys Business Solutions International (Pvt) Ltd. | | | | | | (75,000) | - | (75,000) |
| Company investment in subsidiaries | | | | | | 9,881,296 | 515,952 | 9,365,343 |

* Figures in brackets indicate market value of Quoted investments.

(i) Countries of incorporation of overseas subsidiaries are give in Note 18.3 to the Financial Statements.

18.2 Investment In Equity Accounted Investees

| Investor As at 31st March | Investee | % Holding | | No. of Shares | | | Value Rs.'000 | | |
|---|---|-----------|------|---------------|------------|-----------|---------------|-----------|---------|
| | | 2016 | 2015 | 2016 | Movement | 2015 | 2016 | Movement | 2015 |
| Unquoted Investments | | | | | | | | | |
| Carbotels (Pvt) Ltd. | Negombo Hotels Ltd. ** | - | 30 | - | (60,000) | 60,000 | - | (127,794) | 127,794 |
| Hayleys Advantis Group | Yusen Logistics & Kusuvara (Pvt) Ltd ** | 30 | 30 | 195,000 | - | 195,000 | 1,950 | - | 1,950 |
| Hayleys Fibre PLC | Bonterra Lanka Ltd * | 50 | 50 | 803,394 | - | 803,394 | 8,034 | - | 8,034 |
| Puritas (Pvt) Ltd | Lakdiyatha (Pvt) Ltd ** | 49 | 49 | 2,450,000 | - | 2,450,000 | 24,500 | - | 24,500 |
| Hayleys Leisure Holdings (Pvt) Ltd | S & T Interiors (Pvt) Ltd ** | 30 | 30 | 780,000 | - | 780,000 | 7,800 | - | 7,800 |
| Hayleys Industrial Solutions (Pvt) Ltd | Joule Power (Pvt) Ltd ** | 25 | - | 26,250,000 | 26,250,000 | - | 262,500 | 262,500 | - |
| Hayleys Industrial Solutions (Pvt) Ltd | Beta Power (Pvt) Ltd ** | 25 | - | 26,250,000 | 26,250,000 | - | 262,500 | 262,500 | - |
| | | | | | | | 567,284 | 397,206 | 170,078 |
| Group investments in Equity accounted investees (at cost) | | | | | | | 567,284 | 397,206 | 170,078 |

* Joint venture

** Associates

| As at 31st March | Consolidated | | | | | | | |
|---------------------------------------|--------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Investment at cost | | Profit/ (loss) | | Others | | Net Asset | |
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Negombo Hotels Ltd. | - | 127,794 | 11,215 | 7,268 | (359,442) | 111,915 | - | 348,227 |
| Yusen Logistics & Kusuvara (Pvt) Ltd. | 1,950 | 1,950 | (9,122) | 97 | (468) | (1,631) | 7,168 | 16,758 |
| Bonterra Lanka Ltd. | 8,034 | 8,034 | 14,285 | 5,952 | (1) | 33,995 | 54,230 | 39,947 |
| S & T Interiors (Pvt) Ltd. | 7,800 | 7,800 | 3,445 | 3 | - | 7,800 | 11,249 | 7,803 |
| Lakdiyatha (Pvt) Ltd. | 24,500 | 24,500 | 10,352 | 11,063 | - | 65,297 | 86,713 | 76,361 |
| Joule Power (Pvt) Ltd. | 262,500 | - | 105,405 | - | 150,038 | - | 255,443 | - |
| Beta Power (Pvt) Ltd. | 262,500 | - | 106,957 | - | 150,038 | - | 256,994 | - |
| | 567,284 | 170,078 | 242,537 | 24,383 | (59,836) | 217,376 | 671,797 | 489,096 |

Notes to the Financial Statements

18.2.1 Summarised financial information of equity accounted investees has not been adjusted for Group share,

| As at 31st March | 2016 Rs.'000 | 2015 Rs.'000 |
|--------------------------------------|-------------------------|-------------------------|
| Assets and liabilities | | |
| Current assets | 799,165 | 582,180 |
| Non-current assets | 4,966,349 | 2,562,903 |
| Current liabilities | 792,972 | 984,222 |
| Non-current liabilities | 2,906,515 | 657,210 |
| As at 31st March | 2016 Rs.'000 | 2015 Rs.'000 |
| Revenue and profit | | |
| Revenue | 2,254,651 | 1,696,623 |
| Profit after tax | 880,218 | 60,375 |
| Total comprehensive income | 867,173 | 459,951 |
| As at 31st March | 2016 Rs.'000 | 2015 Rs.'000 |
| Cash flows | | |
| Cash flows from operating activities | 890,677 | 84,330 |
| Cash flows from Investing activities | 216,406 | (20,198) |
| Cash flows from financing activities | (932,096) | (235,770) |

18.2.2 Company has neither contingent liabilities nor capital commitments in respect of it's equity accounted investees.

18.3 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 Islands), Eurocarb Products Ltd. (UK), Haycarb Holdings Australia (Pty) Ltd. (Australia), Haycarb USA Inc. (USA), Carbokarn Ltd. (Thailand), Shizuka Co. Ltd (Thailand), Haylex BV Group (Netherlands, Japan & UK), Dipped Products (Thailand) Ltd (Thailand), CK Regen Systems Co. Ltd (Thailand), ICOQUANTI S.p.A (Italy), PT Tulus Lanka Coir Industries (Indonesia), Logiwiz Logistics India (Pvt) Ltd. (India), Civaro Freight India (Pvt) Ltd. (India), and Charles Fibre (Pvt) Ltd. (India). Haylex USA (USA), PT Haycarb Palu Mitra (Indonesia), Puricarb Pte Ltd (Singapore), Nautical Maldives (Pvt) Ltd (Maldives), One World Logistics Maldives (Pvt) Ltd (Maldives), Super Logistics (Pvt) Ltd (Maldives), Total Transport Solutions Maldives (Pvt) Ltd (Maldives). Premium Global Logistics Sdn Bhd (Malaysia), Advantis Singapore (Pte) Ltd. (Singapore), Advantis Kusuvara Sedate (Pvt) Ltd. (Myanmar)

18.4. Inter-Company Shareholdings

| Investor | Investee | % Holding | | No. of Shares | |
|---------------------------------|---|-----------|------|---------------|------------|
| | | 2016 | 2015 | 2016 | 2015 |
| Agro Technica Ltd. | Sunfrost (Pvt) Ltd. | 1 | 1 | 75,000 | 75,000 |
| Chas P. Hayley & Co. (Pvt) Ltd. | Toyo Cushion Lanka (Pvt) Ltd. | 3 | 3 | 169,267 | 169,267 |
| | Hayleys Electronics (Pvt) 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 | 38 | 3,920 | 3,920 |
| | Hayleys Advantis Ltd. | 1 | 1 | 488,369 | 488,369 |
| | Chas P. Hayley & Co. (Pvt) Ltd. | - | - | 80 | 80 |
| | Alumex PLC | 5 | 5 | 14,213,900 | 14,213,900 |
| | Amaya Leisure PLC | 21 | 21 | 10,764,915 | 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 | 55,000,000 | 55,000,000 |
| | Neoprex (Pvt) Ltd. | 100 | 100 | 4,000,000 | 4,000,000 |
| | Dipped Products (Thailand) Ltd.(100 Bhat) | 99 | 99 | 4,516,248 | 4,516,248 |
| | Texnil (Pvt) Ltd. | 100 | 100 | 7,500,000 | 7,500,000 |
| | ICOGUANTI S.p.A (Italy) (€1 - each) | 61 | 61 | 2,016,667 | 2,016,667 |
| | Hanwella Rubber Products Ltd. | 73 | 73 | 18,152,000 | 18,152,000 |
| | D P L Premier Gloves Ltd. | 100 | 100 | 45,000,000 | 45,000,000 |
| | D P L Universal Gloves Ltd. | 100 | 100 | 35,000,000 | 35,000,000 |
| DPL Plantations Ltd. | Kelani Valley Plantations PLC | 72 | 72 | 24,626,900 | 24,626,900 |
| | Hayleys Plantation Services (Pvt) Ltd. | 67 | 67 | 13,400,000 | 13,400,000 |
| 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 Value Added Products (Pvt) Ltd. | 100 | 100 | 40,000,000 | 40,000,000 |
| | 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 |
| | Carbocarn Co. Ltd.(100 Bhat, 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 |
| | Haycarb USA Inc. | 100 | 100 | 3,600,000 | 3,600,000 |
| | 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 |

Notes to the Financial Statements

| Investor | Investee | % Holding | | No. of Shares | |
|---|--|-----------|------|---------------|------------|
| | | 2016 | 2015 | 2016 | 2015 |
| | Ultracarb (Pvt) Ltd. | 100 | 100 | 25,000,000 | 25,000,000 |
| | Quality Seed Company (Pvt) Ltd. | 6 | 6 | 147,000 | 147,000 |
| | PT.Haycarb Palu Mitra | 60 | 60 | 1,290,000 | 1,290,000 |
| Carbocarn Co. Ltd. | CK Regen Systems Co.Ltd. | 100 | 100 | 150,000 | 150,000 |
| | Shizuka Co.Ltd. | 100 | 100 | 200,000 | 200,000 |
| Puritas (Pvt) Ltd. | Lakdiyatha (Pvt) Ltd. | 49 | 49 | 2,450,000 | 2,450,000 |
| | Puricarb (Pte) Ltd. | 100 | 100 | 50,000 | 50,000 |
| Haycarb Holdings Bitung Ltd . | PT Mapalus Makawana Charcoal Industry (IDR 1,000,000) | 98 | 98 | 36,935 | 36,935 |
| Hayleys Agriculture Holdings Ltd. | Agro Technica Ltd. | 93 | 93 | 2,329,894 | 2,329,894 |
| | Hayleys Agro Fertilizers (Pvt) Ltd. | 100 | 100 | 14,999,999 | 4,999,999 |
| | Hayleys Agro Farms (Pvt) Ltd. | 100 | 100 | 1,500,000 | 1,500,000 |
| | Hayleys Agro Bio-Tech (Pvt) Ltd. | 100 | 100 | 7,499,999 | 7,499,999 |
| | HJS Condiments Ltd. | 59 | 59 | 7,399,343 | 7,399,343 |
| | Sunfrost (Pvt) Ltd. | 93 | 93 | 7,445,000 | 7,445,000 |
| | Haychem Bangladesh Ltd. | 100 | 100 | 90,702 | 90,702 |
| | Hayleys Fabric PLC | 2 | 2 | 3,472,257 | 3,472,257 |
| | Aquagri (Pvt) Ltd. | 51 | 51 | 1,275,000 | 1,275,000 |
| | Quality Seed Company (Pvt) Ltd. | 20 | 20 | 500,000 | 500,000 |
| Hayleys Fibre PLC | Toyo Cushion Lanka (Pvt) Ltd. | 16 | 16 | 1,015,602 | 1,015,602 |
| | Bonterra Lanka Ltd. | 50 | 50 | 803,394 | 803,394 |
| | Rileys (Pvt) Ltd. | 19 | 19 | 7,750,000 | 7,750,000 |
| Hayleys Industrial Solutions (Pvt) Ltd. | Haycolour (Pvt) Ltd. | 100 | 100 | 60,000 | 60,000 |
| | Hayleys Lifesciences (Pvt) Ltd. | 100 | 100 | 3,000,001 | 3,000,001 |
| | Power Engineering Solutions (Pvt) Ltd. | 100 | 100 | 320,001 | 320,001 |
| | Nirmalapura Wind Power (Pvt) Ltd. | 21 | 21 | 21,100,000 | 21,100,000 |
| | Hayleys Power Ltd. | 100 | 100 | 42,067,241 | 38,067,241 |
| | Joule Power (Pvt) Ltd. | 25 | 25 | 26,250,000 | 26,250,000 |
| | Beta Power (Pvt) Ltd. | 25 | 25 | 26,250,000 | 26,250,000 |
| Hayleys Hydro Energy (Pvt) Ltd. | Neluwa Casacade Hydro (Pvt) Ltd. | 100 | 100 | 11,910,001 | 11,910,001 |
| 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 Fabric PLC | 2 | 2 | 5,036,850 | 5,036,850 |
| Ravi Industries Ltd. | Rileys (Pvt) Ltd. | 31 | 31 | 12,250,000 | 12,250,000 |
| | Dipped Products PLC | 1 | 1 | 567,000 | 567,000 |
| | Ravi Marketing Services (Pvt) Ltd. | 100 | 100 | 9,994 | 9,994 |

| Investor | Investee | % Holding | | No. of Shares | |
|-------------------------------------|--|-----------|------|---------------|------------|
| | | 2016 | 2015 | 2016 | 2015 |
| Rileys (Pvt.) Ltd. | Haymat (Pvt) Ltd. | 54 | 54 | 215,998 | 215,998 |
| | Creative Polymats (Pvt) Ltd. | 100 | 100 | 4,999,994 | 4,999,994 |
| Toyo Cushion Lanka (Pvt) Ltd. | Dean Foster (Pvt) Ltd. | 2 | 2 | 235,294 | 235,294 |
| | Amaya Leisure PLC | 2 | 2 | 857,220 | 857,220 |
| Volanka (Pvt) Ltd. | Dipped Products PLC | 8 | 8 | 4,873,640 | 4,873,640 |
| | Toyo Cushion Lanka (Pvt) Ltd. | 21 | 21 | 1,455,832 | 1,455,832 |
| | Dean Foster (Pvt) Ltd. | 49 | 49 | 5,882,353 | 5,882,353 |
| | Volanka Exports Ltd. | 95 | 95 | 2,899,994 | 2,899,994 |
| | Volanka Insurance Brokers (Pvt) Ltd. | 100 | 100 | 58,994 | 58,994 |
| | Rileys (Pvt) Ltd. | 44 | 44 | 17,500,000 | 17,500,000 |
| Carbotels (Pvt) Ltd. | Hunas Falls Hotels PLC | 50 | 50 | 2,824,820 | 2,824,820 |
| | Eastern Hotel (Pvt.) Ltd. | 96 | 96 | 894,304 | 894,304 |
| | The Kingsbury PLC | 13 | 13 | 31,625,000 | 31,625,000 |
| Volanka Exports Ltd. | O E Techniques Ltd. | 100 | 100 | 9,993 | 9,993 |
| | Amaya Leisure PLC | 1 | 1 | 675,045 | 675,045 |
| Kelani Valley Plantations PLC | Kalupahana Power Company (Pvt) Ltd. | 60 | 60 | 1,800,000 | 1,800,000 |
| | Kelani Valley Instant Tea (Pvt) Ltd. | 100 | 100 | 3,000,000 | 3,000,000 |
| | Mabroc Teas (Pvt) Ltd. | 100 | 100 | 9,000,000 | 9,000,000 |
| | Hayleys Global Beverage (Pvt) Ltd. | 40 | 51 | 26,000,000 | 15,000,000 |
| Hayleys Group Services (Pvt) Ltd. | Hayleys Fabric PLC | 0 | 0 | 508,933 | 508,933 |
| Hayleys Leisure Holdings (Pvt) Ltd. | Air Global (Pvt) Ltd. | 100 | 100 | 999,995 | 999,995 |
| | Millennium Transportation (Pvt) Ltd. | 100 | 100 | 99,999 | 99,999 |
| | North South Lines (Pvt) Ltd. | 100 | 100 | 134,999 | 134,999 |
| | Hayleys Travels and Tours (Pvt) Ltd. | 100 | 100 | 1,779,999 | 1,779,999 |
| | S & T Interiors (Pvt) Ltd. | 30 | 30 | 780,000 | 780,000 |
| Alumex PLC | Avro Enterprises (Pvt) Ltd. | 100 | 100 | 25,002 | 25,002 |
| | Alco Industries (Pvt) Ltd. | 100 | 100 | 3,000,002 | 3,000,002 |
| | Alumex Systems (Pvt) Ltd. | 100 | - | 1 | - |
| Hayleys Consumer Products Ltd. | Global Consumer Brands (Pvt) Ltd. | 100 | 100 | 17,599,999 | 17,599,999 |
| | International Consumer Brands (Pvt) Ltd. | 100 | 100 | 3,000,000 | 2,999,995 |
| | Hayleys Electronics Lighting (Pvt) Ltd. | 100 | 100 | 599,999 | 599,999 |
| Amaya Leisure PLC | Kandyan Resorts (Pvt) Ltd. | 100 | 100 | 29,784,365 | 29,784,365 |
| | Culture Club Resorts (Pvt) Ltd. | 100 | 100 | 27,779,002 | 27,779,002 |

Notes to the Financial Statements

| Investor | Investee | % Holding | | No. of Shares | |
|--------------------|---------------------------------------|-----------|------|---------------|------------|
| | | 2016 | 2015 | 2016 | 2015 |
| | Connaissance Air Travels Ltd. | 100 | 100 | 100,003 | 100,003 |
| | The Beach Resorts Ltd. | 84 | 84 | 6,176,790 | 6,176,790 |
| | Sun Tan Beach Resorts Ltd. | 56 | 51 | 99,815,153 | 82,718,215 |
| | Hunas Falls Hotels PLC | 16 | 16 | 899,000 | 899,000 |
| | C D C Conversions (Pvt) Ltd. | 100 | 100 | 1,000,002 | 1,000,002 |
| Hayleys Power Ltd. | Bhagya Hydro (Pvt) Ltd. | 100 | 100 | 3,499,999 | 3,499,999 |
| | Hayleys Hydro Energy (Pvt) Ltd. | 51 | 51 | 6,120,001 | 6,120,001 |
| | TTEL Hydro Power (Pvt) Ltd. | 49 | 49 | 3,366,300 | 3,366,300 |
| | Kiridiweldola Hydro Power (Pvt) Ltd. | 100 | 100 | 321,860 | 321,860 |
| | TTEL Summerset Hydro Power (Pvt) Ltd. | 49 | 49 | 2,940,000 | 2,940,000 |
| | Anningkanda Hydro Power (Pvt) Ltd . | 100 | 100 | 319,080 | 319,080 |
| | Hayleys Neluwa Hydro Power (Pvt) Ltd. | 100 | 100 | 25,000,000 | 21,000,000 |
| | Neluwa Upper Hydro Power (Pvt) Ltd. | 100 | 100 | 100,000 | 100,000 |
| | Lindula Hydro Power(Pvt) Ltd. | 100 | 100 | 250,000 | 250,000 |
| Fentons Ltd. | Fentons Smart Facilities (Pvt) Ltd. | 100 | - | 1 | - |
| | Energynet (Pvt) Ltd. | 51 | - | 73,196 | - |
| | Nex-Gen Asia (Pvt) Ltd. | 100 | - | 100 | - |

19 Other Financial Assets and Financial Liabilities

19.1 Other Non-Current Financial Assets

| | Consolidated | | | | Company | | |
|--------------------------------------|-----------------------------------|---------------------------------|------------|------------|--------------------------------|------------|------------|
| | Available for sale investments | | Total 2016 | Total 2015 | Available for sale investments | Total 2016 | Total 2015 |
| | Unquoted equity shares Rs.'000 | Quoted equity shares Rs.'000 | Rs.'000 | Rs.'000 | Unquoted shares Rs.'000 | Rs.'000 | Rs.'000 |
| As at 31st March | | | | | | | |
| At the beginning of the year | 166,678 | 74,800 | 241,478 | 233,613 | 154,234 | 154,234 | 166,704 |
| Additions | 121 | - | 121 | 345 | - | - | - |
| Impairment for the year | (12,470) | - | (12,470) | (12,470) | (12,470) | (12,470) | (12,470) |
| Effect of movement in exchange rates | - | - | - | 64 | - | - | - |
| Change in fair value | 1,328 | (7,419) | (6,091) | 19,926 | - | - | - |
| At the end of the year | 155,657 | 67,381 | 223,038 | 241,478 | 141,764 | 141,764 | 154,234 |

19.1.1 Investment Details

| Investor | Investee | Number of shares | | Value | |
|---|--|------------------|------------|--------------------------|--------------------------|
| | | 2016 | 2015 | Total 2016 Rs.'000 | Total 2015 Rs.'000 |
| Unquoted equity shares - Available for sale Investments | | | | | |
| Hayleys PLC | Sojitz Kelanitissa (Pvt) Ltd. | 24,940,613 | 24,940,613 | 99,763 | 112,233 |
| | Sri Lanka Institute of Nanotechnology (Pvt) Ltd. | 3,810,182 | 3,810,182 | 42,000 | 42,000 |
| Hayleys Industrial Solutions (Pvt) Ltd. | Hydro Trust Lanka (Pvt) Ltd. | 350,000 | 350,000 | 3,500 | 3,500 |
| Dipped Product PLC | Wellassa Rubber Company Ltd | 255,000 | 255,000 | 2,550 | 2,550 |
| | Impairment in Wellassa Rubber Company Ltd. | | | (2,550) | (2,550) |
| Haycarb Group | Barrik Gold Corporation - Aus 27.20 each | 3,456 | 3,456 | 171 | 158 |
| Hayleys Advantis Group | SLAFFA Cargo Services Ltd. | 38,571 | 38,571 | 10,223 | 8,787 |
| Total | | | | 155,657 | 166,678 |

The unquoted equity shares do not have a quoted market price in active market and the fair value is carried at cost.

Quoted equity shares - Available for sale investments

| | | | | | |
|------------------------|-------------------------|---------|---------|---------------|---------------|
| Dipped Product PLC | Royal Ceramic Lanka PLC | 220 | 220 | 22 | 24 |
| Hayleys Advantis Group | Ceybank Unit Trust | 200,000 | 200,000 | 4,794 | 5,754 |
| | Pyramid Unit Trust | 200,000 | 200,000 | 6,480 | 6,912 |
| | Comtrust Equity Fund | 200,000 | 200,000 | 3,873 | 4,212 |
| Amaya Leisure PLC | Royal Ceramic Lanka PLC | 521,600 | 521,600 | 52,212 | 57,898 |
| Total | | | | 67,381 | 74,800 |

Notes to the Financial Statements

19.2 Other Current Financial Assets

| As at 31st March | Consolidated | | | | Total 2016 | Total 2015 |
|---|-----------------------------------|---|----------------------------|------------|---------------|---------------|
| | Available for sale investments | Financial instruments at fair value through profit or loss | | | | |
| | Quoted equity shares | Foreign exchange forward contract | Quoted equity shares | Unit Trust | | |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | |
| At the beginning of the year | 2,410 | 407 | 36,745 | - | 39,562 | 53,388 |
| Additions | - | 32,453 | - | 862,832 | 895,285 | - |
| Acquisition through business combinations | - | - | 483 | - | 483 | - |
| Disposals | - | - | - | - | - | (22,488) |
| Change in fair value | (750) | (407) | (7,263) | 2,965 | (5,455) | 8,662 |
| At the end of the year | 1,660 | 32,453 | 29,965 | 865,797 | 929,875 | 39,562 |

| As at 31st March | Company | | | | |
|------------------------------|--|---|---------------------------|---------------------|----------|
| | Financial instruments at fair value through profit or loss | | | | |
| | Foreign exchange forward contract Rs.'000 | Quoted equity shares Rs.'000 | Unit trust Rs.'000 | 2016 Rs.'000 | 2015 |
| At the beginning of the year | - | 11,170 | - | 11,170 | 21,906 |
| Additions | 32,453 | - | 402,832 | 435,285 | - |
| Disposals | - | - | - | - | (17,508) |
| Change in fair value | - | (1,831) | 556 | (1,275) | 6,772 |
| At the end of the year | 32,453 | 9,339 | 403,388 | 445,180 | 11,170 |

19.2.1 Investment Details

| Investor | Investee | Number of shares | | Value | |
|---|--|------------------|---------|--------------------------|--------------------------|
| | | 2016 | 2015 | Total 2016 Rs.'000 | Total 2015 Rs.'000 |
| Quoted equity shares - Available for sale investments | | | | | |
| Advantis Group | Union Bank PLC | 100,000 | 100,000 | 1,660 | 2,410 |
| Total | | | | 1,660 | 2,410 |
| Foreign exchange forward contract - Fair value through profit or loss | | | | | |
| Ravi Industries Ltd. | | | | - | 407 |
| Hayleys PLC | | | | 32,453 | - |
| Total | | | | 32,453 | 407 |
| Quoted equity shares - Fair value through profit or loss | | | | | |
| Hayleys PLC. | Aitken Spence Hotel Holdings PLC | 112 | 112 | 6 | 8 |
| | ACL Cables PLC | 260 | 260 | 26 | 20 |
| | Central Industries PLC | 7,957 | 7,957 | 683 | 676 |
| | Ceylon Cold Stores PLC | 252 | 252 | 108 | 75 |
| | DFCC Bank PLC | 338 | 338 | 46 | 69 |
| | Kelani Tyres PLC | 17,200 | 17,200 | 1,101 | 1,342 |
| | Lanka Orix Leasing Company PLC | 1,520 | 1,520 | 109 | 116 |
| | National Development Bank PLC | 20,681 | 20,681 | 3,491 | 5,129 |
| | Three Acre Farms PLC | 1,840 | 1,840 | 157 | 84 |
| | Hatton National Bank PLC - Non-Voting | 15,000 | 15,000 | 2,565 | 2,475 |
| | Hatton National Bank PLC | 5,000 | 5,000 | 997 | 1,110 |
| | Environmental Resources Investment PLC | 5,000 | 5,000 | 50 | 68 |
| Dean Foster (Pvt) Ltd. | ACL Cables PLC | 4,120 | 4,120 | 416 | 313 |
| | Asiri Hospital Holdings PLC | 270 | 270 | 6 | 5 |
| | Bairaha Farms PLC | 900 | 900 | 130 | 98 |
| | Blue Diamonds Jewellery Worldwide PLC | 13 | 13 | 0 | 0 |
| | Central Industries PLC | 900 | 900 | 77 | 76 |
| | Nation Lanka Finance PLC | 1,300 | 1,300 | 1 | 6 |
| | Lanka Orix Leasing Company PLC | 3,280 | 3,280 | 236 | 251 |
| | Three Acre Farms PLC | 2,000 | 2,000 | 170 | 92 |
| | Kelani Tyres PLC | 2,000 | 2,000 | 128 | 156 |
| | Vanik Incorporation PLC - Voting | 7,500 | 7,500 | 6 | 6 |
| | Vanik Incorporation PLC -Non- Voting | 5,000 | 5,000 | 4 | 4 |
| | Seylan Bank PLC | 43 | 43 | 4 | 4 |
| | Browns Investments PLC | 186,200 | 186,200 | 242 | 298 |

Notes to the Financial Statements

| Investor | Investee | Number of shares | | Value | |
|--|---------------------------------------|------------------|-----------|--------------------------|--------------------------|
| | | 2016 | 2015 | Total 2016 Rs.'000 | Total 2015 Rs.'000 |
| Advantis Group | Commercial Bank PLC-Voting | 20,000 | 20,000 | 2,318 | 3,360 |
| | John Keells Holdings PLC | 5,195 | 5,195 | 879 | 1,036 |
| | DFCC Bank PLC | 10,000 | 10,000 | 1,370 | 2,028 |
| | Hatton National Bank PLC - Non-Voting | 10,000 | 10,000 | 1,710 | 1,650 |
| | Hatton National Bank PLC | 10,000 | 10,000 | 1,993 | 2,220 |
| | National Development Bank PLC | 10,000 | 10,000 | 1,688 | 2,480 |
| | Beruwala Resort PLC | 1,000,000 | 1,000,000 | 1,200 | 1,600 |
| | Union Bank PLC | 400 | 400 | 7 | 7 |
| Amaya Leisure PLC | The Fortress Resorts PLC | 90,075 | 90,075 | 1,171 | 1,369 |
| | LB Finance PLC | 20 | 20 | 2 | 3 |
| | Free Lanka Capital Holdings PLC | 5,320,000 | 5,320,000 | 6,384 | 8,512 |
| Fentons Ltd. | Hotel Sigiriya PLC | 5,500 | - | 483 | - |
| Total | | | | 29,965 | 36,745 |
| Unit trust - Fair value through profit or loss | | | | | |
| Hayleys PLC | NDB Wealth Management Limited. | 29,896,297 | - | 403,388 | - |
| | NDB Wealth Money Fund | | | | |
| Carbotels (Pvt) Ltd. | NDB Wealth Management Limited. | 34,270,559 | - | 462,409 | - |
| | NDB Wealth Money Fund | | | | |
| Total | | | - | 865,797 | - |

19.3 Other Current Financial Liabilities

| As at 31st March | Consolidated | | Company | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| | Total 2016 Rs.'000 | Total 2015 Rs.'000 | Total 2016 Rs.'000 | Total 2015 Rs.'000 |
| Financial instruments at fair value through profit or loss | | | | |
| Foreign exchange forward contracts | 553 | 15,942 | - | 15,942 |
| Total other current financial liabilities | 553 | 15,942 | - | 15,942 |

19.4 Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Level 2: Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

As at 31 March 2016, the Group held the following financial instruments carried at fair value in the Statement of Financial Position:

Assets measured at fair value

| As at 31st March | 2016 Rs.'000 | Level 1 Rs.'000 | Level 2 Rs.'000 | Level 3 Rs.'000 |
|---|-----------------|--------------------|--------------------|--------------------|
| Available-for-sale financial assets: | | | | |
| Quoted equity shares (19.1 and 19.2) | 69,041 | 69,041 | - | - |
| Financial assets at fair value through profit or loss: | | | | |
| Foreign exchange forward contract (19.2) | 32,453 | - | 32,453 | - |
| Quoted equity shares (19.2) | 29,965 | 29,965 | - | - |
| Unit trust (19.2) | 865,797 | 865,797 | - | - |

Liabilities measured at fair value

| As at 31st March | 2016 Rs.'000 | Level 1 Rs.'000 | Level 2 Rs.'000 | Level 3 Rs.'000 |
|---|-----------------|--------------------|--------------------|--------------------|
| Financial liabilities at fair value through profit or loss | | | | |
| Foreign exchange forward contracts | 553 | - | 553 | - |

During the reporting period ended 31 March 2016, there were no transfers between Level 1 and Level 2 fair value measurements.

Notes to the Financial Statements

Fair Values

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the Financial Statements.

| As at 31st March | Consolidated | | Company | |
|--|-----------------|------------|-----------------|------------|
| | Carrying value | Fair value | Carrying value | Fair value |
| | 2016 Rs.'000 | Rs.'000 | 2016 Rs.'000 | Rs.'000 |
| Financial Assets | | | | |
| Other non- current financial assets | | | | |
| Available for sale investments | 223,038 | 223,038 | 141,764 | 141,764 |
| Other current financial assets | | | | |
| Available for sale investments | 1,660 | 1,660 | - | - |
| Financial instruments at fair value through profit or loss | 928,215 | 928,215 | 445,180 | 445,180 |
| Trade and other receivables | 19,498,173 | 19,498,173 | 13,983 | 13,983 |
| Amounts due from subsidiaries | - | - | 1,111,039 | 1,111,039 |
| Amounts due from equity accounted investees | 42,162 | 42,162 | 5,762 | 5,762 |
| Short term deposits | 1,985,845 | 1,985,845 | - | - |
| Cash in hand and at bank | 3,676,171 | 3,676,171 | 98,559 | 98,559 |
| | 26,355,264 | 26,355,264 | 1,816,287 | 1,816,287 |
| Financial Liabilities | | | | |
| Interest-bearing borrowings* | 18,501,311 | 18,487,943 | 6,543,430 | 6,546,416 |
| Trade and other payables | 13,163,671 | 13,163,671 | 241,627 | 241,627 |
| Amounts due to subsidiaries | - | - | 27,375 | 27,375 |
| Other current financial liabilities | | | | |
| Financial instruments at fair value through profit or loss | 553 | 553 | - | - |
| Short-term interest-bearing borrowings | 14,612,943 | 14,612,943 | 43,052 | 43,052 |
| | 46,278,479 | 46,265,111 | 6,855,484 | 6,858,470 |

* Include fixed interest loans carried at amortised cost.

The fair value of the financial assets and liabilities is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participant at the measurement date.

The following methods and assumptions were used to estimate the fair values:

- Cash in hand and at bank and short term deposits, trade receivables and trade payables approximate their carrying amounts largely due to the short term maturities of these instruments.
- Fair value of quoted equity shares is based on price quotations at the reporting date.

20 Other Non Current Assets

| As at 31st March | Consolidated | | | |
|--------------------------|--------------|---------|-----------------|-----------------|
| | Formers | Others | Total | Total |
| | Rs.'000 | Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Cost | 517,462 | 353,033 | 870,495 | 1,263,419 |
| Provision for impairment | (268,403) | (6,115) | (274,518) | (241,264) |
| | 249,059 | 346,918 | 595,977 | 1,022,155 |

21 Inventories

| As at 31st March | Consolidated | | Company | |
|---|--------------|------------|---------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| Raw materials & consumables | 5,324,095 | 4,617,873 | 1,421 | 1,854 |
| Produce stocks | 948,119 | 1,228,711 | - | - |
| Nurseries | 19,446 | 22,316 | - | - |
| Work-in-progress | 1,346,125 | 958,621 | - | - |
| Finished goods | 7,576,541 | 6,206,217 | - | - |
| Goods-in-transit | 569,183 | 118,056 | - | - |
| | 15,783,508 | 13,151,794 | 1,421 | 1,854 |
| Provision for write-down of inventories | (539,760) | (470,525) | - | - |
| Provision for unrealised profit | (107,629) | (64,149) | - | - |
| | 15,136,119 | 12,617,120 | 1,421 | 1,854 |

(i) Carrying amount of inventories pledged as security for bank facilities obtained amounted to Rs.1,346 mn (2015 - Rs. 1,396 mn).

(ii) Inventory carried at net realisable value as at 31st March 2016 Rs. 491 mn (2015 - Rs. 206 mn).

Notes to the Financial Statements

22 Trade and Other Receivables/Other Current Assets

22.1 Trade and Other Receivables

| As at 31st March | Consolidated | | Company | |
|------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Trade receivables | 15,672,177 | 13,115,684 | - | - |
| Bills receivable | 2,097,834 | 2,486,025 | - | - |
| | 17,770,011 | 15,601,709 | - | - |
| Payment in advance, deposits | 2,423,733 | 2,834,308 | 45,017 | 46,390 |
| Duty rebate receivable | 6,780 | 13,739 | - | - |
| Employee loans | 39,156 | 94,625 | 1,148 | 1,094 |
| Provision for impairment | (741,507) | (684,861) | (32,182) | (32,182) |
| | 19,498,173 | 17,859,520 | 13,983 | 15,302 |

22.1.1 Movement in the Provision for Impairment

| As at 31st March | Consolidated | | Company | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| At the beginning of the year | (684,861) | (725,675) | (32,182) | (32,182) |
| Reversal/ (Charge) for the year | (56,646) | 40,814 | - | - |
| At the end of the year | (741,507) | (684,861) | (32,182) | (32,182) |

22.1.2 The Aging Analysis of Trade and Bills Receivable is as follows,

| As at 31st March | Total | Neither past due nor impaired | 0-60 days | 61-120 days | 121-180 days | 181-365 days | >365 days |
|-------------------------------|------------|-------------------------------------|--------------|----------------|-----------------|-----------------|--------------|
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| Balance as at 31st March 2016 | 17,770,011 | 10,203,668 | 4,805,981 | 1,102,159 | 950,776 | 224,197 | 483,230 |
| Balance as at 31st March 2015 | 15,601,709 | 8,478,769 | 4,940,529 | 1,042,739 | 374,516 | 230,650 | 534,506 |

22.1.3 Currency-wise Analysis of Trade and Other Receivables

| As at 31st March | Consolidated | | Company | |
|-----------------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Sri Lankan Rupees | 10,790,582 | 9,658,702 | 13,983 | 15,302 |
| Australian Dollars | 83,862 | 179,269 | - | - |
| Pounds Sterling | 146,877 | 342,938 | - | - |
| United States Dollars | 5,016,913 | 4,718,199 | - | - |
| Euro | 2,069,142 | 1,918,021 | - | - |
| Thai Baht | 124,111 | 155,216 | - | - |
| Indian Rupees | 30,935 | 31,764 | - | - |
| Maldivian Rufiyaa | 219,153 | 324,115 | - | - |
| Bangladesh Taka | 451,089 | 232,857 | - | - |
| Others | 565,509 | 298,440 | - | - |
| | 19,498,173 | 17,859,520 | 13,983 | 15,302 |

22.2 Other Current Assets

| As at 31st March | Consolidated | | Company | |
|------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Prepayments | 1,179,366 | 844,056 | 11,134 | 10,036 |
| Pre paid staff benefit | 42,791 | 21,288 | - | - |
| VAT receivables | 208,987 | 249,051 | - | - |
| Other tax receivables | 102,087 | 158,900 | - | - |
| | 1,533,231 | 1,273,295 | 11,134 | 10,036 |

23 Stated Capital

| | | Company | |
|---------------------------------------|--|-----------------|-----------------|
| As at 31st March | | 2016 Rs.'000 | 2015 Rs.'000 |
| Issued & fully paid - ordinary shares | | | |
| At the beginning of the year | -75,000,000 (1st April 2015 - 75,000,000) | 1,575,000 | 1,575,000 |
| At the end of the year | -75,000,000 (31st March 2016 - 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.

Notes to the Financial Statements

23.1 Employee Share Trust Loan

The Hayleys PLC Employees' Share Trust was set up through 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. 504mn, granted by the Company. In accordance with the Circular 'CSE 02/2012 of 24th February 2012' issued by the Colombo Stock Exchange, the Company was fully settled during the period by the proceeds of the sale of shares of the Share Trust.

24 Other Capital Reserves & Retained Earnings

24.1 Other Capital Reserves

| Consolidated | 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 | Total |
|--|--|---------------------------------|--|---------------------------------|-----------------------------------|-------------------------|-----------|
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| Balance as at 1st April 2014 | 109 | 11,750 | 89,404 | 62,116 | 1,047 | 448,481 | 612,907 |
| Changes in ownership interests in subsidiaries | - | - | 3 | 157 | - | (129,372) | (129,212) |
| Transfers | - | - | - | 3,484 | - | - | 3,484 |
| Balance as at 31st March 2015 | 109 | 11,750 | 89,407 | 65,757 | 1,047 | 319,109 | 487,179 |
| Changes in ownership interests in subsidiaries | - | - | 3 | - | - | 66 | 69 |
| Transfers | - | - | - | 3,245 | - | - | 3,245 |
| Balance as at 31st March 2016 | 109 | 11,750 | 89,410 | 69,002 | 1,047 | 319,175 | 490,493 |

| Company | Capital profit on redemption of debentures | Fixed asset replacement reserve | Capital reserve on sale of property, plant & equipment | Debenture redemption reserve fund | Total |
|-------------------------------|--|---------------------------------|--|-----------------------------------|---------|
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| Balance as at 31st March 2015 | 109 | 11,750 | 320 | 1,047 | 13,226 |
| Balance as at 31st March 2016 | 109 | 11,750 | 320 | 1,047 | 13,226 |

24.2 Retained Earnings

| As at 31st March | Consolidated | | Company | |
|----------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Holding Company | 2,714,878 | 2,385,797 | 2,714,878 | 2,385,797 |
| Subsidiaries | 11,572,355 | 9,999,376 | - | - |
| Equity accounted investees | 6,813 | 135,835 | - | - |
| | 14,294,046 | 12,521,008 | 2,714,878 | 2,385,797 |

24.3 Super Gain Tax

As per the provisions of Part III of the Finance Act No. 10 of 2015, which was certified on 30 October 2015, the Group and the Company was liable for Super Gain Tax of Rs. 939.8 mn and Rs. 22.6 mn respectively. According to the Act, the Super Gain Tax was deemed to be an expenditure in the Financial Statements relating to the year of assessment which commenced on 1 April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards and hence the expense of Super Gain Tax has been accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by the Institute of Chartered Accountants of Sri Lanka, dated 24 November 2015.

25 Interest Bearing Borrowings

| As at 31st March | Consolidated | | Company | |
|------------------|--------------|---------|---------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |

25.1 Total Non-Current Portion of Interest Bearing Borrowings

| | | | | |
|---|------------|------------|-----------|-----------|
| Finance lease obligations | 611,063 | 598,736 | - | - |
| Debentures | 1,991,065 | 3,979,481 | 1,991,065 | 3,979,481 |
| Long-term loans | 9,663,592 | 7,491,057 | 1,564,600 | 1,688,338 |
| Total non-current interest-bearing borrowings | 12,265,720 | 12,069,274 | 3,555,665 | 5,667,819 |

| As at 31st March | Consolidated | | Company | |
|------------------|--------------|---------|---------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |

25.2 Current Portion of Interest Bearing Borrowings

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Finance lease obligations | 76,297 | 70,705 | - | - |
| Debentures | 1,998,176 | - | 1,998,176 | - |
| Long-term loans | 4,161,118 | 3,616,139 | 989,589 | 1,214,729 |
| Total current interest-bearing borrowings | 6,235,591 | 3,686,844 | 2,987,765 | 1,214,729 |

25.3 Finance Lease Obligations

| As at 31st March | Consolidated | |
|---|--------------|-------------|
| | 2016 | 2015 |
| | Rs.'000 | Rs.'000 |
| At the beginning of the year | 2,654,242 | 2,753,853 |
| New leases obtained | 17,863 | 9,456 |
| | 2,672,105 | 2,763,309 |
| Acquisition through business combinations | 36,666 | 5,507 |
| Effect of movement in exchange rates | 1,775 | 30 |
| Repayments | (118,551) | (114,604) |
| At the end of the year | 2,591,995 | 2,654,242 |
| Finance charge unamortised | (1,904,635) | (1,984,801) |
| Net lease obligation | 687,360 | 669,441 |

Notes to the Financial Statements

25.4 Currency Wise Analysis of Finance Lease Obligations

| As at 31st March | Consolidated | |
|-------------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 |
| Sri Lankan Rupees | 670,588 | 657,247 |
| Bangladesh Taka | 16,772 | 12,194 |
| | 687,360 | 669,441 |

25.5 Analysis of Finance Lease Obligations by Year of Repayment

| As at 31st March | Consolidated | |
|---|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 |
| Finance lease obligations repayable within 1 year from year-end | | |
| Gross liability | 112,199 | 106,238 |
| Finance charges unamortised | (35,902) | (35,533) |
| Net lease obligations repayable within 1 year from year-end | 76,297 | 70,705 |
| Finance lease obligations repayable between 1 and 5 years from year-end | | |
| Gross liability | 374,932 | 356,019 |
| Finance charges unamortised | (184,613) | (180,984) |
| Net lease obligations | 190,319 | 175,035 |
| Finance lease obligations repayable after 5 years from year-end | | |
| Gross liability | 2,105,183 | 2,191,532 |
| Finance charges unamortised | (1,684,439) | (1,767,831) |
| Net lease obligations | 420,744 | 423,701 |
| Net lease liability repayable later than 1 year from year-end | 611,063 | 598,736 |

Talawakelle Tea Estates PLC

Liability to make Lease Payment as above was previously titled as "Net Liability to lessor". The Change was in terms of the Statement of Alternative Treatment (SoAT) issued by The Institute of Chartered Accountants of Sri Lanka on 21 August 2013. Accordingly reassessed the liability to make lease payments and the corresponding Right to Use of Land in terms of the above SoAT and elect to reassess the liability at each reporting period based on the changes in GDP deflator.

According to the reassessment, the base rental payable per year has increased from Rs. 7.23 mn to Rs. 25.2 mn.

Kelani Valley Plantations PLC

Liability to make Lease Payment as above was previously titled as "Net Liability to lessor". The Change was in terms of the Statement of Alternative Treatment (SoAT) issued by The Institute of Chartered Accountants of Sri Lanka on 21st August 2013.

According to the reassessment, the base rental payable per year has increased from Rs.19.6 mn to Rs.59.4 mn.

25.6 Debentures

| As at 31st March | Consolidated | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| At the beginning of the year | 3,979,481 | 2,040,000 | 3,979,481 | 2,000,000 |
| Issued during the year | - | 2,000,000 | - | 2,000,000 |
| Repayments during the year | - | (40,000) | - | - |
| At the end of the year | 3,979,481 | 4,000,000 | 3,979,481 | 4,000,000 |
| Amortisation of debenture issue expense | 9,760 | (20,519) | 9,760 | (20,519) |
| Net Debentures | 3,989,241 | 3,979,481 | 3,989,241 | 3,979,481 |
| Repayable within one year | 1,998,176 | - | 1,998,176 | - |
| Repayable after one year | 1,991,065 | 3,979,481 | 1,991,065 | 3,979,481 |

Listed Debentures

Details regarding the listed debentures are as follows;

Debenture 1 -

Listed, rated, senior, unsecured, redeemable debentures at 14.25% p.a. payable quarterly and redeemable on 9th July, 2016

Interest rate of comparable Government Securities as at 31st March, 2016, 9.30% (Net of tax)

Debenture 2 -

Listed, rated, senior, unsecured, redeemable debentures at 7.60% p.a. payable semi annually and redeemable on 6th March, 2019

Interest rate of comparable Government Securities as at 31st March, 2016, 11.69% (Net of tax)

Debenture 3 -

Listed, rated, senior, unsecured, redeemable debentures at 7.85% p.a. payable semi annually and redeemable on 6th March, 2020

Interest rate of comparable Government Securities as at 31st March, 2016, 11.73% (Net of tax)

25.7 Currency wise Analysis of Debentures

| As at 31st March | Consolidated | | Company | |
|-------------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Sri Lankan Rupees | 3,989,241 | 3,979,481 | 3,989,241 | 3,979,481 |
| | 3,989,241 | 3,979,481 | 3,989,241 | 3,979,481 |

Notes to the Financial Statements

25.8 Analysis of Debentures by Year of Repayment

| As at 31st March | Consolidated | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Long term loans repayable between 1 and 2 years from year-end | - | 1,983,484 | - | 1,983,484 |
| Long term loans repayable between 2 and 5 years from year-end | 1,991,065 | 1,995,997 | 1,991,065 | 1,995,997 |
| | 1,991,065 | 3,979,481 | 1,991,065 | 3,979,481 |

25.9 Long term Borrowings

| As at 31st March | Consolidated | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| At the beginning of the year | 11,107,196 | 9,114,759 | 2,903,067 | 2,986,214 |
| Acquisitions through business combinations | 546,009 | 968,729 | - | - |
| Effect of movements in exchange rates | 391,994 | 44,041 | 36,300 | 30,599 |
| Adjustment for USD loan facility fee | 6,338 | 6,337 | 6,339 | 6,337 |
| New loans obtained | 6,799,581 | 4,260,150 | 1,442,000 | 1,000,000 |
| | 18,851,118 | 14,394,016 | 4,387,706 | 4,023,150 |
| Repayments | (5,026,408) | (3,286,820) | (1,833,517) | (1,120,083) |
| At the end of the year | 13,824,710 | 11,107,196 | 2,554,189 | 2,903,067 |
| Transfer to current liabilities (repayable within one year) | (4,161,118) | (3,616,139) | (989,589) | (1,214,729) |
| Repayable after one year | 9,663,592 | 7,491,057 | 1,564,600 | 1,688,338 |

25.9.1 Hayleys PLC, Hayleys Global Beverages (Pvt) Ltd, Amaya Leisure PLC, Hayleys Advantis Ltd have obtained loans during the year amounting to Rs. 1,442 mn, 1,327 mn, 896 mn, 540 mn, respectively.

25.10 Currency wise Analysis of Long Term Borrowings

| As at 31st March | Consolidated | | Company | |
|-----------------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Sri Lankan Rupees | 6,910,370 | 6,193,069 | 866,667 | 2,243,333 |
| United States Dollars | 6,781,358 | 4,742,962 | 1,687,522 | 659,734 |
| Euro | 103,477 | 121,227 | - | - |
| Bangladesh Taka | 26,928 | 36,732 | - | - |
| Thai Baht | 2,577 | 13,206 | - | - |
| | 13,824,710 | 11,107,196 | 2,554,189 | 2,903,067 |

25.11 Analysis of Long Term Borrowings by Year of Repayment

| As at 31st March | Consolidated | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2016 Rs. '000 | 2015 Rs. '000 | 2016 Rs. '000 | 2015 Rs. '000 |
| Long term loans repayable between 1 and 2 years from year-end | 3,790,347 | 3,205,067 | 1,364,600 | 1,088,338 |
| Long term loans repayable between 2 and 5 years from year-end | 5,415,366 | 3,883,633 | 200,000 | 600,000 |
| Long term loans repayable later than 5 years from year-end | 457,879 | 402,357 | - | - |
| | 9,663,592 | 7,491,057 | 1,564,600 | 1,688,338 |

25.12 Long Term Borrowings Repayable After One Year

| Company | Lender/rate of interest (p.a.) | 2016 Rs. '000 | 2015 Rs. '000 | Repayment | Security |
|---------------------------------|---|------------------|------------------|---|--|
| Hayleys PLC. | Hatton National Bank PLC (AWPLR) | - | 600,000 | To be paid bi annually. | None |
| | HSBC (USD) (3.35%) | 964,600 | - | To be paid bi annually in equal installments of USD 1.67 mn | None |
| | Standard Chartered Bank PLC USD (LIBOR+4.25%) | - | 221,672 | To be paid bi annually. | None |
| | Commercial Bank of Ceylon PLC (7.85%) | 600,000 | 800,000 | To be paid bi annually in equal installments of Rs.100Mn | None |
| | DFCC Bank PLC (AWPLR-1%) | - | 66,667 | To be paid annually in equal installments of Rs.33.334Mn | None |
| ICOQUANTI S.p.A | Alessandria Financing 1.95% (Euro 1,000,000) | 94,965 | 106,892 | Repayment over 2 years as per agreed schedule. | None |
| Dipped Products (Thailand) Ltd. | HSBC (LIBOR + 2%) | 296,727 | - | Monthly installments ending April, 2020 | Corporate guarantee from Dipped Products PLC |
| DPL Premier Gloves Ltd. | HSBC (LIBOR + 2%) | 614,934 | - | Monthly installments ending April, 2020 | Mortgage over Company land and buildings |
| Mabroc Teas (Pvt) Ltd. | Pan Asia Banking Corporation PLC (LIBOR + 4 %) | - | 7,755 | Monthly installments ending May 2017. | Primary floating mortgage bond over imported machine |
| | Union Bank of Colombo PLC (LIBOR + 3.5%) with a floor rate of (4.5%) | - | 25,081 | Installment ending December, 2017. | Primary mortgage over imported machine. |

Notes to the Financial Statements

| Company | Lender/rate of interest (p.a.) | 2016 Rs. '000 | 2015 Rs. '000 | Repayment | Security |
|-------------------------------|--|------------------|------------------|--|--|
| Kelani Valley Plantations PLC | DFCC Bank PLC (9.42%) | - | 9,333 | Monthly installments ending March, 2017. | Primary mortgage over the leasehold rights of four estates. |
| | DFCC Bank PLC (AWPLR-0.5%) 1st 2 years (AWPLR+1.5%) After | 109,922 | - | Monthly installments ending 2021. | |
| | NDB Bank PLC (AWPLR-0.5%) 1st 2 years (AWPLR+1.5%) After | 47,441 | | Monthly installments commenced on February 2016 | Primary mortgage over the leasehold rights, buildings, plant & machinery of three estates. |
| | Amana Bank PLC (SLIBOR with a cap of 14% and floor of 7.25%) | 38,862 | 47,230 | Monthly installments ending 2021. | None |
| | Amana Bank PLC (SLIBOR with a cap of 14% and floor of 7.25%) | 83,333 | 100,000 | Monthly installments ending 2023. | None |
| | Amana Bank PLC (SLIBOR with a cap of 14% and floor of 7.25%) | 44,359 | - | Monthly installments ending 2023. | None |
| | | | | | |
| Haycarb PLC | Commercial Bank of Ceylon PLC (LIBOR + 3.75%) | 7,929 | 27,691 | Monthly installments over 5 years commencing June, 2011 | None |
| | HSBC (LIBOR + 3.5%) | 6,511 | 29,997 | Monthly installments over 5 years commencing July, 2012 | None |
| | HSBC (LIBOR + 4.5%) | 21,269 | 36,396 | 60 equal monthly installments commencing June, 2013. | None |
| | HSBC (LIBOR + 4.5%) | 22,620 | 38,707 | 60 equal monthly installments commencing July, 2013. | None |
| | HSBC (LIBOR + 2.75) | 51,675 | - | 60 equal monthly installments commencing from March 2016 | None |
| | Commercial Bank of Ceylon PLC (LIBOR + 4.75%) | 9,130 | 22,670 | 47 equal monthly installments commencing November, 2013. | None |
| | Standard Chartered Bank PLC (LIBOR + 4%) | 41,448 | 79,853 | 60 equal monthly installments commencing September, 2012. | Mortgage over the share certificate of Haycarb Value Added Products (Pvt) Ltd, amounting to Rs.400 mn. |
| | Standard Chartered Bank PLC (LIBOR + 4%) | 25,537 | 49,198 | 12 grace period plus 60 Monthly installments commencing July 2014. | None |
| | Standard Chartered Bank PLC (LIBOR + 4%) | 42,638 | 81,625 | 12 grace period plus 60 Monthly installments commencing July 2014. | None |

| Company | Lender/rate of interest (p.a.) | 2016 Rs. '000 | 2015 Rs. '000 | Repayment | Security |
|---|---|------------------|------------------|--|---|
| PT Haycarb Palu Mitra | HSBC (5.25%) | 52,046 | 82,311 | Payable in 16 quarterly installments commencing land and buildings from September 2014 | Mortgage over Company land and buildings |
| PT Mapalus Makawanua Charcoal Industry. | Bank Panin Manado -(8%) | - | 9,861 | Monthly installments over five years commencing September, 2011 | Mortgage over land & building. |
| | HSBC (6.78%) | 46,796 | - | Monthly installments over three years commencing June -2015 | Mortgage over land & building. |
| Haycarb Holding Bitung Ltd. | Commercial Bank of Ceylon PLC (LIBOR + 4%) | 23,380 | 42,821 | Payable in 59 monthly installments. | Corporate guarantee for US \$ 80,000 from Haycarb PLC. |
| Haycarb USA Inc. | Hatton National Bank PLC (LIBOR + 3.75%) | 43,403 | - | Payable in 60 quarterly installments commencing from September 2015 | Corporate guarantee for US\$ 1,750,000/- from Haycarb PLC |
| Logiventures (Pvt) Ltd. | Hatton National Bank PLC (LIBOR + 4.25%) | 116,952 | 139,448 | Payable in 56 monthly installments of Rs 3Mn and 1st installment of Rs 1 mn. | Land |
| Hayleys Free Zone Limited | Seylan Bank PLC (LIBOR + 3.5%) | 196,872 | 186,930 | Quarterly installments commencing from Feb-16 | None |
| | Seylan Bank PLC (LIBOR + 3.5%) | 286,685 | 279,972 | Quarterly installments commencing from December 2016 | None |
| Logistic International Ltd. | HSBC (LIBOR + 2%) | 7,664 | - | Monthly installments ending 2017. | None |
| | HSBC (LIBOR + 2%) | 65,111 | - | Monthly installments ending 2020. | None |
| Moceti International Ltd. | Standard Chartered Bank PLC (LIBOR + 1.95%) | 253,208 | - | Quarterly installments ending 2020. | None |
| TTEL Hydro Power Company (Pvt) Ltd. | Sampath Bank PLC (8.75%) | 37,622 | 59,121 | 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. |

Notes to the Financial Statements

| Company | Lender/rate of interest (p.a.) | 2016 Rs. '000 | 2015 Rs. '000 | Repayment | Security |
|---|--|------------------|------------------|---|--|
| Hayleys Industrial Solutions (Pvt) Ltd. | Sampath Bank PLC (AWPLR+0.5%) | 87,487 | 137,491 | 59 Monthly installments commencing from 31 st January, 2014. | Loan agreement 250 mn Mortgage bond over 30 mn shares of Hayleys Power Ltd for 250 mn original share certificate of Hayleys Power Ltd, total in to 30 mn shares. |
| | Sampath Bank PLC (AWPLR+0.5%) | 100,000 | 100,000 | 48 Monthly installments commencing from March 2017 | None |
| Hayleys Fabric PLC | Commercial Bank of Ceylon PLC (6.5%) | 300 | 4,020 | 96 monthly installments of USD 2,733/(Rs.312,500)after grace period of 2 years. | Mortgage over machinery |
| | NDB Bank PLC (3 month LIBOR+4.25%) | 20,220 | 63,027 | 36 monthly installments of USD 222,223/ | None |
| | Seylan Bank PLC (3month LIBOR+5%) | - | 7,406 | 36 monthly installments of USD 27,778 | None |
| | Hatton National Bank PLC (3 month LIBOR+ 4.25%) | 128,610 | 474,025 | 36 monthly installments of USD 27,728 after grace period of 6 months | None |
| | Standard Chartered Bank PLC (LIBOR + 3.35%) | 135,893 | - | 18 monthly installments of USD 57,562 | Mortgage over machinery |
| Talawakelle Tea Estates PLC | NDB Bank PLC (9.42% - 10 %) | - | 32,160 | 96 Installment ending December, 2018. | Primary Mortgage over leasehold rights of |
| | NDB Bank PLC (9.42% - 10 %) | - | 39,503 | 60 Installment ending November ,2017. | Somerset, Great western, Holyrood, Logie and |
| | NDB Bank PLC (9.42% - 10 %) | - | 36,115 | 60 Installment ending June,2018. | dessford estates. |
| | NDB Bank PLC (AWPLR -0.5%) | 117,500 | - | 60 Installment ending 2021. | |
| | Sampath Bank PLC (8%) | 21,736 | 34,780 | 92 installment ending November, 2018. | Primary mortgage bond for Rs: 100 mn over leasehold right of Mattakelle Estate |
| | DFCC Vardhana Bank PLC (8.5%) | - | 50,000 | 60 monthly installments commencing from March 2015 | None |

| Company | Lender/rate of interest (p.a.) | 2016 Rs. '000 | 2015 Rs. '000 | Repayment | Security |
|--------------------------------|--|------------------|------------------|--|---|
| Ravi Industries (Pvt) Ltd. | Hatton National Bank PLC. (3 months LIBOR+4.2 %) | 1,519 | 7,793 | Installment ending September, 2017. | Primary Mortgage over specific Machinery. |
| | Hatton National Bank PLC- LKR (AWPLR+0.5%) | 475 | 2,375 | Quarterly installments from September 2012. | Primary Mortgage over specific Machinery. |
| | Hatton National Bank PLC-USD (3 months LIBOR + 4 %) | 78,538 | 88,877 | Quarterly installments from September 2012. | Primary Mortgage over specific Machinery. |
| | Pan Asia Banking Corporation PLC EURO (3m Euro +3.75%) | - | 1,682 | Equal monthly installments from October 2011. | Primary Mortgage over specific Machinery. |
| | Pan Asia Banking Corporation PLC-USD- (LIBOR +4.24 %) | - | 2,639 | Equal monthly installments from March 2011. | Primary Mortgage over specific Machinery. |
| Volanka (Pvt) Ltd. | DFCC Bank PLC (AWPLR+ 4%) | 21,429 | 35,714 | One year grace period loan repayment start date from January 2012. | Mortgage on Land and Building at Katana. |
| Chas P. Hayley & Co. (Pvt) Ltd | Hatton National Bank PLC- (AWPLR+1%) | 115,000 | - | 60 Installment ending 2021. | None |
| Rileys (Pvt) Ltd. | Hatton National Bank PLC- (AWPLR+1%) | 112,500 | - | 60 Installment ending 2021. | Corporate guarantee for Rs.250 mn from Volanka Ltd. |
| Alumex PLC | Lanka Orix Leasing Company PLC (6.5%) | - | 1,042 | June 2010 to June 2016 | Mortgage over machinery |
| | Commercial Bank of Ceylon PLC (AWPLR +1.5%) | - | 2,042 | 36 monthly installments ending May, 2016. | None |
| The Kingsbury PLC | Bank of Ceylon PLC (AWPLR) | 398,990 | 605,050 | 6 year including 1 & 1/2 yea grace period | Mortgage on leasehold right of the land. |
| | DEG Deutsche Investitions (6m LIBOR +4 .25%) | 964,567 | 1,111,000 | Semi annual repayment on each 15th of June and December respectively commencing on 15th June 2015. for 12 installments | Mortgage on leasehold land, building, fixtures, furniture, equipment and technical equipment. |
| Haychem Bangladesh Ltd. | Commercial Bank of Ceylon PLC (15%) | - | 4,200 | 60 monthly equal installment. | Registered mortgage over land and building |
| | Commercial Bank of Ceylon PLC (15%) | 20,338 | 22,438 | 60 monthly equal installment. | None |

Notes to the Financial Statements

| Company | Lender/rate of interest (p.a.) | 2016 Rs. '000 | 2015 Rs. '000 | Repayment | Security |
|---------------------------------------|---|------------------|------------------|--|---|
| Sun Tan Beach Resorts Ltd. | DFCC Bank PLC (PLR +1.5%) | 345,455 | 309,091 | 66 Monthly installments commencing from December, 2014 | Leasehold right of the land and hotel building belongs to Sun Tan Beach Resorts Ltd |
| | Hatton National Bank PLC (PLR + 7.5%) | 678,367 | - | Monthly installments commencing from January, 2017 | Leasehold property |
| | Commercial Bank of Ceylon PLC (1 Month AWPLR+2%) | - | 150,000 | 60 Monthly installments commencing from January, 2015 | Leasehold right of the land and hotel building |
| | Commercial Bank of Ceylon PLC - USD (1 M LIBOR +4.5 %) | - | 291,847 | 72 Monthly installments commencing from January, | belongs to Sun Tan Beach Resorts Ltd |
| Amaya Leisure PLC | Seylan Bank PLC (3 M AWPLR) | 207,750 | 307,950 | Monthly installments commencing from May, 2014 | None |
| Nirmalapura Wind Power (Pvt) Ltd. | HSBC (LIBOR +3.9%) | - | 118,223 | 48 Monthly installments. | Mortgage over land |
| Hayleys Global Beverages (Pvt) Ltd. | Hatton National Bank PLC (AWPLR+0.5%) | 1,165,822 | 242,746 | Payable in 20 quarterly installments after initial grace period of 2 years | None |
| Hayleys Neluwa Hydro Power (Pvt) Ltd. | Hatton National Bank PLC (AWPLR+0.5%) | 192,399 | 56,586 | To be repaid over a period of 8 years | Mortgage bond for Rs. 750 mn ordinary shares of Hayleys Neluwa Hydro (Pvt) Ltd. |
| | DFCC Vardhana Bank PLC (AWPLR+0.5%) | 325,000 | - | 72 monthly installments after grace period of 2 years | Mortgage bond for Rs. 500 mn |
| Neluwa Cascade Hydro Power (Pvt) Ltd. | Sampath Bank PLC (AWPLR+0.5%) | 71,423 | - | 60 monthly installments commencing from July, 2015 | Primary mortgage for Rs. 100 mn over the project land & assets |
| Fentons Ltd. | Commercial Bank of Ceylon PLC (AWPLR + 2%) | 74,400 | - | Monthly installments | Mortgage over land & building |
| | Sampath Bank PLC (13%) | 9,595 | - | Monthly installments | Mortgage over stock & debtors |
| | Lanka Orix Leasing Company PLC (14%) | 2,982 | - | Monthly installments | None |
| Energy Net Ltd. | Sampath Bank PLC (15%) | 7,500 | - | Monthly installments | Mortgage over stock & debtors |
| | Lanka Orix Leasing Company PLC (15%) | 4,157 | - | Monthly installments | Corporate guarantee from Fentons Ltd. |
| | | 9,663,592 | 7,491,057 | | |

26 Grants

| As at 31st March | Consolidated | |
|---------------------------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 |
| At the beginning of the year | 713,495 | 742,077 |
| Grants received during the year | 90,288 | 25,091 |
| Amortised during the year | (64,106) | (53,673) |
| At the end of the year | 739,677 | 713,495 |

26.1 Grants Received for the Group is as follows:

Kelani Valley Plantations PLC- Received from the Plantation Reform Project (PRP), Plantation Human Development Trust, Ministry of Community Development, Asian Development Bank, Social Welfare Project, Estate Infrastructures Development Project , Plantation Development Support Project Ceylon Electricity Board, Tea Board and Rubber Development Division of the Ministry of Plantations Industry.

Talawakelle Tea Estates PLC - Received from the Tea Board and Unilever Ceylon Limited for replanting.

Hunas Falls Hotels PLC - Received from the Ceylon Chamber of Commerce as a grant to finance the project on conversion of the diesel fired boiler to dendro thermal power.

Agriculture Sector - Received by the USAID for construction of Gherkin Storage Facilities(Vats) in Padiyathalawa - Eastern Province.

There is no unfulfilled conditions or contingencies attached to these grants.

27 Deferred Taxation

| As at 31st March | Consolidated | |
|------------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 |

27.1. Deferred Tax Assets

| | | |
|----------------------------|-----------|-----------|
| Deferred tax assets | 399,193 | 386,698 |
| Deferred tax liabilities | 1,496,269 | 1,363,237 |
| Net Deferred Tax Liability | 1,097,076 | 976,539 |

27.2 Net Deferred Tax liability

| | | |
|---|-----------|---------|
| At the beginning of the year | 976,539 | 867,755 |
| Amount originating during the year- Statement of Profit or Loss | 142,342 | 93,555 |
| Amount reversed during the year- Other Comprehensive Income | (50,304) | (5,392) |
| Acquisition through business combinations | 14,220 | 12,607 |
| Effect of movements in exchange rates | 14,279 | 8,014 |
| At the end of the year | 1,097,076 | 976,539 |

Notes to the Financial Statements

27.3. Net Deferred Tax Liabilities are Attributable to the following as the year end.

| As at 31st March | Consolidated | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Tax effect of employee benefit obligations | (758,311) | (672,226) | - | - |
| Tax effect of tax loss carried forward | (523,424) | (453,402) | - | - |
| Tax effect of provisions | (89,807) | (99,039) | - | - |
| Tax effect of property, plant & equipment | 2,468,618 | 2,201,206 | - | - |
| Net deferred tax liabilities | 1,097,076 | 976,539 | - | - |

28 Employee Benefit Obligations

| As at 31st March | Consolidated | | Company | |
|--|------------------|------------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Present value of unfunded gratuity | 5,673,028 | 4,958,643 | 521,012 | 415,617 |
| Total Present value of the obligation | 5,673,028 | 4,958,643 | 521,012 | 415,617 |
| At the beginning of the year | 4,958,643 | 4,630,864 | 415,617 | 450,560 |
| Acquisition through business combinations | 94,052 | 5,728 | - | - |
| Transfers from other current liabilities | - | 22,564 | - | - |
| Effect of movements in exchange rates | 7,701 | (11,918) | - | - |
| Benefits paid during the year | (410,898) | (509,685) | (14,835) | (25,804) |
| Current service costs | 379,862 | 338,773 | 8,690 | 22,309 |
| Interest cost | 265,316 | 475,089 | 40,846 | 49,204 |
| Actuarial (gain)/ loss | 378,352 | 7,228 | 70,694 | (80,652) |
| At the end of the year | 5,673,028 | 4,958,643 | 521,012 | 415,617 |

| As at 31st March | Consolidated | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| The expense is recognised in the following line items in the Statement of Profit or Loss | | | | |
| Cost of sales | 133,928 | 173,902 | 2,238 | 1,424 |
| Administrative expenses | 511,250 | 639,960 | 47,298 | 70,089 |
| | 645,178 | 813,862 | 49,536 | 71,513 |

LKAS 19- Employee Benefits- requires the use of actuarial techniques to make a reliable estimate of the amount of employee 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 employee 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.

| | 2016 | 2015 |
|------------------|------|------|
| Rate of discount | 11% | 10% |
| Salary increase | 10% | 9% |

Assumptions regarding future mortality are based on the A1967/70 for Staff/Executive and A1949/52 for Worker, 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.

The Group's and Company employee benefit obligation would have been Rs.4,808 mn (2015- Rs.4,349mn) and Rs.501 mn (2015- Rs.434 mn) respectively, as at the reporting 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 on pages 185 to 186.

28.1 Sensitivity Analysis - Salary Escalation Rate/Discount Rate

Values appearing in the Financial Statements are very sensitive to the changes in financial and non financial assumptions used.

A Sensitivity was carried out as follows,

| A one percentage point change in the salary escalation rate | Consolidated | | Company | |
|---|--------------|-----------|---------|---------|
| | +1% | -1% | +1% | -1% |
| The present value of defined benefit obligation | 5,899,484 | 5,102,499 | 549,715 | 498,748 |
| A one percentage point change in the discount rate | Consolidated | | Company | |
| | +1% | -1% | +1% | -1% |
| The present value of defined benefit obligation | 5,109,068 | 5,844,582 | 498,945 | 549,973 |

Notes to the Financial Statements

28.2 Distribution of Employee Benefit Obligation Over Future Working Lifetime

| As at 31st March | Consolidated | | Company | |
|---|------------------|------------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Less than or equal 1 year | 517,912 | 727,903 | 30,349 | 121,132 |
| Over 1 year and less than or equal 5 years | 1,477,294 | 1,050,207 | 172,537 | 200,583 |
| Over 5 year and less than or equal 10 years | 1,746,245 | 1,902,433 | 243,898 | 93,902 |
| Over 10 years | 1,931,577 | 1,278,100 | 74,228 | - |
| Total | 5,673,028 | 4,958,643 | 521,012 | 415,617 |

29 Trade and Other Payables/ Provisions

29.1 Trade and Other Payables

| As at 31st March | Consolidated | | Company | |
|---|-------------------|-------------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Trade payables | 5,097,696 | 5,102,530 | - | - |
| Bills payable | 1,562,341 | 1,162,739 | - | - |
| Other payables including accrued expenses | 6,404,512 | 5,475,937 | 189,844 | 244,482 |
| Unclaimed dividends | 99,122 | 202,203 | 51,783 | 49,481 |
| | 13,163,671 | 11,943,409 | 241,627 | 293,963 |

29.2 Currency Wise Analysis of Trade and Other Payables

| As at 31st March | Consolidated | | Company | |
|-----------------------|-------------------|-------------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Sri Lankan Rupees | 6,644,536 | 6,061,535 | 241,627 | 293,963 |
| Pounds Sterling | 35,169 | 101,335 | - | - |
| United States Dollars | 4,086,631 | 3,186,229 | - | - |
| Euro | 804,985 | 1,104,993 | - | - |
| Thai Baht | 1,128,905 | 1,118,371 | - | - |
| Bangladesh Taka | 133,380 | 96,234 | - | - |
| Others | 330,065 | 274,712 | - | - |
| | 13,163,671 | 11,943,409 | 241,627 | 293,963 |

29.3 Provisions

| As at 31st March | Maintenance warranties ** Rs.'000 | Consolidated | | Total 2016 Rs.'000 | Total 2015 Rs.'000 |
|------------------------------|--------------------------------------|------------------|--|--------------------------|--------------------------|
| | | Other Rs.'000 | | | |
| At the beginning of the year | 10,855 | 14,624 | | 25,479 | 28,792 |
| Arising during the year | 2,145 | 21,897 | | 24,042 | 19,458 |
| Utilised | (2,617) | (24,242) | | (26,859) | (22,771) |
| At the end of the year | 10,383 | 12,279 | | 22,662 | 25,479 |

** Hayleys Agriculture Holdings Ltd sells heavy machineries such as combine harvesters, combine threshers, four wheel tractors and has made a warranty provision in the Financial Statements for any warranty claim which may arise on machines sold.

29.4 Other Current Liabilities

| As at 31st March | Consolidated | | Company | |
|------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Other tax payable | 115,605 | 87,319 | 10,823 | 11,650 |
| Payments received in advance | 1,701,947 | 410,471 | - | - |
| | 1,817,552 | 497,790 | 10,823 | 11,650 |

30 Income Tax

| As at 31st March | Consolidated | | Company | |
|------------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |

30.1 Income Tax Recoverable

| | | | | |
|------------------------------------|---------|---------|-------|-------|
| At the end of the year (Note 30.2) | 218,899 | 219,469 | 2,287 | 1,752 |
|------------------------------------|---------|---------|-------|-------|

30.2 Income Tax Payable

| | | | | |
|---|-------------|-------------|----------|----------|
| At the beginning of the year | 296,155 | 202,589 | (1,752) | 1,688 |
| Subsidiaries'/ parents' taxation on current year's profit | 1,319,419 | 1,068,338 | 3,672 | 4,094 |
| Irrecoverable economic service charge | 4,410 | 406 | - | - |
| Under provision in respect of previous years | 59,075 | 80,396 | 17,460 | 4,471 |
| Tax on dividend | 231,287 | 270,885 | - | - |
| Acquisition through business combinations | (30,782) | 13,941 | - | - |
| Effect of movements in exchange rates | 14,168 | 752 | - | - |
| Payments made during the year | (1,402,217) | (1,341,151) | (21,667) | (12,005) |
| Net income tax payable/(recoverable) | 491,515 | 296,155 | (2,287) | (1,752) |
| Income tax recoverable | 218,899 | 219,469 | 2,287 | 1,752 |
| At the end of the year | 710,414 | 515,624 | - | - |

Notes to the Financial Statements

31 Short-Term Interest Bearing Borrowings

| As at 31st March | Consolidated | | Company | |
|-----------------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| Sri Lankan Rupees | 7,964,397 | 6,882,112 | 43,052 | 37,579 |
| Australian Dollars | 1,216 | 11,725 | - | - |
| Pounds Sterling | 273,624 | 38,606 | - | - |
| United States Dollars | 5,082,734 | 4,843,571 | - | - |
| Euro | 598,625 | 661,613 | - | - |
| Thai Baht | 111,309 | 448,359 | - | - |
| Indonesian Rupiah | 329,400 | 266,220 | - | - |
| Bangladesh Taka | 251,638 | 153,859 | - | - |
| | 14,612,943 | 13,306,065 | 43,052 | 37,579 |

32 Contingent Liabilities and Commitments

32.1 Contingent Liabilities.

Company

The contingent liability as at 31st March, 2016 on guarantees given by Hayleys PLC., to third parties amounted to Rs.30 mn. (2015- Rs.180 mn) of this sum Rs.30 Mn (2015- Rs.180 mn) relate to facilities obtained by subsidiaries. Details of other guarantees are given in Note 25 to the Financial Statements.

Group

Contingent liability as at 31 March 2016 on bills discounted amounted to USD 344 (2015- USD 1,460) in respect of Hayleys Fabric PLC.

The contingent liability as at 31st March 2016 on guarantees given by Haycarb PLC to third parties amounted to Rs. 2,322 mn (2015- Rs.2,251 mn). Of this sum, Rs. 2,113 mn (2015- Rs. 1836 mn) relate to facilities obtained by its subsidiaries.

The contingent liabilities as at March 31, 2016 on guarantees given by Dipped Products PLC to third parties amounted to Rs. 45 mn (2015- Rs.70 mn). Total of this sum relates to facilities obtained by its subsidiaries.

32.2 Commitments

Group

- (i) In terms of the operating lease agreements entered in to, minimum future lease payments payable for the Group is as follows.

| As at 31st March | 2016 Rs.'000 | 2015 Rs.'000 |
|--|-----------------|-----------------|
| Repayable within one year | 62,257 | 66,823 |
| Repayable after one year less than 5 years | 169,621 | 176,054 |
| Repayable after 5 years | 543,443 | 545,355 |
| | 775,121 | 788,232 |

33 Foreign currency translation

The principal exchange rates used for translation purposes were:

| As at 31st March | Average | | As at 31st March | |
|----------------------|-----------------|-----------------|------------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 | 2016 Rs.'000 | 2015 Rs.'000 |
| United States Dollar | 139.58 | 131.36 | 144.69 | 133.32 |
| Australian Dollar | 102.55 | 113.97 | 110.87 | 101.94 |
| Pound Sterling | 209.63 | 211.09 | 207.90 | 197.24 |
| Thai Baht | 3.96 | 4.04 | 4.08 | 4.08 |
| Bangladesh Taka | 1.78 | 1.69 | 1.84 | 1.71 |
| Euro | 153.92 | 165.02 | 163.95 | 144.29 |
| Indian Rupee | 2.12 | 2.14 | 2.17 | 2.12 |
| Indonesian Rupiah | 0.0102 | 0.0108 | 0.0108 | 0.0102 |
| Maldivian Rufiyaa | 9.0782 | 8.4567 | 9.4052 | 8.4876 |

34 Functional Currency

The Group's functional currency is Sri Lankan Rupee, except in the following subsidiaries and equity accounted investees where the functional currency is different as they operate in different economic environments.

| Company | Functional Currency |
|---|---------------------|
| Hayleys Fabric PLC | USD |
| Haychem (Bangladesh) Ltd. | Taka |
| PT Mapalus Makawanua Charcoal Industry | Rupiah |
| Haycarb Holdings Bitung Ltd. | USD |
| Eurocarb Products Ltd. | Pounds Sterling |
| Haycarb Holdings Australia (Pty) Ltd. | Australian Dollars |
| Haymark Inc. | USD |
| Carbokarn Company Ltd. | Thai Baht |
| Haylex BV Group | Euro, Yen & USD |
| Dipped Products (Thailand) Ltd. | Thai Baht |
| CK Regen Systems Co. Ltd. | Thai Baht |
| ICOGUANTI S.p.A | Euro |
| PT Tulus Lanka Coir Industries | Rupiah |
| Civaro Freight India (Pvt) Ltd. | Indian Rupees |
| Hayleylines Limited | USD |
| Logiwiz Logistics India (Pvt) Ltd. | Indian Rupees |
| Shizuka Co. Ltd. | Thai Baht |
| Charles Fibre (Pvt) Ltd. | Indian Rupees |
| PT Haycarb Palu Mitra (Indonesia) | Rupiah |
| Haylex USA | USD |
| Nautical Maldives (Pvt) Ltd. | Maldivian Rufiyaa |
| One World Logistics Maldives (Pvt) Ltd. | Maldivian Rufiyaa |
| Super Logistics (Pvt) Ltd. | Maldivian Rufiyaa |
| Total Transport Solutions Maldives (Pvt) Ltd. | Maldivian Rufiyaa |
| Premium Global Logistics Sdn Bhd | Ringgit |
| Advantis Singapore (Pte) Ltd. | Singapore Dollar |
| Advantis Kusuha Sedate (Pvt) Ltd. | Kyat |

Notes to the Financial Statements

35 Events Occurring After the Reporting Date

Other than those mentioned below, no circumstances have arisen since the reporting date, which would require adjustments to, or disclosure in the Financial Statements.

35.1 Directors have proposed the payment of final dividend of Rs. 6.50 per share for the year ended 31st March 2016 which will be declared at the Annual General meeting to be held on June 29th, 2016. In accordance with Sri Lanka Accounting Standard No. 10 on "Events after reporting period", the proposed final dividend has not been recognised as a liability as at the reporting date.

35.2 The Colombo Stock Exchange ("CSE") has approved in principle an application for listing the debt securities of Hayleys PLC on 17th May 2016. Details of above issue as follows,

- An issue of up to 20,000,000 senior, unsecured, listed, redeemable, rated, three year debentures at an issue price of Rs. 100 each.
- Date of opening of the subscription list will be 25th May 2016.

36 Companies with Different Accounting Years

The Financial Statements of, Haylex BV Group, has been prepared for the year ended 31st December and ICOGUANTI S.p.A has prepared for the period ended 29th February. These Companies have been consolidated based on the Financial Statements drawn up to 31st December and 29th February since their effect is not material to the Group.

36.1 Effect on Consolidation of Companies with Different Accounting Years

Financial year end of Haychem Bangladesh Ltd. changed to March 31, from December 31. Accordingly Financial Statements of Haychem Bangladesh Ltd for the 15 months period from January 1, 2015 to March 31, 2016 have been consolidated with Group Financial Statements.

Financial year end of ICOGUANTI S.p.A changed to 29th February, from December 31. Accordingly Financial Statements of ICOGUANTI S.p.A for the 14 months period from January 1, 2015 to February 29th, 2016 have been consolidated with Group Financial Statements.

The effect to the consolidated revenue and profit after tax (before adjusting for inter-company eliminations) is shown below:

| | 01.01.2015 - 31.03.2015 3 Months | 01.04.2015 - 31.03.2016 12 Months | 01.01.2015 - 31.03.2016 15 Months |
|-------------------|--|---|---|
| Revenue | 1,186,291 | 4,066,682 | 5,252,973 |
| Profit before tax | 90,220 | 274,678 | 364,898 |
| Profit after tax | 54,374 | 168,602 | 222,976 |

37 Acquisition of Subsidiaries / Disposal of Equity Accounted Investees

37.1 The Acquisition had the following effect on the Groups' Assets and Liabilities

| | Acquisition of Fentons Ltd | Acquisition of Lanka Maritime Services Ltd | Acquisition of Lanka Bunkering Services (Pvt) Ltd | Acquisition of Premium Global Logistics Sdn Bhd | Total 2016 | Total 2015 |
|--|-------------------------------|---|--|---|----------------|------------------|
| | Rs '000 | Rs '000 | Rs '000 | Rs '000 | Rs '000 | Rs '000 |
| Property plant and equipment | 92,617 | 175,385 | - | 5,863 | 273,865 | 2,016,634 |
| Intangible assets | 4,815 | - | - | 124 | 4,939 | 540 |
| Inventories | 531,359 | 65,720 | 72 | - | 597,151 | 34,256 |
| Trade and other receivables | 1,138,195 | 254,935 | 267 | 15,960 | 1,409,357 | 955,359 |
| Current financial assets | 483 | - | - | - | 483 | - |
| Long term loans | (546,009) | - | - | - | (546,009) | (968,729) |
| Lease obligations | (36,666) | - | - | - | (36,666) | (5,507) |
| Interest in suspense | 6,199 | - | - | - | 6,199 | 1,205 |
| Employee benefit obligations | (92,394) | (1,658) | - | - | (94,052) | (5,728) |
| Deferred tax asset /(liability) | 2,097 | (16,139) | - | (177) | (14,220) | (12,607) |
| Trade and other payables | (1,466,517) | (18,348) | - | (24,169) | (1,509,034) | (964,596) |
| Income tax recoverable / (payable) | 25,318 | 4,610 | 1,215 | (360) | 30,782 | (13,941) |
| Net Identifiable assets and liabilities | (340,503) | 464,503 | 1,554 | (2,761) | 122,794 | 1,036,887 |
| Non-controlling interests | 290,192 | - | - | (682) | 289,510 | (525,495) |
| Goodwill/(negative goodwill) acquired/ loss on disposal | 456,376 | 76,873 | 41,890 | (3,863) | 571,277 | 157,666 |
| | 406,065 | 541,377 | 43,444 | (7,305) | 983,581 | 669,058 |

37.2 Satisfied by

| | | | | | | |
|---|-----------|-----------|----------|---------|-----------|-----------|
| Cash consideration | 406,065 | 541,377 | 43,444 | (7,305) | 983,581 | 669,058 |
| Analysis of cash and cash equivalents on acquisition of subsidiary | | | | | | |
| Cash consideration | (150,000) | - | - | - | (150,000) | (760,950) |
| Short term borrowings | (381,427) | (541,377) | 26,556 | 11,410 | (884,838) | 232,206 |
| Cash in hand and at bank acquired | 125,362 | - | (70,000) | (4,105) | 51,257 | (140,314) |
| | (406,065) | (541,377) | (43,444) | 7,305 | (983,581) | (669,058) |

Notes to the Financial Statements

37.3 The Following Acquisition Made During the Year

Hayleys PLC, acquired the controlling interest in Fentons Ltd.

Hayleys Advantis Limited, a subsidiary of Hayleys PLC acquired the controlling interest in Lanka Maritime Services Ltd, Lanka Bunkering Services (Pvt) Ltd, Premium Global Logistics Sdn Bhd.

37.4 Carbotels (Pvt) Ltd, a subsidiary of Hayleys PLC disposed its investment in Negombo Hotels Ltd.

| As at 31st March | 2016 Rs.'000 |
|------------------------------|-----------------|
| Share of net assets disposed | 352,515 |
| Profit on disposal | 107,485 |
| | 460,000 |
| Satisfied by | |
| Cash consideration | 460,000 |

38 Principal Subsidiaries with Material Non-Controlling Interests

Summarised financial information in respect of Hayleys PLC's subsidiaries that have material non-controlling interest, reflecting amounts before inter-company eliminations, is set out below.

| As at 31st March | Dipped Products PLC Rs'000 | Haycarb PLC Rs'000 | Alumex PLC Rs'000 | Hayleys Advantis Ltd Rs'000 |
|--|-------------------------------------|--------------------------|-------------------------|--------------------------------------|
| Current assets | 6,799,392 | 7,197,683 | 1,548,204 | 6,089,083 |
| Non-current assets | 10,444,601 | 4,731,919 | 908,740 | 5,135,688 |
| Total assets | 17,243,993 | 11,929,602 | 2,456,944 | 11,224,771 |
| | | | - | |
| Current liabilities | 4,303,192 | 5,244,082 | 816,836 | 5,431,966 |
| Non-current liabilities | 4,380,128 | 759,559 | 165,470 | 1,761,065 |
| Total liabilities | 8,683,320 | 6,003,641 | 982,306 | 7,193,031 |
| | | | - | |
| Equity attributable to the owners of the company | 3,835,225 | 3,502,808 | 635,971 | 2,982,414 |
| Non-controlling interests | 4,725,448 | 2,423,153 | 838,667 | 1,049,326 |
| Non-controlling interest in % | 44 | 32 | 44 | 5 |
| Revenue | 18,794,051 | 11,705,825 | 3,995,449 | 15,812,275 |
| Profit after tax | 342,047 | 853,223 | 589,123 | 1,105,857 |
| Profit attributable to the owners of the company | 151,612 | 430,948 | 328,142 | 630,417 |
| Profit attributable to the non-controlling interests | 190,435 | 422,275 | 260,981 | 475,440 |
| Total comprehensive income | 433,323 | 728,324 | 582,849 | 1,051,793 |
| Dividend paid to non-controlling interests | 239,446 | 148,561 | 299,303 | 362,650 |

| As at 31st March | Dipped Products PLC Rs'000 | Haycarb PLC Rs'000 | Alumex PLC Rs'000 | Hayleys Advantis Ltd Rs'000 |
|---|-------------------------------------|--------------------------|-------------------------|--------------------------------------|
| Net cash inflow from operating activities | 837,752 | 286,595 | 504,635 | 948,296 |
| Net cash (outflow) from investing activities | (963,919) | (609,515) | (137,065) | (2,073,848) |
| Net cash (outflow)/inflow from financing activities | 993,782 | (365,939) | (439,601) | 109,694 |
| Total net cash (outflow) /inflow | 867,615 | (688,859) | (72,031) | (1,015,858) |

39 Related Party Transactions

39.1 Parent and Ultimate Controlling Party

Company does not have an identifiable parent of its own.

39.2 Transactions with Key Management Personnel

39.2.1 Loans to Directors

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

39.2.2 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

39.2.3 Other Transactions With Key Management Personnel

- (i) The names of Directors of Hayleys PLC, who are also directors of subsidiaries joint ventures and equity accounted investees companies are stated on pages 144 to 146.
- (ii) Details of directors and their spouses' share holdings are given on page 270. There were no other transactions with key management personnel other than those disclosed in Note 39 to the Financial Statement.
- (iii) The under mentioned Directors of Hayleys PLC, have leased the following residential premises to the under noted Companies in the Group:

| Lessor | Premises | Lessee | Monthly Rental Rs. |
|----------------|------------|-------------|--------------------------|
| A M Pandithage | Colombo 08 | Hayleys PLC | 5,000 |
| S C Ganegoda | Rajagiriya | Hayleys PLC | 2,500 |

- (iv) K. D. D. Perera purchased 547,514 Hayleys PLC shares amounting to Rs. 170 mn in during the period

Notes to the Financial Statements

39.3 Transactions with Subsidiaries , Equity Accounted Investees & Other Related Companies

Relationships with subsidiaries and equity accounted investees are explained in Note 18 and also under Group Companies in pages 275 and 277 . Business segment classification is also given under Group Companies.

- (i) Companies within the Group engage in trading transactions under normal commercial terms and conditions.
- (ii) Hayleys PLC. provides office space to its subsidiary and equity accounted investees 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 equity accounted investees. Details are given below.

| Business segment | 2016 Rs'000 | | | 2015 Rs'000 | | |
|----------------------------|----------------|-----------------|--------------------------------|----------------|-----------------|--------------------------------|
| | Subsidiaries | | | Subsidiaries | | |
| | Rent | Common expenses | Purchase of goods and services | Rent | Common expenses | Purchase of goods and services |
| Eco solutions | 8,543 | 96,137 | 1,721 | 5,327 | 113,985 | 1,486 |
| Hand protection | 18,836 | 178,961 | 4 | 15,255 | 117,558 | - |
| Purification products | 28,976 | 116,824 | 2,794 | 24,069 | 100,307 | 167 |
| Textiles | - | 78,219 | 1,281 | - | 76,986 | - |
| Construction materials | - | 34,268 | - | 942 | 28,795 | 177 |
| Agriculture | 18,550 | 96,337 | 2,475 | 15,216 | 86,020 | 118 |
| Plantations | 22,771 | 64,890 | 252 | 18,965 | 56,035 | 236 |
| Industry inputs | 13,796 | 54,730 | 3,501 | 11,477 | 59,972 | 1,968 |
| Power & energy | - | 11,702 | - | - | 13,812 | - |
| Transportation & logistics | 76,089 | 127,999 | 8,543 | 64,784 | 114,292 | 7,862 |
| Consumer products | 21,803 | 73,338 | 7,932 | 18,593 | 75,405 | 589 |
| Leisure | - | 117,596 | 12,796 | 21,377 | 165,293 | 21,793 |
| Others | 46,037 | 78,500 | 33,382 | 12,471 | 38,830 | 8,606 |
| | 255,401 | 1,129,501 | 74,681 | 208,476 | 1,047,290 | 43,002 |

Details of intercompany balances are given below

| Business segment | Company | | | |
|----------------------------|------------------|-----------------|------------------|-----------------|
| | 2016 Rs'000 | | 2015 Rs'000 | |
| | Subsidiaries | | Subsidiaries | |
| | Receivable | Payable | Receivable | Payable |
| Eco Solutions | 159,171 | (166) | 236,294 | (135) |
| Hand protection | 16,286 | - | 87,413 | - |
| Purification products | 66,547 | - | 81,415 | - |
| Textiles | 6,811 | - | 8,078 | (844) |
| Construction materials | 5,739 | - | 64,836 | - |
| Agriculture | 173,843 | - | 43,087 | - |
| Plantations | 12,304 | (18) | 8,897 | - |
| Industry inputs | 233,957 | (5) | 343,635 | (5) |
| Power & energy | 516 | - | 2,856 | (0) |
| Transportation & logistics | 181,935 | (1,478) | 179,215 | (38) |
| Consumer Products | 20,421 | (705) | 51,257 | (625) |
| Leisure | 23,568 | (5,115) | 178,086 | (0) |
| Others | 209,941 | (19,889) | 115,192 | (19,950) |
| Total | 1,111,039 | (27,376) | 1,400,260 | (21,597) |

| Business segment | Consolidated | | | |
|----------------------------|----------------------------|----------|----------------------------|-----------------|
| | 2016 Rs'000 | | 2015 Rs'000 | |
| | Equity accounted investees | | Equity accounted investees | |
| | Receivable | Payable | Receivable | Payable |
| Eco Solutions | 2,184 | - | 11,493 | (20,792) |
| Purification | 3,353 | - | 16,892 | - |
| Transportation & logistics | 16,914 | - | 21,450 | (96) |
| Others | 19,711 | - | 19 | - |
| Total | 42,162 | - | 49,854 | (20,888) |

Notes to the Financial Statements

| Business segment | Company | | | |
|------------------|----------------------------|----------|----------------------------|----------|
| | 2016 Rs'000 | | 2015 Rs'000 | |
| | Equity accounted investees | | Equity accounted investees | |
| | Receivable | Payable | Receivable | Payable |
| Eco solutions | 532 | - | - | - |
| Purification | 21 | - | - | - |
| Transportation | 1,713 | - | - | - |
| Other | 3,496 | - | - | - |
| Total | 5,762 | - | - | - |

Transactions with other related companies

| Company | Relationship | Name of director | Nature of transaction | |
|--------------------------|--|------------------|------------------------------|-----------|
| Sampath Bank PLC | Key management personal/ Significant share holder | K.D.D. Perera | Bank facility | 5,027,483 |
| | | | Outstanding | 2,200,773 |
| | | | Interest | 179,367 |
| LB Finance PLC | Control/Significant share holder | K.D.D. Perera | Lease rental paid | 12,886 |
| Pan Asia Bank PLC | Significant share holder | K.D.D. Perera | Bank facility | 764,940 |
| | | | Outstanding | 279,491 |
| | | | Interest | 10,955 |
| Royal Ceramics PLC | Control/Significant share holder | K.D.D. Perera | Purchase of goods & services | 6,529 |
| | | | Outstanding | 753 |
| Vallibel Finance Ltd | Control/Significant share holder | K.D.D. Perera | Outstanding | 2,061 |
| | | | Interest | 20 |
| Vallibel One PLC | Control/Significant share holder | K.D.D. Perera | Outstanding | 4,722 |
| | | | Interest | 1,244 |
| The Fortress Resorts PLC | Control/Significant share holder | K.D.D. Perera | Amounts paid | 28 |
| Delmege Limited | Control/Significant share holder | K.D.D. Perera | Amounts paid | 19,853 |
| | | | Outstanding | 1,044 |
| Lanka Tiles PLC | Control/Significant share holder | K.D.D. Perera | Amounts paid | 9,185 |
| | | | Outstanding | 395 |

39.4 Details of guarantees given in respect of related parties are given in Note 32 to the Financial Statements.

39.5 No provision was made in respect of related party receivables

39.6 No security has been obtained for related party receivables and all related party dues are payable on demand

39.7 Interest on related party dues are decided based on the inter bank lending rates, associated risk and purpose for which funds are used

39.8 There are no related parties or related party transactions other than those disclosed in Note 38 to the Financial Statements.

40 Discontinued Operations/ Assets Held for Sales

Assets and liabilities of discontinued operations

As at 31st March

| | Consolidated | |
|---|-----------------|-----------------|
| | 2016 Rs.'000 | 2015 Rs.'000 |
| Assets classified as held for sale | | |
| Trade and other receivables | 1,906 | 1,906 |
| Cash in hand and at bank | 1,115 | 1,115 |
| Total assets | 3,021 | 3,021 |
| Liabilities directly associated with assets classified as held for sale | | |
| Trade and other payables | 332 | 332 |
| Total liabilities | 332 | 332 |

Civaro India (Pvt) Ltd., which was set up in India, to develop an international freight management network, has now ceased operation due to negative effect of the global recession and will be wound up.

Notes to the Financial Statements

41. Segment Analysis

The segment information is based on two segmental formats. The business segment is considered as the primary format and based on the management structure of the Group. The management are of the view that the Chairman is considered the Chief Operating decision maker and resources are allocated and performance assessed based on the sectors. Therefore each sector which falls under the purview of a different GMC member is considered a separate segment. The geographical format is considered as a secondary format and is based on the location of office in which the business is recorded.

| For the year ended 31st March, In Rs '000 | Eco solutions | | Hand protection | | Purification | | Textiles | | Construction materials | | Plantation | | Agriculture | |
|---|---------------|-----------|-----------------|-------------|--------------|------------|-----------|-----------|------------------------|-----------|-------------|-------------|-------------|-----------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenue | | | | | | | | | | | | | | |
| Total | 4,439,109 | 5,051,875 | 12,729,461 | 14,986,012 | 11,705,824 | 11,933,848 | 8,364,207 | 8,542,539 | 3,995,449 | 3,307,181 | 9,391,870 | 13,259,531 | 11,388,353 | 8,824,925 |
| Intra Group revenue | (648,028) | (633,280) | (4,157) | (15,700) | - | - | - | - | (51,299) | (20,327) | (296,333) | (580,882) | (365,208) | (400,987) |
| External revenue | 3,791,081 | 4,418,595 | 12,725,304 | 14,970,312 | 11,705,824 | 11,933,848 | 8,364,207 | 8,542,539 | 3,944,150 | 3,286,854 | 9,095,537 | 12,678,649 | 11,023,145 | 8,423,938 |
| Segment results | | | | | | | | | | | | | | |
| Results from operating activities | 166,912 | 65,843 | 542,032 | 1,553,944 | 1,216,377 | 1,304,071 | 369,597 | 222,357 | 813,113 | 611,452 | 217,904 | 566,124 | 1,287,233 | 1,038,627 |
| Net finance cost | (89,180) | (62,296) | 41,858 | (50,457) | (136,319) | (245,008) | (116,550) | (135,957) | (11,853) | 1,347 | (168,197) | (208,148) | (196,785) | (221,938) |
| Share of profit of equity accounted investees | 14,285 | 5,952 | - | - | 10,352 | 11,063 | - | - | - | - | - | - | - | - |
| Profit before tax | 92,016 | 9,499 | 583,890 | 1,503,487 | 1,090,410 | 1,070,126 | 253,047 | 86,400 | 801,260 | 612,799 | 49,707 | 357,976 | 1,090,448 | 816,689 |
| Tax | 22,753 | 29,754 | 112,398 | 299,979 | 220,910 | 196,404 | (4,528) | (2,919) | 212,137 | 135,805 | 58,288 | 101,282 | 306,554 | 185,015 |
| Depreciation on property, plant & equipment | 76,956 | 75,679 | 422,225 | 577,650 | 314,677 | 310,063 | 252,954 | 235,814 | 107,499 | 78,334 | 381,637 | 331,255 | 119,923 | 110,964 |
| Impairment of property, plant & equipment | | | | | | 2,260 | 32,256 | 14,259 | | | | | | |
| Depreciation on investment properties | 640 | 700 | 2,210 | 2,445 | | | | | | | | | | |
| Amortisation of intangible assets | | | 496 | 373 | 20,020 | 15,226 | 33,185 | 28,874 | | | | | | |
| Total assets (excl. equity accounted investees) | 6,024,697 | 6,629,365 | 10,742,937 | 10,736,977 | 11,842,889 | 9,963,299 | 4,830,816 | 4,661,082 | 2,456,944 | 2,217,037 | 11,056,538 | 10,432,619 | 7,779,246 | 6,558,825 |
| Investment in equity accounted investees | 54,230 | 39,947 | | | 86,713 | 76,361 | | | | | | | | |
| Additions to Property Plant & equipment | 55,643 | 121,257 | 1,337,436 | 1,143,823 | 664,231 | 1,206,705 | 423,859 | 227,663 | 132,507 | 364,497 | 562,816 | 718,871 | 192,494 | 72,318 |
| Improvements to Biological assets | | | | | | | | | | | 10,320 | 12,559 | | |
| Additions to Intangible assets | | | | | 22,715 | 24,906 | 3,474 | 46,873 | | | | 240 | | |
| Additions to Investment Property | | | | | | | | | | | | | | |
| Non Interest bearing liabilities | | | | | | | | | | | | | | |
| Deferred tax Liabilities | 18,742 | 17,991 | 37,495 | 38,167 | 76,126 | 40,582 | 188,347 | 195,115 | 85,948 | 98,664 | 483,090 | 456,372 | 24,056 | 25,518 |
| Employee benefit obligations | 296,834 | 289,614 | 546,491 | 463,606 | 289,052 | 257,636 | 278,298 | 220,911 | 79,522 | 64,279 | 2,141,113 | 2,047,901 | 407,909 | 325,966 |
| Trade and other payables | 216,393 | 309,832 | 1,711,267 | 2,001,006 | 2,073,940 | 1,485,060 | 769,957 | 976,990 | 633,237 | 638,501 | 698,702 | 776,633 | 1,865,636 | 1,375,441 |
| Cash Flow | | | | | | | | | | | | | | |
| Segment cash flows from Operating Activities | 274,786 | (271,108) | 842,088 | 1,388,558 | 286,595 | 621,034 | 377,079 | (182,912) | 504,635 | 489,555 | 1,680,974 | 1,230,608 | 880,805 | 705,425 |
| Segment cash flows from Investment Activities | (29,346) | (69,740) | (868,012) | (1,154,951) | (609,515) | (631,892) | (395,688) | (225,009) | (137,065) | (331,377) | (3,438,903) | (2,108,293) | 133,024 | 179,916 |
| Segment cash flows from Financing Activities | (6,100) | 123,896 | 893,538 | (676,306) | (365,939) | (421,683) | (350,228) | 1,337,999 | (439,601) | (208,654) | 1,780,184 | 650,990 | (755,222) | (629,384) |

| Consumer | | Leisure | | Industry inputs | | Power and energy | | Transportation & Logistics | | Others | | Non segment adjustments | | Total | |
|-----------|-----------|-----------|-------------|-----------------|-----------|------------------|-----------|----------------------------|------------|------------|------------|-------------------------|-------------|-------------|-------------|
| 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| 5,718,155 | 5,184,704 | 4,501,214 | 3,967,663 | 2,799,634 | 2,257,496 | 935,278 | 988,034 | 15,812,275 | 14,181,331 | 2,437,984 | 2,142,435 | - | - | 94,218,813 | 94,627,574 |
| - | - | - | - | (98,313) | - | - | - | - | - | (480,792) | (414,533) | - | - | (1,944,130) | (2,065,709) |
| 5,718,155 | 5,184,704 | 4,501,214 | 3,967,663 | 2,701,321 | 2,257,496 | 935,278 | 988,034 | 15,812,275 | 14,181,331 | 1,957,192 | 1,727,902 | - | - | 92,274,683 | 92,561,865 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 228,428 | 139,845 | 990,652 | 789,364 | 349,176 | 244,722 | 616,565 | 671,345 | 1,577,599 | 1,346,967 | 1,648,095 | 1,423,668 | (1,518,471) | (1,467,783) | 8,505,212 | 8,510,546 |
| (111,614) | (108,114) | (311,537) | (262,628) | (52,394) | (51,395) | (36,156) | (41,003) | (23,674) | (11,738) | (587,835) | (541,154) | (131,239) | (194,523) | (1,931,475) | (2,135,014) |
| - | - | - | - | - | - | 212,362 | - | (9,122) | 97 | 14,660 | 7,271 | - | - | 242,537 | 24,383 |
| 116,814 | 31,731 | 679,115 | 526,736 | 296,782 | 193,327 | 792,771 | 630,342 | 1,544,803 | 1,335,326 | 1,074,920 | 889,785 | (1,649,710) | (1,664,308) | 6,816,274 | 6,399,915 |
| 49,026 | 21,248 | 121,336 | 52,135 | 94,353 | 57,989 | 12,014 | (27,548) | 438,946 | 345,450 | 43,067 | 33,563 | 69,279 | 85,424 | 1,756,533 | 1,513,581 |
| 21,495 | 14,236 | 445,820 | 383,417 | 10,555 | 7,363 | 129,557 | 129,100 | 164,952 | 122,088 | 60,531 | 52,499 | 5,344 | 5,324 | 2,514,125 | 2,433,786 |
| - | - | - | - | - | - | - | - | - | - | (4,851) | - | - | - | 27,405 | 16,520 |
| - | - | - | - | - | - | - | - | 3,193 | 2,852 | 33 | - | - | - | 6,076 | 5,998 |
| - | - | 23,832 | 23,533 | - | - | 5,577 | 5,577 | 24,454 | 14,205 | 1,562 | 1,515 | 31,500 | 31,500 | 140,626 | 120,803 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2,688,323 | 2,508,290 | 8,508,994 | 8,315,131 | 2,146,464 | 2,164,195 | 2,613,335 | 2,407,006 | 11,217,603 | 8,827,419 | 23,653,301 | 21,006,508 | (2,912,342) | (3,590,354) | 102,649,745 | 92,837,401 |
| - | - | - | - | 525,000 | - | (12,563) | - | 7,168 | 16,758 | 11,249 | 356,030 | - | - | 671,797 | 489,096 |
| 49,885 | 18,818 | 358,375 | 722,030 | 35,509 | 7,260 | 2,894 | 1,587 | 681,777 | 227,429 | 65,796 | 106,862 | - | (19,440) | 4,563,221 | 4,919,680 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | 10,320 | 12,559 |
| - | - | 3,869 | 4,968 | - | - | - | - | 31,113 | 102,480 | - | 436 | - | - | 61,171 | 179,903 |
| - | - | - | - | - | - | - | - | 818 | 2,331 | 1,670 | - | - | - | 2,488 | 2,331 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - | - | 418,100 | 360,592 | - | - | 32,246 | 30,643 | 131,712 | 91,002 | 407 | 8,591 | - | - | 1,496,269 | 1,363,237 |
| 65,986 | 59,135 | 71,617 | 54,543 | 99,122 | 77,204 | 6,772 | 5,718 | 702,861 | 614,456 | 687,451 | 477,674 | - | - | 5,673,028 | 4,958,643 |
| 759,725 | 629,966 | 580,298 | 531,299 | 493,673 | 273,577 | 34,031 | 33,251 | 2,402,665 | 2,046,038 | 924,147 | 865,763 | - | 50 | 13,163,671 | 11,943,409 |
| - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| (122,074) | 225,155 | 1,232,580 | 935,672 | (231,603) | 375,238 | 700,055 | 834,195 | 948,296 | 1,076,556 | 1,111,371 | 467,515 | (514,964) | 735,875 | 7,863,139 | 8,631,365 |
| (37,041) | (42,319) | (60,740) | (1,429,382) | 340,122 | (509,324) | (510,194) | (340,943) | (2,073,848) | (583,585) | (756,457) | 78,631 | 1,128,970 | 828,274 | (7,314,693) | (6,339,994) |
| (4,208) | (33,989) | (462,101) | 239,625 | (136,112) | (58,840) | (222,269) | (470,541) | 109,694 | 135,545 | (865,326) | 1,453,676 | (894,827) | (1,675,614) | (1,718,517) | (233,279) |

Notes to the Financial Statements

42 Financial Risk Management

The Group has exposure to the following risk from financial instruments:

- 1 Credit risk
- 2 Liquidity risk
- 3 Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Financial Risk Management Framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Group's financial risk management framework which includes developing and monitoring the Group's Financial risk management policies.

The Group's Financial risk management policies are established to identify, quantify and analyse the financial risks faced by the Group, to set appropriate risk limits and controls, and to monitor Financial risks and adherence to limits. financial Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. All derivative activities for risk management purposes are carried out by Group Treasury that have the appropriate skills and experience.

The Group Audit Committee oversees how management monitors compliance with the Group's financial risk management policies and procedures, and reviews the adequacy of the financial risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by the Management Audit System Review Department(MASRD). MASRD undertakes both regular and ad hoc reviews of Financial risk management policies and procedures, the results of which are reported to the Group Audit Committee.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily from trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Management; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis. Outstanding customer receivables are regularly monitored at the individual sector and Group Management Committee (GMC) level. Further SLECIC cover or other forms of credit insurance is obtained for most exports or in the instance this is not obtained, specific GMC approval is obtained prior to the export.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Group's wholesale customers. Customers that are graded as "high risk" are placed on a restricted customer list and future sales are made on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The maximum exposure to credit risk for trade and other receivables at the reporting date is Rs. 19.5 bn (2015 - Rs.17.9 bn) which is recorded at Note 22 to the Financial Statements.

Investments

Credit risk from invested balances with the financial institutions are managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure.

Cash in hand and at bank and cash equivalents

The Group held cash in hand and at bank and cash equivalents of Rs. 3.7 bn at 31 March 2016 (2015 - 3.1 bn) which represents its maximum credit exposure on these assets.

Respective credit ratings of banks which group cash balances held are as follows;

- People's Bank – AA+(lka)
- Standard Chartered Bank – AAA (lka)
- Hong Kong and Shanghai Banking Corporation Ltd., – AAA(lka)
- Commercial Bank of Ceylon PLC – AA(lka)
- Sampath Bank PLC – A+ (lka)
- Nations Trust Bank PLC – A(lka)
- Pan Asia Banking Corporation PLC Bank– BBB (lka)
- Hatton National Bank PLC– AA-(lka)
- Bank of Ceylon– AA+(lka)
- DFCC Bank– AA-(lka)
- Citibank -AAA(lka)
- Seylan Bank PLC -A-(lka)
- National Development Bank PLC - AA- (lka)
- Union Bank of Colombo PLC- BB+ (lka)

Source - <http://www.fitchratings.lk>

Notes to the Financial Statements

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and finance leases. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

Group Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The liquidity requirements of business units and subsidiaries are met through central cash management by Group Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. The Group Treasury monitors the cash flows in subsidiary and Group level and obtains adequate bank facilities to meet the funding requirements. The Group does not concentrate on a single financial institution, thereby minimizing the expose to liquidity risk through diversification of funding sources. The Group aims to fund investment activities of the individual and group level by funding the long term investment with long term financial sources in terms of equity, debenture or long term loans. Short term investments are funded using short term loans. Group has been successful in arranging long term funding from overseas as measure to diversify its funding sources which enabled reducing the sole dependency on domestic market for project financing. The Group also issued a debentures in domestic market as a measure to reduce its dependency on local banking system for all its financing requirement and thereby freeing available banking lines for future projects.

The monthly liquidity position is monitored by the Treasury. All liquidity policies and procedures are subject to review and approval by Board of Directors. Daily reports cover the liquidity position of both the Group and operating subsidiaries .

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

| Year ended 31 March 2016 | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | >5 years | Total |
|---------------------------------------|-----------|--------------------|----------------|--------------|-----------|------------|
| Consolidated | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| Interest-bearing loans and borrowings | 1,940,133 | 12,478,150 | 6,430,247 | 11,387,097 | 878,625 | 33,114,252 |
| Trade and other payables | 1,762,988 | 8,034,982 | 2,343,684 | 311,561 | 710,456 | 13,163,671 |
| Other Current financial liabilities | - | 553 | - | - | - | 553 |
| | 3,703,121 | 20,513,685 | 8,773,931 | 11,698,658 | 1,589,081 | 46,278,476 |

| Year ended 31 March 2016 | On demand | Less than 3 Months | 3 to 12 months | 1 to 5 years | >5 years | Total |
|---------------------------------------|-----------|--------------------|----------------|--------------|----------|-----------|
| Company | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| Interest-bearing loans and borrowings | 43,053 | 746,941 | 2,240,824 | 3,555,664 | | 6,586,482 |
| Trade and other payables | 141,334 | 87,120 | 11,271 | - | 1,902 | 241,627 |
| | 184,387 | 834,061 | 2,252,095 | 3,555,664 | 1,902 | 6,828,109 |

| Year ended 31 March 2015 | On demand | Less than 3 Months | 3 to 12 months | 1 to 5 years | >5 years | Total |
|---------------------------------------|-----------|--------------------|----------------|--------------|----------|------------|
| Consolidated | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| Interest-bearing loans and borrowings | 988,946 | 12,330,166 | 3,673,797 | 11,243,216 | 826,058 | 29,062,183 |
| Trade and other payables | 1,959,767 | 8,400,668 | 1,320,780 | 210,599 | 51,594 | 11,943,409 |
| Other Current financial liabilities | - | 15,942 | - | - | - | 15,942 |
| | 2,948,713 | 20,746,776 | 4,994,577 | 11,453,815 | 877,652 | 41,021,534 |

| Year ended 31 March 2015 | On demand | Less than 3 Months | 3 to 12 months | 1 to 5 years | >5 years | Total |
|---------------------------------------|-----------|--------------------|----------------|--------------|----------|-----------|
| Company | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| Interest-bearing loans and borrowings | 37,579 | 303,682 | 911,047 | 5,667,819 | - | 6,920,127 |
| Trade and other payables | 123,993 | 167,974 | 206 | - | 1,790 | 293,963 |
| Other Current financial liabilities | - | 15,942 | - | - | - | 15,942 |
| | 161,572 | 487,598 | 911,253 | 5,667,819 | 1,790 | 7,230,032 |

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments and derivative financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The sensitivity analyses in the following sections relate to the position as at 31 March 2016 and 2015.

Notes to the Financial Statements

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group mainly borrows in the short term to fund its working capital requirement which are linked to floating interest rates. For other funding needs the Group maintains a proper mix of interest rate based on the basis of the predictability of future cash flows. Group Treasury closely monitors the interest rate fluctuations in the market and advises the sectors of the Group on a regular basis.

Interest rate sensitivity

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

| Consolidated | Increase/ decrease in base point | Effect on profit before tax Rs.'000 |
|--------------|--|---|
| 2016 | + 150 | 117,059 |
| | - 150 | (117,059) |
| 2015 | + 150 | 92,931 |
| | - 150 | (92,931) |
| Company | Increase/ decrease in base point | Effect on profit before tax Rs.'000 |
| 2016 | + 150 | - |
| | - 150 | - |
| 2015 | + 150 | 13,325 |
| | - 150 | (13,325) |

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to currency risk on sales, purchases and borrowings and net investments in foreign subsidiaries that are denominated in a currency other than the respective functional currencies of the Group. These currencies primarily are the Euro, US Dollars (USD), Bangladesh Taka, Pound Sterling (GBP), Indonesia Rupiah and Thailand Baht.

The Group hedges its exposure to fluctuations on the translation of its foreign operations by holding net borrowings in foreign currencies and by using foreign currency swaps and forwards contracts. Group Treasury closely monitors the exchange rate fluctuations and advises the sectors on a regular basis.

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and Euro exchange rate, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities.

The Group's exposure to foreign currency changes for all other currencies is not material.

| Consolidated | Increase/ decrease in base point | Effect on profit before tax Rs.'000 |
|--------------|--|---|
| 2016 | | |
| USD | + 5% | (546,691) |
| Euro | + 5% | 28,103 |
| USD | - 5% | 546,691 |
| Euro | - 5% | (28,103) |
| 2015 | | |
| USD | + 5% | (402,728) |
| Euro | + 5% | 1,509 |
| USD | - 5% | 402,728 |
| Euro | - 5% | (1,509) |
| Company | Increase/ decrease in base point | Effect on profit before tax Rs.'000 |
| 2016 | | |
| USD | + 5% | (84,376) |
| USD | - 5% | 84,376 |
| 2015 | | |
| USD | + 5% | (32,987) |
| USD | - 5% | 32,987 |

Commodity Risk

The Group is affected by the volatility of certain commodities. Its operating activities require the ongoing purchase and manufacturing process. Due to the significantly increased volatility of the price of the underlying, the management has developed and enacted a risk management strategy regarding commodity price risk and its mitigation. The sectors constantly monitor the Raw material price levels of Charcoal, Rubber, Aluminum and Yarn for downwards trends and invest in bulk purchase when low prices are prevalent. Management may revise the selling price based on the commodity prices whenever possible.

Notes to the Financial Statements

Equity price risk

The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the GMC. Equity price risk is not material to the Financial Statements.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, reserves, retained earnings and non-controlling interests of the Group. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The gearing ratio at the reporting date was as follows

| Consolidated | 2016 Rs. '000 | 2015 Rs. '000 |
|--|------------------|------------------|
| Interest bearing borrowing | 12,265,720 | 12,069,274 |
| Current portion of long term interest bearing borrowings | 6,235,591 | 3,686,844 |
| Short term interest bearing borrowings | 14,612,943 | 13,306,065 |
| | 33,114,254 | 29,062,183 |
| Equity | 46,583,130 | 44,209,475 |
| Equity and debts | 79,697,384 | 73,271,658 |
| Gearing ratio | 42% | 40% |
| Company | 2016 Rs. '000 | 2015 Rs. '000 |
| Interest bearing borrowing | 3,555,665 | 5,667,819 |
| Current portion of long term interest bearing borrowings | 2,987,765 | 1,214,729 |
| Short term interest bearing borrowings | 43,052 | 37,579 |
| | 6,586,482 | 6,920,127 |
| Equity | 10,999,214 | 10,521,575 |
| Equity and debts | 17,585,696 | 17,441,702 |
| Gearing ratio | 37% | 40% |

Collateral

The Group has not pledged its debtors as collateral for long term borrowings at 31 March 2016 and 2015, other than those mentioned in Note 25.12 to the Financial Statements.

Ten Year summary

| Year ended 31st March | 10-Year Compound Growth (%) | 2016 Rs '000 | 2015 Rs '000 | 2014* Rs '000 | 2013***/* Rs '000 | 2012***/* Rs. '000 | 2011**/* Rs. '000 | 2010** Rs. '000 | 2009** Rs. '000 | 2008** Rs. '000 | 2007 Rs. '000 |
|---|-----------------------------------|-----------------|-----------------|------------------|----------------------|-----------------------|----------------------|--------------------|--------------------|--------------------|------------------|
| Results | | | | | | | | | | | |
| Revenue | 13% | 92,274,683 | 92,561,865 | 80,478,609 | 74,301,852 | 65,806,714 | 54,370,207 | 38,169,336 | 32,442,999 | 31,326,583 | 27,584,626 |
| Profit before taxation | 16% | 6,816,274 | 6,399,915 | 5,082,621 | 4,916,576 | 2,488,223 | 2,007,207 | 3,293,392 | 1,374,638 | 1,554,720 | 1,521,915 |
| Taxation | 15% | (1,756,533) | (1,513,581) | (1,373,628) | (1,411,981) | (914,724) | (903,853) | (684,197) | (571,236) | (464,946) | (432,631) |
| Profit after tax | 17% | 5,059,741 | 4,886,334 | 3,708,993 | 3,504,595 | 1,573,499 | 1,103,354 | 2,609,195 | 803,402 | 1,089,774 | 1,089,284 |
| Non-controlling Interest | 14% | (2,055,828) | (2,305,036) | (1,900,470) | (1,743,449) | (594,330) | (444,128) | (849,893) | (492,464) | (637,151) | (555,719) |
| Profit attributable to owners of the parent | 19% | 3,003,913 | 2,581,298 | 1,808,523 | 1,761,146 | 979,169 | 650,184 | 1,759,302 | 310,938 | 452,623 | 533,565 |
| Funds Employed | | | | | | | | | | | |
| Stated capital*** | 0% | 1,575,000 | 1,575,000 | 1,575,000 | 1,575,000 | 1,575,000 | 1,575,000 | 1,575,000 | 1,575,000 | 1,575,000 | 1,575,000 |
| Employee share trust | | - | (148,558) | (488,261) | (489,887) | (491,439) | (492,242) | - | - | - | - |
| Treasury shares | | - | - | - | - | - | (398,902) | - | - | - | - |
| Capital reserves | -15% | 1,102,676 | 1,303,980 | 1,429,680 | 1,377,676 | 1,222,076 | 1,404,887 | 7,047,507 | 5,697,166 | 5,954,623 | 5,457,476 |
| Other component of equity | | 11,576,897 | 11,573,045 | 8,969,910 | 9,000,862 | 6,373,692 | 6,164,166 | | | | |
| Revenue reserves | 14% | 16,600,264 | 14,800,483 | 12,236,713 | 10,788,133 | 9,633,788 | 6,978,079 | 6,592,052 | 5,083,473 | 4,692,428 | 4,667,992 |
| Equity attributable to equity holders of the parent | 10% | 30,854,837 | 29,103,950 | 23,723,042 | 22,251,784 | 18,286,120 | 15,230,988 | 15,214,559 | 12,355,639 | 12,222,051 | 11,700,468 |
| Non-controlling Interest | 16% | 15,728,293 | 15,105,525 | 12,614,224 | 11,173,102 | 10,056,647 | 8,474,612 | 7,118,790 | 4,220,619 | 3,986,239 | 3,704,926 |
| Borrowings (short- and long-term) | 12% | 33,114,254 | 29,062,183 | 25,825,466 | 23,563,413 | 21,728,944 | 16,692,083 | 11,337,734 | 9,232,776 | 9,600,416 | 10,235,592 |
| Assets Employed | | | | | | | | | | | |
| Non-current assets | 13% | 60,298,046 | 55,739,447 | 46,796,361 | 44,657,106 | 37,976,929 | 30,131,853 | 23,453,761 | 17,215,706 | 17,625,669 | 17,005,585 |
| Current assets | 11% | 43,023,496 | 37,587,050 | 34,508,725 | 30,086,220 | 27,832,013 | 23,732,633 | 21,414,944 | 16,414,322 | 15,732,377 | 15,214,288 |
| Current liabilities net of borrowings | 13% | (15,715,184) | (13,019,465) | (12,520,090) | (11,651,381) | (10,151,511) | (8,540,919) | (7,922,413) | (5,317,991) | (5,391,701) | (4,832,001) |
| Provisions | 17% | (7,169,297) | (6,321,880) | (5,880,186) | (5,320,425) | (4,808,050) | (4,133,016) | (2,828,159) | (2,153,244) | (1,906,595) | (1,541,717) |
| Grants | 14% | (739,677) | (713,495) | (742,077) | (783,222) | (777,670) | (792,868) | (447,050) | (349,759) | (251,044) | (205,169) |
| Capital Employed | 12% | 79,697,384 | 73,271,658 | 62,162,733 | 56,988,298 | 50,071,711 | 40,397,683 | 33,671,083 | 25,809,034 | 25,808,706 | 25,640,986 |
| Cash Flows | | | | | | | | | | | |
| Net cash inflow/(outflow) from operating activities | | 7,863,139 | 8,631,365 | 5,553,098 | 7,296,563 | 2,472,453 | 1,203,321 | 2,589,712 | 1,082,097 | 1,841,624 | 408,821 |
| Net cash inflow/(outflow) from investing activities | | (7,314,693) | (6,339,994) | (3,688,499) | (4,684,957) | (5,113,667) | (4,661,879) | (3,574,446) | 200,631 | (751,827) | (843,422) |
| Net cash inflow/(outflow) from financing activities | | (1,718,517) | (233,279) | 1,480,014 | (3,954,861) | (1,661,883) | 1,962,119 | (1,012,142) | (892,834) | (687,588) | (1,153,882) |
| Increase/(decrease) in cash and cash equivalents | | (1,203,371) | 2,058,092 | 3,344,614 | (1,343,255) | (4,303,096) | (1,496,439) | (1,996,876) | 389,894 | 402,209 | (1,588,483) |
| Key Indicators | | | | | | | | | | | |
| Earnings per share (basic) (Rs.) | | 40.05 | 34.42 | 24.11 | 23.48 | 13.06 | 8.67 | 23.08 | 4.15 | 6.03 | 7.11 |
| Dividend per share (basic) (Rs.) | | 6.50 | 6.00 | 5.00 | 4.50 | 4.00 | 4.00 | 4.00 | 3.00 | 3.00 | 3.50 |
| Net assets per share (Rs.) | | 411.40 | 388.05 | 316.31 | 296.69 | 244.17 | 203.08 | 202.86 | 164.74 | 162.96 | 156.01 |
| Market price per share (Rs.) | | 245.70 | 300.00 | 285.00 | 298.70 | 360.00 | 382.10 | 225.00 | 90.00 | 97.75 | 142.00 |
| % change in market price (after adjusting for scrip issues) | | (18.10) | 5.26 | (4.59) | (17.03) | (5.78) | 70.00 | 150.00 | (7.90) | (31.20) | 44.2 |
| % change in All Share Price Index | | (11) | 14 | 4.06 | 6.00 | (24.99) | 94.00 | 127.00 | (36.00) | (9.00) | 23 |
| Return on average shareholders' funds (%) | | 9.74 | 8.87 | 7.62 | 7.91 | 5.35 | 4.27 | 11.38 | 3.00 | 4 | 5 |
| Return on average capital employed (%) | | 11.12 | 12.57 | 12.08 | 12.25 | 8.94 | 7.81 | 13.30 | 9.40 | 11.00 | 11 |
| Price earnings ratio (times) | | 6.13 | 8.72 | 11.82 | 12.72 | 27.57 | 42.32 | 9.75 | 21.70 | 16.2 | 20.0 |
| Interest cover (times covered) | | 4.19 | 3.98 | 3.01 | 2.45 | 2.74 | 3.41 | 5.60 | 2.10 | 2.5 | 3.4 |
| Dividend payout Ratio (%) | | 16.23 | 17.43 | 20.74 | 19.16 | 30.64 | 46.14 | 17.33 | 72.29 | 49.75 | 49.23 |

* Restated in line with SLFRS/LKAS.

** Including results of discontinued operations

*** Share capital and share premium previously reported have been reclassified to reflect stated capital as define in he Companies Act No. 07 of 2007.

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, Col 10 | 5.96 | 65,240 | 3 | 6,321 |
| | | No 400, Deans Rd. Col. 10 | | 114,402 | 8 | |
| Carbotels (Pvt) Ltd | Elkaduwa | Weyagala Estate, Elkaduwa, Matale. | 65.06 | Nil | Nil | 35 |
| Volanka (Pvt) Ltd | Kotugoda | No.193,Minuwangoda Road,Kotugoda | 15.68 | 182,981 | 30 | 753 |
| | Galle | No.153/1, Robosgewatta,Matara Road,Magalle, Galle | 1.20 | 15,000 | 2 | 195 |
| | Katana | No.B 28,Divulapitiya Road, Dissagewatte,Katana | 14.50 | 205,000 | 4 | 186 |
| Chas P. Hayley & Co. (Pvt) Ltd | Galle | No.153,Robosgewatta,Matara Road,Magalle, Galle | 0.55 | 8,030 | 2 | 88 |
| | Galle | "Thurburn Stores",161,Matara Road, Magalle, Galle | 0.78 | 9,901 | 1 | 125 |
| | Galle | No.195,Bandaranayake Mawatha,Magalle, Galle | 2.41 | 57,376 | 7 | 289 |
| | Galle | No.193/2,193/2A, 193/4,Bandaranayake Mawatha,Magalle, Galle | 1.10 | 13,632 | 4 | 70 |
| Lignocell (Pvt) Ltd | Madampe | Sellam Pathaha, Melawagara, Madampe. | 7.03 | 104,846 | 10 | 22 |
| | Kuliyapitiya | "Biginhill Estate",Karagahagedera,Kuliyapitiya | 3.94 | 57,778 | 10 | 16 |
| Hayleys Fibre PLC | Ekala | "Ekala Estate",Minuwangoda Road,Ekala | 6.30 | 53,880 | 15 | 328 |
| | Kuliyapitiya | "Biginhill Estate", Karagahagedara, Kuliyapitiya | 3.93 | 44,457 | 12 | 16 |
| Ravi Industries (Pvt) Ltd | Ekala | 252A,Kurunduwatte Road,Ekala,Ja-ela. | 6.08 | 99,266 | 13 | 243 |
| Volanka Exports (Pvt) Ltd | Nattandiya | Wathugahamulla,Welipannagahamulla | 7.20 | 67,151 | 9 | 23 |
| Rileys (Pvt) Ltd | Ekala | 131,Minuwangoda Road, Ekala, Ja-ela | 3.80 | 81,026 | 8 | 304 |
| Toyo Cushion Lanka (pvt) Ltd | Katana | 105,Thimbirigaskatuwa,Katana | 3.40 | 27,945 | 13 | 81 |
| Dipped Products PLC | Kottawa | Brahmanagama , Kottawa | 10.16 | 114,428 | 20 | 138 |
| | Weliweriya | Nedungamuwa, Weliweriya | 7.85 | 5,029 | - | 82 |
| | Malabe | No: 59, Pothuwarawa Road, Malabe | 2.26 | 57,595 | 6 | 199 |
| Venigros (Pvt) Ltd | Weliweriya | Nedungamuwa, Weliweriya | 7.09 | 55,581 | 7 | 68 |
| Haycarb PLC | Badalgama | Katana Road, Beatrice Estate, Badalgama. | 12.88 | 159,769 | 13 | 52 |
| | Madampe | Kuliyapitiya road, New town, Pothuwila, Madampe | 28.90 | 231,263 | 9 | 114 |
| | Wewalduwa | 333/25, New road Hunupitiya Wattala. | 2.45 | 59,202 | 3 | 165 |
| Recogen (Pvt) Ltd | Badalgama | Katana Road, Beatrice Estate, Badalgama. | 10.84 | 22,604 | 3 | 43 |
| Hayleys Agriculture Holdings Ltd | Dambulla | Athabadiwewa, Pahawewa, Dambulla. | 4.35 | 2,500 | 2 | 9 |
| | Kottawa | No. 168/D, Brahmanagama, Kottawa, Pannipitiya. | 4.96 | 47,506 | 7 | 79 |
| Sunfrost (Pvt) Ltd | Alawwa | Nelumdeniya road, Alawwa Waththa Road, Alawwa | 5.18 | 21,293 | 18 | 54 |
| | Padiyathalawa | Bogaharawa Road, Kehelulla, Padiyathalawa | 5.42 | 1,430 | 1 | 6 |
| Hayleys Advantis Group | Liyanagemulla | No.710 Negombo Road, Liyanagemulla,Seeduwa | 0.62 | 8,036 | 1 | 99 |
| | Kelaniya | No 408 A, Nungamugoda, Kelaniya | 7.72 | 175,000 | 6 | 587 |
| | Welisara | No. 309/18 & No. 317, Negombo Road, Welisara | 3.63 | 2,700 | 2 | 392 |
| | Welisara | No. 309/15, Negombo Road, Welisara | 3.00 | 17,644 | 7 | 223 |
| | Sedawatta | No. 148B, Nawalokapura, Sedawatta, Wellampitiya | 2.49 | Nil | Nil | 319 |
| | Sedawatte | No. 148/A1, Nawalokapura Sedawatte, Welampitiya | 2.00 | 5,000 | 3 | 272 |
| | Colombo 2 | No. 46/12, Sayuru Sevana, Nawam Mawatha, Colombo 2 | 0.24 | 45,980 | 1 | 227 |
| | Kalutara | Haycolour Factory,Ethanmadala, Kalutara | 4.43 | 5,700 | 5 | 33 |
| Bhagya Hydro (Pvt) Ltd | Gomala oya | Gomala Oya Mini Hydro Power Plant,Godagampola,Rathnapura | 2.11 | 2,300 | 2 | 2 |
| Nelwa Cascade Hydro Power (Pvt) Ltd | Neluwa | Lower Neluwa Mini Hydro Power Plant, Godagampola,Rathnapura | 2.45 | 1,894 | 1 | 6 |
| Hayleys Fabric PLC | Neboda | Narthupana Estate, Neboda | 34.42 | 380,776 | 24 | 330 |
| Alumex PLC | Makola | Off Pitigala Road, Sapugaskanda, Makola | 8.07 | 117,136 | 17 | 351 |
| Alco Industries (Pvt) Ltd | Gonawala | Maguruwila Road, Pattiwila | 1.13 | 33,563 | 2 | 76 |
| Alufab PLC | Kotugoda | 41B, Sasanathilaka Rd, Opatha, Kotugoda | 2.70 | 34,550 | 4 | 22 |
| Hunas Falls Hotels PLC | Kandy | Elkaduwa, Matale | 19.88 | 54,765 | 11 | 48 |
| Eastern Hotels (Pvt) Ltd | Trincomalee | Nilakara Estate, Nilaweli, Trincomalee | 23.48 | Nil | Nil | 470 |
| Culture Club Resorts (Pvt) Ltd | Dambulla | Kapela , Kandalama, Dambulla | 1.00 | 70,000 | 72 | 2 |
| Kandyan Resorts (Pvt) Ltd | Kandy | Heerassagala, Kandy | 14.22 | 126,684 | 10 | 578 |
| The Beach Resorts Limited | Wadduwa | Mudillagahawatte, Wadduwa, Panadura | 5.44 | Nil | Nil | 362 |
| The Queensbury (Pvt) Ltd | Bentota | Kaluwamodara, Bentota | 0.28 | Nil | Nil | 59 |

Country Report

Vital Statistics

| | |
|------------------------|-------------------------------------|
| Population (2015): | 20.9 Million |
| Land Area: | 65,610 Sq km |
| Languages: | Sinhalese, Tamil and English |
| Per capita GDP (2015): | US\$ 3,924 |
| Currency (2015): | Sri Lankan Rupee (LKR 144: 1 US \$) |

Background

Sri Lanka lies in a strategic position at the Southern tip of the Indian sub-continent, at a mid-point along key shipping routes between east and 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 characterized 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 trade, finance, transport, construction, telecommunication and leisure dominating the economy. In 2015 per capita income reached US\$ 3,924.

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. In January 2015, a presidential election brought Maithripala Sirisena to power on a platform of ensuring good governance. A subsequent general election resulted in a coalition government, formed on the basis of similar principles of good governance. Constitutional amendments have since taken steps towards enhanced checks and balances in government through more independent institutions and a strengthened parliament and judiciary. This is expected to further strengthen the investment climate, building upon the vibrant infrastructure development witnessed since the end of conflict.

Policy Directions

During the Civil War investment in Sri Lanka's infrastructure was neglected. Since the end of conflict an aggressive investment drive in the country's infrastructure, focused on national highways and railways, ports, airports and energy. Since 2011 Sri Lanka has built 2 expressways, connecting Colombo to the Southern city of Matara and to the Airport in Katunayaka. New expressways are being planned to connect the hill capital Kandy, along with the completion of the outer-circular highway around the capital Colombo. The national railway network is being modernized to enable faster rail and new routes are also being created. The Colombo Port was expanded as the new Colombo South Harbour, with depth of 18m, has the capacity to accommodate the world's largest vessels. The Commercial Hub Act of 2013 will further enhance Sri Lanka's position as a regional maritime hub as 6 locations were designated as free ports. The primary airport in Katunayake is also undergoing expansion. 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.

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 1000 persons). In order to further enhance the quality of education, measures are being taken to enhance existing education institutions at primary, secondary and tertiary levels. The government has pledged to increase expenditure on education to 6% of GDP in the medium term. In addition to public sector education, Sri Lanka has developed substantial

Country Report

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 location for financial outsourcing.

Along with investments in infrastructure, successive governments continue to emphasise private sector led economic growth. Sri Lanka has a relatively low income tax regime with reduced taxes on corporate and personal incomes, international trade, and a simplified tax structure. Rationalisation of 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. Accordingly the financial market has developed rapidly, with a number of banks following the sovereign in tapping the global bond market, and the domestic corporate debt and equity markets have grown significantly in recent years.

Economic Climate

As is the trend in emerging economies, Sri Lanka's economy is dominated by the services sector (60% of GDP) with industry (30% of GDP) and agriculture (10% 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 averaging above 7% per annum, low unemployment (4.4% in 2014), historically benign inflation (now anchored at mid-single digit levels), and an improving fiscal position on the back of structural reforms.

Sri Lanka's economy has always been characterized 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 16 year old Free Trade Agreement. Sri Lanka has developed close political and economic ties with China, with a Free Trade Agreement under negotiation and strong aviation and shipping links already in place. In parallel, the new government has strengthened diplomatic and economic ties with key trading partners the US and the EU, which creates a suitable balance for economic and geopolitical objectives of the country. Greater economic and political integration with key global players 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.

Share Information

Ordinary Shareholders as at 31st March 2016

| 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 | 4,762 | 1,107,926 | 1.4772 | 58 | 17,463 | 0.0233 | 4,820 | 1,125,389 | 1.5005 |
| 1,001 - 10,000 | 1,272 | 3,550,614 | 4.7342 | 43 | 176,533 | 0.2354 | 1,315 | 3,727,147 | 4.96966 |
| 10,001 - 100,000 | 204 | 5,974,006 | 7.9653 | 34 | 805,478 | 1.0740 | 238 | 6,779,484 | 9.0393 |
| 100,001 - 1,000,000 | 32 | 8,720,513 | 11.6274 | 5 | 1,791,871 | 2.3891 | 37 | 10,512,384 | 14.0165 |
| Over 1,000,000 | 6 | 52,855,596 | 70.4741 | | | | 6 | 52,855,596 | 70.4741 |
| | 6,276 | 72,208,655 | 96.2782 | 140 | 2,791,345 | 3.7218 | 6,416 | 75,000,000 | 100.0000 |

Category

| | | | | | | | | | |
|--------------|-------|------------|---------|-----|-----------|--------|-------|------------|----------|
| Individuals | 6,000 | 55,497,119 | 73.9962 | 127 | 2,573,985 | 3.4320 | 6,127 | 58,071,104 | 77.4282 |
| Institutions | 276 | 16,711,536 | 22.2820 | 13 | 217,360 | 0.2898 | 289 | 16,928,896 | 22.5718 |
| | 6,276 | 72,208,655 | 96.2782 | 140 | 2,791,345 | 3.7218 | 6,416 | 75,000,000 | 100.0000 |

First Twenty Shareholders as at 31.03.2016

| Name of the Shareholder | | No. of Shares as at | % | No. of Shares as at | % |
|-------------------------|--|---------------------|--------------|---------------------|--------------|
| | | 31.03.2016 | | 31.03.2015 | |
| 1 | Mr.K.D.D.Perera | 32,247,113 | 43.00 | 31,699,599 | 42.27 |
| | SBL/ Mr.K.D.D.Perera | 3,400,000 | 4.53 | 3,400,000 | 4.53 |
| 2 | Trustees of the D.S.Jayasundera Trust | 8,698,017 | 11.60 | 8,698,017 | 11.60 |
| 3 | Employees Provident Fund | 3,510,788 | 4.68 | 3,930,342 | 5.24 |
| 4 | Vallibel One PLC | 2,182,584 | 2.91 | 2,182,584 | 2.91 |
| 5 | Lanka Orix Leasing Company PLC | 1,700,004 | 2.27 | 1,700,004 | 2.27 |
| 6 | Hayleys Group Services (Private) Ltd No.02 A/C | 1,117,090 | 1.49 | 1,117,090 | 1.49 |
| 7 | Mrs.A.M.L.Johnpulle & Mr.B.J.M.Johnpulle | 890,665 | 1.19 | 907,165 | 1.21 |
| 8 | Commercial Leasing & Finance PLC | 734,144 | 0.98 | 734,144 | 0.98 |
| 9 | Mrs.R.N.Ponnambalam | 583,745 | 0.78 | 581,245 | 0.77 |
| 10 | Mrs.R.M.Spittel | 564,697 | 0.75 | 564,697 | 0.75 |
| 11 | Mrs.F.C.Phillips & Mr.R.H.S.Phillips | 493,142 | 0.66 | 493,142 | 0.66 |
| 12 | Mrs.Y.M.Spittel | 465,561 | 0.62 | 465,561 | 0.62 |
| 13 | Mr.A.C Wikramanayake | 462,204 | 0.62 | 444,723 | 0.59 |
| 14 | Mrs.P.M Godamunne | 443,447 | 0.59 | 443,447 | 0.59 |
| 15 | Mrs.S.D. Wickramasinghe . | 440,281 | 0.59 | 440,281 | 0.59 |
| 16 | Mr.G.N. Wikramanayake | 370,422 | 0.49 | 370,422 | 0.49 |
| 17 | Sri Lanka Insurance Corporation Ltd-Life Fund | 347,162 | 0.46 | - | - |
| 18 | Akbar Brothers Pvt Ltd A/C No.01 | 321,931 | 0.43 | - | - |
| 19 | Mr.N.K.A.D.De Silva | 298,540 | 0.40 | 286,843 | 0.38 |
| 20 | Mrs. L. Sivagurunathan | 284,805 | 0.38 | 284,805 | 0.38 |
| | Total | 59,556,342 | 79.42 | 58,744,111 | 78.32 |

Share Information

Directors' Shareholding

| | No. of Shares as at 31.03.2016 | No. of Shares as at 01.04.2015 |
|--|-----------------------------------|-----------------------------------|
| Mr.A.M.Pandithage | 125,357 | 2,338 |
| Mr.K.D.D.Perera - 32,247,113 (01-04-2015 -31,699,599) | 37,831,363 | 37,283,849 |
| SBL/ Mr.K.D.D.Perera - 3,400,000 | | |
| LB Finance PLC - 1,666 | | |
| Vallibel One Plc - 2,182,584 | | |
| Mr.M.R.Zaheed | 38,395 | 1,487 |
| Mr.W.D.N.H.Perera | 11 | 11 |
| Mr.S.C. Ganegoda | 23,414 | 2,000 |
| Dr.K.I.M. Ranasoma | 9,634 | 751 |
| Mr.L.T Samarawickrama - 3,988 | 7,488 | 3,500 |
| People's Leasing & Finance PLC / Mr.L.T.Samarawickrama - 3,500 | | |
| Mr.M.D.S.Goonatilleke | 11,001 | 10,000 |
| Mr. L.R.V. Waidyaratne | 37,930 | 1,465 |
| Mr.H.S.R. Kariyawasan | 9,427 | Nil |
| DR. H. Cabral, PC | Nil | Nil |
| Mr. M.H. Jamaldeen | Nil | Nil |

MARKETVALUE OF SHARES

The market value of an ordinary share of Hayleys PLC was as follows:

| | | |
|---|--------|--------|
| Closing price on | 245.70 | 300.00 |
| Highest price recorded for the twelve months ending | 365.00 | 365.00 |
| Lowest price recorded for the twelve months ending | 237.50 | 280.00 |
| Highest price recorded for the three months ending | 310.00 | 364.00 |
| Lowest price recorded for the three months ending | 237.50 | 290.00 |
| Market capitalisation (Rs. Mn.) | 18,428 | 22,500 |

Share Trading From 1st April, 2015 To 31st March, 2016

| | | |
|--|---------------|---------------|
| No. of transactions | 7,515 | 1,623 |
| No. of shares traded | 4,826,238 | 4,021,136 |
| Value of shares traded (Rs.) | 1,555,164,150 | 1,331,221,677 |
| The Public Holding percentage as at 31st March 2016 | 37.61% | 38.66% |
| Total number of Shareholders representing the Public Holding | 6,401 | 3,089 |

Listed Debentures

Details regarding the listed debentures are as follows;

Debenture 1 -

Listed, rated, senior, unsecured, redeemable Debentures at 14.25% p.a. payable quarterly and redeemable on 9th July, 2016
Interest rate of comparable Government Securities as at 31st March, 2016, 9.30% (Net of tax)

Debenture Trading Information For The Twelve Months Ended - 31.03.2016

| | |
|---------------------------------|----------|
| No. of Transactions | 5 |
| No. of Debentures traded | 109,400 |
| Highest Price | 1,056.22 |
| Lowest Price | 1,000.34 |
| Last Traded Price | 1,015.00 |
| Interest yield - Last traded | 9.90% |
| Yield to maturity - Last traded | 13.78% |

Debenture Trading Information For The Three Months Ended - 31.03.2016

| | |
|---------------------------------|----------|
| No. of Transactions | 3 |
| No. of Debentures traded | 14,100 |
| Highest Price | 1,015.00 |
| Lowest Price | 1,000.34 |
| Last Traded Price | 1,015.00 |
| Interest yield - Last traded | 9.90% |
| Yield to maturity - Last traded | 13.78% |

Debenture 2 -

Listed, rated, unsecured, redeemable Debentures at 7.60% p.a. payable semi annually and redeemable on 6th March, 2019 Interest rate of comparable Government Securities as at 31st March, 2016, 11.69% (Net of tax)

Debenture Trading Information For The Twelve Months Ended - 31.03.2016

There were no transactions during the period.

Debenture 3 -

Listed, rated, unsecured, redeemable Debentures at 7.85% p.a. payable semi annually and redeemable on 6th March, 2020 Interest rate of comparable Government Securities as at 31st March, 2016, 11.73% (Net of tax)

Debenture Trading Information For The Twelve Months Ended - 31.03.2016

There were no transactions during the period.

| Ratios | 2016 | 2015 |
|--------------------|------|------|
| Debt/ equity ratio | 0.60 | 0.66 |
| Quick asset ratio | 0.51 | 1.27 |
| Interest cover | 2.40 | 2.16 |

History of Dividends and Scrip Issues

| Year | 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 | 33% | 179 |
| 1957 | Bonus | 3:11 | 15 | 70 | 38% | 330 |
| 1958 | Bonus | 3:07 | 30 | 100 | 20% | 200 |
| 1959 | | | | 100 | 10% | 100 |
| 1960 | | | | 100 | 18% | 180 |
| 1961 | Bonus | 1:02 | 50 | 150 | 8% | 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 | 13% | 313 |
| 1969 | | | | 250 | 15% | 375 |
| 1970 | | | | 250 | 15% | 375 |
| 1971 | | | | 250 | 15% | 375 |
| 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 | 28% | 3,525 |

| Year | Issue | Basis | No. of shares '000 | Cum. No. of shares '000 | Dividend | Dividend Rs. '000 |
|------|--------------------------|-------|--------------------|-------------------------|-------------|-------------------|
| 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 | 20000 | 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 |
| 2013 | | | | 75,000 | Rs.4.50 p.s | 337,500 |
| 2014 | | | | 75,000 | Rs.5.00 p.s | 375,000 |
| 2015 | | | | 75,000 | Rs.6.00 p.s | 450,000 |
| 2016 | | | | 75,000 | Rs.6.50 p.s | 487,500 |

Quarterly Analysis

| | Quarter 01 Rs.'000 | Quarter 02 Rs.'000 | Quarter 03 Rs.'000 | Quarter 04 Rs.'000 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Revenue | 22,023 | 44,020 | 67,625 | 92,275 |
| Profit before tax | 1,191 | 2,720 | 4,225 | 6,816 |
| Tax expense | 268 | 652 | 1,176 | 1,757 |
| Profit after tax | 923 | 2,067 | 3,049 | 5,060 |
| Profit attributable to owners of the parent | 523 | 1,152 | 1,686 | 3,004 |
| Profit attributable to non-controlling interest | 400 | 915 | 1,363 | 2,056 |
| Total comprehensive income for the period, net of tax | 768 | 2,052 | 3,299 | 5,092 |
| Non Current Assets | 56,080 | 57,689 | 58,600 | 60,298 |
| Current Assets | 38,162 | 37,066 | 39,036 | 43,023 |
| Non current liabilities | 18,870 | 17,915 | 19,463 | 20,175 |
| Current liabilities | 30,947 | 31,608 | 32,682 | 36,564 |
| | Rs. | Rs. | Rs. | Rs. |

Market Value of Shares

| | | | | |
|--|--------|--------|--------|--------|
| Closing share price | 344.00 | 326.20 | 307.40 | 245.70 |
| Basic earnings per share | 6.97 | 15.36 | 22.48 | 40.05 |
| Diluted earnings per share | 6.97 | 15.36 | 22.48 | 40.05 |
| Highest price recorded for the three months ending | 364.50 | 365.00 | 337.80 | 310.00 |
| Lowest price recorded for the three months ending | 300.00 | 322.10 | 305.00 | 237.50 |
| Market capitalisation (Rs. Mn.) | 25,800 | 24,465 | 23,055 | 18,428 |

Share Trading Information

| | | | | |
|-----------------------------|-------------|-------------|---------------|---------------|
| No. of transactions | 484 | 3,785 | 6,378 | 7,515 |
| No. of shares traded | 779,350 | 2,378,496 | 3,937,204 | 4,826,238 |
| Value of shares traded (Rs) | 264,615,480 | 807,399,565 | 1,311,069,293 | 1,555,164,150 |

Group Companies

| Sub sector | Company | Nature of the Business |
|-----------------------|--|---|
| Eco solutions | Ravi Industries Ltd. | Industrial and household brushware |
| | Rileys (Pvt) Ltd. | Cleaning devices |
| | Haymat (Pvt) Ltd. | Coir fibre mats |
| | Creative Polymats (Pvt) Ltd. | Moulded rubber products |
| | Hayleys Fibre PLC | Value added coir-based products |
| | Bonterra Lanka Ltd. | Value added coir-based products |
| | Ravi Marketing Services (Pvt) Ltd. | Services |
| | Chas P. Hayley & Company (Pvt) Ltd. | Coir and treated rubber timber products |
| | Volanka (Pvt) Ltd. | Investments |
| | 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 |
| | Charles Fibres (Pvt) Ltd. | Trading in coir-based products |
| Hand protection | Dipped Products Group | General purpose and speciality rubber gloves |
| Purification products | Haycarb Group | Activated Carbon and Environmental Purification Solutions |
| Textiles | Hayleys Fabric PLC | Knitted fabric |
| Construction material | Alumex Group | Aluminium extrusions |
| Plantations | DPL Plantations (Pvt) Ltd. | Plantation Management |
| | Hayleys Plantation Services (Pvt) Ltd. | Plantation Management |
| | Kelani Valley Plantations PLC | Processed tea and rubber |
| | Talawakele Tea Estates PLC | Processed black and green tea |
| | Kelani Valley Instant Tea (Pvt) Ltd. | Manufacture of ready- to - drink tea powder |
| | Mabroc Group | Export of bulk and retail packed tea |
| | Hayleys Global Beverages (Pvt) Ltd. | Manufacturing instant tea and tea extract |
| Agriculture | Hayleys Agriculture Holdings Ltd. | Crop production and protection materials, agricultural equipment and animal health products |
| | Agro Technica Ltd. | Agricultural machinery and equipment |
| | Haychem (Bangladesh) Ltd. | Crop protection chemicals |
| | Sunfrost (Pvt) Ltd. | Fresh/processed vegetables |
| | HJS Condiments Ltd. | Retailed-packed, processed vegetables |

Group Companies

| Sub sector | Company | Nature of the Business |
|-------------------|--|---|
| | Hayleys Agro Farms (Pvt) Ltd. | Planting material |
| | Hayleys Agro Biotech (Pvt) Ltd. | Horticultural tissue culture products |
| | Quality Seed Company (Pvt) Ltd. | Hybrid flower seeds |
| | Hayleys Agro Fertilizers (Pvt) Ltd. | Fertiliser |
| | Hayleys Aquagri (Pvt) Ltd. | Growing/ exporting dry seaweed for carrageenan |
| Consumer Products | Hayleys Consumer Products Ltd. | Lighting products and solutions, photo imaging, health care and FMCG products |
| | Hayleys Electronics Lighting (Pvt) Ltd. | Lighting products and solutions |
| | Global Consumer Brands (Pvt) Ltd. | Manufacturers, importers, retailers |
| | Hayleys Electronics Manufacturing (Pvt) Ltd. | Electrical and general engineering products |
| Leisure | Hunas Falls Hotels PLC | Leisure |
| | The Kingsbury PLC | Leisure |
| | Amaya Leisure PLC | Leisure |
| | Culture Club Resorts (Pvt) Ltd. | Leisure |
| | Kandyan Resorts (Pvt) Ltd. | Leisure |
| | CDS Conventions (Pvt) Ltd. | Leisure |
| | The Beach Resorts Ltd. | Leisure |
| | Sun Tan Beach Resorts Ltd. | Leisure |
| | Hayleys Tours (Pvt) Ltd. | Travel Agency and Destination Management |
| Industry Inputs | Hayleys Industrial Solutions (Pvt) Ltd. | Engineering and projects, power generation, pigments and industrial raw materials |
| | Hayleys Life Sciences (Pvt) Ltd. | Supplying health care equipment |
| | Haycolour (Pvt) Ltd. | Textile dyestuff and binders |
| | Power Engineering Solutions (Pvt) Ltd. | Marketing of power generating equipment |
| Power & Energy | Bhagya Hydro (Pvt) Ltd. | Hydropower |
| | Neluwa Cascade Hydro Power (Pvt) Ltd. | Hydropower |
| | Hayleys Hydro Energy (Pvt) Ltd. | Hydropower |
| | Nirmalapura Wind Power (Pvt) Ltd. | Windpower |
| | TTEL Somerset Hydro Power (Pvt) Ltd. | Hydropower |
| | TTEL Hydro Power Company (Pvt) Ltd. | Hydropower |
| | Hayleys Neluwa Hydro Power (Pvt) Ltd. | Hydropower |
| | Hayleys Power Ltd | Hydropower investments |
| | Kiriweldola Hydro Power (Pvt) Ltd | Hydropower |
| | Aninkanda Hydro Power (Pvt) Ltd | Hydropower |

| Sub sector | Company | Nature of the Business |
|----------------------------|---|---|
| | Neluwa Upper Hydro Power (Pvt) Ltd. | Hydropower |
| | Kalupahana Power Company (Pvt) Ltd. | Hydropower |
| | Lindula Hydro Power (Pvt) Ltd. | Hydropower |
| | Joule Power (Pvt) Ltd. | Windpower |
| | Beta Power (Pvt) Ltd. | Windpower |
| 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 |
| Others | 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 Insurance Brokers (Pvt) Ltd. | Insurance Brokering |
| | Haydea Business Solutions (Pvt) Ltd. | Business Process Outsourcing |
| | Carbotels (Pvt) Ltd. | Hotel Investment |
| | Haylex BV Group | Marketing |
| | Hayleys Leisure Holdings (Pvt) Ltd. | Investments and Hotel Management |
| | Air Global (Pvt) Ltd. | Airline representation |
| | North South Lines (Pvt) Ltd. | Airline representation |
| | Millennium Transportation (Pvt) Ltd. | Airline representation |
| | Hayleys Travels and Tours (Pvt) Ltd. | Travel Agency and Destination Management |
| | The Queensbury (Pvt) Ltd. | Leisure |
| | Alufab PLC | Architectural aluminium joinery systems |
| | S & T Interiors (Pvt) Ltd- Associate | Interior fitout contractors |
| | Eastern Hotels (Pvt) Ltd. | Leisure |
| | Fentons Group | Solutions provider for building systems infrastructure and information communication technology infrastructure |



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ev.com

GRI Content Index

| Number | Description | Reference/Comments | Page Reference |
|--|---|--|--------------------|
| General Standard Disclosures-G4 | | | |
| Strategy and Analysis | | | |
| G4-1 | Statement from the most senior decision maker of the Organisation about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability. | Chairman's Message | Page 23 |
| Organisational Profile | | | |
| G4-3 | Name of the organization | Hayleys PLC | Page 4 |
| G4-4 | Primary brands, products, and services | Snapshot of our Business | Page 8 |
| G4-5 | The location of the organization's headquarters | Colombo, Sri Lanka | |
| G4-6 | Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report. | Our global footprint | Page 16 |
| G4-7 | The nature of ownership and legal form | Corporate Information | Page 288 |
| G4-8 | The markets served (geographic breakdown, sectors served, and types of customers/beneficiaries) | Our global footprint | Page 16 |
| G4-9 | The scale of the organization, including: <ul style="list-style-type: none"> - Total number of employees - Total number of operations - Net sales (for private sector organizations) or net revenues (for public sector organizations) - Total capitalization broken down in terms of debt and equity (for private sector organizations) - Quantity of products or services provided | Hayleys at a Glance Financial Capital | Page 5 Page 118 |

GRI Content Index

| Number | Description | Reference/Comments | Page Reference |
|--------|--|-----------------------------------|----------------|
| G4-10 | <ul style="list-style-type: none"> a. The total number of employees by employment contract and gender. b. The total number of permanent employees by employment type and gender. c. The total workforce by employees and supervised workers and by gender. d. The total workforce by region and gender. e. Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors. f. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries). | Human Capital | Page 131 |
| G4-11 | The percentage of total employees covered by collective bargaining agreements. | Human Capital | Page 136 |
| G4-12 | Describe the organization's supply chain. | Cluster Reviews | Pages 72-116 |
| G4-13 | <p>Any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain, including:</p> <ul style="list-style-type: none"> - Changes in the location of, or changes in, operations, including facility openings, closings, and expansions - Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations) - Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination | Notes to the Financial Statements | Page 172 |
| G4-14 | Whether and how the precautionary approach or principle is addressed by the organization. | Natural Capital | Page 137 |
| G4-15 | List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses. | Report preamble | Page 4 |

| Number | Description | Reference/Comments | Page Reference |
|--------|--|---|----------------|
| G4-16 | List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization is a member. | <ul style="list-style-type: none"> Our Network | Page 124 |

Identified Material Aspects and Boundaries

| | | | |
|-------|---|-----------------------------------|----------|
| G4-17 | a. List all entities included in the organization's consolidated financial statements or equivalent documents. b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report. | Notes to the Financial Statements | Page 172 |
| G4-18 | a. Explain the process for defining the report content and the Aspect Boundaries. b. Explain how the organization has implemented the Reporting Principles for Defining Report Content. | Determining Materiality | Page 58 |
| G4-19 | List all the material Aspects identified in the process for defining report content. | Determining Materiality | Page 59 |
| G4-20 | For each material Aspect, the Aspect Boundary within the organization | Determining Materiality | Page 59 |
| G4-21 | For each material Aspect, report the Aspect Boundary outside the organization | Determining Materiality | Page 59 |
| G4-22 | The effect of any restatements of information provided in previous reports, and the reasons for such restatements. | There are no restatements | |
| G4-23 | Significant changes from previous reporting periods in the Scope and Aspect Boundaries. | Determining Materiality | Page 59 |

Stakeholder Engagement

| | | | |
|-------|---|-----------------------|---------|
| G4-24 | List of stakeholder groups engaged by the organization. | Our Key relationships | Page 56 |
| G4-25 | The basis for identification and selection of stakeholders with whom to engage. | Our Key relationships | Page 56 |
| G4-26 | The organization's approach to stakeholder engagement | Our Key relationships | Page 56 |
| G4-27 | Key topics and concerns that have been raised through stakeholder engagement | Our Key relationships | Page 56 |

GRI Content Index

| Number | Description | Reference/Comments | Page Reference |
|-----------------------------|---|--|----------------|
| Report Profile | | | |
| G4-28 | Reporting period (such as fiscal or calendar year) for information provided. | Report Preamble | Page 4 |
| G4-29 | Date of most recent previous report (if any). | Financial year ended 31st March 2015 | |
| G4-30 | Reporting cycle (such as annual, biennial) | Annual | |
| G4-31 | The contact point for questions regarding the report or its contents. | Report Preamble | Page 4 |
| G4-32 | a. Report the 'in accordance' option the organization has chosen. b. Report the GRI Content Index for the chosen option c. Report the reference to the External Assurance Report, if the report has been externally assured. | Core | |
| G4-33 | a. Report the organization's policy and current practice with regard to seeking external assurance for the report. b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided. c. Report the relationship between the organization and the assurance providers. d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report. | External Assurance provided by Messrs. Ernst and Young | Page 4 |
| Governance | | | |
| G4-34 | The governance structure of the organization, including committees of the highest governing body. | Corporate Governance | Page 34 |
| Ethics and Integrity | | | |
| G4-56 | The organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics. | Corporate Governance | Page 44 |

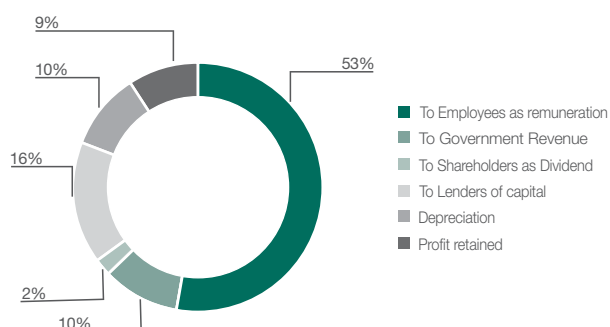
| Number | Description | Reference/Comments | Page Reference |
|---|---|---|----------------|
| Specific Standard Disclosures | | | |
| Economic Aspects | | | |
| Economic Performance | | | |
| G4-EC1 | Direct economic value generated | Consolidated value added statement | Page 285 |
| G4-EC2 | Financial implications and other risks and opportunities for the Organisation's activities due to climate change | Natural Capital | Page 139 |
| G4-EC3 | Coverage of defined benefit plan obligations | Human Capital | Page 136 |
| Environmental Aspects | | | |
| Materials | | | |
| G4-EN1 | Materials used by weight or volume | Natural Capital | Page 138 |
| Energy | | | |
| G4-EN3 | Energy consumption within the organization | Natural Capital | Page 138 |
| Water | | | |
| G4-EN8 | Total water withdrawal by source | Natural Capital | Page 138 |
| Emissions | | | |
| G4-EN15 | Direct greenhouse gas (GHG) emissions | Natural Capital | Page 139 |
| G4-EN16 | Energy indirect greenhouse gas (GHG) emissions | Natural Capital | Page 139 |
| G4-EN18 | Greenhouse gas (GHG) emissions intensity | Natural Capital | Page 139 |
| G4-EN19 | Reduction of greenhouse gas (GHG) emissions | Natural Capital | Page 139 |
| Effluents and Waste | | | |
| G4-EN22 | Total water discharge by quality and destination | Natural Capital | Page 139 |
| G4-EN23 | Total weight of waste by type and disposal method | Natural Capital | Page 139 |
| Compliance | | | |
| G4-EN29 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations | There were no violations of environmental laws and regulations during the year due to our strict compliance programme. Consequently there were no fines incurred. | Page 138 |
| Overall | | | |
| G4-EN31 | Total environmental protection expenditures and investments by type | Natural Capital | Page 139 |
| Social Aspects | | | |
| Employment: Labour practices and Decent Work | | | |
| G4-LA1 | Total number and rates of new employee hires and employee turnover by age group, gender, and region | Human Capital | Page 135 |

GRI Content Index

| Number | Description | Reference/Comments | Page Reference |
|---|---|------------------------------------|----------------|
| Employment: Occupational health and safety | | | |
| G4-LA6 | Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender | Human Capital | Page 136 |
| Employment: Training and Education | | | |
| G4-LA9 | Average hours of training per year per employee by gender, and by employee category | Human Capital | Page 136 |
| G4-LA11 | Percentage of employees receiving regular performance and career development reviews, by gender and by employee category | Human Capital | Page 136 |
| Human Rights: Child Labour | | | |
| G4-HR5 | Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour | Human Capital | Page 135 |
| Society: Local Communities | | | |
| G4-SO1 | Percentage of operations with implemented local community engagement, impact assessments, and development programs | Community Engagement | Page 125 |
| Product Responsibility: Customer Health and Safety | | | |
| G4-PR1 | Percentage of significant product and service categories for which health and safety impacts are assessed for improvement | Product and Service Responsibility | Page 123 |

Group Value Addition and Distribution

| | Consolidated | | | |
|--|--------------|----------|---------|----------|
| | 2015/16 | | 2014/15 | |
| | | Rs. Mn | | Rs. Mn |
| Value Created | | | | |
| Revenue | | 92,275 | | 92,562 |
| Cost of materials & Services bought in | | (66,953) | | (67,491) |
| | | 25,321 | | 25,071 |
| | Share % | | Share % | |
| Value Distributed | | | | |
| To Employees as remuneration | 53 | 13,396 | 56 | 14,018 |
| To Government Revenue | 10 | 2,657 | 6 | 1,615 |
| Of Sri Lanka | | 2,385 | | 1,317 |
| Overseas | | 272 | | 298 |
| To Shareholders as Dividend | 2 | 488 | 2 | 450 |
| To Lenders of capital | 16 | 3,987 | 18 | 4,441 |
| Interest on borrowings | | 1,931 | | 2,136 |
| Non-controlling interest | | 2,056 | | 2,305 |
| | 81 | 20,527 | 82 | 20,524 |
| Value retained for expansion & growth | | | | |
| Depreciation | 10 | 2,520 | 10 | 2,440 |
| Profit retained | 9 | 2,274 | 8 | 2,107 |
| | 19 | 4,794 | 18 | 4,547 |
| | 100 | 25,321 | 100 | 25,071 |



Glossary of Financial Terms

Actuarial Gains and Losses

Gain or loss arising from the difference between estimates and actual experience in a company's pension plan.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Available for Sale

Non derivative financial asset that are designated as available for sale or are not classified as loans and receivable, held to maturity investment or financial assets at fair value through profit and loss.

Biological Asset

A living animal or plant

Capital Employed

Shareholders' funds plus non-controlling interests and interest bearing borrowings.

Capital Reserves

Reserves identified for specific purposes and considered not of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity 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 and 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 entity.

Current Ratio

Current assets divided by current liabilities. A measure of liquidity.

Current Service Cost

Is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

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.

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.

EBIT

Earnings before Interest and tax.

Effective Tax Rate

Income tax expense divided by profit before tax.

Equity

The value of an asset after all the liabilities or debts have been paid.

Fair Value

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

Fair Value Through Profit and Loss

A financial asset/liability acquired/incurred principally for the purpose of selling or repurchasing it in the near term.

Financial Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity to another entity.

Financial Liability

Any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

Gain on Bargain Purchase

The amount of the identifiable assets acquired and liabilities assumed exceeds the aggregate consideration transferred.

Gearing

Proportion of total interest bearing borrowings to capital employed.

Interest Cover

Profit before tax and net finance cost divided by net finance cost. Measure of an entity's debt service ability.

Key Management Personnel (KMP)

KMP are those persons having authority and responsibility for planning directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity.

Market Capitalisation

Number of shares in issue multiplied by the market value of a share at the reported date.

Net Assets Per Share

Total equity attributable to equity holders divided by the weighted average number of ordinary shares in issue. A basis of share valuation.

Non-controlling Interest

Equity in subsidiary not attributable, directly or indirectly, to a parent.

Other comprehensive income

An entry that is generally found in the shareholders' equity section of the balance sheet.

Price Earnings Ratio

Market price of a share divided by earnings per share as reported at that date.

Related Parties

A person or entity that is related to the entity that is preparing its Financial Statements.

Return on Capital employed

Profit before tax and net finance cost divided by average capital employed.

Revenue Reserves

Reserves considered as being available for distributions and investments.

Segments

Constituent business units grouped in terms of similarity of operations and location.

SoRP

Statement of Recommended Practice.

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.

Corporate Information

Name Of Company

Hayleys PLC
(A public limited company, incorporated in Sri Lanka in 1952)

Company Number

PQ 22

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 with the Colombo Stock Exchange of Sri Lanka

Registered Office

Hayley Building,
P.O. Box 70, 400, Deans Road,
Colombo 10, Sri Lanka
Telephone: (94-11)2627000
Facsimile: (94-11)2699299
Website: <http://www.hayleys.com>

Directors

A M Pandithage – Chairman & Chief Executive
K D D Perera - Co-Chairman (Non - Executive)
M R Zaheed
W D N H Perera
S C Ganegoda
H S R Kariyawasan
Dr. H Cabral, PC
Dr. K I M Ranasoma
L T Samarawickrama
M D S Goonatilleke (resigned w.e.f 12.05.2016)
L R V Waidyaratne
M H Jamaldeen

Group Management Committee

A M Pandithage – Chief Executive
M R Zaheed
S C Ganegoda
H S R Kariyawasan
Dr. K I M Ranasoma
L T Samarawickrama
L R V Waidyaratne
H C S Mendis
S J Wijesinghe

Dr A Sivagananathan
L D E A De Silva
W G R Rajadurai
E R P Goonetilleke
Ms. D S Amerasinghe (resigned w.e.f 31.10.2015)
M S Lakshminarasimhan (appointed w.e.f 22.06.2015)
Ms.D Talpahewa (appointed w.e.f 1.11.2015)

Audit Committee

M.D.S Goonatilleke – Chairman (resigned w.e.f 12.05.2016)
W D N H Perera
Dr H Cabral, PC
M H Jamaldeen

Remuneration Committee

Dr H Cabral, PC – Chairman
K D D Perera
W D N H Perera
M D S Goonatilleke (resigned w.e.f 12.05.2016)
M H Jamaldeen

Nomination Committee

A M Pandithage – Chairman
K D D Perera
W D N H Perera
Dr H Cabral, PC

Related Party Transaction Review Committee

Dr H Cabral, PC - Chairman
S C Ganegoda
M D S Goonatilleke (resigned w.e.f 12.05.2016)

Secretaries

Hayleys Group Services (Private) Limited
400, Deans Road, Colombo 10, Sri Lanka
Telephone: (94-11)2627650
Facsimile: (94-11)2627655
E-mail: info.sec@hayleys.com
Please direct any queries about the administration of shareholdings to the Company Secretaries

Investor Relations

Please contact Strategic Business Development Unit
Telephone: (94-11)2627662
E-mail: info@cau.hayleys.com

Internet

www.hayleys.com

Notes

Notice of Meeting

HAYLEYS PLC

Company Number PQ 22

NOTICE IS HEREBY GIVEN that the Sixty Fifth Annual General Meeting of Hayleys PLC will be held at Balmoral Ballroom, The Kingsbury Hotel, No.48, Janadhipathi Mawatha, Colombo 01 on Wednesday, 29th June 2016 at 10.00 a.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 2016, with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Mr.M.R.Zaheed, who retires by rotation at the Annual General Meeting, a Director.
4. To re-elect Mr.H.S.R.Kariyawasan, who retires by rotation at the Annual General Meeting, a Director.
5. To re-elect Dr.H.Cabral, PC, who retires by rotation at the Annual General Meeting, a Director.
6. To authorise the Directors to determine contributions to charities for the financial year 2016/17.
7. To authorize the Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants who are deemed to have been reappointed as Auditors, for the financial year 2016/17.
8. 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 10.00 a.m. on 27th June 2016.
- (ii). It is proposed to post ordinary dividend warrants on 11th July 2016 and in accordance with the rules of the Colombo Stock Exchange the shares of the Company will be quoted ex-dividend with effect from 30th June 2016.

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

Colombo
3rd June 2016

Form of Proxy

HAYLEYS PLC Company Number PQ 22

I/We.....
of.....

being 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 Fifth Annual General Meeting of the Company to be held on Wednesday, 29th June 2016 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 2016 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.M.R.Zaheed, who retires by rotation at the Annual General Meeting, a Director. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To re-elect Mr.H.S.R.Kariyawasan, who retires by rotation at the Annual General Meeting, a Director. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To re-elect Dr.H.Cabral, PC, who retires by rotation at the Annual General Meeting, a Director. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. To authorise the Directors to determine contributions to charities for the financial year 2016/17. | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. To authorize the Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants who are deemed to have been reappointed as Auditors, for the financial year 2016/17. | <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 of2016.

Witness:
.....
.....
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 10.00 a.m. on 27th June 2016
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.

Investor Feedback Form

To request information or submit a comment / query to the Company, please complete the following and return this page to-

Strategic Business Development Unit
Hayleys PLC
P.O Box 70, No.400, Deans Road, Colombo 10, Sri Lanka.

Telephone : (94-11) 262 7662

E-mail : info@cau.hayleys.com

Name :

Permanent Mailing Address :

Contact Numbers - (Tel) :

| | | |
|-------------|-----------|--------|
| County Code | Area Code | Number |
|-------------|-----------|--------|

- (Fax) :

| | | |
|-------------|-----------|--------|
| County Code | Area Code | Number |
|-------------|-----------|--------|

E-mail :

Name of Company (If Applicable) :

Designation (If Applicable) :

Company Address (If Applicable) :

Queries / Comments :

