



**Potent Branding** strikes a chord with one's inner most longings. It creates a shared feeling of a special kind. A strong brand is beneficial to all the stakeholders of the company. Branding exerts a powerful influence over the way a company is run, how it does business and where it is going. Effective brand building is a powerful way to become a business leader in a competitive market place.

Building Rocell as a strong brand with well defined core values and customer benefits was the turning point for Royal Ceramics. An aggressive communications strategy and powerful advertising elevated the brand and placed it as the preferred tile in the local market. Today, the brand Rocell has become a household name. Building on this success the company is determined to take Rocell to greater heights within Sri Lanka and across the seas.



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## **Vision**

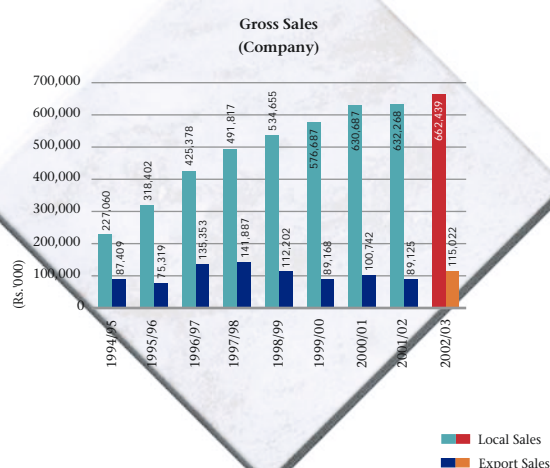
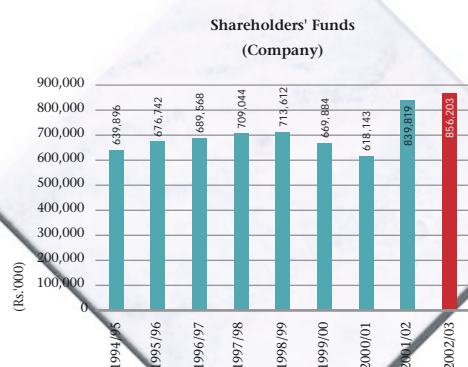
To continue to be the leader in the surfacing industry locally and to enter and impact the global market.

## **Mission**

To offer state of the art surfacing solutions to both the home and commercial builders with products and services that transcend the highest quality, ensuring customer satisfaction by matching all expectations, growing the market by way of product innovation, thereby enhancing shareholder wealth, developing our human resources to excelling latitudes such that Royal Ceramics exudes a stance of excellence.

	2002/2003	2001/2002	%
	Rs.'000	Rs.'000	Change
<b>For the year</b>			
Turnover – Gross (Group)	1,069,041	812,080	31.6
– Net (Group)	907,422	690,516	31.4
Profit from operations (Group)	192,096	92,955	106.6
Profit before tax (Group)	132,237	76,658	72.5
Profit after tax (Group)	89,870	74,164	21.2
Gross dividend	55,394	110,789	(50.0)
Interest cover (No. of times)	3.40	6.11	(44.4)
Dividend cover (No. of times)	1.34	0.83	61.4
<b>At year end</b>			
Shareholders' funds (Group)	855,598	821,120	4.2
Total assets (Group)	1,609,227	1,436,391	12.0
Group employment (No. of persons)	816	641	27.3
Current ratio (Current assets: Current liabilities)	1.7:1	2.3:1	-
<b>Per share</b>			
Earnings (Rs.)	1.30	2.65*	(50.9)
Dividend (Rs.)	1.00	3.18*	(68.5)
Net assets (Rs.)	15.46	15.16	2.0
Market value (Rs.)	15.00	17.00	(11.8)

\* Adjusted for Rights Issue of shares



**Name of the Company**

Royal Ceramics Lanka Limited.

**Legal Form**

A Public Quoted Company with limited liability  
under the provisions of Companies Act No.17 of 1982.

**Date of Incorporation**

29th August 1990

**Company Registration Number**

N PVS 6743 (PBS)

**Nature of Business**

Manufacture and Sale of Porcelain Floor Tiles.

**Board of Directors**

Mr. A.M. Weerasinghe - Executive Chairman

Mr. K.D.D. Perera - Deputy Chairman

Mr. F.P. de Alwis

Mr. M.T.L. Fernando

Mr. B.M. Amarasekera

Mr. A.L. Karunanayake

Mr. R.B. Thambiayah

Mr. D.L.B.C. Perera

Mr. W.D.N.H. Perera

Mr. T.G. Thoradeniya

**Head Office and Registered Office**

10, R.A.de Mel Mawatha, Colombo 03.

Telephone: 074-799400

Fax: 074-720077

E-Mail: ho.gen@rcl.lk

Website: www.rocell.com

**Subsidiary Companies**

Royal Porcelain (Pvt) Ltd.

Royal Ceramics Distributors (Pvt) Ltd.

**Secretaries and Registrars**

Secretaries and Registrars Ltd.

32, Second Floor, Galle Face Court 2 , Galle Face Terrace, Colombo 03.

**Lawyers**

Julius & Creasy,

No. 41, Janadhipathi Mawatha, Colombo 01.

**Auditors**

B.R. de Silva & Co.

No. 17, Park Avenue, Colombo 05.

**Bankers**

Standard Chartered Bank

Bank of Ceylon

Commercial Bank

Hatton National Bank

Sampath Bank

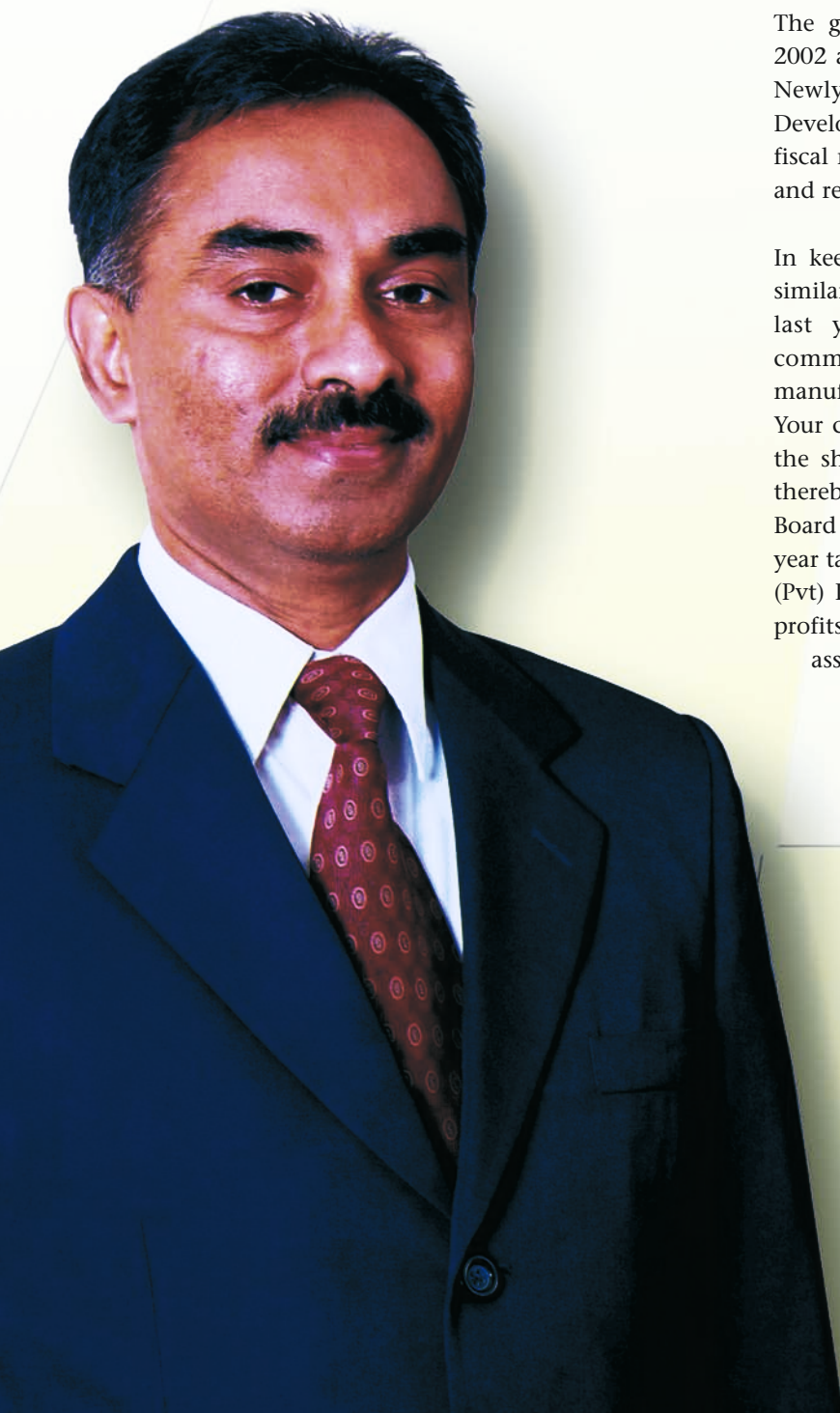
Seylan Bank





It is indeed a great pleasure to present the Annual Report & the Audited Financial Statements of your company and its subsidiaries for the year ended 31st March 2003.

It is with a sense of accomplishment that I present to you my brief review of the economic conditions under which we operated the company to expand and sustain its activities and its performance during the past year.



The Gross Domestic Product (GDP) recorded an increase in growth of 4% assisted by the conditions that prevailed with the on going peace process, relative political stability together with improved governance contributed to better fiscal management leading to a substantial decline in interest rates, enhancing profits from privatization with some head way in reform process and a relative stable local currency. The interest rate decline was welcome news to all. However, the economic recovery in 2002 was not sufficiently broad-based and strengthening business confidence did not translate into long term investments.

The global economy improved moderately during 2002 assisted by the recoveries in the United States. Newly Industrialized Asian Economies and Developing Countries, as a whole, were aided by fiscal motivation, accommodative monetary policies and reductions in interest rates.

In keeping with our objectives to seek new viable similar investment opportunities and as stated in my last year's report, we successfully commenced commercial production at the floor tile manufacturing plant at Horana on 24th April 2002. Your company invested a sum of Rs. 500 million in the share capital of Royal Porcelain (Pvt) Ltd. and thereby complied with the investment criteria of Board of Investment of Sri Lanka for the grant of 10-year tax holiday in the year 2002/03. Royal Porcelain (Pvt) Ltd. now enjoys a 10-year tax holiday and its profits are exempt from Income Tax from the year of assessment 2002/03 to 2011/12.

Your company successfully launched its new brand and corporate identity "**Rocell**", moving from the traditional '**concept of tiles**', to '**concept of floors and life styles**', during the year. Royal Ceramics Distributors (Pvt) Ltd. operates, manages, and controls the showroom network. This co-ordination is the consequence of our marketing & distribution strategy for the floors under the brand "Rocell".

During the year under review the Group's gross turnover surpassed Rs. 1.06 billion. This is a remarkable milestone in the history of the company. "Rocell" and the

Marketing & Distribution Strategy contributed immensely. The new plant at Horana did provide the requisite volumes to attain this level.

The Group's pre-tax profit was Rs.132.2 million; a growth of 72%, after charging distribution costs of Rs. 119.2 million and Finance charges of Rs. 59.8 million. The net profit after tax was Rs. 89.8 million. Your company declared a first and final 10% tax exempt dividend for the year.

The Company is in the process of investing a further sum of Rs. 100.0 million in the current year to upgrade the infrastructure, plant & machinery and processes within the manufacturing plants at Eheliyagoda and Horana. This investment envisages that we will attain capability to produce designs and sizes that would revolutionize the local market. Your company's objective is to provide its customers reliable and high quality design floors that would be superior to the imports that are currently available in the market. We will introduce a complete new range of enhanced floor designs shortly.

We have identified the significance of training and development of our Staff, the most valuable resource in our organization. An enlightened Human Resource Policy that fosters free communication and will build trust within all grades of employees in the Group is being envisaged. We will carefully nurture and manage the delicate relationship between needs and aspirations of our staff, and the pursuit of

business strategies that require us to cut costs, trim manpower and increase productivity and efficiency. IT based training need assessment is being developed to identify, prioritize, source and allocate the services.

My sincere appreciation is extended to the Management and staff at all levels, for assisting me to achieve these results, which each of us has strived for untiringly. I would fail in my duty if my gratitude is not expressed to my fellow members of the Board, whose courage, dedication, and integrity has enabled the company to grow from strength to strength. I wish to sincerely thank Mr. Sarath Ganegoda, Chief Executive Officer, who resigned in April 2003.

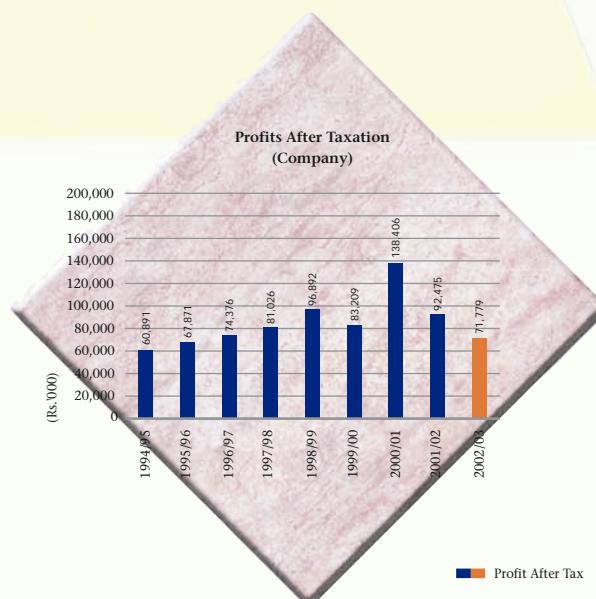
I also extend my sincere thanks to our customers, shareholders, suppliers for their strengthening loyalty.

I wish to place on record the valuable services rendered by retiring Auditors M/s. B. R. de Silva & Co. from the inception to date. Their unstinted support, guidance and advice helped us immensely.



**A. M. Weerasinghe**  
*Executive Chairman*

23rd July, 2003





### Flooring the World Market

Irrespective of where in the world, there are homes and houses, buildings with businesses. An ever-expanding community, that demands space and shelter to go on living life in different ways. All interwoven by the need for self-expression in the way they live, be it in the familiar

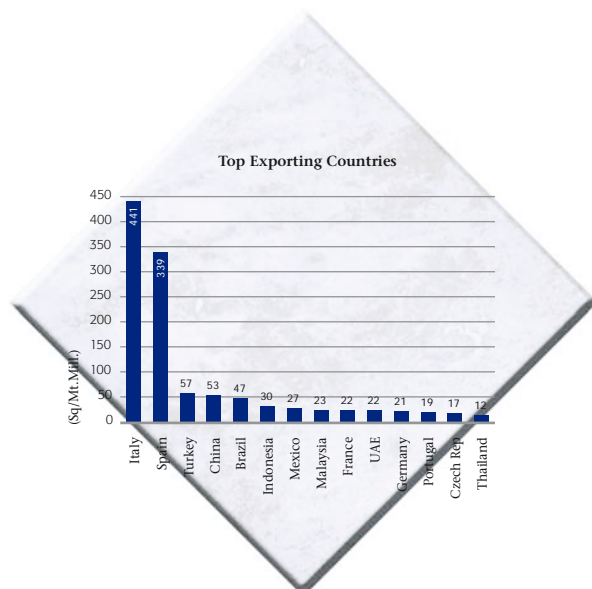
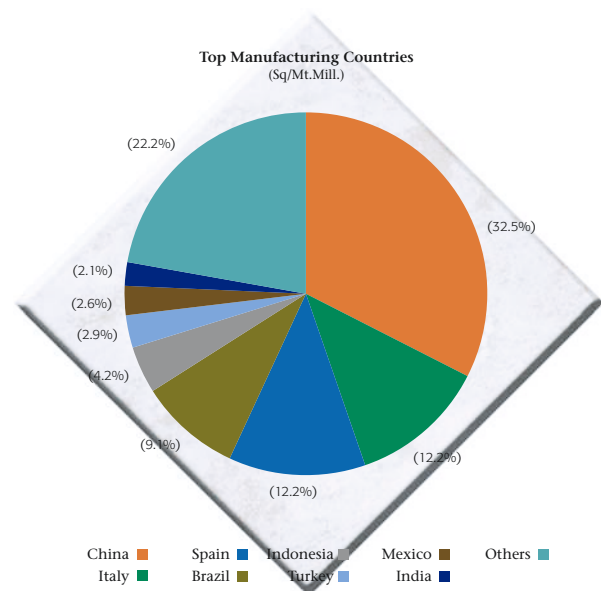
comfort of their homes or in the corporate rush of their offices.

Part and parcel of this self-expression is where we at Rocell stand tall - Floors. Whilst individuals demand individuality, we deliver not only a functional product but also a definite avenue of self-expression. Where ever in the world, in the safe sanctity of homes and places consumers frequent often - supermarkets, the hospital, school and even at the fast food outlet, Rocell floors are apart of their lives.

Flooring and Floor coverings are a continuously growing market. And like the fastidiously evolving

fashion industry, new and innovative styles and designs are constantly required and produced. The demand for floor tiles, in whatever texture, colour, design and size is a growing and ever present market with every newly built home, refurbishment or new property developments that occur almost daily worldwide.

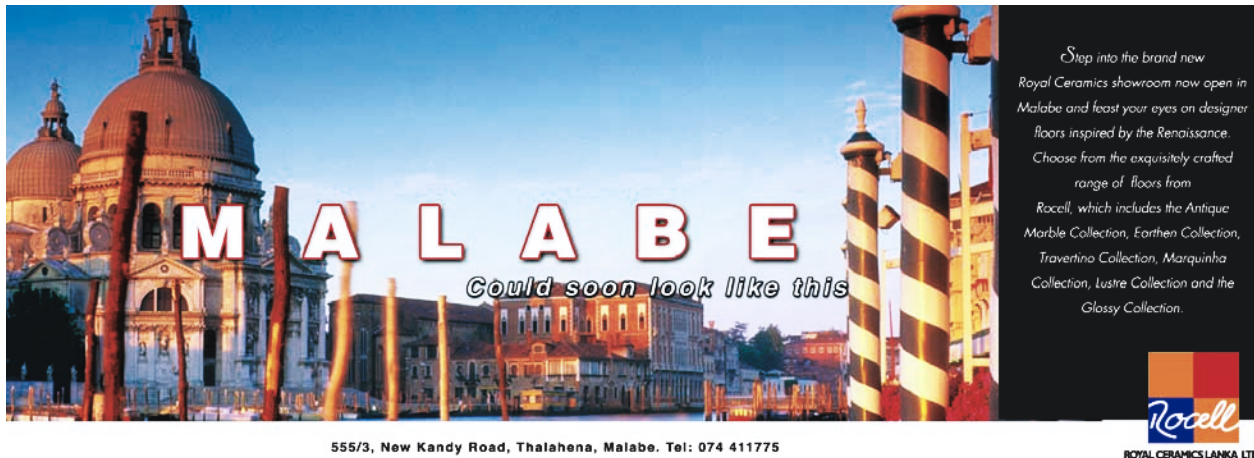
In a global context, the United States of America still remains the largest market for floor covering products with a market size of approximately US \$ 20 billion in annual turnover. The primary categories of the floor covering industry include carpet and rugs, vinyl and rubber, ceramic tiles, hardwood and laminate. However, the beginnings of a preference for hard coverings indicate increasing consumer preference for tiles.



Italians and the Spanish are the pioneers, innovators and the perfectionists in the tiling industry, they continue to dominate the market in terms of design and quality. In the recent past, China has entered this lucrative market producing almost two billion square meters annually, which accounts for 32.5% of the world production. Some of the larger Asian manufacturers are Indonesia, India, Vietnam, Malaysia and Thailand.

US and Australian market trends in the Ceramic tile segment indicate that consumer preferences are moving towards natural design elements like rustic, earthy and light colours.





Step into the brand new Royal Ceramics showroom now open in Malabe and feast your eyes on designer floors inspired by the Renaissance. Choose from the exquisitely crafted range of floors from Rocell, which includes the Antique Marble Collection, Earthen Collection, Travertine Collection, Marquinha Collection, Lustre Collection and the Glossy Collection.

555/3, New Kandy Road, Thalahena, Malabe. Tel: 074 411775

ROYAL CERAMICS LANKA LTD

### Local Perspectives

Whilst design preferences are changing rapidly in the global market, local trends seem to change less drastically. In Sri Lanka consumers are more concerned by price, quality and practicality.

There appears to be two distinct categories of preference, on one end those who favour the sharp, glossy and fully designed tiles whilst on the other end we see a growing preference for tiles that are inspired by and a replication of nature - matt, earthy naturals, semi polished marble and vibrant hues that depict the vagaries of seasons.

From an operational perspective, Sri Lanka is a geological dream for producers in the Ceramics industry. The natural physical resources of the country provide vast quantities of the necessary raw materials -kaolin, ball clay, feldspar and silica sand. As a result, the country is able to manufacture quality tiles with only the importation of specialized pigments, stains and chemicals to obtain colour and design in creating high-end value added tiles.

However, Sri Lanka remains a very insignificant player in the world market due to the country's high-energy costs, resulting in the impracticality of



producing high volumes and the inability to achieve economies of scale.

### RCL the past, the present

Inaugurated 12 years ago, Royal Ceramics Lanka Limited introduced to the market a pioneering product: the homogeneous porcelain tile. New not only to the local market, Royal Ceramics was one of the first to introduce the porcelain homogenous tiles to the world market. This product was especially popular and appealing to industrial consumers; hotels, hospitals, factory floors etc., purely because of its characteristic hardness brought about by the fact that it is a full bodied homogenous, fully vitreous tile. A



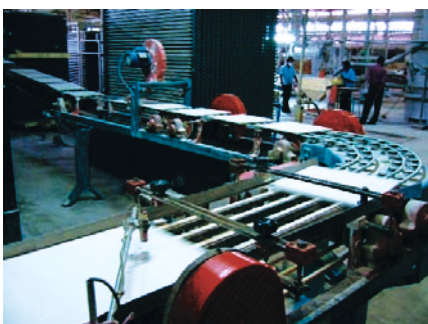


robustness and resistance which is guaranteed to be four times stronger than normal stone.

The RCL factory at Eheliyagoda led the operations being well equipped to manufacture high quality homogeneous tiles. One of the first ranges to be introduced was the ever popular "salt & pepper" speckled range that was characteristic in giving a sense of light and space to any floor. Subsequently, the solid coloured range and the printed polished tiles entered the portfolio. Then, recognizing a change in consumer awareness and preference, RCL introduced the rustic range; matt and rough, the range mirrored the natural rock effect.

With the success of this production line together with the identification of a "market gap" RCL made a decision to move into the Glazed Ceramic tile market. After having acquired a plant in Horana, RCL launched into the manufacture of a range of ceramic tiles. Production in Horana commenced in April 2002 with an investment of Rs 500 million on a state-of-the-art production facility. It was not long after, actually a short span of six months, within which the plant reached maximum production capacity.

The commencement of production at the Royal Porcelain plant in Horana, brought to the market place an exquisitely crafted range of ceramic tiles -



designs that include Antique Marble, the Earthen, the Italian Marble, Travertine, Marquina and Luster

Collections, which are now a veritable hit in the local market.

### An identity, a persona

Four tiles make a floor. And four tiles with Rocell inscribed on it make it a distinctive floor. That is exactly what a discerning customer will get at the Rocell showrooms. A brand name with a brand new look.



## ROYAL CERAMICS LANKA LTD.

In February 2003, Rocell was launched in an effort to brand their products under one corporate logo. Rocell is the acronym for Royal Ceramics Lanka Limited. With the amalgamation of four squares, the logo represents a floor with two orange tiles to symbolize earth - the origins of flooring, a red tile to represent design, innovation and dynamism and a blue tile to stand for the proud history of the company.

The marketing strategy was to gain further distinction and greater identity in the market place.

### Promise of a Brand

Rocell aims at bettering the lives of our people by way of making a home and work environment that will directly





impact their lifestyles, physically as well as emotionally. We desire to bring to them, the best in flooring and surfacing solutions thus impacting on their quality of life.

In terms of fashion, Rocell provides an extensive range of exquisitely crafted products. Our focus remains in displaying a lifestyle. At Rocell, we have over 200 different designs in various colours and sizes. Something for everyone.

### In the Consumer's Mind

Within a short period of time, Rocell gained momentum and Top of Mind Awareness whilst continuing to retain market leadership with 40% of market share. A household name, Rocell benefited from its extensive mass media communication campaigns that truly established the brand in the minds of the consumer.

A colossal success, the "25 free tile offer" introduced our Ceramic Collection comprising of the now popular Earthen, Italian Marble, Antique Marble, Luster, Travertine and Natural Marble Collections.

Brand building and sustenance are vital elements of a brand's communications, with this in mind Rocell will launch a series of campaigns aimed at educating the consumer on the functionality of the product: its divine elegance, value for money, hardness, scratch and fire resistance.

### Process Controls and Quality

In an effort to increase our productivity levels, we have introduced Key Performance Indicators. These KPI systems are used to evaluate each department,



section and employee and thereby we maintain and maximize higher levels of productivity.

Finished products conform to the CEN 176 B1 European and American ASTM standards. The production process conforms to the ISO 9001 Quality Management and ISO 14001 Environmental Management Guidelines together with SLS certification for our products.

In terms of quality, Rocell can match any Italian or Spanish tile. Designs for the Rocell collections come from Ferro of Spain, SRS and Arco of Italy who are considered global leaders in this specialized field.

### Research & Development efforts

In an effort to keep abreast, in both the local and international markets Rocell continuously researches new Ceramic technologies, consciously upgrades and uplifts its production facilities and technology. New design development is one of our key research areas ranging from new designs, colours, textures, surfaces, sizes and finishes that are constantly being explored by our new product development unit.

Raw materials utilised in production are tested at our state of the art laboratories for compliance to quality

**Traffic jam on Duplication Road today. And everyday.**

Announcing the opening of Rocell House of Tiles.  
A ultra modern, spacious showroom housing a fetching range of Italian floors including the antique marble collection, travis collection, travertine collection, ceramix collection and an array of spanish designs.  
So, for a closer, safer inspection please pull over and stop inside.  
Open from 9 am to 10 pm, 365 days a year.

Rocell  
ROYAL CERAMICS (LANKA) LTD.

Rocell House of Tiles, No. 447, Duplication Road, (adjacent to Security Street) Colombo 22.





standards, whilst each batch of tiles is tested at each processing stage to ensure value addition. The finished goods are tested for water absorption, scratch hardness of surface and abrasive resistance, to ensure that high quality standards are guaranteed. New designs, surface finishes and technology improvements are constantly monitored and assured.

### Distribution network – getting to the consumers doorstep

Rocell continues to be the only player in the industry with its own island wide distribution network. The company has made significant investments in its property portfolios and has heavily invested in showroom infrastructure. This policy is in keeping with the company philosophy that the locations in which these showrooms are housed are inseparable from its brand. Surveys have indicated that the increase in our distribution network has brought in substantial increased sales.

Whilst positioning Rocell as a brand that delivers top end ranges in the Western Province, the brand has also moved closer to the hearts and souls of other urban markets; Matara, Galle, Ratnapura and Kandy. Rocell now has a network of showrooms in 26 locations where customers can deal directly with RCL



instead of using intermediaries. All these showrooms are at the disposal of discerning customers who come seeking an ultimate solution to their home renovations and requirements. And at Rocell, they will be assured of top quality service and welcoming advice.

### Charting the Future

At Rocell, the business strategy is not to be a volume-based producer but to create value addition, products that offer parallel quality with those of the premier Italian and Spanish manufacturers. With an international marketing strategy aimed at tapping the top end markets like the US, Canada, Australia, and Singapore, the company is aggressively networking to broaden its horizon's abroad despite its present export portfolio which comprises of 26 countries.

With promising development, Rocell sees its future in the international markets. Charting its way into the hearts and minds of the international consumer will in no way be simple but with the introduction of new designs, colours, textures and sizes and unsurpassable quality may seem the strategy to follow.

With particular focus on the North American markets, Rocell will introduce a range of new collections; a natural based product line that will be more cost efficient to the consumer than the tiles that are already being offered.

### Paving the Way

A plan for the immediate future is the modernization of the Eheliyagoda factory. A definite step towards, Rocell's strategy to further quality standards and to enhance value addition to the end product. With a further investment of Rs 100 million, the production facility will be state of the art. The latest and the world's best technology will enable the firm to produce, exacting to the needs of the world market.

Strategies for the future will also include a 'complete solution' concept with the introduction of wall tiles to match the Rocell floor tiles to suit the customer's choice. This will also add to tighter controls, increased sales, firmer margins and a more satisfied customer.

Plans are in hand to strengthen the distribution networks by further increasing the showrooms to ten more locations. Having the right sites in strategic locations will continue to optimize on performance and visibility. By this we also afford our customers friendly, accessible and safe environs to shop in. This will also ensure preferred customer service and strengthen customer loyalty towards the Rocell brand and its products. The RCL long term strategy is to provide tiles as a total solution- wall and floor covering- to every channel- residential and commercial. It will be a credit to the company when it successfully meets this challenge.

Rocell will continue to place greater emphasis on our new product development strategy. Looking at satisfying the changing requirements and lifestyles of our discerning customers both in the local and international markets, we hope to add more value and offer the highest in quality such that Rocell will adorn more floors here at home and around the world.



98, Nawala Road,  
Nugegoda.  
Tel. 074-405160

440, R.A. de Mel Mawatha,  
Colombo 03.  
Tel: 577561

106, Galle Road,  
Dehiwela North,  
Dehiwela.  
Tel: 074-202814

555/3, New Kandy Road,  
Thalahena,  
Malabe.  
Tel: 074-411775

158, Negombo Road,  
Wattala.  
Tel: 074-818563

392, Gala Junction,  
Kandy Road,  
Kiribathgoda.  
Tel: 074-817231

296/3, High Level Road,  
Makumbura,  
Kottawa.  
Tel: 074-308413

116, Colombo Road,  
Piliyandala.  
Tel: 618949

477/1, Galle Road,  
Rawathawatte,  
Moratuwa.  
Tel: 074-210726

374/1, Liyangemulla,  
Seeduwa.  
Tel: 256886

562, Peradeniya Road,  
Mulgampola,  
Kandy.  
Tel: 08-2222531

42, A.A. Dharmasena Mawatha,  
Mahaiyawa,  
Kandy.  
Tel: 074-475825

504/1, Kandy Road,  
Meepitiya,  
Kegalle.  
Tel: 035-30980

12, Dambulla Road,  
Kurunegala.  
Tel: 037-2224714

35, Chilaw Road,  
Wennappuwa.  
Tel: 031-53090

671, Anuradhapura Road,  
Dambulla.  
Tel: 066-85437

106, Bank Site,  
Anuradhapura.  
Tel: 025-21736

Talagaha Junction,  
Eheliyagoda.  
Tel: 036-59553

225, Colombo Road,  
Ratnapura.  
Tel. 045-30923

25/2A, Sri Weerasundararamaya  
Mawatha,  
Balangoda.  
Tel: 045-87461

348, Badulla Road,  
Bandarawela.  
Tel: 057-30732

Rasika Building,  
Ratnapura Road,  
Embilipitiya.  
Tel: 045-61158

443, Galle Road,  
Kalutara North,  
Kalutara.  
Tel: 074-280469

132, Anguruwatota Road,  
Horana.  
Tel: 074-285033

77, W.D.S. Abeygunawardena  
Mawatha,  
Pettigalawatte,  
Galle.  
Tel: 074-380033

164, 166, Gunawardena Mawatha,  
Kotuwegoda,  
Matara.  
Tel: 041-23086

*and expanding....*



At Royal Ceramics we believe that our ability to sustain a competitive advantage over a long term depends on the continuous development of our employees. For this reason the Group is committed to provide an environment which values continuous learning by creating opportunities both within business units and across the Group. Development is a shared responsibility and employees on their part should possess the drive and initiative to take advantage of the available learning and development opportunities.

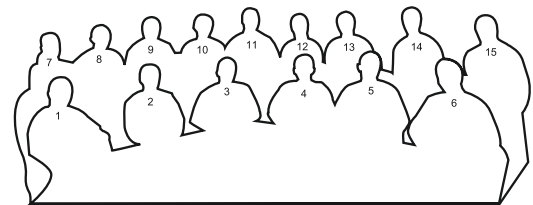
At the factories employees are encouraged to develop their contribution both in the context of their

particular job roles and the processes they work for. At the showrooms, new training programs, improved professionalism, processes and controls have been implemented for improved customer service.

The Company also has a number of welfare societies for the staff. The company encourages the harmony and close relationship shared by the employees and support their families with school materials and other necessities for the children. Avurudu celebrations, seasonal get-togethers and staff trips are held to promote camaraderie.



*Corporate Management*



1. K. Hewagamage – Finance Manager
2. A.M.C.S. Atapattu – Asst. General Manager
3. J.K.A. Sirinatha – General Manager – RCDL
4. A.M. Weerasinghe – Executive Chairman
5. T.G. Thoradeniya – Director Marketing & Business Development
6. W.K.B. Senanayake – Head of Human Resources
7. Pradeepica Fernando – IT Manager
8. D.L.R. Gallage – Internal Auditor
9. R.M.C. Ratnayake – Administration Manager
10. P.B. Ratnayake – Stores Manager

11. T.R. Mendis – Marketing Manager
12. M.A.N.S.A. Jayatissa – Factory Manager – RCL
13. A.G. de Lanerolle – Supplies Manager
14. N. Somaratne – Factory Manager – RPL
15. W.G. Dharmasiri – Commercial Manager
16. L.S.P. Fonseka – Sales Manager (*Absent*)

*RCL - Royal Ceramics Lanka Ltd.*

*RPL - Royal Porcelain (Pvt) Ltd.*

*RCDL - Royal Ceramics Distributors (Pvt) Ltd.*



### A.M. Weerasinghe – Chairman

Chairman of Royal Ceramics Lanka Limited and its subsidiaries, was the founder of Royal Ceramics Factory at Eheliyagoda in 1990. He was instrumental in bringing the Company to the present position—a public quoted Company with over thirteen thousand shareholders and with a wide network of 26 showrooms throughout the Island and with an export market in 26 countries. A gem merchant by profession, he now devotes his entire time working as Executive Chairman of the Company and its subsidiaries. He is also a Director of Lanka Glass Manufacturing Co. Ltd.



### K.D.D. Perera – Deputy Chairman

Mr. Dammika Perera is a prominent investor, whose diversified business interests includes hydropower generation, shipping, manufacturing, entertainment, hospitality, banking and finance.

He is the Chairman of Vallibel Holdings Limited. He is also the Deputy Chairman of Connaissance de Ceylan Ltd and its subsidiaries, where he holds the controlling interest. In addition he is on the Boards of Pan Asia Bank Limited, LB Finance Limited, Ruhunu Hotels & Travels Limited and Reef Comber Hotels Limited.



### F.P.de. Alwis

The founder Chairman of the Company, first served in the Public Service of Sri Lanka for 25 years. Thereafter he joined the Private Sector in which he served for 28 years. He has extensive experience in this sector having served as the Managing Director of Lankem Ceylon Limited, the Chairman of Ceylon Ceramics Corporation, the Chairman of Lanka Wall Tiles Ltd, the founder Chairman of Lanka Tiles Ltd, the Chairman of Ceylon Cement Corporation, Director of the Shell Company of Sri Lanka Ltd. and Resident Representative of Shell International Petroleum Co. U.K. in Sri Lanka and the Maldives Islands for 15 years. Although he has retired as Chairman of Royal Ceramics Lanka Ltd, he continues to be a Director and serves as a Director/Consultant of many of the Companies in the Delmege Group.

### M.T.L. Fernando

Has been associated with the Company since its inception in 1991 and has been a Director since then. Fellow of the Institute of Chartered Accountants, England, Wales and Sri Lanka, was the precedent Partner of Ernst & Young, Sri Lanka, for over 30 years and at present is a Consultant in the same firm. Serves on many Directorates of public listed and unlisted companies such as Hayleys Ltd, Haycarb Ltd, Caltex Lubricants Ltd., Lanka Orix Leasing Company Ltd. and Asian Hotels Corporation. He has also served on the Board of the Colombo Stock Exchange. He was a Member of the Council of the Institute of Chartered Accountants of Sri Lanka, Past Chairman-Taxation Committee and Committee Member of the Ceylon Chamber of Commerce.



### B.M. Amarasekera

Has been associated with the Company as a Director since its inception in 1991. Attorney-at-Law by profession and counts over 50 years in the practice of Law. He joined the Law firm of Julius & Creasy in 1952 and retired as Precedent Partner of the firm in 1999. Serves on many Directorates of public listed and unlisted Companies and several private Companies. As a member of the Bar Council he has served as Chairman of the Law & Finance Committee and several other Committees of the Council. He has also served on the Council of the University of Sri Jayawardenapura and as a member of the Council on several Selection Boards and functioned as Chairman of the Disciplinary Committee of the University.





### **R. B. Thambiayah**

Mr. Thambiayah is a well known and highly respected figure in the Sri Lankan Hotel Industry. He is a Past Vice President of Tourist Hotels Association of Sri Lanka and a Past President of Colombo City Tourist Hotels Association. He is presently the Chairman/Managing Director of the Renuka Hotel Group of Companies.

### **A.L. Karunanayake**

Is a founder Shareholder/Director of Royal Ceramics Lanka Ltd. Mr. Karunanayake is a Chartered Accountant having trained in Ernst & Young, London. He was for several years the group Financial Director of Aitken Spence Group of Companies until he emigrated abroad. He has a wealth of experience in accounting, taxation, management and administration, after having served in several Companies. At Royal Ceramics, he has assisted in obtaining buyers for its products. He makes his contribution in several fields where he has specialized in, whenever he attends Board Meetings.



### **W.D.N.H. Perera**

Mr. Nimal Perera is a member of the Sri Lanka Institute of Marketing. He is a Director of Connaissance de Ceylan Ltd. and its subsidiaries. He is also on the Boards of Ruhunu Hotels & Travels Ltd. and Reef Comber Hotels Ltd. He is a prominent Investment Advisor/Fund Manager and holds over 20 years experience in Finance and Marketing.

### **D.L.B.C. Perera**

Is a Chartered Management Accountant (FCMA), a fellow of the Society of Certified Management Accountants of Sri Lanka (FSCMA) and a Fellow of the Association of Accounting Technicians of Sri Lanka (FMAAT). He worked several years in a senior management position in a Port Management & Transportation Company for the only two container ports-Port of Sharjah and Port of Khor Fakkan in the Emirate of Sharjah-U.A.E managed by British Expatriates. His diversified experience includes a spell at Aitken Spence Group and other private sector companies. Mr. Perera is also a Director at Polhena Reef Gardens Hotel, Matara.



### **T. G. Thoradeniya**

A Marketeer by profession, Mr. Tharana Thoradeniya was in the pioneering batch of Sri Lankans to be awarded the decree of Chartered Marketeer. Counting over ten years of industry experience in Marketing and Technology Management, he is presently operationally involved in Royal Ceramics as the Director-Marketing & Business Development.

Mr. Thoradeniya is an Alternate Director on the Board of Connaissance de Ceylan and is a Consultant to the Vallibel Group of Companies.





The Directors of Royal Ceramics Lanka Limited have pleasure in presenting to the members their report together with the Consolidated Financial Statements for the year ended 31st March 2003. The Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards.

### Legal Status

Royal Ceramics Lanka Limited was incorporated in Sri Lanka as a Private Limited Company on 29th August 1990 and was converted into a Public Limited Company on 6th December 1991. The Shares were listed on the Colombo Stock Exchange on 3rd May 1994.

### Group Activities

The Principal activity of the Company continues to be the manufacture and sale of porcelain tiles. Royal Ceramics Distributors (Pvt) Limited is a wholly owned subsidiary of Royal Ceramics Lanka Limited and has recorded a profit of Rs. 51,111/75 during the year under review. This subsidiary Company continues to market cut tiles and designs and undertakes laying of tiles and maintains the Show Rooms network to market its products under brand "Rocell".

Royal Porcelain (Pvt) Limited, also a wholly owned subsidiary of the Company, was incorporated to acquire a tile manufacturing factory at Horana. It commenced commercial production on 24th April 2002 and has recorded a profit of Rs. 81,662,162/97.

### Business Review

The Executive Chairman's Statement comprehensively covers the activities of the Company and the Group during the year under review.

### Share Capital

There were no changes in equity capital in the year under review.

#### Summarized Financial Position

The summarized financial position of the Group is as follows:

	2002/2003	2001/2002
	Rs.'000	Rs.'000
Group Profit after Taxation	89,870	74,168
Profit brought forward	2,228	38,849
Dividend	(55,394)	(110,789)
Unappropriated balance carried forward	36,704	2,228

### Reserves

The total reserves of the company stand at Rs. 302,256,781/- comprising capital reserves of Rs. 264,946,890/-, and revenue reserves of Rs. 37,309,891/-.

### Statement of Changes in Equity

The movement in equity is shown in the Statement of Changes in Equity on page 32.

### Payment of Statutory Expenses

The Directors confirm that all payments in respect of statutory liabilities including EPF, ETF and PAYE tax have been made within the stipulated period during the financial year.

### Donations

There were no charitable or political donations during the year under review.

### Dividends

The company has made a payment of a first & final tax-exempt Dividend of 10% for the financial year.

### Corporate Governance

The report on Corporate Governance is given on page 22.

### Directors' Responsibilities for Financial Statements

The Statement of Directors' Responsibilities for Financial Statements is given on page 23.

### Financial Review

The Financial Review is given on page 20.

### Directorate

The names of the Directors in office during the financial year are disclosed in page 05 of the Annual Report. All the Directors except Mr. D.L.B.C. Perera (Appointed on 21st May 2002), Mr. W.D.N.H. Perera (Appointed on 21st May 2002), Mr.S.C.Ganegoda (Appointed on 1st July 2002) and Mr. T.G. Thoradeniya (Appointed on 1st April 2003), held office during the entire financial year.

Mr. S.C. Ganegoda resigned from the Board on 30th April 2003.

Mr. B.M. Amarasekera retires by rotation in terms of Article 85 of the Articles of Association and being eligible offers himself for re-election.Special Notice

has been received from a shareholder pursuant to Section 182 of the Companies Act No: 17 of 1982 of his intention to propose the re-election of Mr. B.M. Amarasekera who is over 70 years of age as a Director of the Company.

Mr .T.G.Thoradeniya retires in terms of Article 92 of the Articles of Association of the Company and being eligible offer himself for re-election.

### Directors' Interest in Contracts

Directors' interest in contracts are disclosed in Note 33 to the Accounts. These interests have been declared at meetings of the Board of Directors.

#### Directors' Interest in Shares

Directors' interest in shares of the Company as at Balance Sheet date are as follows:

	As at 31.3.2003	As at 31.3.2002
Mr. A.M. Weerasinghe	6,653,412	6,503,412
Mr. K.D.D. Perera	16,296,720	15,387,220
Mr. F.P. de Alwis	307,033	307,033
Mr. M.T.L. Fernando	202,977	202,977
Mr. B.M. Amarasekera	107,193	107,193
Mr. A.L. Karunanayake	2,418,718	1,499,318
Mr. R.B. Thambiayah - Own	792	792
<b>Indirect</b>		
Renuka Hotels Ltd.	2,075,792	1,075,792
Renuka Consultants & Services Ltd.	972,172	972,172
Renuka City Hotels Ltd.	3,621,764	111,764
Cargo Boat Development Co. Ltd.	591,977	91,977
Crescent Launderers & Dry Cleaners Ltd.	584,726	584,726
Renuka Properties Ltd.	289,522	220,522
Lancaster Holding Ltd.	91,245	91,245
Amalgamated Theatres Ltd.	52,097	52,097
Mr. D.L.B.C. Perera	1,673,398	10,000
Mr. W.D.N.H. Perera	3,600	76,908

### Major Shareholders

The 20 largest shareholders of the Company as at the Balance Sheet date are given on page 56 under Share Information.

### Fixed Assets

The movement in fixed assets during the year is given in Note 10 to the Accounts.

### Capital Expenditure

Group Capital Expenditure including amount transferred from capital work in progress account during the year amounted to Rs. 449 million.

### Taxation

The Company and Royal Ceramics Distributors (Pvt) Ltd. are liable to pay income tax at 35%. The company, being a public quoted company of which, 25% of the issued capital was held by over 300 shareholders throughout the year, has taken credit for the 5% bonus rate reduction. Royal Procelain (Pvt) Ltd; in terms of the agreement entered with the BOI, received the tax exemption status in the current year of assessment 2002/03 for a period of 10 years. The tax exemption status ends in the year of assessment 2011/12. It is the Group's Policy to provide for deferred taxation on the liability method.

### Group Investments

Details of investments held by the Company are given in Note 12 to the Accounts.

### Market Value of the Company's Ordinary Shares

The market value of the Company's ordinary shares as at 31st March 2003 was Rs.15.00 compared to Rs.17.00 as at 31st March 2002 as per official valuation of the Colombo Stock Exchange.

### Group Employment

As at the Balance Sheet date, the Group has provided employment to 816 persons.

### Post Balance Sheet Events

There were no post Balance Sheet events which would require adjustment to or disclosure in the accounts.

### Auditors

The Accounts for the year have been audited by M/s B.R.de Silva & Co.

The Company proposes the following resolution for which Special Notice has been received from a shareholder.

"That M/s KPMG Ford, Rhodes, Thornton & Co. be appointed the Auditors of the Company in place of the retiring Auditors M/s B.R. de Silva & Co. to hold office until the conclusion of the next Annual General Meeting and that their remuneration be fixed by the Directors."

### By Order of the Board

*Secretaries & Registrars Ltd.*

*Secretaries*

23rd July, 2003

The Financial Statements of the Group and of the company, which form a part of this Annual Report, set out the financial performance. The Financial Review discusses an overview of the Group's Financial Performance.

### Group Results

The Gross Turnover of Rs. 1,069 million was a remarkable feat for the Group. This turnover amounts to a growth of 31.5%. This is an increase of Rs. 257 million over the previous financial year. Re-branding and launching of the new brand "Rocell" contributed immensely. Performance of the new plant, which commenced its operations during the year, did provide the requisite additional volumes towards this notable improvement. Export turnover registered a 34% increase compared to the previous year to reach a turnover of Rs. 119 million, which is the highest after 4 years.

In addition to the growth in volumes, gross margins too increased from 39.4% to 43.0% contributing to the increase in gross profit by Rs. 118 million; a 43% growth. Introduction of Key Performance Indicators (KPIs) to every activity of the manufacturing process assisted in improving efficiency.

The enhanced turnover and better gross margins resulted in the increase of operating profit by Rs. 99 million, although distribution costs increased by Rs. 29 million as a result of the on-going expansion of the distribution network and intensified marketing activities. Product development costs of the plant at Horana amounting to Rs. 34.4 million was deferred and will be charged over a period of 5 years, commencing from the financial year 2003/2004. The Export Duty Rebate Income of Rs. 2.6 million has been credited to the Profit and Loss Account, in arriving at the operating profit.

Finance cost increased by Rs. 44 million compared to the previous year's corresponding figure of Rs. 16 million. The increase is also attributed to servicing the funds obtained from Banks to facilitate the investment in commencing commercial production in the plant at Horana.

Other income includes a reversal of excess in the provision for Turnover Tax of Rs. 16 million, which represents the Rs. 16 million increase in other income over previous year.

Pre-tax profit increased by 72% to register a sum of Rs. 132 million, despite the increase in distribution and finance costs.

### Taxation

Group made a tax provision of Rs. 42.4 million including a deferred tax provision of Rs. 18 million. The company benefited from the brought forward tax losses and did not incur any income tax liability in the previous year.

The profits of the Company and Royal Ceramics Distributors (Pvt) Ltd are chargeable to Income Tax. Royal Porcelain (Pvt) Ltd enjoys a 10 year tax holiday under Section 17(2) of BOI Law No. 4 of 1978 commencing from the year of Assessment 2002/03.

In addition, Rs. 161.6 million was paid to the Government by way of direct sales taxes during the year.

### Dividend

The Company paid a first and final dividend of 10% in June 2003 in respect of the year under review. This was declared as a tax-exempt dividend, made out of dividend income received from Royal Porcelain (Pvt) Ltd.

### Capital Expenditure

Capital expenditure of the Group was Rs.449 million for the year. A sum of Rs. 367 million is attributed to the plant in Horana, which was transferred out of capital work-in-progress account. The balance related to improvements and replacements.

### Investment in Equity Capital

The Company advanced funds to Royal Porcelain (Pvt) Ltd to commence its operations. A sum of Rs. 500 million was converted as its equity capital during the year. This is the minimum investment envisaged by Board of Investment of Sri Lanka in granting a 10-year tax holiday for the project.

### Financial Indicators

The current ratio of the Group has decreased to 1.7:1 during the year, compared to the previous year's ratio of 2.3:1.

The Group's net outflow of funds was Rs. 134 million and as a result, interest bearing borrowings including Bank Overdrafts increased by 180.7 million.



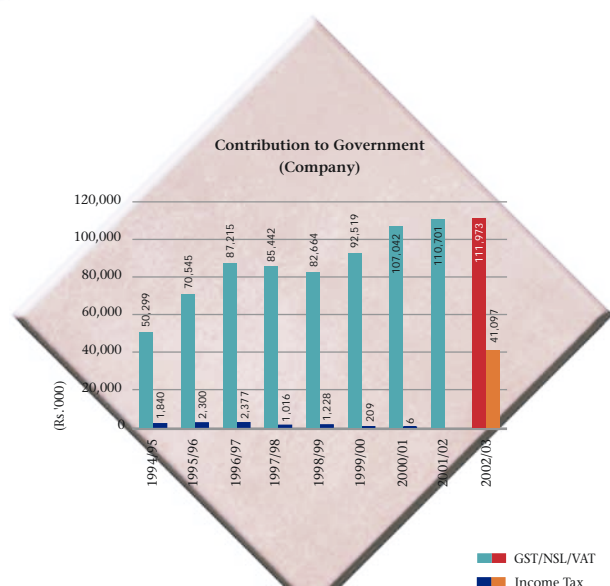
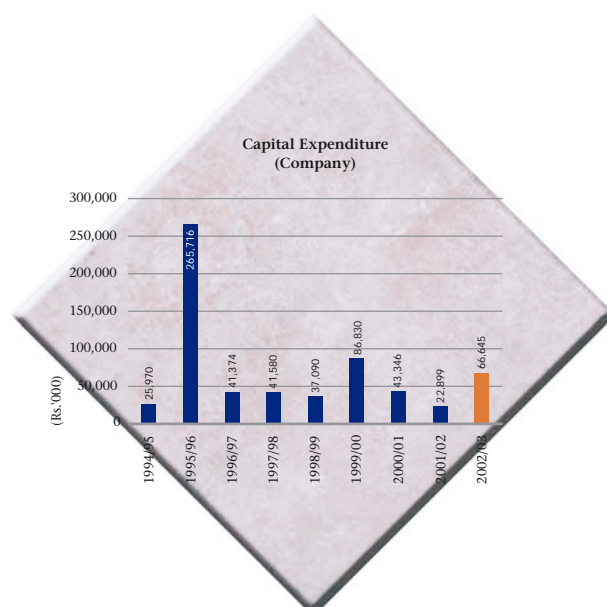
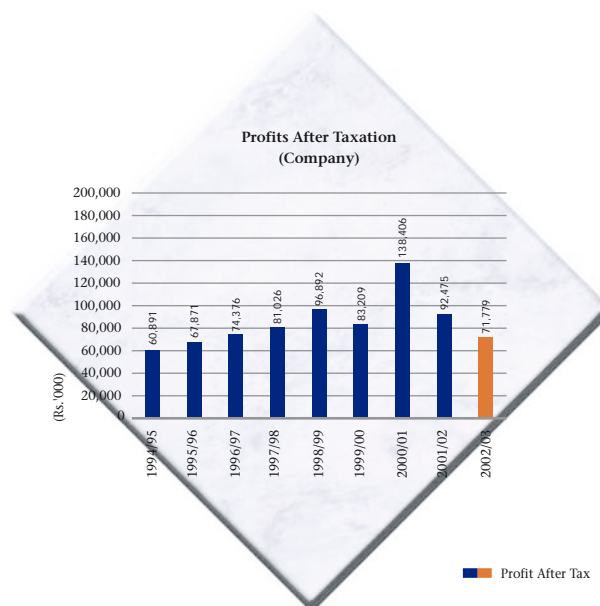
Shareholders' funds consist of 65% share capital, 31% capital reserves and 4% revenue reserves.

### Accounting policies and disclosures

The accounting policies of the Group have been reviewed and amended where necessary, to comply with the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. Further, the format for the presentation of Financial Statements has been

amended to conform to the requirements of SLAS 3 (Presentation of Financial Statements) and to the requirements of the Colombo Stock Exchange.

The group has adopted the practice of making full disclosure of both financial and non-financial information to enable the existing and potential shareholders to assess the performance of the Group and its future.



It is a policy of a company to manage the affairs of a group in accordance with appropriate standards for good corporate governance.

The Company supports the code of Best Practices on matters relating to the financial aspect of corporate governance issued by the Institute of Chartered Accountants of Sri Lanka as a useful guideline, on the subject of corporate governance practices.

A brief outline of the corporate governance practices that were in place during the year is included in this statement.

#### Board of Directors

The Board meets regularly and is responsible for the proper management of the Company.

The Directors are responsible for protecting the rights and interests of shareholders and are accountable to them for the overall management of the Company.

The main responsibilities of the Board are to:

- Set strategies, direction and establish goals for management.
- Monitor performance against these goals and objectives.
- Ensure that adequate internal controls and the highest ethical standards are maintained.
- Appoint the Chief Executive Officer, determine the remuneration of senior executives and report to shareholders on their stewardship.

#### Composition of the Board

The names of the Directors of the Company who held office in the Company as at the date of the Annual Report are set out on page 05.

The Board comprises of eight non - Executive Directors and two Executive Directors, including the Executive Chairman.

#### Board Meetings

The Board meetings are scheduled on a monthly basis, to consider among other matters, the performance and financial statements for the period and to approve routine capital expenditure.

#### Audit Committee

The Board has appointed an audit committee consisting of three non-executive Directors together with the Executive Chairman to review the financial reporting process, the system of internal controls, the audit process and the Company's process for monitoring compliance with laws and regulations and with the code of conduct. The committee meets at least monthly.

Report of the Audit Committee appears on page 24. Names of the members of the Audit Committee are as follows.

Mr. B.M.Amarasekera - Chairman  
Mr. D.L.B.C.Perera  
Mr. W.D.N.H.Perera

#### Remuneration Committee

Remuneration Committee consisting of three Directors meet when required to review the remuneration of the Senior Management.

Names of the members of the Remuneration Committee are as follows.

Mr. M.T.L.Fernando – Chairman  
Mr. A.M.Weerasinghe  
Mr. F.P.de Alwis

#### Internal Control

The Board places a high priority on internal controls to manage the day-to-day affairs of the Company.

The Board is of the view that the Company's system of internal controls provides only reasonable and not absolute assurance of the safeguarding of assets against unauthorised use or disposition, the maintenance of proper accounting records and the reliability of financial information used within the business or for publication and that material errors and irregularities are either prevented or detected within a timely period.

#### Disclosure

The Board's policy is to disclose all relevant information to stakeholders, within the bounds of prudent commercial judgment, in addition to preparing the financial statements in accordance with Sri Lanka Accounting Standards, the Companies Act No. 17 of 1982 and in conformity to Stock Exchange disclosure requirements.

#### Going Concern

The Board of Directors after reviewing the financial position and cash flow of the Group is confident that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, the "Going Concern Basis " has been adopted in the preparation of the financial statements.

#### Compliance Report

The Directors confirm that to the best of their knowledge all taxes and duties payable by the Company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and all other known Statutory dues as were due as at the Balance Sheet date have been paid or provided for in the accounts.

#### Secretaries to the Board

Secretaries and Registrars Limited, who acts as Secretaries to the Company are qualified to act as Secretaries as per the provisions of the Companies Act No. 17 of 1982.

#### Other Information

The Annual Report contains statements from the Board including the responsibilities of the Directors for the preparation of the Financial Statements and the Directors are of the view that they have discharged their responsibilities as set out in this statement. The performance of the Company and its subsidiaries during the year under review and the future prospects of the Group are covered in the Executive Chairman's statement.

The following statement sets out the responsibilities of the Directors in relation to the financial statements of the Company. These differ from the responsibilities of the Auditors, which are set out in their report appearing on page 27.

The Companies Act No. 17 of 1982 requires the Directors to prepare financial statements for each financial year giving a true and fair view of the state of affairs of the Company as at end of the financial year and of the Profit and Loss of the Company for the financial year. In preparing the financial statements appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgments and estimates have been made and applicable accounting standards have been followed.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and for ensuring that the financial statements comply with the Companies Act No. 17 of 1982. They are also responsible for taking

reasonable measures to safeguard the assets of the Company, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevent and detect frauds and other irregularities.

The Directors continue to adopt the going concern basis in preparing accounts. The Directors, after making inquiries and following a review of the Company's budget for the financial year 2003/2004 including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation.

**By Order of the Board**

Secretaries & Registrars Ltd.

*Secretaries*

*Colombo.*

23rd July, 2003



The Audit Committee is formally constituted as a Sub-Committee of the Main Board, to which it is accountable. It consists of three Non-Executive Directors and the Executive Chairman. The names of the members of the Committee, appointed by the Main Board and functional during the period under review are given on page 22. The Internal Auditor and the Finance Manager attend the meetings by invitation, and so do other Managers and Executives when requested to clarify matters arising during meetings. The Committee met on 15 occasions during the period under review.

The objectives of the Committee are to assist the Board of Directors in carrying out their responsibilities pertaining to the following:

1. Ensure that a sound financial reporting system is in place and is well to give accurate, appropriate and timely information to the Management, Regulatory Authorities and Shareholders.
2. Management of Business Risks.
3. Management of Internal Controls.
4. Ensure Systems are in place, report situations that conflict in interest with the Management and other related parties of the Company, and assess whether they are fair, reasonable and report thereof to the Board for its information to be reflected in the Financial Statements.
5. Ensure compliance with Laws and Company Policies.
6. Assess the independence of the External Auditors and monitoring of the External Audit Function.
7. Monitor the functions of the Internal Auditor and fix his/its remuneration.

The Audit Committee together with other members of the Board reviewed the Company's interim and annual financial statements and approved the same prior to the publication with the concurrence of the Board. The Board is in the process of enlisting the services of a firm of Chartered Accountants to strengthen the Internal Audit functions with respect

to the operations of the Company and its subsidiaries and are also in the process of recruiting professional advice in regard to improvements that are required to the existing systems controls and banking of receipts at showrooms and providing Reconciliations.

Considering the information received during the deliberations of the Committee and results of the reviews carried out by the Company, Internal and External Auditors, the Committee is satisfied that the system of Internal Control in place provide a reasonable assurance on safeguarding the Company's assets and the reliability of Financial Statements produced, which are under review, with professional input, in an endeavour to further improve the existing systems.

As the present External Auditors, M/s. B.R. de Silva & Co. have been identified as the Internal Auditors, M/s. B.R. de Silva & Co. have opted to resign as External Auditors and the Committee has recommended to the Board to appoint M/s. KPMG Ford, Rhodes, Thornton & Co. as the Company's External Auditors for the ensuing financial year and to effect the same subject to the approval of the shareholders at the ensuing Annual General Meeting.

The Committee hereby record their appreciation of the services and the contribution of our outgoing Auditors, M/s. B.R. de Silva & Co. who have been the Company's Auditors from its inception.

In view of the foregoing, the Audit Committee has recommended to the Board of Directors that M/s. KPMG Ford, Rhodes, Thornton & Co. be appointed as the Auditors for the year ending 31st March 2004.



**B.M. Amarasekera**  
Chairman  
Audit Committee  
Colombo

23rd July 2003

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Interim Report – 1st Quarter 2002/2003

27th August 2002

Interim Report – 2nd Quarter 2002/2003

20th November 2002

Interim Report – 3rd Quarter 2002/2003

24th February 2003

Interim Report – 4th Quarter 2002/2003

27th May 2003

Annual Report – 2002/2003

23rd July 2003

13th Annual General Meeting

29th August 2003

10% First and Final Dividend for the Financial Year 2002/2003

23rd June 2003



**To the Members of Royal Ceramics Lanka Limited**

We have audited the Balance Sheet of Royal Ceramics Lanka Limited as at 31st March, 2003, the Consolidated Balance Sheet of the Company and its subsidiaries as at that date, and the related Statements of Income, Changes in Equity and Cash Flows for the year then ended, together with the Accounting Policies and Notes as set out on pages 28 to 51.

**Respective Responsibilities of Directors and Auditors**

The Directors are responsible for preparing and presenting these Financial Statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these Financial Statements, based on our audit.

**Basis of Opinion**

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said Financial Statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said Financial Statements, assessing the Accounting Principles used and significant estimates made by the Directors, evaluating the overall presentation of the Financial Statements, and determining whether the said Financial Statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, so far as appears from our examination, the Company maintained proper books of accounts for the year ended 31st March, 2003, and to the best of our information and according to explanations given to us, the said Balance Sheet and related Statements of Income, Changes in Equity and Cash Flows and the Accounting Policies and Notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982, and the Sri Lanka Accounting Standards and give a true and fair view of the Company's state of affairs as at 31st March, 2003 and of its Profit and Cash Flows for the year then ended.

In our opinion, the Consolidated Balance Sheet and related Statements of Income, Changes in Equity and Cash Flows and the Accounting Policies and Notes thereto, have been properly prepared and presented in accordance with the Companies Act No. 17 of 1982 and the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at 31st March, 2003, and of its Profit and Cash Flows for the year then ended of the Company and its Subsidiaries dealt with thereby, so far as concerns the members of the Company.

**Directors' Interest in Contracts with the Company**

According to the information made available to us, the Directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31st March, 2003, except as stated in Note (33) to these financial statements.

**B.R. de Silva & Co.**  
*Chartered Accountants*  
*Colombo*

23rd July 2003

For the year ended 31st March 2003

	Note	Consolidated		Company	
		2002/2003 Rs.	2001/2002 Rs.	2002/2003 Rs.	2001/2002 Rs.
Revenue	3	907,422,040	690,516,000	665,487,971	610,692,268
Cost of Sales		<u>(516,871,912)</u>	<u>(418,591,720)</u>	<u>(406,978,164)</u>	<u>(392,034,264)</u>
Gross Profit		390,550,128	271,924,280	258,509,807	218,658,004
Other Operating Income	4	21,804,902	5,211,825	78,101,015	4,903,508
Distribution Expenses		(119,164,632)	(90,312,966)	(110,518,606)	(69,290,892)
Administration Expenses		(97,518,193)	(92,451,241)	(58,898,626)	(47,930,968)
Other Operating Expenses		<u>(3,576,168)</u>	<u>(1,416,507)</u>	<u>(3,576,168)</u>	<u>(1,416,508)</u>
		(220,258,993)	(184,180,714)	(172,993,400)	(118,638,368)
Profit from Operating Activities	5	192,096,037	92,955,391	163,617,422	104,923,144
Finance Expenses	6	<u>(59,858,985)</u>	<u>(16,297,294)</u>	<u>(50,740,984)</u>	<u>(10,413,253)</u>
Profit from Ordinary Activities before Tax		132,237,052	76,658,097	112,876,438	94,509,891
Taxation	7	<u>(42,366,984)</u>	<u>(2,489,632)</u>	<u>(41,097,023)</u>	<u>(2,035,328)</u>
Net Profit for the year		<u>89,870,068</u>	<u>74,168,465</u>	<u>71,779,415</u>	<u>92,474,563</u>
Earnings Per Share	8	Rs. 1.62	Rs. 2.13	Rs. 1.30	Rs. 2.65
Dividend Per Share	9	Rs. 1.00	Rs. 3.18	Rs. 1.00	Rs. 3.18

The Accounting Policies and the Notes to the Financial Statements form an integral part of the Financial Statements.

Figures in brackets indicate deductions.

As at 31st March 2003

		Consolidated		Company	
	Note	2002/2003 Rs.	2001/2002 Rs.	2002/2003 Rs.	2001/2002 Rs.
Assets					
Non-Current Assets					
Property, Plant and Equipment	10	811,200,551	443,021,696	397,838,200	407,204,082
Capital Work-in-Progress	11	16,014,727	363,769,435	5,790,175	37,399,865
Product Development Cost		<u>34,460,000</u>	-	-	-
		861,675,278	806,791,131	403,628,375	444,603,947
Investment in Subsidiaries	12	-	-	500,500,040	500,040
		-	-	500,500,040	500,040
Current Assets					
Inventories	13	585,057,113	351,548,256	419,635,014	332,164,133
Trade and other Receivables	14	87,907,141	68,721,692	103,761,716	55,097,371
Amount Due from Related Companies	15	1,591,237	1,436,565	124,507,989	310,787,221
Short Term Investments	16	-	168,600,000	-	133,000,000
Cash and Cash Equivalents	17	<u>72,996,103</u>	<u>39,293,846</u>	<u>28,987,130</u>	<u>33,323,035</u>
		<u>747,551,594</u>	<u>629,600,359</u>	<u>676,891,849</u>	<u>864,371,760</u>
Total Assets		<u>1,609,226,872</u>	<u>1,436,391,490</u>	<u>1,581,020,264</u>	<u>1,309,475,747</u>
Equity and Liabilities					
Capital and Reserves					
Share Capital	18	553,946,920	553,946,920	553,946,920	553,946,920
Reserves	19	264,946,890	264,946,890	264,946,890	264,946,890
Retained Earnings	20	<u>36,703,822</u>	<u>2,228,446</u>	<u>37,309,891</u>	<u>20,925,168</u>
Total Equity		855,597,632	821,122,256	856,203,701	839,818,978
Non Current Liabilities					
Interest Bearing Borrowings	21	240,757,500	274,803,663	227,657,500	191,680,000
Deferred Tax Liability	22	62,611,013	44,402,029	61,066,155	43,969,132
Retirement Benefit Obligations	23	<u>20,635,816</u>	<u>16,760,027</u>	<u>16,078,103</u>	<u>14,586,525</u>
		324,004,329	335,965,719	304,801,758	250,235,657
Current Liabilities					
Bank Overdraft		44,173,257	9,937,701	37,822,344	9,937,701
Creditors and other Payables	24	93,507,240	103,210,665	62,463,933	89,084,820
Amount Payable to Related Companies	25	-	407,009	35,696,908	407,009
Tax Payable	26	1,354,224	9,316,517	1,841,430	9,336,296
Dividend Payable	27	55,649,190	102,335,286	55,649,190	102,335,286
Interest Bearing Borrowings	28	<u>234,941,000</u>	<u>54,096,337</u>	<u>226,541,000</u>	<u>8,320,000</u>
		<u>429,624,911</u>	<u>279,303,515</u>	<u>420,014,805</u>	<u>219,421,112</u>
Total Equity and Liabilities		1,609,226,872	1,436,391,490	1,581,020,264	1,309,475,747

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

Signed for and on behalf of the Board by


A. M. Weerasinghe  
Executive Chairman

K. D. D. Perera  
Deputy Chairman



# Cash Flow Statement

Annual Report 2002-2003

For the year ended 31st March 2003

	Consolidated		Company	
	2002/2003	2001/2002	2002/2003	2001/2002
	Rs.	Rs.	Rs.	Rs.
<b>Cash Flows from Operating Activities</b>				
Net Profit before Taxation	132,237,052	76,658,097	112,876,438	94,509,891
Adjustment for :				
Depreciation	80,616,857	81,956,919	78,010,855	77,251,530
Provision for Doubtful Debtors & Receivables	4,890,242	-	2,999,696	
Provisions for Gratuity	5,041,673	4,055,427	2,613,562	3,422,665
Gain on Disposal of Property, Plant & Equipment	(1,435,430)	(558,675)	(1,435,430)	(558,675)
Loss on sale of Property, Plant & Equipment	-	154,608		154,608
Over Provision Written Back	(16,453,741)	-	(16,453,741)	-
Interest Income	(1,723,810)	(1,755,397)	(1,695,835)	(1,707,397)
Interest Expenses	56,501,230	15,221,788	48,263,351	9,551,185
	<u>127,437,021</u>	<u>99,074,670</u>	<u>112,302,458</u>	<u>88,113,916</u>
Operating Profit before Working Capital Changes	259,674,073	175,732,767	225,178,896	182,623,807
(Increase)/Decrease in Inventories	(233,508,857)	(39,528,317)	(87,470,881)	(28,719,549)
(Increase)/Decrease in Debtors and Receivables	(23,315,741)	(11,234,453)	(46,773,796)	(8,269,892)
(Increase)/Decrease in amount due from Related Companies	(561,681)	(248,280)	221,569,129	(269,716,231)
Increase/(Decrease) in Creditors & other Payables	6,750,366	(3,358,086)	(26,776,190)	(1,540,488)
	<u>(250,635,913)</u>	<u>(54,369,136)</u>	<u>60,548,262</u>	<u>(308,246,160)</u>
Cash Generated from Operations	9,038,160	121,363,631	285,727,158	(125,622,353)
Gratuity paid	(1,165,884)	(1,184,588)	(1,121,984)	(1,081,213)
Interest paid	(56,501,230)	(15,221,788)	(46,311,624)	(9,551,185)
Taxes paid	(32,120,293)	136,530	(24,008,700)	-
	<u>(89,787,407)</u>	<u>(16,269,846)</u>	<u>(71,442,308)</u>	<u>(10,632,398)</u>
Net Cash Flow from Operating Activities	(80,749,247)	105,093,785	214,284,850	(136,254,751)
<b>Cash Flows from Investing Activities</b>				
Increase in Product Development Cost	(34,460,000)	-	-	-
Investment in Subsidiary	-	-	(500,000,000)	-
Purchase / Construction of Property, Plant & Equipment	(449,077,235)	(26,492,551)	(51,883,708)	(22,899,538)
Decrease / (Increase) in Capital Work in Progress	347,754,708	(343,992,213)	16,847,812	(17,622,643)
Proceeds from Sale of Property, Plant & Equipment	1,716,953	1,165,675	1,716,953	1,165,675
Decrease / (Increase) in deposit	35,000,000	(35,000,000)	-	-
Interest received	1,723,810	1,755,397	1,695,835	1,707,397
Payment to consortium of Banks	-	25,000,000	-	-
Net Cash Out Flow from Investing Activities	<u>(97,341,764)</u>	<u>(377,563,692)</u>	<u>(531,623,108)</u>	<u>(37,649,109)</u>
Net Cash Flow before Financing Activities	(178,091,011)	(272,469,907)	(317,338,258)	(173,903,860)

For the year ended 31st March 2003

	Consolidated		Company	
	2002/2003 Rs.	2001/2002 Rs.	2002/2003 Rs.	2001/2002 Rs.
<b>Cash Flows from Financing Activities</b>				
Share Issue Expenses	-	(6,207,797)	-	(6,207,797)
Proceed from Right Issue of Shares	-	246,198,630	-	246,198,630
Dividend paid	(102,080,788)	(121,531,485)	(102,080,788)	(121,531,485)
Proceed / (Repayment) from Short Term Borrowings	180,084,663	51,996,338	218,221,000	8,320,001
Proceed / (Repayment) from Long Term Borrowings	(34,046,163)	244,903,664	35,977,498	191,680,000
Net Cash Flow from Financing Activities	43,957,712	415,359,350	152,117,710	318,459,349
Net Cash Generated / (Used Up) during the Year	(134,133,299)	142,889,443	(165,220,548)	144,555,489
Cash & Cash Equivalents at the Beginning of the year	162,956,145	20,066,702	156,385,334	11,829,845
Cash & Cash Equivalents at the end of the year	28,822,846	162,956,145	(8,835,214)	156,385,334
<b>Analysis of Cash &amp; Cash Equivalents</b>	As At	As At	As At	As At
	31/03/03	31/03/02	31/03/03	31/03/02
Cash at Bank and in Hand	72,996,103	39,293,846	28,987,130	33,323,035
Bank Overdraft	(44,173,257)	(9,937,701)	(37,822,344)	(9,937,701)
Call Deposits	-	133,600,000	-	133,000,000
	28,822,846	162,956,145	(8,835,214)	156,385,334

## Statement of Changes in Equity

Annual Report 2002-2003

For The Year Ended 31st March 2003

Consolidated	Share Capital	Share Premium	Revaluation Reserves	Accumulated Profit	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31st March 2001	307,748,290	266,987,330	4,167,357	38,849,365	617,752,342
Right issue of shares	246,198,630	-	-	-	246,198,630
Right issue expenses written off	-	(6,207,797)	-	-	(6,207,797)
Net profit for the year	-	-	-	74,168,465	74,168,465
Dividends	-	-	-	(110,789,384)	(110,789,384)
Balance as at 31st March 2002	553,946,920	260,779,533	4,167,357	2,228,446	821,122,256
					-
Net profit for the year				89,870,068	89,870,068
Dividend	-	-	-	(55,394,692)	(55,394,692)
Balance as at 31st March 2003	553,946,920	260,779,533	4,167,357	36,703,822	855,597,632

Company	Share Capital	Share Premium	Revaluation Reserves	Accumulated Profit	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31st March 2001	307,748,290	266,987,330	4,167,357	39,239,989	618,142,966
Net profit for the year				92,474,563	92,474,563
Right issue of shares	246,198,630	-	-	-	246,198,630
Right issue expenses written off	-	(6,207,797)	-	-	(6,207,797)
Dividends	-	-	-	(110,789,384)	(110,789,384)
Balance as at 31st March 2002	553,946,920	260,779,533	4,167,357	20,925,168	839,818,978
Net profit for the year				71,779,415	71,779,415
Dividend	-	-	-	(55,394,692)	(55,394,692)
Balance as at 31st March 2003	553,946,920	260,779,533	4,167,357	37,309,891	856,203,701



## 1. Corporate Information

- 1.1 Royal Ceramics Lanka Ltd. ("the Company") is a public limited liability Company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The registered office of the Company is located at No. 10, R.A. de Mel Mawatha, Colombo 03.
- 1.2 Royal Ceramics Distributors (Pvt.) Ltd and Royal Porcelain (Pvt.) Ltd., are subsidiaries of the Company. During the year the principal activities of the group were as follows:
- |   |  |
|---|--|
| Royal Ceramics Lanka Ltd.               | – Manufacture and distribution of floor and wall tiles.                                |
| Royal Ceramics Distributors (Pvt.) Ltd. | – Marketing of tiles and undertaking designing and laying of tiles.                    |
| Royal Porcelain (Pvt.) Ltd.             | – Manufacture and distribution of floor tiles.<br>(Production commenced on 24.04.2002) |
- 1.3 The notes to the financial statements form an integral part of the financial statements.
- 1.4 All values presented in the financial statements are in Rupees unless otherwise indicated.

### 1.5 Companies in the group

#### **Subsidiaries**

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The group financial statements include the results of Royal Ceramics Distributors (Pvt.) Ltd. and Royal Porcelain (Pvt.) Ltd operations, which are the subsidiaries of the Company. The details of subsidiaries are as follows:

Company Name	Year of Incorporation	Ownership Percentage
Royal Ceramics Distributors (Pvt.) Ltd.	1993/1994	100%
Royal Porcelain (Pvt.) Ltd.	2000/2001	100%

Results of the Subsidiary Companies have been consolidated under Section 150 (1) (9) (II) of the Companies Act No. 17 of 1982.

## 2. Summary of Significant Policies

### 2.1 General Policies

- 2.1.1 The Balance Sheet, Statements of Income, Changes in Equity and Cash Flows, together with accounting policies and notes of the group as at 31st March 2003 and for the year then ended, comply in all material aspects with the Sri Lanka Accounting Standards.

These financial statements presented in Sri Lanka Rupees have been prepared on a historical cost basis except for the revaluation of certain property, plant and equipment.

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

#### 2.1.2 Comparative Information

Where necessary comparative figures have been reclassified to conform with the current year presentation. The Accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

#### 2.1.3 Consolidation Policy

Basis of consolidation

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

The Financial Statements of all the Companies in the Group are prepared to a common financial year which ends on 31st March.

All inter Company transactions, balances and unrealized surpluses and transactions between group companies have been eliminated.

#### 2.1.4 Foreign Currency Translation

All foreign exchange transactions are converted to Sri Lanka Rupees, which is the reporting currency at the rate of exchange prevailing at the time the transactions were affected. Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lanka Rupee equivalents using year-end spot foreign exchange rates. Non-Monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The resulting gains and losses are accounted for in the Income Statement.

#### 2.1.5 Taxation

##### (a) Current Taxation

The Provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act No. 28 of 1979 and amendments there to. Relevant details are disclosed in note (7) to the financial statements. Royal Porcelain (Pvt.) Ltd. in terms of the agreement entered with the BOI is exempt from taxation for a period of 10 years commencing from the year of assessment of 2002/03.

##### (b) Deferred Taxation

Deferred taxation is provided on the liability method. The tax effect for timing differences which occur where items are allowed for income tax purposes in a period different from that when they are recognized in financial statements is included in the provision for deferred taxation at current rates of taxation.

Deferred tax assets are recognized for all deductible timing differences and carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible timing differences and carry forward of unused tax losses can be utilized. The carrying amount of deferred tax asset is reviewed at each Balance Sheet date and reduced by the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

##### (c) Turnover Based Taxes

Turnover based taxes include Value Added Tax (VAT) from August 2002, Goods & Services Tax (GST), National Security Levy (NSL) up to July 2002 and Turnover Tax. The Company pays such taxes in accordance with the respective statutes.

#### 2.1.6 Borrowing cost

Borrowing costs are recognized as an expense in the period in which they are incurred except to the extent where borrowing cost that are directly attributable to acquisition construction or production of assets that takes a substantial period of time to get ready for its intended use or sale. Such borrowing costs are capitalized as part of those assets. The borrowing cost eligible for capitalization is determined according to SLAS 20. Borrowing cost allowed alternative treatment.

The capitalization rate of 13.5% was used to capitalize borrowing cost amounting to Rs.3.1 million in Royal Porcelain (Pvt.) Limited.

#### 2.1.7 Product Development Cost

Development expenditure incurred on product development is recognized as an assets to the extent that such expenditure is expected to make future benefits. Product development cost that have been capitalized, are amortized over 5 years commencing from 1st April 2003.

## 2.2 Valuation of Assets & their measurement basis

### 2.2.1 Inventories

Inventories are valued at lower of cost and net realizable value, after making due allowances for obsolete and slow moving items. Net realizable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

- (a) Raw material – at actual cost on weighted average cost.
- (b) Finished goods – at the cost of direct material, direct labour and appropriated proportion of fixed production overheads based on normal operating capacity.
- (c) Work-in-Progress has been valued at cost. Cost is determined by accruing all direct material costs.
- (d) Goods-in-transit have been valued at cost.

### 2.2.2 Trade and other receivables

Trade receivables are stated at the amounts they are estimated to realize, net of provision for bad & doubtful debts.

Other receivables and dues are recognized at cost.

### 2.2.3 Cash Flow Statement

The cash flow has been prepared by using the “Indirect Method”. Cash and cash equivalents comprise of cash in hand, deposits held at call with bank and investment in money market investments net of bank overdrafts.

### 2.2.4 Property, plant and equipment

#### (a) Cost and valuation

All property, plant and equipment are initially recorded at cost. The purchase consideration paid for the factory at Horana has been apportioned to the assets obtained proportionately according to the valuation report by a certified valuer. Where items of property, plant and equipment are subsequently revalued, the entire class of such assets is usually revalued. Subsequent to the initial recognition as an asset at cost, re-valued property, plant and equipment are carried at re-valued amounts, less any subsequent depreciation thereon. All other property plant and equipment are stated at historical cost less depreciation.

When an asset is re-valued, any increase in the carrying amount is directly credited to a re-valuation surplus unless it reverses a previous revaluation decrease relating to the same asset, which was previously recognized as an expense. In these circumstances the increase is recognized as income to the extent of the previous write down. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized as an expense, unless it reverses a previously increment relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. Any balance remaining in the revaluation surplus in respect of an asset, is transferred directly to accumulated profits on retirement or disposal of the asset.

The holding Company's land & building at the factory premises had been revalued in July 1993.

#### (b) Restoration costs

Expenditure incurred on repairs or maintenance of property, plant and equipment in order to restore or maintain the future economic benefits expected from originally assessed standard of performance, is recognized as an expense when incurred.



## (c) Depreciation

Provision for depreciation is calculated by using a straight line basis on all property, plant and equipment, other than freehold land, in order to write off the cost and valuation over the estimated economic life of such assets. Depreciation is not provided for in the year of purchase while a full year's depreciation is provided for in the year of sale.

The annual rates of depreciation is generally used by Companies in the group as follows:

Building & Electricity scheme	@ 4%
Motor Vehicles, Furniture construction & other equipment	@ 20%
Sundry inventory, tools and implements	@ 50%
Factory equipment, plant & machinery and communication equipment	@ 10%
Office equipment	@ 15%
Household items – light	@ 50%
Household items – heavy	@ 20%

## 2.2.5 Capital Work-in-Progress

Capital Work-in-Progress represents the cost of civil construction work not completed and Property, Plant & Equipment that are not ready for their intended use.

## 2.2.6 Investment

## (a) Investment in subsidiary and associate Company

Investment in subsidiaries are stated at cost and the investment in the associate Company is stated at cost less provision for diminution in value.

## (b) Short term investments

Short term investment which represent Fixed Deposit and call deposit with Bank, stated at cost.

## 2.2.7 Leases

## Operating Leases

Leases where the Lessor effectively retains substantially all the risks and benefits of ownership over the leased term are classified as operating leases.

Rentals paid under operating leases are recognized as an expense in the Income Statement.

## 2.3 Liabilities & Provisions

## 2.3.1 All Known liabilities have been accounted in preparing the Financial Statements.

## 2.3.2 Provisions

Provisions are made for all obligations existing as at the Balance Sheet date when it is probable that such an obligation will result in an outflow of resources and a reliable estimate can be made of the quantum of the outflow.

## 2.3.3 Retirement benefit plan – gratuity

Gratuity is a Defined Benefit Plan. In order to meet this liability, a provision is carried forward in the Balance Sheet, based on a half month's salary as of the last month of the financial year of all employees for each completed years of service, commencing from the first year of service.

The resulting differences between brought forward provision at the beginning of the year and the carried forward provision at the end of a year is dealt within the income statement.

However, as per the payment of gratuity Act. No. 12 of 1983, this liability only arises upon completion of five (05) years continued service.

The gratuity liability is not externally funded nor actuarially valued. This item is grouped under provision and other liabilities in the Balance Sheet.

#### 2.3.4 Defined contribution plans

Employees' Provident Fund & Employees Trust Fund.

Employees are eligible for Employees Provident Fund contributions and Employees Trust Fund contributions in line with respective statutes and regulations.

## 2.4 Income Statement

### 2.4.1 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the group, and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and sales taxes, and after eliminating sales with the group. The following specific criteria are used for the purpose of recognition of revenue.

#### (a) Sale of Goods

Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer; with the Company retaining neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

#### (b) Interest income is recognized on an accrual basis.

#### (c) Dividend Income

Dividend income is recognized when the shareholders' right to receive the payment is established.

#### (d) Gains or losses of a revenue nature on the disposal of property, plant and equipment and other non current assets have been accounted for in the Income Statement having deducted from proceeds on disposal, the carrying amount of the asset and relating selling expenses.

#### (e) Rendering of services

Revenue from rendering of services is recognized in the accounting period in which the services are rendered or performed.

#### (f) Export duty rebate is accounted on an accrual basis.

Gains and losses arising from incidental activities to main revenue generating activities, and those arising from group or similar transactions, which are not material are aggregated, reported and presented on a net basis.

### 2.4.2 Expenditure Recognition

#### (a) Expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

#### (b) For the purpose of presentation or the income statement, functions of expenses method have been adopted.

As at 31st March 2003

		Consolidated		Company	
		2002/2003	2001/2002	2002/2003	2001/2002
		Rs.	Rs.	Rs.	Rs.
<b>3. Revenue</b>					
<b>3.1 Summary</b>					
Gross Sales	3.2	1,069,040,643	812,080,020	777,461,519	721,393,471
Goods and Services Tax		(20,909,428)	(71,166,207)	(18,571,944)	(66,075,582)
Value Added Tax		(121,227,625)	-	(81,782,119)	-
Turnover Tax		(6,367,194)	(2,532,508)	-	-
National Security Levy		(13,114,356)	(47,865,305)	(11,619,485)	(44,625,621)
Net Sales		<u>907,422,040</u>	<u>690,516,000</u>	<u>665,487,971</u>	<u>610,692,268</u>
<b>3.2 Sales Analysis</b>					
Export Sales		119,238,655	89,124,667	115,022,428	89,124,667
Local Sales		892,175,241	685,296,087	623,134,692	586,598,733
Miscellaneous Sales		48,217,072	28,162,351	39,304,399	45,670,071
Service Income		<u>9,409,675</u>	<u>9,496,915</u>	-	-
		<u>1,069,040,643</u>	<u>812,080,020</u>	<u>777,461,519</u>	<u>721,393,471</u>
<b>4. Other Operating Income</b>					
Dividend Income		-	-	57,500,002	-
Reversal of Over Provision		16,453,741	-	16,453,741	-
Interest Income		1,723,809	1,755,397	1,695,835	1,707,397
Profit on Sale of Fixed Assets		1,435,430	558,675	1,435,430	558,675
Sundry Income		<u>2,191,922</u>	<u>2,897,753</u>	<u>1,016,007</u>	<u>2,637,436</u>
		<u>21,804,902</u>	<u>5,211,825</u>	<u>78,101,015</u>	<u>4,903,508</u>
<b>5. Profit From Operations</b>					
Operating profit is stated after charging Expenses / (Income) including the following:					
Directors Emoluments		488,000	656,000	458,000	656,000
<b>Staff Costs</b>					
Remuneration		151,465,696	113,620,862	112,548,979	94,566,132
EPF		5,044,530	6,988,875	3,981,103	6,479,143
ETF		1,311,048	1,804,276	995,276	1,619,881
Gratuity		5,041,673	4,055,427	2,613,562	3,422,665
Auditors Remuneration		460,000	365,000	255,000	240,000
Research and Development Expenses		892,066	284,262	892,066	284,262
Depreciation on Property, Plant & Equipment		80,620,136	81,956,920	75,729,946	77,251,531
Export Duty Rebate		<u>(2,596,838)</u>	<u>(3,921,192)</u>	<u>(2,596,838)</u>	<u>(3,921,192)</u>



As at 31st March 2003

	Consolidated		Company	
	2002/2003	2001/2002	2002/2003	2001/2002
	Rs.	Rs.	Rs.	Rs.
<b>6. Finance Costs</b>				
Bank Charges	3,357,755	929,061	2,477,633	862,068
Overdraft Interest	4,882,676	7,416,311	4,844,800	7,092,421
Loan Interest	<u>51,618,554</u>	<u>7,951,922</u>	<u>43,418,551</u>	<u>2,458,764</u>
	<u>59,858,985</u>	<u>16,297,294</u>	<u>50,740,984</u>	<u>10,413,253</u>

**7.1 Taxation**

	Consolidated		Company	
	2002/2003	2001/2002	2002/2003	2001/2002
	Rs.	Rs.	Rs.	Rs.
Tax on Current Years Profit	24,158,000	433,000	24,000,000	-
Deferred Taxation	<u>18,208,984</u>	<u>2,056,632</u>	<u>17,097,023</u>	<u>2,035,328</u>
	<u>42,366,984</u>	<u>2,489,632</u>	<u>41,097,023</u>	<u>2,035,328</u>

7.2 The corporate rate of tax applicable taxable income would be 35%. The holding company being a listed company would be entitled to a tax credit of 5% from the normal rate. Export income is taxed at 15%.

7.3 Reconciliation between taxable profit and accounting profit of holding Company.

	2002/2003	2001/2002
	Rs.	Rs.
Accounting Profit	132,237,052	94,509,891
Aggregate Disallowed Items	79,560,563	91,688,423
Aggregate Allowable Expenses	<u>(39,110,510)</u>	<u>(33,150,402)</u>
Total Statutory Income from Trade/Business	<u>172,687,105</u>	<u>153,047,912</u>

**8. Earnings Per Share**

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in basic earnings per share computation.

	Consolidated		Company	
	2002/2003	2001/2002	2002/2003	2001/2002
	Rs.	Rs.	Rs.	Rs.
Net Profit Attributable to Shareholders	89,870,068	74,168,465	71,779,215	92,474,563
Weighted Average Number of Ordinary Shares	55,394,692	34,878,140	55,394,692	34,878,140
Earnings Per Share	<u>1.62</u>	<u>2.13</u>	<u>1.30</u>	<u>2.65</u>

**9. Dividend Per Share**

Dividend per share is calculated by dividing the dividend declared during the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the dividend and share data used in basic dividend per share calculation.

	Consolidated		Company	
	2002/2003	2001/2002	2002/2003	2001/2002
	Rs.	Rs.	Rs.	Rs.
Interim Dividend (10% 2002/2003)	55,394,692	55,394,692	55,394,692	55,394,692
Final Dividend	-	55,394,692	-	55,394,692
	<u>55,394,692</u>	<u>110,789,384</u>	<u>55,394,692</u>	<u>110,789,384</u>
Weighted Average Number of Ordinary Shares	55,394,692	34,878,140	55,394,692	34,878,140
Dividend per Share	<u>1.00</u>	<u>3.18</u>	<u>1.00</u>	<u>3.18</u>

As at 31st March 2003

## 10.1 Property Plant &amp; Equipment - Consolidated

Gross Carrying Amounts	Balance As At 01.04.02	Additions During The Year	Disposal During The Year	Balance As At 31.03.03
At Cost	Rs.	Rs.	Rs.	Rs.
Land	29,334,484	13,120,000	-	42,454,484
Building	14,424,081	91,097,619	-	105,521,700
Water Supply Scheme	295,687	-	-	295,687
Lab Equipment	2,095,763	67,008	-	2,162,771
Motor Vehicles	13,002,059	6,254,768	1,841,000	17,415,827
Electricity Distribution	5,363,492	-	-	5,363,492
Office Equipment	54,096,685	13,370,788	176,969	67,290,504
Communication Equipment	2,587,051	5,602,652	-	8,189,703
Furniture & Fittings	7,576,709	710,188	-	8,286,897
Tools & Implements	16,363,526	429,837	-	16,793,363
Sundry Inventory	3,880,338	573,020	-	4,453,358
Other Equipment	7,561,181	4,670,727	-	12,231,908
Factory Equipment	23,604,388	393,807	-	23,998,195
Construction Equipment	2,293,595	-	-	2,293,595
Plant And Machinery	591,768,201	296,015,150	-	887,783,351
Plant And Machinery - Polishing Plant	38,277,925	16,500,000	-	54,777,925
Household Item - Heavy	52,804	222,224	-	275,028
Household Item - Light	834,115	-	-	834,115
Name Boards	1,131,135	49,450	-	1,180,585
	814,543,219	449,077,238	2,017,969	1,261,602,488
<b>At Valuation</b>				
Land	35,342,644	-	-	35,342,644
Building - Polishing Plant	4,953,388	-	-	4,953,388
Building	91,343,042	-	-	91,343,042
	131,639,074	-	-	131,639,074
	946,182,293	449,077,238	2,017,969	1,393,241,562



As at 31st March 2003

Depreciation	Balance As At 01.04.02	Charge During The Year	Disposal During The Year	Balance As At 31.03.03
On Cost	Rs.	Rs.	Rs.	Rs.
Land	-	-	-	-
Building	333,292	598,791	-	932,083
Water Supply Scheme	59,224	11,827	-	71,051
Lab Equipment	1,874,557	55,263	-	1,929,820
Motor Vehicles	10,461,027	732,691	1,709,900	9,483,818
Electricity Distribution	1,325,976	214,540	-	1,540,516
Office Equipment	18,206,635	7,405,945	26,545	25,586,035
Communication Equipment	1,438,726	266,602	-	1,705,328
Furniture & Fittings	2,946,043	1,287,956	-	4,233,999
Tools & Implements	14,974,221	774,684	-	15,748,905
Sundry Inventory	2,580,939	870,282	-	3,451,221
Other Equipment	5,664,582	1,162,914	-	6,827,496
Factory Equipment	15,551,228	2,362,971	-	17,914,199
Construction Equipment	2,236,047	11,510	-	2,247,557
Plant And Machinery	366,222,626	56,819,590	-	423,042,216
Plant And Machinery - Polishing Plant	29,614,977	3,827,793	-	33,442,770
Household Item - Heavy	34,968	5,100	-	40,068
Household Item - Light	544,717	141,504	-	686,221
Name Boards	63,541	215,038	-	278,579
	474,133,326	76,765,001	1,736,445	549,161,882
<b>On Valuation</b>				
Land	-	-	-	-
Building - Polishing Plant	1,540,998	198,136	-	1,739,134
Building	27,486,273	3,653,722	-	31,139,995
	29,027,271	3,851,858	-	32,879,129
Total Depreciation	503,160,597	80,616,859	1,736,445	582,041,011

Net Book Value	Balance As At 31.03.03	Balance As At 01.04.02
	Rs.	Rs.
At Cost	712,440,606	340,409,893
At Valuation	98,759,945	102,611,803
	811,200,551	443,021,696

As at 31st March 2003

10.2 Freehold land and buildings owned by the company which is located at the factory premises had been revalued in July 1993 by Mr. M. S. T. B. Senadhira, an independent valuer.

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less accumulated depreciation is as follows.

Class of Assets	Cost	Accumulated Depreciation	Net Book Value 31.03.2003	Net Book Value 31.03.2002
	Rs.	Rs.	Rs.	Rs.
Land	33,967,763	-	33,967,763	33,967,763
Building Polishing Plant	4,772,342	1,681,198	3,091,144	3,282,037
Building	73,641,653	25,475,549	48,166,104	51,111,770
	<u>112,381,758</u>	<u>27,156,747</u>	<u>85,225,011</u>	<u>88,361,570</u>

### 10.3 Property Plant & Equipment - Company

Gross Carrying Amounts	Balance As At 01.04.02	Additions During The Year	Disposal During The Year	Balance As At 31.03.03
At Cost	Rs.	Rs.	Rs.	Rs.
Land	29,334,484	-	-	29,334,484
Building	14,225,649	20,047,053	-	34,272,702
Water Supply Scheme	295,687	-	-	295,687
Lab Equipment	2,095,763	67,008	-	2,162,771
Motor Vehicles	9,317,964	6,254,768	1,841,000	13,731,732
Electricity Distribution	5,363,492	-	-	5,363,492
Office Equipment	51,253,261	10,499,822	176,969	61,576,114
Communication Equipment	2,319,582	5,514,234	-	7,833,816
Furniture & Fittings	5,718,930	247,040	-	5,965,970
Tools & Implements	15,856,717	336,510	-	16,193,227
Sundry Inventory	3,880,339	522,318	-	4,402,657
Other Equipment	7,337,711	451,650	-	7,789,361
Factory Equipment	23,245,732	-	-	23,245,732
Construction Equipment	2,236,047	-	-	2,236,047
Plant And Machinery	558,808,549	6,205,186	-	565,013,735
Plant And Machinery - Polishing Plant	38,277,925	16,500,000	-	54,777,925
Household Item - Heavy	33,690	-	-	33,690
Household Item - Light	826,330	-	-	826,330
	<u>770,427,852</u>	<u>66,645,589</u>	<u>2,017,969</u>	<u>835,055,472</u>
<b>At Valuation</b>				
Land	35,342,644	-	-	35,342,644
Building - Polishing Plant	4,953,388	-	-	4,953,388
Building	91,343,042	-	-	91,343,042
	<u>131,639,074</u>	<u>-</u>	<u>-</u>	<u>131,639,074</u>
	<u>902,066,926</u>	<u>66,645,589</u>	<u>2,017,969</u>	<u>966,694,546</u>

As at 31st March 2003

Depreciation	Balance As At 01.04.02	Charge During The Year	Disposal During The Year	Balance As At 31.03.03
	Rs.	Rs.	Rs.	Rs.
<b>On Cost</b>				
Land	-	-	-	-
Building	303,527	569,026	-	872,553
Water Supply Scheme	59,224	11,827	-	71,051
Lab Equipment	1,874,557	55,263	-	1,929,820
Motor Vehicles	7,648,669	729,961	1,709,900	6,668,730
Electricity Distribution	1,652,976	214,540	-	1,867,516
Office Equipment	17,159,083	6,951,031	26,545	24,083,569
Communication Equipment	1,351,451	231,958	-	1,583,409
Furniture & Fittings	2,356,026	815,138	-	3,171,164
Tools & Implements	14,781,161	678,993	-	15,460,154
Sundry Inventory	2,580,939	863,901	-	3,444,840
Other Equipment	5,317,307	865,295	-	6,182,602
Factory Equipment	15,451,265	2,324,573	-	17,775,838
Construction Equipment	2,236,047	-	-	2,236,047
Plant And Machinery	362,869,957	53,597,984	-	416,467,941
Plant And Machinery - Polishing Plant	29,614,977	3,827,793	-	33,442,770
Household Item - Heavy	33,690	-	-	33,690
Household Item - Light	544,717	140,806	-	685,523
	465,835,573	71,878,089	1,736,445	535,977,217
<b>On Valuation</b>				
Land	-	-	-	-
Building - Polishing Plant	1,540,998	198,136	-	1,739,134
Building	27,486,273	3,653,722	-	31,139,995
	29,027,271	3,851,858	-	32,879,129
Total Depreciation	494,862,844	75,729,947	1,736,445	568,856,346
<b>Net Book Value</b>			<b>Balance As At 31.03.03</b>	<b>Balance As At 01.04.02</b>
			Rs.	Rs.
At Cost			299,078,255	304,592,279
At Valuation			98,759,945	102,611,803
			397,838,200	407,204,082

10.4 Freehold land and buildings owned by the company which is located at the factory premises had been revalued in July 1993 by M.S.T.B. Senadhira, an independent valuer.

The carrying amount of revalued assets that would have been included in the financial statements had the assets been carried at cost less accumulated depreciation is as follows.

Class of Assets	Cost	Accumulated Depreciation	Net Book Value 31.03.2003	Net Book Value 31.03.2002
	Rs.	Rs.	Rs.	Rs.
Land	33,967,763	-	33,967,763	33,967,763
Building - Polishing Plant	4,772,342	1,681,198	3,091,144	3,282,037
Building	73,641,653	25,475,549	48,166,104	51,111,770
	112,381,758	27,156,747	85,225,011	88,361,570

As at 31st March 2003

	Consolidated		Company	
	2002/2003 Rs.	2001/2002 Rs.	2002/2003 Rs.	2001/2002 Rs.
<b>11. Capital Work-in-Progress</b>				
Balance at the Beginning of the year	363,769,435	19,777,222	37,399,865	19,777,222
Cost Incurred During the year	19,766,903	352,353,743	9,847,203	25,984,173
Work Completed and Transferred to Respective Property, Plant & Equipment	(367,521,611)	(8,361,530)	(41,456,893)	(8,361,530)
Balance at the end of the year	<u>16,014,727</u>	<u>363,769,435</u>	<u>5,790,175</u>	<u>37,399,865</u>

**12. Investment In Subsidiaries**

Non Quoted	No of Shares	Holdings %	Cost 31.03.2003 Rs.	Director's Valuation 31.03.2003 Rs.	Cost 31.03.2002 Rs.	Director's Valuation 31.03.2002 Rs.
Royal Ceramics Distributors (Pvt) Ltd.	500,002	100	500,020	500,020	500,020	2,056,489
Royal Porcelain (Pvt) Ltd.	50,000,002	100	<u>500,000,020</u>	<u>500,000,020</u>	<u>20</u>	<u>-</u>
			<u>500,500,040</u>	<u>500,500,040</u>	<u>500,040</u>	<u>2,056,489</u>

**13. Inventories**

	Consolidated		Company	
	2002/2003 Rs.	2001/2002 Rs.	2002/2003 Rs.	2001/2002 Rs.
Raw Materials	88,427,688	62,591,294	70,114,141	56,144,284
Construction Consumables	7,471,279	10,336,476	7,471,279	10,325,832
Spares And Consumables	115,797,530	89,089,179	99,797,710	87,191,780
Work-in-Progress	6,510,825	4,973,418	2,498,177	2,962,967
Finished Goods	332,113,545	152,188,255	235,919,921	152,188,255
Goods-in-Transit	<u>39,736,246</u>	<u>32,369,634</u>	<u>8,833,786</u>	<u>23,351,015</u>
	590,057,113	351,548,256	424,635,014	332,164,133
Less: Provision for General Stock	(3,000,000)	-	(3,000,000)	-
Provision for Finished Good Stock	<u>(2,000,000)</u>	<u>-</u>	<u>(2,000,000)</u>	<u>-</u>
Total	<u>585,057,113</u>	<u>351,548,256</u>	<u>419,635,014</u>	<u>332,164,133</u>



As at 31st March 2003

		Consolidated		Company	
		2002/2003	2001/2002	2002/2003	2001/2002
		Rs.	Rs.	Rs.	Rs.
<b>14. Trade And Other Receivables</b>					
Trade Debtors		13,532,014	22,304,135	8,168,441	16,981,733
Dividend Receivable		-	-	57,500,002	-
Other Debtors		40,755,963	31,134,643	20,774,165	24,274,498
Prepayments		31,709,898	9,583,944	17,319,108	8,142,170
Act Recoverable		1,909,266	5,698,970	-	5,698,970
		<u>87,907,141</u>	<u>68,721,692</u>	<u>103,761,716</u>	<u>55,097,371</u>
		Consolidated		Company	
		2002/2003	2001/2002	2002/2003	2001/2002
		Rs.	Rs.	Rs.	Rs.
<b>15. Amounts Due From</b>					
<b>Related Companies</b>	<b>Relationship</b>				
Royal Ceramics Distributors (Pvt.) Ltd	Subsidiary	-	-	-	16,926,614
Royal Porcelain (Pvt.) Ltd	Subsidiary	-	-	124,507,989	293,860,607
Lanka Glass Manufacturing Co. Ltd	Associate	1,591,237	1,436,565	-	-
		<u>1,591,237</u>	<u>1,436,565</u>	<u>124,507,989</u>	<u>310,787,221</u>
<b>16. Short Term Investments</b>					
Fixed Deposit		-	600,000	-	-
Call Deposits		-	168,000,000	-	133,000,000
		<u>-</u>	<u>168,600,000</u>	<u>-</u>	<u>133,000,000</u>
<b>17. Cash And Cash Equivalents</b>					
Cash at Bank		35,787,527	37,773,580	5,630,880	32,186,199
Cash in Hand		37,208,576	1,520,266	23,356,250	1,136,836
		<u>72,996,103</u>	<u>39,293,846</u>	<u>28,987,130</u>	<u>33,323,035</u>
<b>18. Share Capital</b>					
<b>18.1 Authorised</b>					
75,000,000 Ordinary Shares of Rs.10 Each		<u>750,000,000</u>	<u>750,000,000</u>	<u>750,000,000</u>	<u>750,000,000</u>
<b>18.2 Issued And Fully Paid</b>					
55,394,692 Ordinary Shares of Rs.10 Each		<u>553,946,920</u>	<u>553,946,920</u>	<u>553,946,920</u>	<u>553,946,920</u>

As at 31st March 2003

	Consolidated		Company	
	2002/2003	2001/2002	2002/2003	2001/2002
	Rs.	Rs.	Rs.	Rs.
<b>19. Reserves</b>				
19.1. Capital Reserves				
Revaluation Reserves	4,167,357	4,167,357	4,167,357	4,167,357
Share Premium	260,779,533	260,779,533	260,779,533	260,779,533
	<u>264,946,890</u>	<u>264,946,890</u>	<u>264,946,890</u>	<u>264,946,890</u>

19.2. The above revaluation surplus consist of the net surplus resulting from the revaluation of freehold land and buildings as described in note 10 to the accounts. The unrealized amount cannot be directly distributed to shareholders.

	Consolidated		Company	
	2002/2003	2001/2002	2002/2003	2001/2002
	Rs.	Rs.	Rs.	Rs.
<b>20. Revenue Reserves</b>				
Retained Earnings	<u>36,703,822</u>	<u>2,228,446</u>	<u>37,309,891</u>	<u>20,925,168</u>

**21.1 Interest Bearing Loans & Borrowings - Consolidated**

Institute	Current	Non-Current	Total
	Rs.	Rs.	Rs.
National Development Bank	8,400,000	13,100,000	21,500,000
Hatton National Bank (Short term loan)	60,000,000	-	60,000,000
Standard Chartered Bank (Short term loan)	74,000,000	-	74,000,000
Hatton National Bank (Commercial Papers)	58,206,000	-	58,206,000
Hatton National Bank	<u>34,335,000</u>	<u>227,657,500</u>	<u>261,992,500</u>
	<u>234,941,000</u>	<u>240,757,500</u>	<u>475,698,500</u>

**Interest Bearing Loans & Borrowings - Company**

Institute	Current	Non-Current	Total
	Rs.	Rs.	Rs.
Hatton National Bank (Commercial Papers)	58,206,000	-	58,206,000
Standard Chartered Bank (Short term loan)	74,000,000	-	74,000,000
Hatton National Bank (Short term loan)	60,000,000	-	60,000,000
Hatton National Bank	<u>34,335,000</u>	<u>227,657,500</u>	<u>261,992,500</u>
	<u>226,541,000</u>	<u>227,657,500</u>	<u>454,198,500</u>

As at 31st March 2003

**21.2 Loans Obtained**

Lender	Approved Facility	Rate of Interest	Purpose Note	Repayment Terms
Hatton National Bank Limited	Rs. 200 Million	Reverse Repo + 0.5		96 Monthly Installments commencing from 3rd December 2002 (95 Equal Monthly Installments of Rs. 2,080,000 followed by a final installments of Rs. 2,400,000)
Hatton National Bank Limited	Rs. 75 Million	Reverse Repo + 0.5		96 Monthly Installments commencing from 10th December 2002 (95 Equal Monthly Installments of Rs. 781,250)
National Development Bank	Rs. 32 Million	15.50%	Purchase of Machinery	48 Monthly Installments commencing from 31st January 2002 (44 Installments of Rs. 700,000 followed by 4 Installments of Rs. 300,000)
Standard Chartered Bank - (Short term loans)	Rs. 74 Million	12.75%	To facilitate the expansion of production capacity and to meet working capital requirements.	

	Consolidated		Company	
	2002/2003 Rs.	2001/2002 Rs.	2002/2003 Rs.	2001/2002 Rs.
<b>22. Deferred Taxation</b>				
Balance at the beginning of the year	44,402,029	42,345,397	43,969,132	41,933,804
Prior year adjustment		2,056,632		2,035,328
Provision for the year	18,208,984	-	17,097,023	-
Balance at the end of the year	<u>62,611,013</u>	<u>44,402,029</u>	<u>61,066,155</u>	<u>43,969,132</u>
<b>23. Retirement Benefit Obligations</b>				
Balance at the beginning of the year	16,760,027	13,889,188	14,586,525	12,245,073
Provisions for the year	5,041,673	4,055,427	2,613,562	3,422,665
Payments made during the year	(1,165,884)	(1,184,588)	(1,121,984)	(1,081,213)
Balance at the end of the year	<u>20,635,816</u>	<u>16,760,027</u>	<u>16,078,103</u>	<u>14,586,525</u>
Defined benefit plan is not externally funded nor actuarially valued.				
<b>24. Creditors And Other Payables</b>				
Trade Creditors	20,834,450	27,609,674	18,075,912	27,324,014
Other Creditors	25,849,736	13,535,806	18,342,338	8,046,116
Accrued Expenses	46,823,054	62,065,185	26,045,683	53,714,690
	<u>93,507,240</u>	<u>103,210,665</u>	<u>62,463,933</u>	<u>89,084,820</u>
<b>25. Amounts Payable To</b>				
<b>Related Companies</b>				
Royal Ceramics Distributors (Pvt) Ltd.	-	-	35,696,908	-
Lanka Glass Manufacturing Co.Ltd.	-	407,009	-	407,009
	<u>-</u>	<u>407,009</u>	<u>35,696,908</u>	<u>407,009</u>

As at 31st March 2003

	Consolidated		Company	
	2002/2003	2001/2002	2002/2003	2001/2002
	Rs.	Rs.	Rs.	Rs.
<b>26. Tax Payable</b>				
Balance at the beginning of the Year	9,316,517	9,034,973	9,336,296	9,336,296
Tax provision for the Year	24,158,000	433,000	24,000,000	-
	33,474,517	9,467,973	33,336,296	9,336,296
Withholding Tax	(7,539,086)	(14,926)	(7,486,166)	-
Tax paid during the Year	(24,581,207)	(136,530)	(24,008,700)	-
Balance at the end of the Year	1,354,224	9,316,517	1,841,430	9,336,296
<b>27. Dividend Payable</b>				
1996/97 Interim and Final Dividend	49,161	184,547	49,161	184,547
1997/98 Interim and Final Dividend	92,674	457,412	92,674	457,412
1998/99 Interim and Final Dividend	22,798	411,521	22,798	411,521
1999/00 Interim and Final Dividend	59,858	516,790	59,858	516,790
2000/01 Interim and Final Dividend	-	1,054,570	-	1,054,570
2001/02 Interim and Final Dividend	30,007	99,710,446	30,007	99,710,446
2002/03 Interim and Final Dividend	55,394,692		55,394,692	
	55,649,190	102,335,286	55,649,190	102,335,286
<b>28. Interest Bearing Loans And Borrowings</b>				
Hatton National Bank	34,335,000	8,320,000	34,335,000	8,320,000
Hatton National Bank (Commercial Papers)	58,206,000	-	58,206,000	-
Standard Chartered Bank (Short Term Loan)	74,000,000	-	74,000,000	-
Hatton National Bank (Short Term Loan)	60,000,000	37,376,337	60,000,000	-
National Development Bank	8,400,000	8,400,000	-	-
	234,941,000	54,096,337	226,541,000	8,320,000



As at 31st March 2003

## 29. Securities Offered

29.1 Securities offered to borrowings are set out below

### Royal Ceramics Lanka Ltd.

#### Nature of Liability

- (a) Loan from Hatton National Bank
- (b) Loan from Hatton National Bank

#### Loan Facility

- Rs. 200 million
- Rs. 75 million

#### Security

- Negative Pledge over Company Assets.
- do -

### Royal Porcelain (Pvt) Ltd.

#### Nature of Liability

- (a) Loan from National Development Bank

#### Loan Facility

- Rs. 32 million

#### Security

- Primary mortgage over the following
- Machinery/Equipment
- 2 Generators
- 2 Gas storages
- 4 Vaporizers

## 30. Contingent Liabilities

Company has issued corporate guarantees in favour of its subsidiary Royal Porcelain (Pvt) Ltd. guaranteeing loans, interest and other charges of the loans stated in note 29.1.

## 31. Capital Commitments

There were no material Capital Commitments as at 31.03.2003.

## 32. Post Balance Sheet Events

Subsequent to the Balance Sheet date no circumstances have been arisen which would require adjustment to or disclosure in the accounts.

## 33. Directors' Interests

33.1 Mr. A.M. Weerasinghe, Chairman of Royal Ceramics Lanka Ltd. has provided transport services to the Company at a fee of Rs. 876,000 during the year.

33.2 Company has obtained a business premises on rent from Mr. A.M. Weerasinghe, Chairman of Royal Ceramics Lanka Ltd at a rental of Rs. 1,800,000.

33.3 Mr. A.M. Weerasinghe (Chairman), Mr.K.D.D. Perera, Mr. F.P. de Alwis, Mr. M. T. L. Fernando, Mr.B.M. Amarasekara, Mr.A.L. Karunanayake Mr.R.B. Thambaiyah, Mr. D.L.B.C. Perera, Mr.W.D.N.H. Perera, Mr. S.C. Ganegoda (Resigned on 30.04.2003) Directors of Royal Ceramics Lanka Ltd are also Directors of Royal Ceramics Distributors (Pvt) Ltd. Which company markets Cut tiles and designs and undertakes laying of tiles and maintains several showrooms to market Royal Ceramics products, had purchased tiles amounting to Rs. 406,710,964. From Royal Ceramics Lanka Ltd. Rs. 8,638,686.04 has been paid to Royal Ceramics Distributors (Pvt) Ltd. as sales commission.

An amount of Rs.35,696,908 was due to Royal Ceramics Distributors (Pvt) Limited from Royal Ceramics Lanka Limited as at 31.03.2003.

Royal Ceramics Distributors (Pvt.) Limited has obtained a business premises from Mr. A. M. Weerasinghe (Chairman), on rent and a payment of Rs. 567,000 has been made during the year.

33.4 Mr. A.M. Weerasinghe (Chairman), Mr.K.D.D. Perera, Mr. F.P. de Alwis, Mr. M. T. L. Fernando, Mr.B.M. Amarasekara, Mr.A.L. Karunanayake Mr.R.B. Thambaiyah, Mr. D.L.B.C. Perera, Mr.W.D.N.H. Perera, Mr. S.C. Ganegoda (Resigned on 30.04.2003), Directors of Royal Ceramics Lanka Ltd. are also Directors of Royal Porcelain (Pvt.) Ltd. Royal Ceramics Lanka Ltd. has advanced funds to Royal Porcelain (Pvt.) Limited and a sum of Rs. 124,507,989.27 so advanced has remained outstanding as at 31.03.2003. Royal Ceramics Lanka Ltd. has leased part of its land to Royal Porcelain (Pvt.) Ltd for a monthly rental of Rs. 5,000/=. Royal Ceramics Lanka Ltd. has provided corporate guarantees to National Development Bank on behalf of Royal Porcelain (Pvt) Ltd., guaranteeing the loan, interest and other charges of the loan.

Companies within the group engage in trading transactions under normal commercial terms.

33.5 Mr. A.M. Weerasinghe (Chairman), Mr. F.P. de Alwis, Mr. B.M. Amarasekara and Mr. M.T.L Fernando, Directors of the Company are also Directors of Lanka Glass Manufacturing Co. Ltd.

a) Royal Ceramics Distributors (Pvt) Ltd. purchased Glass Blocks and Glassware to value of Rs.1,777,340.49 from Lanka Manufacturing Co. Ltd.

b) Balance due from Lanka Glass Manufacturing Co. Ltd. to Royal Ceramics Distributors (Pvt) Ltd as at 31.03.2003 is Rs. 1,591,236.56.

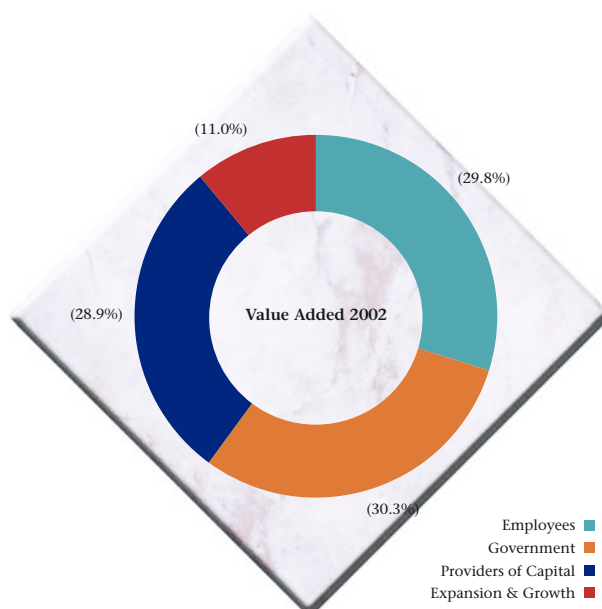
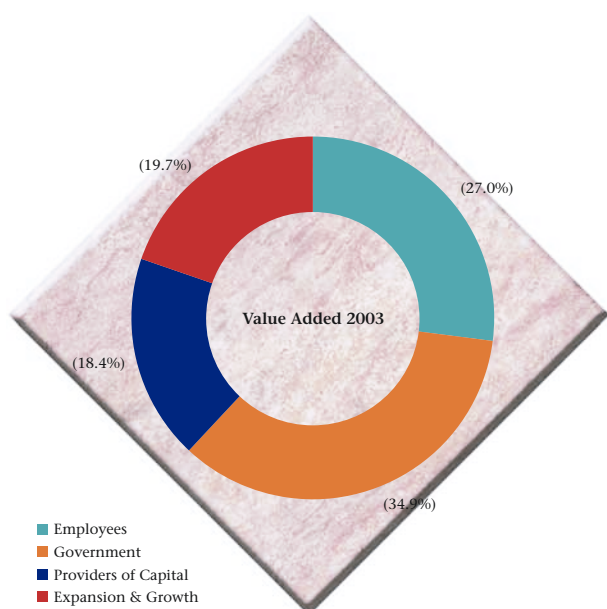
#### 34. Related Party Transactions

Mr. P Karunanayake, son of Mr. A L Karunanayake, Director of Royal Ceramics Lanka Ltd. acts as an agent for the Company in Victoria, Australia, and has been paid Rs. 1,108,941.00 as commission during the year.

Companies within the group engage in trading transactions under normal commercial terms.

There are no other related party transactions other than those disclosed in Note No. 33 to the Financial Statements.

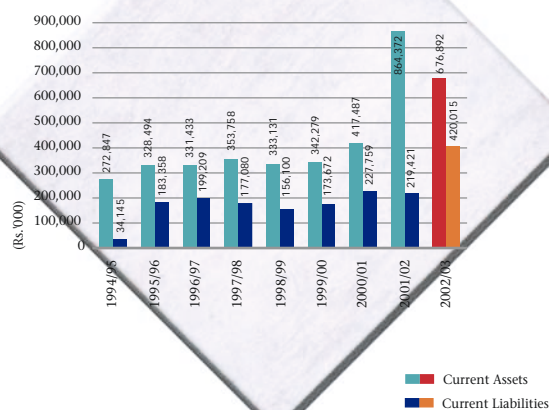
	Rs.000's	2002/2003 Rs.000's		Rs.000's	2001/2002 Rs.000's
Turnover		1,069,041			812,080
Other income		21,805			5,212
		<u>1,090,846</u>			<u>817,292</u>
Less: Cost of Material & Services bought in		(506,934)			(406,745)
		<u>583,912</u>			<u>410,547</u>
<b>Value Allocated To Employees</b>					
Salaries & Wages and other benefits	<u>157,819</u>	157,819	27.0 %	<u>122,416</u>	122,416 29.8 %
<b>To Government</b>					
Income Tax	42,367			2,490	
GST, NSL, VAT & TT	<u>161,618</u>	203,985	34.9 %	<u>121,564</u>	124,054 30.3 %
<b>To Providers of Capital</b>					
Dividend	55,394			110,789	
Loan Interest	<u>51,619</u>	107,013	18.4 %	<u>7,952</u>	118,741 28.9 %
<b>To Expansion &amp; Growth</b>					
Retained in Business	34,475			(36,621)	
Depreciation	<u>80,620</u>	115,095	19.7 %	<u>81,957</u>	45,336 11.0 %
		<u>583,912</u>	<u>100.0 %</u>		<u>410,547</u> <u>100.0 %</u>



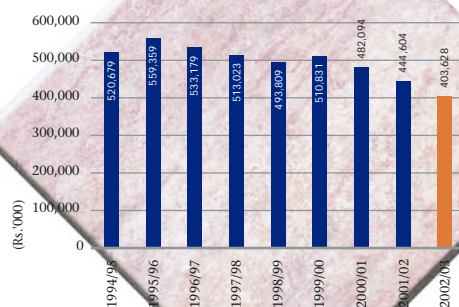
	2002/03 Rs.'000	2001/02 Rs.'000	2000/01 Rs.'000	1999/00 Rs.'000	1998/99 Rs.'000	1997/98 Rs.'000	1996/97 Rs.'000	1995/96 Rs.'000	1994/95 Rs.'000
<b>Trading Results</b>									
Net Turnover	665,488	610,692	624,387	573,336	564,193	548,262	473,516	322,206	264,170
Profit before Interest	83,038	99,158	148,120	85,890	97,073	85,005	69,919	63,026	57,891
Interest	(48,263)	(9,551)	(5,584)	(3,587)	(3,119)	(6,667)	(329)	(861)	(308)
Profit after Interest	34,775	89,607	142,536	82,303	93,954	78,338	69,590	62,165	57,673
Other Income	78,101	4,903	1,536	1,115	4,165	3,704	7,163	8,006	5,148
Profit before Taxation	112,876	94,510	144,072	83,418	98,119	82,042	76,753	70,171	62,821
Taxation	(41,097)	(2,035)	(5,666)	(209)	(1,227)	(1,016)	(2,377)	(2,300)	(1,840)
Profit after Taxation	71,779	92,475	138,406	83,209	96,892	81,026	74,376	67,871	60,891
Deferred Revenue									
Expenditure	-	-	-	-	(3,055)	(5,724)	(5,724)	(5,724)	(5,661)
Prior Year Adjustments	-	-	-	(50,000)	-	-	-	-	-
Net Profit	<u>71,779</u>	<u>92,475</u>	<u>138,406</u>	<u>33,209</u>	<u>93,837</u>	<u>75,302</u>	<u>68,652</u>	<u>62,147</u>	<u>55,320</u>
<b>Balance Sheet</b>									
Share Capital	553,947	553,947	307,748	307,748	307,748	307,748	307,748	307,748	279,771
Capital Reserves	264,946	264,946	271,155	271,155	271,155	268,100	265,045	261,990	287,162
General Reserves	<u>37,310</u>	<u>20,925</u>	<u>39,240</u>	<u>90,981</u>	<u>134,709</u>	<u>133,196</u>	<u>116,775</u>	<u>107,004</u>	<u>72,963</u>
Capital Employed	<u>856,203</u>	<u>839,818</u>	<u>618,143</u>	<u>669,884</u>	<u>713,612</u>	<u>709,044</u>	<u>689,568</u>	<u>676,742</u>	<u>639,896</u>
Fixed Assets	403,628	444,604	482,094	510,831	493,809	513,023	533,179	559,359	520,679
Investments	500,500	500	500	500	50,500	25,500	25,500	25,500	25,500
Current Assets	676,892	864,372	417,487	342,279	333,131	353,758	331,433	328,494	272,847
Current Liabilities	(420,015)	(219,422)	(227,759)	(173,672)	(156,100)	(177,080)	(199,209)	(183,358)	(34,145)
Amount falling due after more than one year	<u>(304,802)</u>	<u>(250,236)</u>	<u>(54,179)</u>	<u>(10,054)</u>	<u>(7,728)</u>	<u>(6,157)</u>	<u>(1,335)</u>	<u>(53,253)</u>	<u>(144,985)</u>
	<u>856,203</u>	<u>839,818</u>	<u>618,143</u>	<u>669,884</u>	<u>713,612</u>	<u>709,044</u>	<u>689,568</u>	<u>676,742</u>	<u>639,896</u>
<b>Ratios &amp; Statistics</b>									
Ordinary Dividends (Rs. 000's)	55,394	110,789	153,874	76,937	92,324	61,550	61,550	30,775	Nil
Effective Rate of Dividends (%)	10	20	50	25	30	20	20	10	Nil
Earnings Per Share (Rs.)	1.30	2.65	4.50	1.08	3.15	2.44	2.23	2.02	1.98
Market Value Per Share (Rs.)	15.00	17.00	14.25	13.50	14.50	17.00	28.00	28.25	40.50
Highest Market Value Per Share (Rs.)	22.25	33.00	18.00	17.00	18.00	69.50	31.25	48.00	75.75
Price Earnings Ratio (Times)	11.54	6.42	3.17	12.50	4.60	6.97	12.55	13.98	20.45
Net Assets Per Share (Rs.)	15.46	15.16	20.10	21.77	23.20	23.04	22.45	21.98	22.84
ROCE (%)	9.80	13.62	23.96	12.82	13.60	12.00	10.14	9.31	9.05



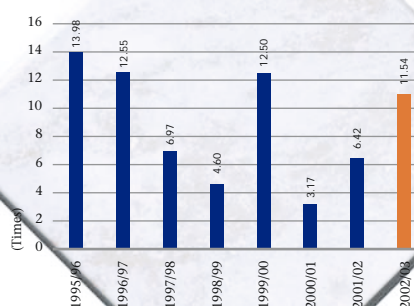
Current Assets &amp; Liabilities



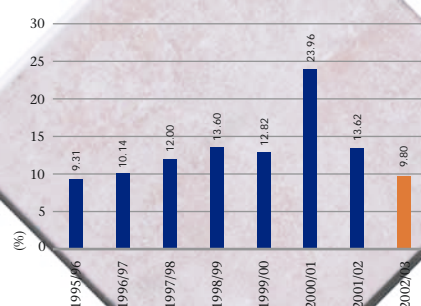
Fixed Assets



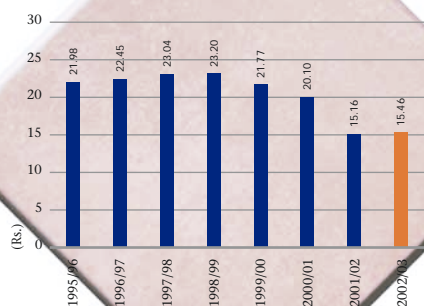
Price Earning Ratio



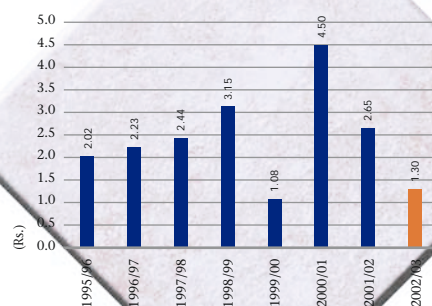
Return on Capital Employed



Net Assets Per Share



Earnings Per Share



### 1. General

Authorized Share Capital	Rs. 750,000,000
Issued and fully paid Capital	Rs. 553,946,920
Class of Shares:	Ordinary shares of Rs. 10/- each.

### 2. Stock Exchange Listing

Royal Ceramics Lanka Limited is a public quoted Company and the issued Ordinary Share of which are listed with the Colombo Stock Exchange.

### 3. Shareholders

There were 13,072 registered shareholders as at 31st March 2003, distributed as follows:

Number of Shares held			Residents			Non-Residents			Total		
			No. of Share holders	No. of Shares	%	No. of Share holders	No. of Shares	%	No. of Share holders	No. of Shares	%
1	-	1,000	11,683	1,949,542	3.52	67	22,236	0.04	11,750	1,971,778	3.56
1,001	-	5,000	958	2,158,333	3.90	14	34,341	0.06	972	2,192,674	3.96
5,001	-	10,000	145	1,058,171	1.91	9	71,973	0.13	154	1,130,144	2.04
10,001	-	50,000	130	2,658,933	4.80	6	139,738	0.25	136	2,798,671	5.05
50,001	-	100,000	20	1,343,251	2.42	-	-	-	20	1,343,251	2.42
100,001	-	500,000	20	3,484,991	6.29	2	486,882	0.88	22	3,971,873	7.17
500,001	-	1,000,000	8	5,388,751	9.73	-	-	-	8	5,388,751	9.73
Over 1,000,000			10	36,597,550	66.07	-	-	-	10	36,597,550	66.07
Total			<u>12,974</u>	<u>54,639,522</u>	<u>98.64</u>	<u>98</u>	<u>755,170</u>	<u>1.36</u>	<u>13,072</u>	<u>55,394,692</u>	<u>100.00</u>

34.22 % of shares were held by the public.

Category	No. of Shareholders	No. of Shares	%	Category	No. of Shareholders	No. of Shares	%
Individuals	12,669	24,957,019	45.05	Resident	12,974	54,639,522	98.64
Institutions	403	30,437,673	54.95	Non Resident	98	755,170	1.36
Total	<u>13,072</u>	<u>55,394,692</u>	<u>100.00</u>	Total	<u>13,072</u>	<u>55,394,692</u>	<u>100.00</u>

## 4. Twenty Major Shareholders

Name	As at 31st March 2003		As at 31st March 2002	
	No. of Shares	%	No. of Shares	%
Mr. K.D.D.Perera	16,296,720	29.42	15,387,220	27.78
Mr. A.M.Weerasinghe	6,653,412	12.01	6,503,412	11.74
Renuka City Hotels Ltd.	3,621,764	6.54	111,764	0.20
Mr. A.L.Karunanayake	2,418,718	4.37	1,499,318	2.71
Renuka Hotels Ltd.	2,075,792	3.75	1,075,792	1.94
CSCM/ Mr.D.L.B.C.Perera	1,673,398	3.02	10,000	0.02
Bank of Ceylon - (O/A – Ceybank Unit Trust)	1,389,246	2.51	1,375,146	2.48
National Savings Bank	1,354,400	2.44	50,000	0.09
Hatton National Bank Ltd.	1,124,100	2.03	124,100	0.22
Renuka Consultants & Services Ltd.	972,172	1.75	972,172	1.75
Nuwara Eliya Property Developers (Pvt.) Ltd.	779,734	1.41	164,034	0.30
D.P.M.C.Financial Services (Pvt.) Ltd.	676,700	1.22	-	-
Employees Trust Fund Board	671,316	1.21	1,911,416	3.45
Asian Finance Ltd.	594,690	1.07	90	0.00
Cargo Boat Development Co. Ltd.	591,977	1.07	91,977	0.17
Crescent Launderers & Dry Cleaners Ltd.	584,726	1.06	584,726	1.06
The Unit Trust Management Co. Ltd.	517,436	0.93	49,500	0.09
Central Finance Co. Ltd.	324,351	0.59	324,351	0.59
Mr. F.P.de Alwis	307,033	0.55	307,033	0.55
Mr. H.H.G.Beckmann	306,882	0.55	306,882	0.55
Total	42,934,567	77.51	30,848,933	55.69

## 5. Key Financial Ratios

	2002/2003	2001/2002
	Rs.	Rs.
Net Assets Value per Share	15.46	15.16
Dividend per Share	1.00	3.18*
Highest Market Value recorded during the year	22.25	33.00
Lowest Market Value recorded during the year	14.00	13.00
Official Value at the end of the financial year	15.00	17.00

\* Adjusted for Rights Issue of shares

**Accounting Policies**

Specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting Financial Statements.

**Capital Employed**

Total assets less interest free liabilities

**Capital Reserves**

Profits of a Company that for various reasons are not regarded as distributable to shareholders as dividends. These include gains on revaluation of capital assets and share premium.

**Cash and Cash Equivalent**

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Contingencies**

A condition or situation existing at balance sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

**Current Ratio**

Current assets divided by current liabilities

**Deferred Taxation**

Sum set aside for tax in the accounts of an entity that will become liable in a period other than that under review.

**Dividend Cover**

Post-tax profit divided by gross dividend. Measures the number of times dividend is covered by distributable profit.

**Earnings Per share**

Profits attributable to ordinary shareholders divided by the number of ordinary shares in issue and ranking for dividend.

**Gearing**

Borrowings to permanent capital. Borrowings include all interest bearing liabilities.

**Gross Dividend**

Portion of profits inclusive of tax withheld distributed to shareholders

**Net Assets Per Share**

Shareholders' funds divided by the number of ordinary shares issued.

**Operating Profit Margin**

Operating profit divided by group turnover

**Price Earnings Ratio**

Market price of a share divided by earnings per share

**Related Parties**

Parties who could control or significantly influence the financial and operating policies of the business.

**Return on Capital Employed**

Profit before interest divided by average capital employed.

**Return on Shareholders' Funds**

Attributable profits divided by average shareholders' funds

**Revenue Reserves**

Reserves considered as being available for distributions and investments.

**Shareholders' Funds**

Total of issued & fully paid up capital and reserves.

**Value Addition**

The quantum of wealth generated by the activities of the group and its application

**Working Capital**

Capital required to finance the day-to-day operations (current assets minus current liabilities)



NOTICE IS HEREBY GIVEN That the Thirteenth Annual General Meeting of Royal Ceramics Lanka Limited will be held at 3.30 p.m on Friday the 29th day of August 2003 at Level 26, East Tower-World Trade Centre, Echelon Square, Colombo-01 for the following purpose:

1. To receive and consider the Report of the Directors, Statement of Accounts and the Balance Sheet of the Company, for the year ended 31st March 2003, together with the Report of the Auditors thereon.
2. To ratify the 1st interim dividend paid on 23rd June 2003 as the First & Final dividend for the year ended 31st March 2003.
3. To re-elect Mr. B. M. Amarasekera who retires by rotation in terms of Article 85 of the Articles of Association as a Director of the Company, Special Notice having been received from a shareholder pursuant to Section 182 of the Companies Act No. 17 of 1982 of the intention to propose the following Resolution as an ordinary resolution:

"RESOLVED that Mr. B. M. Amarasekera who has reached the age of 73 on 15th September 2002 be and is hereby re-elected as a Director of the Company, and it is hereby declared that the age limit of 70 years referred to in section 181 of the Companies Act No. 17 of 1982 shall not apply to the said Director in accordance with Section 182 of the Companies Act No. 17 of 1982.

4. To re-elect Mr. T. G. Thoradeniya, who retires in terms of Article No. 92 of the Articles of Association as a Director of the Company.
5. To appoint Auditors of the Company, Special Notice of which has been received from a shareholder of the intention to propose the following resolution as an ordinary resolution:

"RESOLVED that M/s KPMG Ford, Rhodes, Thornton & Co. be appointed the Auditors of the Company, in place of the retiring Auditors M/s B.R. de Silva & Co., to hold office until the conclusion of the next Annual General Meeting and that their remuneration be fixed by the Directors".

6. To authorise the Directors to determine payments for the year 2003/2004 for charitable and other purposes as set out in the Companies Donation Act (CAP 147)

## By order of the Board

SECRETARIES & REGISTRARS LIMITED

(Sgd.)

Secretaries

Colombo

23rd July 2003

## Note:

- i. A member entitled to attend and vote at the meeting is entitled to appoint a Proxy who need not be a member, to attend instead of him/her. A Proxy may vote on a poll (and join in demanding a poll) but not on a show of hands.
- ii. A Form of Proxy is enclosed in this Report.
- iii. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 10, R. A. de Mel Mawatha, Colombo 03 not less than 48 hours before time for holding the meeting.
- iv. Shareholders/Proxies attending the meeting are requested to bring their National Identity Card or Passport.

\* I/ We .....  
of .....

being \*a member/ members of ROYAL CERAMICS LANKA LIMITED, do hereby appoint

- |                        |                            |
|------------------------|----------------------------|
| 1. Mr.A.M.Weerasinghe  | of Colombo or failing him, |
| 2. Mr.K.D.D.Perera     | of Colombo or failing him, |
| 3. Mr.F.P.de Alwis     | of Colombo or failing him, |
| 4. Mr.M.T.L.Fernando   | of Colombo or failing him, |
| 5. Mr.B.M.Amarasekera  | of Colombo or failing him, |
| 6. Mr.A.L.Karunanayake | of Colombo or failing him, |
| 7. Mr.R.B.Thambiayah   | of Colombo or failing him, |
| 8. Mr.D.L.B.C.Perera   | of Colombo or failing him, |
| 9. Mr.W.D.N.H.Perera   | of Colombo or failing him, |
| 10. Mr.T.G.Thoradeniya | of Colombo or failing him, |

..... of

as \*my/our Proxy to vote for \*me/us on \*my/our behalf at the 13th ANNUAL GENERAL MEETING of the Company to be held on Friday the 29th day of August, 2003 at 3.30p.m. and at any adjournment thereof, and at every poll which may be taken in consequent thereof.

	FOR	AGAINST
1. To receive and consider the Report of the Directors, Statement of Accounts and the Balance Sheet of the Company for the year ended 31st March 2003 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. Ratify the interim dividend as the first & final dividend.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr B. M. Amarasekera. as a Director in terms of Article 85 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr.T.G.Thoradeniya as a Director in terms of Article 92 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. To appoint M/S KPMG Ford, Rhodes, Thornton & Company as Auditors of the Company and to authorize the Directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorize the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this ..... day of ..... Two Thousand and Three

.....  
\*Signature/s

- Note:
1. \*Please delete the inappropriate words.
  2. Instructions as to completion are noted on the reverse hereof.
  3. If you wish your proxy to speak at the meeting you should interpolate the words "and to speak" immediately after the words "to vote".

### Instructions as to Completion

1. Kindly perfect the Form of Proxy after filling in legibly your name in full and address and by signing in the space as provided. Please fill in the date of signature.
2. A member entitled to attend and vote at the Meeting is entitled to appoint a Proxy who need not be a member, to attend and vote instead of him. The Proxy may not speak at the Meeting unless expressly authorized by the instrument appointing him.
3. In the case of a Corporate Member, the Form of Proxy must be completed under its Common Seal, which should be affixed and attested in the manner prescribed by Articles of Association.
4. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should also accompany the completed Form of Proxy, in the manner prescribed by the Articles of Association.
5. The completed Form of Proxy should be deposited at the office of the Secretaries of the Company, Secretaries & Registrars Ltd., No.32, Galle Face Court 2, Colombo 3, not less than forty eight (48) hours before the appointed time for the Meeting.