

ROYAL CERAMICS LANKA LIMITED
Annual Report 2003-2004



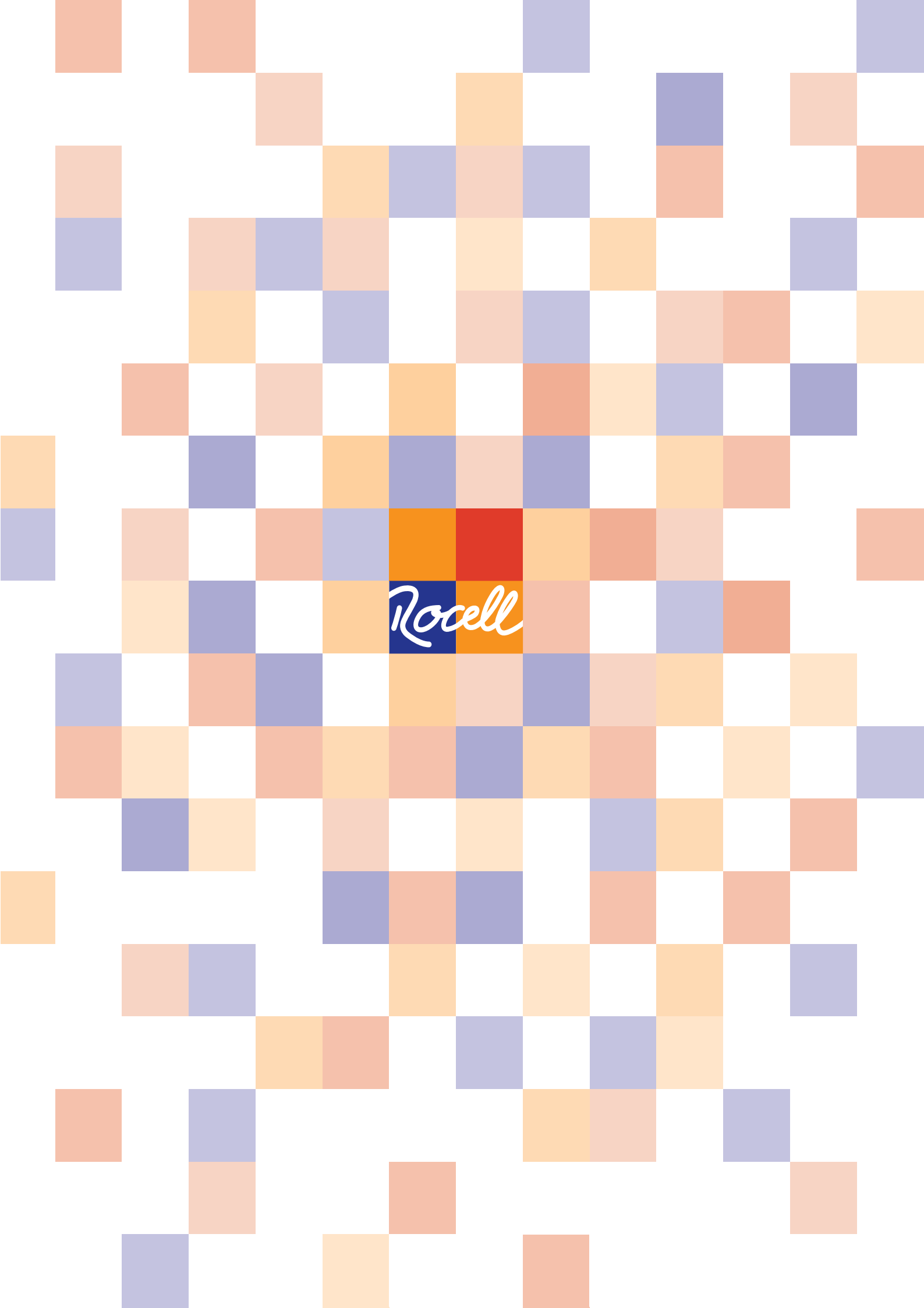
Truly Sri Lankan





Truly Sri Lankan

Rocell, a truly Sri Lankan work of art is gaining ground. It is growing to be a much sought after brand both in Sri Lanka and its export markets. This year, Rocell introduced a designer collection of tiles in an array of colours and sizes for the first time in Sri Lanka. The company's state-of-the-art production facility runs at full capacity, to service its ever increasing orders. Growing the brand Rocell was a challenge. A challenge which has been successfully met with innovation, strategy and commitment



Contents

Vision & Mission	3
Financial Highlights	4
Chairman's Report	5
CEO's Review of Operations for the year	7
Board of Directors	12
Unity in Diversity	14
Ou Showroom Network	15
Report of the Directors	16
Financial Review	18
Corporate Governance	20
Statement of Director's Responsibilities	21
Report of the Audit Committee	22
Financial Information	23
Financial Calender	24
Report of the Auditors	25
Income Statement	26
Balance Sheet	27
Cash Flow Statement	28
Statement of Changes in Equity	30
Accounting Policies	31
Notes to the Financial Statements	36
Group Value Added Statement	50
Nine Year Summary - Company	51
Graphical Review	52
Share Information	53
Glossary of Financial Terms	55
Notice of Meeting	56
Form of Proxy	57
Corporate Information	Inner Back Cover



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.



Financial Highlights

For the year ended 31st March

	2004 Rs.'000	2003 Rs.'000	% Change
Turnover – Gross (Group)	1,536,183	1,069,041	43.7
– Net (Group)	1,301,164	907,422	43.4
Profit from operations (Group)	142,550	188,738	(24.5)
Profit before tax (Group)	76,792	132,237	(41.9)
Profit after tax (Group)	85,080	89,870	(5.3)
Gross dividend	-	55,394	-
Interest cover (No. of times)	2.17	3.34	(35.1)
Dividend cover (No. of times)	-	1.29	-

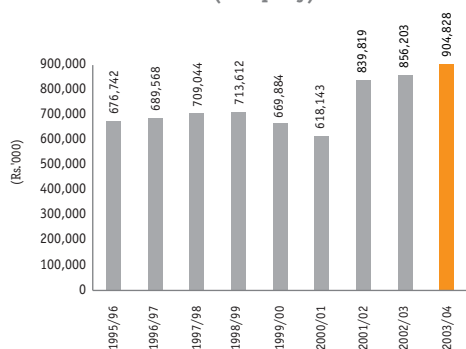
As at 31st March

Shareholders' funds (Group)	940,678	855,598	10.0
Total assets (Group)	1,813,906	1,609,227	12.7
Group employment (No. of persons)	850	816	4
Current ratio (Current assets: Current liabilities)	1.6:1	1.7:1	(6)

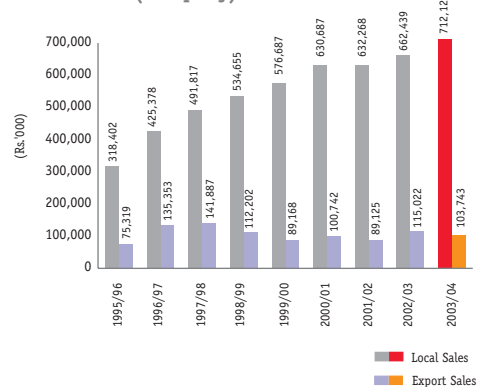
Per share

Earnings (Rs.)	0.88	1.30	(30)
Dividend (Rs.)	-	1.00	-
Net assets (Rs.)	16.33	15.46	-
Market value (Rs.)	16.50	15.00	10

Shareholders' Funds (Company)



Gross Sales (Company)





The world economy was seen to be gradually getting out of the quagmire of 9/11 and the repercussions of SARS as well as the Iraq war, although the latter still continues to feature prominently in world affairs. The Asian region especially South Asia however, strengthened its economies, showing a marked resilience to world affairs that impacted on it, gaining ground through building partnerships and relationships intra-regionally, with attempts made to lessen reliance on the west. Sri Lanka meanwhile saw its GDP growth end at 5.9%, a marked increase from the previous year's 4%, which could be attributed greatly to a prudent economic policy and confidence displayed by both local and foreign investors as well as donor agencies, as was exemplified at the Tokyo Donor Conference. The Stock Market presented a mighty bull run, buoying the economy that much further with a host of new mega players joining the fray. While imports did see a rise, the trade deficit in tandem increased to US \$ 1.5 billion. Infrastructure development projects have been signed up and foreign investors are looking towards Sri Lanka as the 'New Tiger of Asia', a concept we hope will pull through, though highly dependent on the continuance of the peace process and Ceasefire Agreement.

It gives me great pleasure to present the Annual Report for 2003/04 for your company during a period that saw the country show progress and your company move towards a new direction, which some may dub a watershed for us.

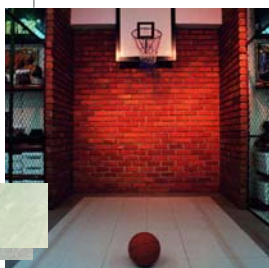
The tile industry in general did see a further influx of imports into the country, especially from

suppliers in the South East Asian and South Asian regions including mass producers such as Malaysia, China, Thailand and Pakistan. However, lacking any controls, the imports are not necessarily products of high quality. While some imports, marginal in number, conform to international standards, an unbridled flow of substandard tiles into the local market has seen prices decrease rapidly, while quality is compromised by price. Some may argue that this equation is healthy for a nation that has a lower end customer who intends upgrading lifestyles from cement floors to tiled floors, but it is my perception that while there is truth in some aspects, in the longer term, customers need to be assured that investments on their floors are not simply a short term measure but one that is durable. It is my firm belief therefore, that while imports are healthy for the growth of any industry, a customer's confidence should not be scoured by selling them substandard products, even at cheap prices. The recently set up Sri Lanka Ceramics Council has taken up the issue concerning cheap imports with necessary policy makers and we do hope some results will be seen on this front soon.

There is a similar trend in export markets, with price versus quality being the deciding factor. Realising that your company simply cannot compete in the bulk markets at the world prices quoted, we have instead embarked on a different strategy, which includes creating niche products conforming to the ideals of discerning sophisticated clientele, a strategy that has worked well in the last year. Our export portfolio though expanding only marginally over the last year, will see a further growth this year with our concentration on markets in the West and Middle East.

During the year under review, in the circular to shareholders dated 20th October 2003, young entrepreneur Dhammika Perera made a mandatory offer for your company. With the mandatory offer accepted, his holding exceeded the statutory threshold of 30% as specified by the Companies Takeovers and Mergers Code 1995 (as amended) and as at 31st March 2004, his stake in the company stands at a shareholding of 57.39%. This infusion of new blood is vital for this company, as with Mr Perera's long experience in the hospitality trade and his investments in a range of diversified business interests including hydro power generation, manufacturing, entertainment, banking and finance, his investment leadership paved the way for a new era for your company.

With the controlling interest passing on to Mr Perera, your company underwent a strategic paradigm shift, in line with consolidation of processes and a more pragmatic overview of future direction. This prompted the entry of Chief Executive Officer, J K Menon whose impressive track record



with the Maharajah Organisation as CEO of S-Lon is ample proof of being the right choice to lead a company on the threshold of change. He holds a B.Tech. Hons in Chemical Engineering from the Indian Institute of Technology in Kanpur and a Post Graduate Diploma in Business Administration from the Indian Institute of Management Ahmedabad and during his tenure at S-Lon, made all companies under his purview profitable, growth oriented entities. Working within a fresh management structure, which included two new heads of department for Finance and HR, the Management Team has given your company the required impetus to move forward stridently within a highly competitive market, as you will see in detail in the CEO's Review of Operations and the Statement of Accounts.

On a synopsis of your company's financial performance, I am pleased to announce the declaration of a 10% dividend to our shareholders based on the significant progress we have made during the year under review, even though our profits declined when compared to the previous year. Our sales turnover increased by 44% to Rs 1.3 billion, which can be mainly attributed to the increase output from the Horana factory as well as the changes in administrative and marketing tactics undertaken by the company during the year. Earnings Per Share too saw a decline from Rs 1.62 last year to Rs 1.54.

In keeping with the theme of this year's annual report as being Truly Sri Lankan, we have endeavoured to create for your company and the country, an image of excellence. Rocell's image building exercise begun last year has borne fruit and can be attributed to the increase in sales as well as the slowly expanding export portfolio. Recognition of the brand as well as our input into exports has been acknowledged at a number of forums, culminating in a National Award for Export Excellence as well as an unprecedented number of four awards for a brand as young as ours at the SLIM Awards 2004, certainly achievements to be proud of. Our new initiatives have also led to a complete modernisation of our showrooms and an expansion of the network to 27, giving customers a unique experience in shopping for tiles.

With the investment into infrastructure, plant and machinery at the Eheliyagoda and Horana factories, our processes too have been upgraded, allowing us to experiment with newer designs and different sizes. The Rocell Stone Collection unveiled at the Architects Exhibition 2004, which won an award for innovation, was thus inspired using the ideals of rock faces

found in Sri Lanka. A host of other ceramic tiles too in a range of sizes hit the tile market successfully making its mark and giving our sales figures a boost. The creation of a wider product portfolio therefore, while initiating change within our mindset and operations, has also given us broader horizons to contend with, giving us more advantages to compete in niche areas of the market, which we believe is the judicious path to tread.

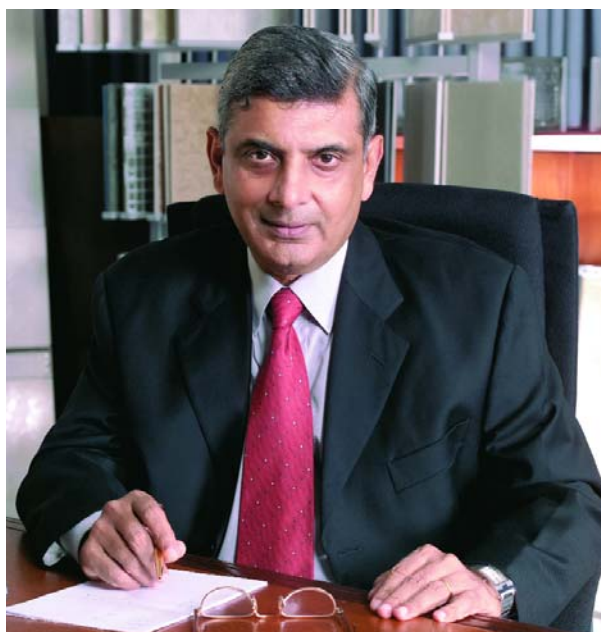
We continue our plans for consolidation and cost efficiencies, with production controls leveraging on productivity and enhanced quality being fundamental in both plants. We are currently in the process of evaluating the possibility of expanding into sanitaryware and extending our walltile operation. The sanitaryware factory if found feasible, will be situated at an independent location. Plans for which, should become clearer in the coming year.

It has certainly been a year of liberation and I am glad that we are able to show satisfactory results, even through times of consolidation and change. It is prudent to mention that our 850 strong employee group including the dynamic management team has been at the helm of taking up the challenge and working towards making our plans successful for which I am extremely thankful. I am also appreciative of the confidence that the Board of Directors has placed in me to carry the mantle of strategic leadership and thank them sincerely for this. Unreserved loyalty by our valued business partners and customers has been the recipe of our success and I thank our long standing customers as well as the new clientele who have found pleasure and contentment in the products and services we offer. And to our committed shareholders, thank you for your support and encouragement, which has been the backbone of our success.



A. M. Weerasinghe
Chairman





The year 2003/2004 was a mixed one for Royal Ceramics Lanka Limited. It was a year of substantial growth yet we could not deliver on the promise made last year. We reflected on our past strategies, took stock and planned for newer and better things. We are, however, moving towards achieving our objectives of transforming your company from being simply a player in the floor tiles industry to one which will perform competitively and productively in an increasingly challenging market. I am pleased to say that we have seen some success in this area, becoming market leader holding a 40 % market share during the year. We have been able to transform your company and move it towards the objectives we have set for ourselves, concentrating on strengthening efforts in areas of quality, productivity, cost reduction, improved efficiencies and focused marketing.

It is in this favourable backdrop that I welcome this first opportunity to address you, our shareholders, since I assumed office as Chief Executive Officer of the Company in mid January 2004.

The industry in perspective

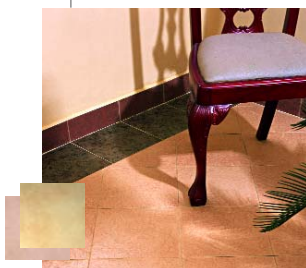
With only two serious local players in the floor tile industry and a third competitor by way of the considerable number of importers as a Group, sales volumes remain almost equally divided between the three. However, volumes of low priced imports do make a significant impact in the market.

Unfortunately, imports of all qualities now flood the local market, and the average customer cannot distinguish between the good and inferior qualities at a glance. It may be argued that low cost tiles meet the requirements of the budget customer whose requirements and expectations rest on affordability, but in the long run it will end up shortchanging the genuine quality seeker. Cheaper imports do fill the need for upgrading cement floors to the more durable tile floors but there is a prevalent danger of the market balance being upset, as a lower price cannot guarantee durability, thereby shaking public confidence in the industry as a whole. It is imperative therefore that quality certifications become mandatory for tile imports and some sort of an awareness campaign be launched so that the general public can differentiate between different quality products.

On the supply side, almost all the necessary natural resources, i.e. kaolin, ball clay, feldspar and silica sand are found in Sri Lanka for the industry. This enables the country to manufacture quality tiles utilising local raw materials to a great extent, only requiring the input of specialised pigments, stains and chemicals for colour and design in the high end products. The potential of this industry has not, however received adequate attention from policy makers, though holding much promise. Not enough attention has been paid to creating facilities for a good, reliable and consistent quality of input materials. Further, high energy and low labour productivity have kept the industry from realising its full potential, even though with the formation of the Sri Lanka Ceramics Council, there is hope for a unified lobbying voice to take the industry to a higher plane. However, these long term plans are still in an embryonic stage and it is to be seen if Council can help this industry towards using its resources to make a mark on the world map, which I must hasten to add, it has, but not lived up to full potential.

Addressing Challenges

Our top line increased by 44% to Rs 1.3 billion, a direct result of the substantial increased output from our new plant being available for sales. We have seen a total increase in overall sales, though falling marginally short of budgets and expectations. The bottom line slowed significantly due to a number of factors, which we have begun addressing immediately, the results of which will be positively reflected in totality in the coming year. Increased marketing and distribution costs, higher interest costs arising from sub optimal management of working capital, and stock build up leading to a higher degree of



promotional and discounted sales, can be attributed to the lower realisations, leading in turn to lower than expected profits. But despite these factors, our sales volume continues to be encouraging and our image building exercise has borne fruit with Rocell now being the preferred brand synonymous with quality and value.

With the infusion of a new management structure and thinking strategy to create a paradigm shift in the way we work, your company embarked on an overall reorganisation of processes and methods. We began by expanding and cementing our brand presence around the country, increasing the number of showrooms to 27 with existing showrooms upgraded and refurbished. We believe that these showrooms are our brand ambassadors through which we also aim to give our customers a total shopping experience, an unmatched atmosphere and unparalleled service, while being a platform for the growing expectations of the discerning customer.

Manufacturing plants have been geared to conform to even higher than expected standards with wastage/breakage issues being continuously addressed.

Consolidating and Reshaping

Having started business just 12 years ago we were the pioneers in introducing the full bodied homogenous, fully vitrified porcelain tile and to date remain the only manufacturer in this category. Our state of the art manufacturing facilities in Eheliyagoda and Horana have continued to produce exquisitely crafted works of art that have won complete confidence and loyalty of customers. The Eheliyagoda Plant produces these heavy duty porcelain tiles especially for industrial customers including hotels, hospitals, factories and other high traffic areas, not only popular for its hard wearing and durable characteristics but also for its distinct attractiveness. Our Horana Plant, manufactures glazed ceramic tiles and though just two and a half years old operates at substantially increased levels and successfully competes with the imports

During the course of the year, we took stock of our product portfolio and gave it a new thrust. Our new product development strategies included porcelain tiles in a newer range of sizes and designs, the most significant being the Stone Collection, inspired by the myriad colours of rock faces found in abundance in Sri Lanka. For a



facility that has been used to producing traditional products, changing to non-conformist designs and sizes was challenging, but we overcame it and our Stone Collection as well as the other newer products have begun to make their mark.

The shift to new designs also meant shifting to new processes, which included the upgrading of capabilities and adoption of newer technology. Faced with a few teething problems initially, I am proud to say that our team put their best foot forward and conquered the challenge to achieve the targets and are now able to manufacture products on par with the best products not only in this region but around the world.

However, the market for high value products such as these, remain small and the economies of scale are hard to balance when production lines have short runs, as they lead to decreasing efficiency and productivity yields. A challenge no doubt, but one which we are addressing in our own unique way to ensure efficiency and productivity in shorter production runs.

Charting Quality Excellence

Last year we introduced Key Performance Indicators to evaluate each department, section and employee for maximising productivity and it was strengthened this year. After a short lull, the KPIs have now been expanded, while the processes already in place have been fortified and refined.

Our finished products all conform to the EN 176 BI European and American



ASTM standards while ISO 14001 Environmental Management Guidelines are also adhered to very strictly. Given that the emphasis on quality remains paramount on our list of priorities and goals, the company continues its quest towards product excellence. Rocell tiles are manufactured within the milieu of ISO 9001 Quality Management production processes as well as stamped with the distinctive mark of SLS certification, matching even the Italian or Spanish tile in terms of quality. Our new designs have been conceptualised among others by Ferro of Spain, Sicer, Metco and Arco of Italy, all global leaders in the specialised field of tile design.

Brand Rocell

Our concerted efforts in building the Rocell brand have been fruitful considering the positive customer responses we have received. Being the flagship brand and proudly holding the banner of being the only player in this industry to market its own products through state of the art showrooms, reaching out directly to the end user, without going through middlemen, Rocell has now become a household name in flooring.

As market leader holding about 40% market share, (several notches ahead of our closest competitor) gross sales turnover touched a total of Rs 1.53 billion this year, a sharp increase from Rs 1.06 billion last year. Our showroom network was also increased to 27. Existing showrooms were refurbished and further modernised for customer convenience. Advertising and promotional activities, expending about Rs 60 million throughout the year, saw Rocell reinforce its presence in the market as a formidable brand, renowned for innovative and creative designs with the undisputed promise of an international quality product.

Rocell's product portfolio grew with the introduction of the Rocell Stone Collection, typifying a replication of natural stone and rock faces and being produced in a unique rectangular 30 cm x 60 cm size. Glazed ceramic tiles too saw an expansion in the range with the addition of two more sizes, 40 cm x 40 cm and 30 cm x 30 cm.

Beyond our shores

The export market is a complex one but one which, nevertheless, is high on our priority list. While competition remains severe especially in the lower

end of the market with industrial giants like China, Indonesia and Malaysia competing very effectively on price, our strategy is to create a niche product market for ourselves. Our concentration therefore has been on the discerning markets of Australia, Canada, the Middle East and Japan and closer home, Maldives, catering to a customer segment that demands a product of high quality and sophistication in design. Our total export reach covers about 26 countries though contributing only about 10% in terms of value of our total turnover. But I do believe that value addition for the high end market is the right path to tread as our investments into new technology and R&D will provide the impetus for the export market breakthroughs that we are looking at.

Winning Accolades

It is heartening to note that at both the national level and industry level, we have been commended and recognised for the role we play in creating works of art with the resources available in Sri Lanka and for the contribution we make towards the economy. Our products have been recognised for their excellence, conforming to international quality standards and remaining innovative and creative in the face of intense competition. Our presence at three exhibitions during the year, INCO 2003, Architects 2004 and



Construction Exhibition 2004 saw us win a number of accolades:

- Best Product Merit Award for Rocell Stone Collection at Architect 2004
- National Award for Export Excellence 2003 presented by the Ministry of Commerce and Consumer Affairs in recognition of export performance
- Best Stall at Construction 2004
- Best Stall at INCO 2003

In addition, our extraordinary "out of the box" advertising campaigns, while contributing immensely to the significant



sales figures mentioned above, was also recognised by the advertising fraternity as being worthy of four awards in TV, Radio and Press at the SLIM Awards 2004. Being only one year old and a relatively young brand, this success was indeed gratifying and our thanks to our advertising agency for their creative input, which contributed towards this achievement.

Continuous Improvement

Our Research and Development activities have gained momentum, keeping abreast of ceramic technology and new design development while improving process controls and input material quality checks. Raw materials are subject to rigorous compliance tests and in each step of the quality process, checks and analyses are carried out, with finished products finally tested for water absorption, scratch and abrasive resistance and endurance. All these are part of our continuous quality improvement cycle maintained from start to finish.

Constantly studying the needs of the market, while keeping a tab on the limitations we may have, and utilising a comprehensive range of techniques, technology and processes, R&D has now become part of our factory culture. The body composition was one area we found that needed attention due to the tightness of supply in certain raw materials, an area that prompted research into alternative sources and materials.

Working on a curve of continuous development, our processes have also focused on the improvement of various process parameters. To take one example, the grinding time in our Ball Mills is now almost on par with prevalent best practices in the world.

With Information Technology being an integral part of our operations, we are on the threshold of being a fully IT integrated organisation with our factories and showrooms networked to the stores and Head Office as well as to each other and the billing process fully computerised through a central server. The manufacturing module, which was begun last year has been implemented and we are currently in the process of addressing the gaps in the system.. Although we

are not fully online on the manufacturing aspect, our inventory management is completely integrated and will be extended to production planning.

The Human Touch

Even though our plants are state of the art operations, using relevant technology, we still have a large workforce. They are realigning themselves to the requirement of a changing market environment which places new demands on their skills at the same time demanding of them the need to learn new skills. The Team is learning and learning fast.. They have taken on the mantle of joining forces together with the management in seeing the company through the difficult periods. Their steadfastness and loyalty must be commended.

Training and Development plays a key role, not only forming an integral part of our HR operations, but being the driver of the internal change processes that are afoot. The lead has been taken by our HR Manager whose experience in the field gives further impetus to our values of continuous development and career advancement.

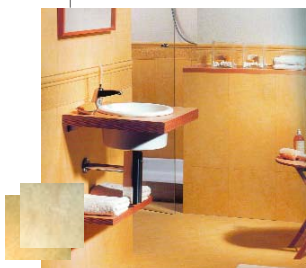


During this year, we signed a Collective Agreement with the unions for a period of two years, signifying and augmenting the cordial relationship we have striven to maintain since our inception. While inculcating further benefits to our employees with a vision of working towards shared goals and aspirations, a notable factor in the Collective Agreement was a significant increase in their remuneration over the two year period covering the agreement.

The Onward Journey

The journey we undertook this year hasn't been easy with a number of challenges rearing its heads and developing roadblocks along the way. However, our rejuvenated management team has taken these on and started to put into place a number of corrective measures which will put your company into overdrive during the coming years.

Some of our chief issues were working capital management. This needed urgent solutions. Although we have an excellent business model, our problems centered on



burgeoning stocks that led to tight cash flows. We, however, quickly restructured our facilities with the banks while reviewing our relationships with them by working on a partnership rather than merely client/bank basis. We initiated controls on ordering patterns and production scheduling, through initiating a proper sales forecasting approach. This has already yielded the desired results in a very short time.

We had good topline growth last year due to the judicious investment in the acquisition of the new factory. This was further strengthened with the implementation of correctional strategies as recommended in a study, which was mooted to improve efficiency and productivity at the plants. This is a remarkable performance even though profits remain below that of last year, which leads us to our second mission in the coming year, to build up the bottom line. Already our first three months have shown promise with numbers substantially surpassing forecasted figures as well as those in the same quarter last year.

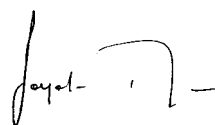
Our third task is to build a strong management team geared to plan and implement growth for a company that has immense potential in a global environment full of opportunities. However, when opportunities present themselves, we should be able to reach for them with confidence and our next step is therefore is to create a management team that works towards a common vision with capabilities to plan and execute developmental strategies, pivoting on continuously higher levels of performance. We have already absorbed into our Team, new heads for Finance and HR and are in the process of restructuring the organisation to meet the new challenges ahead.

Having achieved some success during the latter half of the year in attaining these objectives, which will get greater impetus during the coming year, there are some essential thrust areas we have identified for our growth:

- Existing factories will be geared to produce at full capacity and better efficiency levels and lower wastage, notching up higher returns for existing operations
- We need to balance some of our production capabilities, adding to production capacity at minimum cost thereby increasing volume and adding more to our product range

- New products are to be developed to complement and supplement our existing strengths mainly on the marketing and distribution side through our showrooms.

Looking ahead, I am confident that the objectives and plans we have set out for ourselves will be achieved. While focusing our efforts on significantly reducing the cost base to ensure competitiveness in the year ahead, and at the same time venturing towards new product development and the improvement of skills of our people to achieve the highest degree of professional excellence, I remain confident and convinced that our innovative stance will take us to newer and further heights in the years ahead.



J. K. Menon

CEO



Board of Directors



1. A.M. Weerasinghe – Chairman

He is the founder of Royal Ceramics Lanka Ltd. 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 27 showrooms throughout the island and with an export market in several countries. A gem merchant by profession. He is also a Director of L.B.Finance Ltd.

2. K.D.D. Perera - Deputy Chairman

Mr.Dammika Perera is a prominent investor, whose diversified business interests include hydropower generation, shipping, manufacturing, entertainment, hospitality, banking and finance. He is the Chairman of Vallibel Holdings Ltd. He is also the Deputy Chairman of Pan Asia Bank Ltd, Connaissance Holdings Ltd, its subsidiaries and L.B. Finance Ltd and The Fortress Resorts Ltd.

3. J.K. Menon - Chief Executive Officer

He has had over 25 years experience in leading companies in India in the fields of marketing, production and general management. He holds a Chemical Engineering Degree from the Indian Institute of Technology (IIT), Kanpur and obtained his MBA from the prestigious Indian Institute of Management, Ahmedabad(IIMA).His last assignment in India was as President of Bayer Sanmar Ltd, before he came to Sri Lanka in 1999 with the Maharaja Organisation where he was the CEO of the Industrial Hub, comprising S Lon Lanka, Harrison Chemicals, Tuffline.

4. 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 and for a short time as Chairman of Lankem Ceylon Limited, Chairman of Ceylon Ceramics Corporation, Chairman of Lanka Wall Tiles Ltd, founder Chairman of Lanka Tiles Ltd, Chairman of Ceylon Cement Corporation, Director of the Shell Company of Sri Lanka Ltd. and Representative in Sri Lanka and Maldives Islands of Shell International Petroleum Co. U.K. 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 some of the Companies in the Delmege Group.

5. 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, he was 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.





6. B.M. Amarasekera

Has been associated with the Company as a Director since its inception in 1991. Attorney-at-law by profession 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. He is also the Chairman of L.B Finance Ltd and Hotel Reef Comber Ltd. 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 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.



7. R.B. Thambiayah

Mr. Ravi 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.



9. T.G. Thoradeniya

A Marketeer by profession. Mr. Tharana Thoradeniya was in the pioneering batch of Sri Lankans to be awarded the degree of Chartered Marketeer. Counting years of industry experience in marketing and Technology Management, he is presently operationally involved in Royal Ceramics as the Director – Marketing & Business Development. He is an Alternate Director on the Board of Connaissance de Ceylan and is a Consultant to the Vallibel Group of Companies.



10. K.D.H. Perera

Mr. Harendra Perera is a Director of Vallibel Holdings Ltd. He is also a Director of Connaissance Holdings Ltd. and its subsidiaries.



11. L.T. Samarawickrame

Mr. Lalin Samarawickrame is an internationally qualified Hotelier and is a Director of Connaissance Holdings Ltd. and its subsidiaries, The Fortress Resorts Ltd and Hotel Reef Comber Ltd. He is also the Representative of Skanska Ltd. in Sri Lanka.

8. W.D.N.H. Perera

Mr. Nimal Perera is a member of the Sri Lanka institute of marketing. He is also Director of L.B Finance Ltd. Connaissance Holdings Ltd. and its subsidiaries. He is also on the boards of The Fortress Resorts Ltd. Reef Comber Hotels Ltd. He is a prominent investment Advisor/Fund Manager and holds over 21 years experience in finance and marketing.



Unity in Diversity

Our strong team has always been the trusses upon which our company has built its success. Through the ups and downs of commerce, a positive mindset and strong will have been the ingredients that our team has mixed to perfection, to emerge successful in the face of challenges. Given the constantly changing global and local paradigms to which, we as a company are a part of, each and every team member works unitedly towards a common vision, while imparting their unique individuality and strengths to make the journey towards that zenith faster and simpler.

Our management committee meets on a regular basis to discuss issues that arise in this path of progress, giving leadership and direction, while mapping out progressive methodologies in our quest for continuous improvement. Hence, while teamwork is encouraged in all rungs of our employee hierarchy, the dedication and commitment displayed by our team has been the result of our success thus far and we encourage their collective participation in the attainment of our vision, while we in turn, will assist in meeting their personal career aspirations.



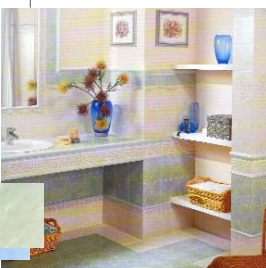
Sitting from left to right

1. J.K.A. Sirinatha - General Manager - RCDL
2. T.G. Thoradeniya - Director Marketing & Business Development
3. J.K.Menon - Chief Executive Officer
4. N. Bogahalanda - Head of Human Resources
5. A.M.C.S. Atapattu - Asst. General Manager

Standing from left to right

6. M.A.N.S.A. Jayatissa - Factory Manager - RCL
7. N. Somaratne - Factory Manager - RPL
8. S. Samararatne - Financial Controller

RCL - Royal Ceramics Lanka Ltd., RPL - Royal Porcelain (Pvt) Ltd., RCDL - Royal Ceramics Distributors (Pvt) Ltd.



Our Showroom Network

98, Nawala Road,
Nugegoda.
Tel. 4405160

440, R.A. de Mel Mawatha,
Colombo 03.
Tel: 4715513

106, Galle Road,
Dehiwela North,
Dehiwela.
Tel: 4202815

555/3, New Kandy Road,
Thalahena,
Malabe.
Tel: 4411775

158, Negombo Road,
Wattala.
Tel: 4818563

392, Gala Junction,
Kandy Road,
Kiribathgoda.
Tel: 4817231

296/3, High Level Road,
Makumbura,
Kottawa.
Tel: 4308413

116, Colombo Road,
Piliyandala.
Tel: 4210675

477/1, Galle Road,
Rawathawatte,
Moratuwa.
Tel: 4210726

374/1, Liyangemulla,
Seeduwa.
Tel: 4831987

562, Peradeniya Road,
Mulgampola,
Kandy.
Tel: 081-4471581

42, A.A. Dharmasena Mawatha,
Mahaiyawa,
Kandy.
Tel: 081-4475825

504/1, Kandy Road,
Meepitiya,
Kegalle.
Tel: 035-2230980

176, Colombo Road,
Kurunegala.
Tel: 037-4690467

35, Chilaw Road,
Wennappuwa.
Tel: 031-2253090

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

521/5 Stage 11,
Maithreepala Senanayaka Mawatha,
Anuradhapura.
Tel: 025-4580294

Talagaha Junction,
Eheliyagoda.
Tel: 036-2259553

225, Colombo Road,
Ratnapura.
Tel. 045-4360318

348, Badulla Road,
Bandarawela.
Tel: 057-4496014

443, Galle Road,
Kalutara North,
Kalutara.
Tel: 034-4280469

132, Anguruwatota Road,
Horana.
Tel: 034-4285033

77, W.D.S. Abeygunawardena
Mawatha,
Pettigalawatte,
Galle.
Tel: 091-4380033

164, 166, Gunawardena Mawatha,
Kotuwegoda,
Matara.
Tel: 041-4390134

and expanding....

Report of the Directors

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 2004. 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 loss of Rs. 10,599,529 during the year under review. This subsidiary Company continues to market cut tiles and designs and undertakes laying of tiles and maintains the show room network to distribute the products of the company and its subsidiaries under the 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. 45,673,013.

Business Review

The Chairman's Report and the CEO's review of operations comprehensively cover 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:

<i>Year ended 31st March</i>	2004	2003
	Rs.'000	Rs.'000
Group Profit after Taxation	85,080	89,870
Profit brought forward	36,704	2,228
Dividend	-	(55,394)
Unappropriated balance carried forward	121,784	36,704

Reserves

The total reserves of the company stand at Rs. 350,880,712/- comprising capital reserves of Rs. 264,946,889/- and revenue reserves of Rs. 85,933,823/-.

Statement of Changes in Equity

The movement in equity is shown in the Statement of Changes in Equity on page 30.

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

The group made donations of Rs 472,296 towards charitable purposes during the year under review.

Dividends

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

Corporate Governance

The report on Corporate Governance is given on page 20.

Directors' Responsibilities for Financial Statements

The Statement of Directors' Responsibilities for Financial Statements is given on page 21.

Financial Review

The Financial Review is given on page 18.

Directorate

The names of the Directors in office during the financial year are disclosed in the inner back cover of the Annual Report. All the Directors except Mr. J.K. Menon (Appointed on 22nd January 2004), Mr L. T. Samarawickrema (appointed on 03rd December 2003) and Mr K. D. H. Perera (appointed on 03rd December 2003) held office during the entire financial year.



Report of the Directors (Contd.)

Mr. M T L Fernando 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. M T L Fernando who is over 70 years of age as a Director of the Company.

Directors' Interest in Contracts

Directors' interest in contracts are disclosed in Note 31 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:

Name of Director	As at 31.3.2004	As at 31.3.2003
Mr. A M Weerasinghe	5,674,712	6,653,412
Mr. K D D Perera	31,791,176	16,296,720
Mr. F P de Alwis	307,033	307,033
Mr. M T L Fernando	202,977	202,907
Mr. B M Amarasekera	107,193	107,193
Mr. R B Thambiayah (Own)	792	792
Mr. R B Thambiayah (Indirect - Renuka Hotels Limited)	100,000	2,075,792
Mr. R B Thambiayah (Indirect-Renuka Consultants & Services Ltd)	50,000	972,172
Mr. R B Thambiayah (Indirect - Renuka City Hotels Limited)	100,000	3,621,764
Mr. W D N H Perera	10,000	3,600
Mr. T G Thoradeniya	33,900	Nil
Mr. K D H Perera	Nil	Nil
Mr. L T Samarawickrema	Nil	Nil
Mr J K Menon	Nil	Nil

Major Shareholders

The 20 largest shareholders of the Company as at the Balance Sheet date are given on page 54 under Share Information.

Fixed Assets

The movement in fixed assets during the year is given in Note 8 to the Accounts.

Capital Expenditure

Group Capital Expenditure including amounts transferred from capital work in progress account during the year amounted to Rs. 140 million.

Taxation

The Company and Royal Ceramics Distributors (Pvt) Ltd. are liable to pay income tax at 30%. Royal Porcelain (Pvt) Ltd; in terms of the agreement entered with the BOI, received the tax exemption status in the current year of assessment 2003/04 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 Notes 11 and 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 2004 was Rs.16.50 compared to Rs.15.00 as at 31st March 2003 as per official valuation of the Colombo Stock Exchange.

Group Employment

As at the Balance Sheet date, the Group has provided employment to 850 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 KPMG Ford, Rhodes, Thornton & Co., who have expressed their willingness to be re-appointed as Auditors.

By Order of the Board

Ms S. Fernando

Secretary

30 July, 2004



Financial Review

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 Turnover

The Net Turnover of Rs. 1.3 billion during the financial year was a remarkable achievement for the Group. This is a 44% growth against a corresponding growth of 31% in the preceding year, further consolidating the position of 'Rocell' as the clear market leader in this industry. Our new plant at Horana working at increased levels provided the requisite volumes to achieve this growth.

The export turnover of Rs. 125 million has contributed only 10% towards total sales. In the face of growing global price competition, the company is taking necessary steps to counter these threats. The Company will continue to focus on this segment.

Group Profitability

The gross profit of the group grew by an encouraging 14% but did not reflect the growth of 44% in sales. A marketing campaign based on promotional offers and the overall increase in price of imported material were among the main contributing factors to this.

A significant expenditure on advertising to build the brand, expansion of the showroom network together with the drop in gross profits saw an overall drop of 25% in operating profits.

Product development costs of the plant at Horana amounting to Rs. 34.4 million were deferred over 5 years the first being charged in the year under review. The export duty rebate of Rs. 2.4 million has been credited to the cost of sales, in arriving at the gross profit.

Pre-tax profit decreased by 42% to Rs. 76 million during the financial year.

Taxation

The Group made an overall tax reversal of Rs 8.2 million which includes an income tax reversal of Rs 5.9 due to brought forward tax losses and a deferred tax credit of Rs. 3.3 million. The tax liability of Royal Ceramics Lanka Ltd is Rs 0.5 million.

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 which commenced from the year of Assessment 2002/03.

In addition, Rs. 235 million was paid to the Government by way of direct sales taxes during the year.

Dividend

The Company has proposed a first and final tax free dividend of 10% 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. and is the same level of dividend as the preceding year.

Capital Expenditure

Capital expenditure of the Group was Rs 140 million for the year. A sum of Rs. 61 million was spent on plant & machinery in upgrading capabilities and adopting modern technology to meet future demands. Rs. 16 million was spent on modifying our showrooms network and Rs 20 million on construction of warehouses.

Investment in Equity Capital

The Company invested Rs 22.4 million in 1.4 million equity shares of LB Finance Company Ltd. The purchase price was Rs 16.00 and the market price as at 31st March 2004 stood at Rs 14.00.

Financial Indicators

The current ratio of the Group has remained constant at 1.7:1. The increase in working capital of the Company was funded by short term borrowings.

Shareholders' funds consist of 60% share capital, 28% capital reserves and 12% revenue reserves.

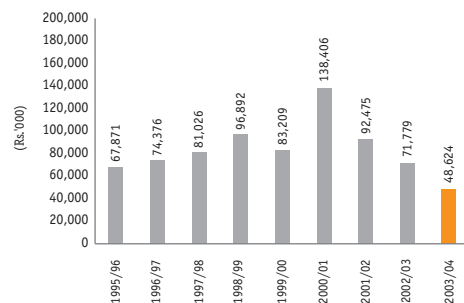
Accounting Policies and Disclosures

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.

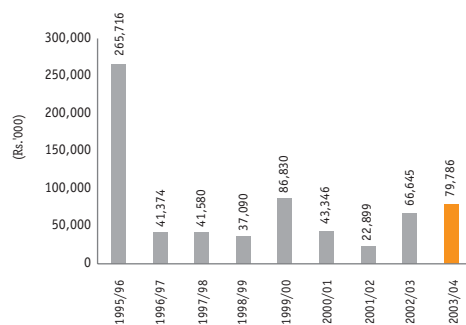
The group has adopted the practice of making full disclosure of both financial and non-financial information to enable the existing and potential shareholders to assess the performance of the Group and its future.



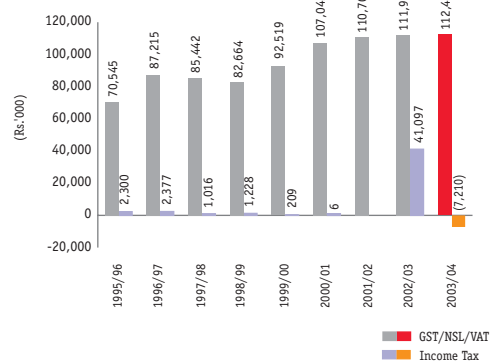
Profits After Taxation (Company)



Capital Expenditure (Company)



Contribution to Government (Company)



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 the inner back cover.

The Board comprises of nine non - Executive Directors and two Executive Directors, being the CEO and the Director - Marketing & Business Development.

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 four non-executive Directors 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 has met eight times during the year under review.

Report of the Audit Committee appears on page 22. Names of the members of the Audit Committee are as follows.

Mr. M.T.L. Fernando - Chairman
Mr. B.M. Amerasekera
Mr. W.D.N.H.Perera
Mr L.T. Samarawickrema

Remuneration Committee

Remuneration Committee consisting of four non-executive Directors meet when required to review the remuneration of the Senior Management.

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

Mr. B.M. Amerasekera - Chairman
Mr. M.T.L. Fernando
Mr. W.D.N.H.Perera
Mr L.T. Samarawickrema

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.

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 CEO's review of operations.



Statement of Directors' Responsibilities

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 25.

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 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' budget for the financial year 2004/2005 including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation.

By Order of the Board

(Sgd.)
Company Secretary
Colombo

30 July 2004



Report of the Audit Committee

The Audit Committee consists of four Non Executive Directors. The Chief Executive Officer and the Financial Controller are invited to attend meetings, while other Executives are invited when required. The Internal Auditors, who are a firm of professional accountants, attend the meetings when their reports are reviewed.

The Audit Committee which works within the written terms of reference, examines matters relating to the financial reporting systems of the company and the external and internal audits of the company. The committee assesses the business and control risks prevalent in the company and advises the Board on what action should be taken where weaknesses were observed.

The Committee met on eight occasions to review the Internal Audit reports on the Head Office, Show Rooms etc., with special reference to the effectiveness of the Internal

Control procedures. The company's quarterly and annual financial statements were reviewed by the Committee and approved by the Board, prior to their issuance.

The Audit Committee has recommended to the Board of Directors that M/s KPMG Ford, Rhodes, Thornton & Company be re-appointed as auditors for the financial year ending 31st March 2005, subject to the approval of the shareholders at the Annual General Meeting.

(Sgd.)

M T L Fernando
Chairman
Audit Committee

16th August, 2004.





Financial Statements

Financial Calendar

Interim Report – 1st Quarter 2003/2004	25th August 2003
Interim Report – 2nd Quarter 2003/2004	18th November 2003
Interim Report – 3rd Quarter 2003/2004	24th February 2004
Interim Report – 4th Quarter 2003/2004	31st May 2004
Annual Report – 2003/2004	30th July 2004
14th Annual General Meeting	21st September 2004
10% First and Final Dividend for the Financial Year 2003/2004	27th May 2004

Report of the Auditors



KPMG Ford, Rhodes, Thornton & Co.

(Chartered Accountants)

32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

Telephone : + (94-11) 242 6426
Telefax : + (94-11) 244 5872,
244 6058, 254 1249
e-Mail : frrt@kpmg.lk

REPORT OF THE AUDITORS'

TO THE MEMBERS OF ROYAL CERAMICS LIMITED.

We have audited the Balance Sheet of Royal Ceramics Limited as at 31st March, 2004, and 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 set out on pages 26 to 49 of the Annual Report.

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 account for the year ended 31st March, 2004, and to the best of our information and according to the 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 give a true and fair view of the Company's state of affairs as at 31st March, 2004, 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 2004, 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' Interests 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, 2004, other than those disclosed in Note 31 to these financial statements.

KPMG FORD, RHODES, THORNTON & Co.

Chartered Accountants

Colombo, 30th July, 2004.



KPMG Ford, Rhodes, Thornton & Co.,
a Sri Lankan partnership, is the Sri Lankan member
firm of KPMG International, a Swiss cooperative

R.N. Asirvatham FCA
M.R. Mihular FCA
T.J.S. Rajakarier FCA

A.N. Fernando FCA
Ms. M.P. Perera FCA
W.W.J.C. Perera FCA

R. Seevaratnam FCA
P.Y.S. Perera FCA
Ms. S. Joseph ACA

S. Sirikananathan FCA
C.P. Jayatilake FCA

Income Statement

<i>For the year ended 31st March</i>		Consolidated		Company	
		2004	2003	2004	2003
	Note	Rs.	Rs.	Rs.	Rs.
Revenue	1	1,301,163,628	907,422,040	703,429,198	665,487,971
Cost of sales		(854,523,395)	(516,871,912)	(484,094,108)	(406,978,164)
Gross profit		446,640,233	390,550,128	219,335,090	258,509,807
Other operating income	2	14,430,204	21,804,902	69,788,555	78,101,015
Distribution expenses		(204,124,922)	(119,164,632)	(120,365,445)	(110,518,606)
Administrative expenses		(95,449,223)	(100,875,948)	(70,198,444)	(61,376,259)
Other operating expenses		(18,946,038)	(3,576,168)	(17,623,347)	(3,576,168)
		(318,520,183)	(223,616,748)	(208,187,235)	(175,471,033)
Profit from operations	3	142,550,254	188,738,282	80,936,410	161,139,789
Financing expenses	4	(65,758,536)	(56,501,230)	(39,522,696)	(48,263,351)
Profit before taxation		76,791,718	132,237,052	41,413,714	112,876,438
Income tax reversal/(expense)	5	8,288,679	(42,366,984)	7,210,218	(41,097,023)
Profit for the year		85,080,397	89,870,068	48,623,932	71,779,415
Basic earnings per share (Rs.)	6	1.54	1.62	0.88	1.30
Dividend per share (Rs.)	7	-	1.00	-	1.00

Figures in brackets indicate deductions.

The accounting policies and notes to the Financial Statements form an integral part of these Financial Statements.

Balance Sheet

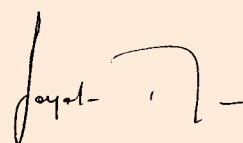
As at 31st March	Note	Consolidated		Company	
		2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
ASSETS					
Non-current assets					
Property, plant and equipment	8	850,528,551	811,200,551	414,521,715	397,838,200
Capital work-in-progress	9	2,472,746	16,014,727	1,167,200	5,790,175
Product development cost	10	31,537,891	34,460,000	-	-
Investment in subsidiaries	11	-	-	500,500,040	500,500,040
Other long term investments	12	22,411,200	-	22,411,200	-
		<u>906,950,388</u>	<u>861,675,278</u>	<u>938,600,155</u>	<u>904,128,415</u>
Current assets					
Inventories	13	729,153,529	585,057,113	555,136,010	419,635,014
Trade and other receivables	14	125,134,173	87,907,141	33,774,842	46,261,714
Amount due from related companies	15	-	1,591,237	381,557,847	182,007,991
Cash and cash equivalents	16	43,734,930	72,996,103	22,029,765	28,987,130
Tax receivable	17	8,932,580	-	8,761,490	-
		<u>906,955,212</u>	<u>747,551,594</u>	<u>1,001,259,954</u>	<u>676,891,849</u>
Total assets		<u>1,813,905,600</u>	<u>1,609,226,872</u>	<u>1,939,860,109</u>	<u>1,581,020,264</u>
EQUITY AND LIABILITIES					
Equity					
Share capital	18	553,946,920	553,946,920	553,946,920	553,946,920
Capital reserves	19	264,946,890	264,946,890	264,946,890	264,946,890
Retained earnings		121,784,219	36,703,822	85,933,823	37,309,891
Total equity		<u>940,678,029</u>	<u>855,597,632</u>	<u>904,827,633</u>	<u>856,203,701</u>
Non current liabilities					
Interest bearing loans and borrowings	20	227,809,249	240,757,500	223,109,249	227,657,500
Deferred taxation	21	59,325,452	62,611,013	59,325,452	61,066,155
Retirement benefit obligations	22	23,795,054	20,635,816	18,337,696	16,078,103
		<u>310,929,755</u>	<u>324,004,329</u>	<u>300,772,397</u>	<u>304,801,758</u>
Current liabilities					
Trade and other payables	23	113,953,095	93,507,240	79,481,540	62,463,933
Amounts due to related companies	24	-	-	321,020,260	35,696,908
Income tax payable	17	-	1,354,224	-	1,841,430
Dividend payable	25	3,374,679	55,649,190	3,374,679	55,649,190
Interest bearing loans and borrowings repayable within one year	26	444,970,042	279,114,257	330,383,600	264,363,344
		<u>562,297,816</u>	<u>429,624,911</u>	<u>734,260,079</u>	<u>420,014,805</u>
Total equity and liabilities		<u>1,813,905,600</u>	<u>1,609,226,872</u>	<u>1,939,860,109</u>	<u>1,581,020,264</u>

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

Signed for and on behalf of the Board,



A. M. Weerasinghe
Executive Chairman



J.K. Menon
CEO

30th July 2004

Cash Flow Statement

For the year ended 31st March	Consolidated		Company	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
Cash flows from operating activities				
Profit/(loss) from operations	142,550,254	188,738,282	80,936,410	161,139,789
Adjustment for :				
Depreciation on property, plant & equipment	101,070,385	80,616,857	62,655,923	78,010,855
Amortisation of product development cost	7,252,243	-	-	-
Provision for doubtful debtors & receivables	-	4,890,242	-	2,999,696
Provision for retiring gratuity	4,866,855	5,041,673	3,605,160	2,613,562
Gain on disposal of property, plant & equipment	(1,204,851)	(1,435,430)	(1,204,851)	(1,435,430)
Over provision written back	-	(16,453,741)	-	(16,453,741)
Interest income	(256,672)	(1,723,810)	(244,807)	(1,695,835)
	<u>111,729,960</u>	<u>70,935,791</u>	<u>64,811,425</u>	<u>64,039,107</u>
Operating profit before working capital changes	254,278,214	259,674,073	145,747,835	225,178,896
(Increase)/decrease in inventories	(144,096,416)	(233,508,857)	(135,500,996)	(87,470,881)
(Increase)/decrease in trade and receivables	(37,227,032)	(23,315,741)	69,986,874	(46,773,796)
(Increase)/decrease in amount due from related companies	1,591,237	(561,681)	28,273,495	221,569,129
Increase/(decrease) in trade & other payables	18,134,381	6,750,366	14,706,133	(26,776,190)
	<u>(161,597,830)</u>	<u>(250,635,913)</u>	<u>(22,534,494)</u>	<u>60,548,262</u>
Cash generated from operations	92,680,384	9,038,160	123,213,341	285,727,158
Retiring gratuity paid	(1,707,618)	(1,165,884)	(1,345,568)	(1,121,984)
Interest paid	(63,447,061)	(56,501,230)	(37,211,221)	(46,311,624)
Income taxes paid	(5,283,686)	(32,120,293)	(5,133,405)	(24,008,700)
	<u>(70,438,365)</u>	<u>(89,787,407)</u>	<u>(43,690,194)</u>	<u>(71,442,308)</u>
Net cash inflow/(outflow) from operating activities	22,242,019	(80,749,247)	79,523,148	214,284,850
Cash flows from investing activities				
Increase in product development cost	(4,330,134)	(34,460,000)	-	-
Investment in subsidiary	-	-	-	(500,000,000)
Other investments	(22,411,200)	-	(22,411,200)	-
Purchase/construction of property, plant & equipment	(127,303,137)	(101,322,527)	(75,163,195)	(35,035,896)
Proceeds from disposal of property, plant & equipment	1,651,581	1,716,953	1,651,581	1,716,953
Increase in deposit	-	35,000,000	-	-
Interest received	256,672	1,723,810	244,807	1,695,835
Net cash used in investing activities	<u>(152,136,218)</u>	<u>(97,341,764)</u>	<u>(95,678,007)</u>	<u>(531,623,108)</u>
Net cash flow inflow/(outflow) before financing activities	(129,894,199)	(178,091,011)	(16,154,859)	(317,338,258)

Cash Flow Statement (Contd.)

For the year ended 31st March	Consolidated		Company	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
Cash flows from financing activities				
Dividend paid	(52,274,511)	(102,080,788)	(52,274,511)	(102,080,788)
Proceeds from/(Repayment of) short term borrowings	(1,116,651)	180,084,663	(1,116,651)	218,221,000
Proceeds from/(Repayment of) long term borrowings	(12,948,251)	(34,046,163)	(4,548,251)	35,977,498
Net cash flow from financing activities	(66,339,413)	43,957,712	(57,939,413)	152,117,710
Increase/(decrease) in cash and cash equivalents	(196,233,612)	(134,133,299)	(74,094,272)	(165,220,548)
Cash & cash equivalents at the beginning of the year	28,822,846	162,956,145	(8,835,214)	156,385,334
Cash & cash equivalents at the end of the year	(167,410,766)	28,822,846	(82,929,486)	(8,835,214)
Analysis of cash & cash equivalents				
Cash at bank and in hand	43,734,930	72,996,103	22,029,765	28,987,130
Bank overdraft	(211,145,696)	(44,173,257)	(104,959,251)	(37,822,344)
	(167,410,766)	28,822,846	(82,929,486)	(8,835,214)

Statement of Changes in Equity

For the year ended 31st March

Consolidated	Share capital Rs.	Share premium Rs.	Revaluation reserves Rs.	Accumulated profit Rs.	Total Rs.
Balance as at 31st March 2002	553,946,920	260,779,553	4,167,357	2,228,446	821,122,256
Net profit for the year	-	-	-	89,870,068	89,870,068
Dividends	-	-	-	(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
Net profit for the year	-	-	-	85,080,397	85,080,397
Balance as at 31st March 2004	553,946,920	260,779,533	4,167,357	121,784,219	940,678,029

Company

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
Dividends	-	-	-	(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
Net profit for the year	-	-	-	48,623,932	48,623,932
Balance as at 31st March 2004	553,946,920	260,779,533	4,167,357	85,933,823	904,827,633

Accounting Policies

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 marketing of floor and wall tiles.
Royal Ceramics Distributors (Pvt.) Ltd.	-	Distribution of tiles and undertaking designing and laying of tiles.
Royal Porcelain (Pvt.) Ltd.	-	Manufacture and marketing of floor tiles. (Production commenced on 24.04.2002)

1.3 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. GENERAL POLICIES

2.1 The Balance Sheet, Income Statement, Changes in Equity and Cash Flows, together with Accounting Policies and notes of the group as at 31st March 2004 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 (unless otherwise indicated) have been prepared on a historical cost basis except that certain land are stated at fair value as explained in Note 8 to the Financial Statements.

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.

2.2 Comparative information

Where necessary, comparative figures have been reclassified to conform to the current year's presentation.

The Accounting Policies have been consistently applied by the Company and are consistent with those used in the previous year.

2.3 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 intra-group balances and transactions and any unrealized gains arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with

associates are eliminated to the extent of the group's interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate.

2.4 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.

3. ASSETS AND BASES OF THEIR VALUATION

Assets classified as current assets on the Balance Sheet are cash and bank balances and those which are expected to be realized in cash during the normal operating cycle or within one year from Balance Sheet date, whichever is shorter.

3.1 Property, plant and equipment

(a) Cost and valuation

All property, plant and equipment are stated at cost (or valuation) less accumulated depreciation.

The cost of property, plant & equipment is the cost of acquisition or construction together with any expenses incurred in bringing the asset to its working condition for its intended use. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

A revaluation of property, plant & equipment is done when there is a substantial distinction between the fair value (market value) and the book value of the asset and is undertaken by professionally qualified valuers.

When an asset is revalued, any increase/decrease in the carrying amount is transferred to a revaluation reserve.

(b) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the income statement as an expense as incurred.

(c) Depreciation

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 generally used by companies in the group are as follows:

Class of asset	Rate
Building & electricity distribution	4%
Motor vehicles, furniture & fittings, 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%

3.2 Capital work in progress

Capital work in progress represents the cost of civil construction work not completed and property plant and equipment that are not ready for their intended use.

3.3 Product development cost

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

3.4 Investments

(a) Short term investments

Short-term investments are stated at lower of cost and market value on an aggregate portfolio basis, with any resultant gain or loss recognised in the income statement.

(b) Long term investments

Quoted and unquoted investments in shares held on long-term basis are stated at cost.

In the parent company's Financial Statements, investments in subsidiaries and associates are carried at cost under parent company accounting policy for long-term investments.

Provision for diminution in value is made when in the opinion of the Directors there has been a decline other than temporary in the value of the investment.

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

(a) Raw material - at actual cost on first-in-first-out (FIFO) basis.

(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 - at cost. Cost is determined by accruing all direct material costs.

(d) Goods-in-transit - at cost.

3.6 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.

3.7 Borrowing cost

Borrowing costs are recognised 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 take 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 costs eligible for capitalization is determined according to SLAS 20. Borrowing cost-allowed alternative treatment.

4. LIABILITIES AND PROVISIONS

Liabilities classified as current liabilities on the Balance Sheet are those, which fall due for payment on demand or within one year from Balance Sheet date. Non-current liabilities are those balances that fall due for payment after one year from the Balance Sheet date.

All known liabilities have been accounted for in preparing the Financial Statements.

4.1 Trade and other payables

Trade and other payables are stated at their cost.

4.2 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.

4.3 Defined benefit plans

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 year 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 of continued service.

The gratuity liability is not externally funded nor actuarially valued. This item is shown under retirement benefit obligations in the Balance Sheet.

4.4 Defined contribution plans

Employees are eligible for Employees Provident Fund contributions and Employees Trust Fund contributions in line with respective statutes and regulations. These are recognized as an expense in the income statement as incurred.

5. INCOME STATEMENT

5.1 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) 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 is recognised 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) Revenue from rendering of services is recognized in the accounting period in which the services are rendered or performed.
- (f) 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.

5.2 Expenditure recognition

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.

5.3 Taxation

(a) Current taxation

The provision for income tax is based on the elements of income and expenditure as reported in Financial Statements and computed in accordance with the provisions of the Inland Revenue act No. 28 of 1979 and amendments thereto. Relevant details are disclosed in note (5) to the Financial Statements.

Royal Porcelain (Pvt) Limited, 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 2002/2003.

(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 recognised 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) and Turnover Tax. The Company pays such taxes in accordance with the respective statutes.

6. CASH FLOW STATEMENT

The cash flow statement has been prepared using the "indirect method". Interest paid is classified as operating cash flows. Dividends paid are classified as financing cash flows.

Notes to the Financial Statements

For the year ended 31st March		Consolidated		Company	
		2004	2003	2004	2003
		Rs.	Rs.	Rs.	Rs.
1. Revenue					
1.1 Summary					
Gross sales (inclusive of VAT/GST)	1.2	1,536,182,798	1,069,040,643	815,869,924	777,461,519
Goods and services tax		-	(20,909,428)	-	(18,571,944)
Value added tax		(221,470,685)	(121,227,625)	(112,440,726)	(81,782,119)
Turnover tax		(13,548,485)	(6,367,194)	-	-
National security levy		-	(13,114,356)	-	(11,619,485)
Net sales		<u>1,301,163,628</u>	<u>907,422,040</u>	<u>703,429,198</u>	<u>665,487,971</u>

1.2 Sales Analysis (inclusive of VAT/GST)

Export sales	124,856,158	119,238,655	103,742,733	115,022,428
Local sales	1,389,317,289	892,175,241	712,127,191	623,134,692
Miscellaneous sales	13,994,803	48,217,072	-	39,304,399
Service income	8,014,548	9,409,675	-	-
	<u>1,536,182,798</u>	<u>1,069,040,643</u>	<u>815,869,924</u>	<u>777,461,519</u>

For the year ended 31st March		Consolidated		Company	
		2004	2003	2004	2003
		Rs.	Rs.	Rs.	Rs.
2. Other operating income					
Dividend income		-	-	57,500,000	57,500,002
Reversal of over provision		-	16,453,741	-	16,453,741
Interest income		256,672	1,723,809	244,807	1,695,835
Profit on sale of property plant & equipment		1,204,851	1,435,430	1,204,851	1,435,430
Turnover tax refund		8,676,993	-	8,676,993	-
Sundry income		4,291,689	2,191,922	2,161,904	1,016,007
		<u>14,430,204</u>	<u>21,804,902</u>	<u>69,788,555</u>	<u>78,101,015</u>

For the year ended 31st March		Consolidated		Company	
		2004	2003	2004	2003
		Rs.	Rs.	Rs.	Rs.

3. Profit from operations

Operating profit is stated after charging all expenses/(income) including the following:

Directors emoluments	925,000	488,000	925,000	458,000
Auditors remuneration	325,240	460,000	257,500	255,000
Depreciation on property, plant & equipment	101,070,385	80,620,136	62,655,923	75,729,946
Research and development expenses	178,985	892,066	-	892,066
Staff costs - Remuneration	150,841,233	151,465,696	108,132,942	112,548,979
EPF	9,901,611	5,044,530	8,129,547	3,981,103
ETF	2,747,902	1,311,048	2,031,886	995,276
Retiring gratuity	4,866,855	5,041,673	3,605,160	2,613,562
Export duty rebate	(2,365,754)	(2,596,838)	(2,365,754)	(2,596,838)

Notes to the Financial Statements (Contd.)

For the year ended 31st March	Consolidated		Company	
	2004	2003	2004	2003
	Rs.	Rs.	Rs.	Rs.
4. Financing expenses				
Overdraft interest	13,183,436	4,882,676	9,574,596	4,844,800
Loan interest	52,575,100	51,618,554	29,948,100	43,418,551
	<u>65,758,536</u>	<u>56,501,230</u>	<u>39,522,696</u>	<u>48,263,351</u>

For the year ended 31st March	Consolidated		Company	
	2004	2003	2004	2003
	Rs.	Rs.	Rs.	Rs.
5 Taxation				
5.1 Income tax expense/(reversal)				
Tax on current year's profit	905,237	24,158,000	905,237	24,000,000
Under/(cover) provision in respect of previous year	(5,908,355)	-	(6,374,752)	-
Deferred taxation charge/(credit)	(3,285,561)	18,208,984	(1,740,203)	17,097,023
	<u>(8,288,679)</u>	<u>42,366,984</u>	<u>(7,210,218)</u>	<u>41,097,023</u>

5.2 The corporate rate of tax applicable on taxable income would be 30%. Royal Porcelain (Pvt) Ltd enjoys a 10 years tax holiday under section 17(2) of BOI law No.4 of 1978 commencing from the year of assessment 2002/03. Export income is taxed at 15%.

5.3 Reconciliation between taxable profit and accounting profit of holding company.

For the year ended 31st March	2004	2003
	Rs.	Rs.
Accounting profit	76,791,718	132,237,052
Aggregate disallowed items	78,887,467	79,560,563
Aggregate allowable expenses	(64,775,204)	(39,110,510)
Total statutory income from trade/business	<u>90,903,981</u>	<u>172,687,105</u>

Notes to the Financial Statements (Contd.)

6. Basic earnings per share

The calculation of basic earning per share is based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.

For the year ended 31st March	Consolidated		Company	
	2004	2003	2004	2003
	Rs.	Rs.	Rs.	Rs.
Profit attributable to ordinary shareholders	85,080,397	89,870,068	48,623,932	71,779,215
Weighted average number of ordinary shares	55,394,692	55,394,692	55,394,692	55,394,692
Basic earnings per share (Rs.)	<u>1.54</u>	<u>1.62</u>	<u>0.88</u>	<u>1.30</u>

7. 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.

For the year ended 31st March	Consolidated		Company	
	2004	2003	2004	2003
	Rs.	Rs.	Rs.	Rs.
Interim dividend (10% 2002/2003)	-	55,394,692	-	55,394,692
	<u>-</u>	<u>55,394,692</u>	<u>-</u>	<u>55,394,692</u>
Weighted average number of ordinary shares	-	55,394,692	-	55,394,692
Dividend per ordinary share (Rs.)		<u>1.00</u>		<u>1.00</u>

Notes to the Financial Statements (Contd.)

8.1 Property plant & equipment - consolidated

Gross carrying amounts	Balance as at 01.04.03 Rs.	Additions during the year Rs.	Disposal during the year Rs.	Balance as at 31.03.04 Rs.
At cost				
Land	42,454,484	2,999,884	-	45,454,368
Building	105,521,700	26,013,830	-	131,535,530
Water supply scheme	295,687	-	-	295,687
Lab equipment	2,162,771	3,500	-	2,166,271
Motor vehicles	17,415,827	7,108,150	(1,963,604)	22,560,373
Electricity distribution	5,363,492	-	-	5,363,492
Office equipment	67,290,504	6,496,444	-	73,786,948
Communication equipment	8,189,703	288,655	(375,082)	8,103,276
Furniture & fittings	8,286,897	7,835,887	-	16,122,784
Tools & implements	16,793,363	989,349	-	17,782,712
Sundry inventory	4,453,358	1,692,139	-	6,145,497
Other equipment	12,231,908	5,921,138	-	18,153,046
Factory equipment	23,998,195	50,352	-	24,048,547
Construction equipment	2,293,595	-	-	2,293,595
Plant and machinery	887,783,351	61,335,656	-	949,119,007
Plant and machinery-polishing plant	54,777,925	1,439,577	-	56,217,502
Household item-heavy	275,028	14,906	-	289,934
Household item-light	834,115	94,815	-	928,930
Name boards	1,180,585	1,863,082	-	3,043,667
Fixtures & fittings - showrooms	-	16,697,754	-	16,697,754
	1,261,602,488	140,845,118	(2,338,686)	1,400,108,920
At valuation				
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
	1,393,241,562	140,845,118	(2,338,686)	1,531,747,994

Notes to the Financial Statements (Contd.)

8.1 Property, plant & equipment - consolidated (Contd.)

Depreciation	Balance as at 01.04.03 Rs.	Charge during the year Rs.	Disposal during the year Rs.	Balance as at 31.03.04 Rs.
On cost				
Land	-	-	-	-
Building	932,083	4,703,228	-	5,635,311
Water supply scheme	71,051	11,827	-	82,878
Lab equipment	1,929,820	68,665	-	1,998,485
Motor vehicles	9,483,818	2,054,264	(1,816,938)	9,721,144
Electricity distribution	1,540,516	214,540	-	1,755,056
Office equipment	25,586,035	9,148,275	-	34,734,310
Communication equipment	1,705,328	785,063	(75,016)	2,415,374
Furniture & fittings	4,233,999	1,369,956	-	5,603,955
Tools & implements	15,748,905	703,803	-	16,452,708
Sundry inventory	3,451,221	696,657	-	4,147,878
Other equipment	6,827,496	974,309	-	7,801,805
Factory equipment	17,914,199	1,458,901	-	19,373,100
Construction equipment	2,247,557	855,325	-	3,102,882
Plant and machinery	423,042,216	68,479,980	-	491,522,196
Plant and machinery-polishing plant	33,442,770	5,279,657	-	38,722,427
Household item-heavy	40,068	49,546	-	89,614
Household item-light	686,221	141,504	-	827,725
Name boards	278,579	223,029	-	501,608
	549,161,882	97,218,527	(1,891,954)	644,488,455
On valuation				
Land	-	-	-	-
Building-polishing plant	1,739,134	198,136	-	1,937,270
Building	31,139,995	3,653,722	-	34,793,717
	32,879,129	3,851,858	-	36,730,987
Total depreciation	582,041,011	101,070,385	(1,891,954)	681,219,442
Net book value			Balance as at 31.03.04 Rs.	Balance as at 01.04.03 Rs.
At cost			755,620,464	712,440,606
At valuation			94,908,087	98,759,945
			850,528,551	811,200,551

Notes to the Financial Statements (Contd.)

- 8.2** 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 Rs.	Accumulated depreciation 31.03.2004 Rs.	Net book value 31.03.2003 Rs.	Net book value Rs.
Land	33,967,763	-	33,967,763	33,967,763
Building-polishing plant	4,772,342	1,872,092	2,900,250	3,091,144
Building	73,641,653	28,421,215	45,220,438	48,166,104
	<u>112,381,758</u>	<u>30,293,307</u>	<u>82,088,451</u>	<u>85,225,011</u>

8.3 Property plant & equipment - company

Gross carrying amounts	Balance as at 01.04.03 Rs.	Additions during the year Rs.	Disposal during the year Rs.	Balance as at 31.03.04 Rs.
At cost				
Land	29,334,484	-	-	29,334,484
Building	34,272,702	4,874,735	-	39,147,437
Water supply scheme	295,687	-	-	295,687
Lab equipment	2,162,771	3,500	-	2,166,271
Motor vehicles	13,731,732	6,617,900	(1,963,604)	18,386,028
Electricity distribution	5,363,492	-	-	5,363,492
Office equipment	61,576,114	1,976,136	-	63,552,250
Communication equipment	7,833,816	225,155	(375,080)	7,683,889
Furniture & fittings	5,965,970	859,868	-	6,825,838
Tools & implements	16,193,227	649,120	-	16,842,347
Sundry inventory	4,402,657	1,692,139	-	6,094,796
Other equipment	7,789,361	11,077	-	7,800,438
Factory equipment	23,245,732	-	-	23,245,732
Construction equipment	2,236,047	-	-	2,236,047
Plant and machinery	565,013,735	44,645,274	-	609,659,009
Plant and machinery polishing plant	54,777,925	1,439,577	-	56,217,502
Household item - heavy	33,690	-	-	33,690
Household item - light	826,330	93,935	-	920,265
Fixtures & fittings - showrooms		16,697,754	-	16,697,754
	<u>835,055,472</u>	<u>79,786,170</u>	<u>(2,338,686)</u>	<u>912,502,956</u>
At valuation				
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>966,694,546</u>	<u>79,786,170</u>	<u>(2,338,686)</u>	<u>1,044,142,030</u>

Notes to the Financial Statements (Contd.)

8.3 Property plant & equipment - company (Contd.)

Depreciation	Balance as at 01.04.03 Rs.	Charge during The Year Rs.	Disposal during The Year Rs.	Balance as at 31.03.04 Rs.
On cost				
Land	-	-	-	-
Building	872,553	1,569,043	-	2,441,596
Water supply scheme	71,051	11,827	-	82,878
Lab equipment	1,929,820	68,665	-	1,998,485
Motor vehicles	6,668,730	1,753,915	(1,816,938)	6,605,707
Electricity distribution	1,867,516	214,540	-	2,082,056
Office equipment	24,083,569	8,318,267	-	32,401,836
Communication equipment	1,583,409	736,406	(75,016)	2,244,799
Furniture & fittings	3,171,164	835,763	-	4,006,927
Tools & implements	15,460,154	564,819	-	16,024,973
Sundry inventory	3,444,840	696,657	-	4,141,497
Other equipment	6,182,602	955,200	-	7,137,802
Factory equipment	17,775,838	1,381,123	-	19,156,961
Construction equipment	2,236,047	-	-	2,236,047
Plant and machinery	416,467,941	36,277,377	-	452,745,318
Plant and machinery-polishing plant	33,442,770	5,279,657	-	38,722,427
Household item-heavy	33,690	-	-	33,690
Household item-light	685,523	140,806	-	826,329
	<u>535,977,217</u>	<u>58,804,065</u>	<u>(1,891,954)</u>	<u>592,889,328</u>
On valuation				
Land	-	-	-	-
Building-polishing plant	1,739,134	198,136	-	1,937,270
Building	31,139,995	3,653,722	-	34,793,717
	<u>32,879,129</u>	<u>3,851,858</u>	<u>-</u>	<u>36,730,987</u>
Total depreciation	<u>568,856,346</u>	<u>62,655,923</u>	<u>(1,891,954)</u>	<u>629,620,315</u>
Net book value			Balance as at 31.03.04 Rs.	Balance as at 01.04.03 Rs.
At cost			319,613,628	299,078,255
At valuation			<u>94,908,087</u>	<u>98,759,945</u>
			<u>414,521,715</u>	<u>397,838,200</u>

8.4 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 Rs.	Accumulated depreciation Rs.	Net book value 31.03.2004 Rs.	Net book value 31.03.2003 Rs.
Land	33,967,763	-	33,967,763	33,967,763
Building-polishing plant	4,772,342	1,872,092	2,900,250	3,091,144
Building	73,641,653	28,421,215	45,220,438	48,166,104
	<u>112,381,758</u>	<u>30,293,307</u>	<u>82,088,451</u>	<u>85,225,011</u>

Notes to the Financial Statements (Contd.)

As at 31st March	Consolidated		Company	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
9. Capital work-in-progress				
Balance at the beginning of the year	16,014,727	363,769,435	5,790,175	37,399,865
Cost incurred during the year	20,848,064	19,766,903	19,568,291	9,847,203
Work completed and transferred to respective property, plant & equipment	(34,390,045)	(367,521,611)	(24,191,266)	(41,456,893)
Balance at the end of the year	2,472,746	16,014,727	1,167,200	5,790,175

As at 31st March	Consolidated	
	2004 Rs.	2003 Rs.
10. Product development cost		
Balance at the beginning of the year	34,460,000	-
Product development cost incurred during the year	4,330,134	34,460,000
Amortization charge to the income statement	(7,252,243)	-
Balance at the end of the year	31,537,891	34,460,000

11. Investment in subsidiaries						
Non quoted	No of shares	Holdings %	2004 Cost Rs.	2004 Director's valuation Rs.	2003 Cost Rs.	2003 Director's valuation Rs.
Royal Ceramics Distributors (Pvt) Limited	500,002	100%	500,020	500,020	500,020	500,020
Royal Porcelain (Pvt) Limited	50,000,002	100%	500,000,020	500,000,020	500,000,020	500,000,020
			500,500,040	500,500,040	500,500,040	500,500,040

As at 31st March	Consolidated		Company	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
12. Other investment				
1400700 shares- L.B. Financial Ltd (Quoted Investment)	22,411,200	-	22,411,200	-
(Market value as at 31st March 2004-Rs. 19,609,800)	22,411,200	-	22,411,200	-

13. Inventories				
As at 31st March	Consolidated		Company	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
Raw materials	185,579,458	88,427,688	147,633,550	70,114,141
Construction consumables	5,085,780	7,471,279	5,085,780	7,471,279
Spares and consumables	138,211,528	115,797,530	104,122,058	99,797,710
Work in progress	20,702,345	6,510,825	11,955,454	2,498,177
Finished goods	361,010,332	332,113,545	281,781,056	235,919,921
Goods in transit	24,634,036	39,736,246	10,628,062	8,833,786
	735,223,479	590,057,113	561,205,960	424,635,014
Less: Provision for general stock	(4,069,950)	(3,000,000)	(4,069,950)	(3,000,000)
Provision for finished goods	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)
	729,153,529	585,057,113	555,136,010	419,635,014

As at 31st March

As at 31st March

As at 31st March

As at 31st March

As at 31st March

Royal Ceramics Lanka Limited 44 Annual Report 2003-2004

Notes to the Financial Statements (Contd.)

As at 31st March	Consolidated		Company	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
18. Share Capital				
18.1 Authorised				
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>
18.2 Issued and fully paid				
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	Consolidated		Company	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
19. Reserves				
19.1 Capital reserves				
Share premium	260,779,533	260,779,533	260,779,533	260,779,533
Revaluation reserves	<u>4,167,357</u>	<u>4,167,357</u>	<u>4,167,357</u>	<u>4,167,357</u>
	<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 8 to the accounts. The unrealized amount cannot be directly distributed to shareholders.

20. Interest bearing loans & borrowings - consolidated

Institute	Current Rs.	Non-Current Rs.	Total Rs.
National Development Bank	8,400,000	4,700,000	13,100,000
Hatton National Bank Ltd.	34,335,000	195,402,500	229,737,500
Standard Chartered Bank - Short term loan	25,000,000	-	25,000,000
Hatton National Bank Ltd.- Short term loan	81,595,307	-	81,595,307
DFCC Bank	4,565,042	27,706,749	32,271,791
Seylan Bank	79,929,000	-	79,929,000
Bank Overdraft	<u>211,145,693</u>		<u>211,145,693</u>
	<u>444,970,042</u>	<u>227,809,249</u>	<u>672,779,291</u>

Interest bearing loans & borrowings - company

Institute	Current Rs.	Non-Current Rs.	Total Rs.
Hatton National Bank Ltd.	34,335,000	195,402,500	229,737,500
Standard Chartered Bank - Short Term Loan	25,000,000	-	25,000,000
Hatton National Bank Ltd.- Short Term Loan	81,595,307	-	81,595,307
DFCC Bank	4,565,042	27,706,749	32,271,791
Seylan Bank	79,929,000	-	79,929,000
Bank Overdraft	<u>104,959,251</u>		<u>104,959,251</u>
	<u>330,383,600</u>	<u>223,109,249</u>	<u>553,492,849</u>

Notes to the Financial Statements (Contd.)

As at 31st March

20.2 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 installment 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)
Seylan Bank Limited	Rs. 120 Million	10.50%	To meet working requirements	06 monthly instalments of Rs. 10.33 capital million commencing from 2004.
DFCC Bank	Rs. 100 Million	9.50%	Purchase of machinery	60 monthly instalments after a grace period of 6 months from date of first disbursement.
Standard Chartered Bank - (Short term loans)	Rs. 25 Million	12.75%	To facilitate the expansion of production capacity and to meet working capital requirements.	

As at 31st March	Consolidated		Company	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.

21. Deferred taxation

Balance at the beginning of the year	62,611,013	44,402,029	61,066,155	43,969,132
Prior year adjustment	-	-	-	-
Transferred from income statement	(3,285,561)	18,208,984	(1,740,703)	17,097,023
Balance at the end of the year	59,325,452	62,611,013	59,325,452	61,066,155

As at 31st March	Consolidated		Company	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.

22. Retirement benefit obligations

Balance at the beginning of the year	20,635,816	16,760,027	16,078,103	14,586,525
Provisions for the year	4,866,855	5,041,673	3,605,160	2,613,562
Payments made during the year	(1,707,617)	(1,165,884)	(1,345,567)	(1,121,984)
Balance at the end of the year	23,795,054	20,635,816	18,337,696	16,078,103

As at 31st March	Consolidated		Company	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.

23. Creditors and other payables

Trade creditors	55,635,514	20,834,450	51,767,568	18,075,912
Accrued expenses	41,736,828	46,823,054	15,227,402	26,045,683
Other creditors	16,580,753	25,849,736	12,486,570	18,342,338
	113,953,095	93,507,240	79,481,540	62,463,933

Notes to the Financial Statements (Contd.)

As at 31st March	Consolidated		Company	
	2004	2003	2004	2003
	Rs.	Rs.	Rs.	Rs.

24. Amounts payable to related companies

	Relationship			
Royal Ceramics Distributors (Pvt) Ltd.	Subsidiary			
		-	321,020,260	35,696,908
		-	321,020,260	35,696,908

As at 31st March	Consolidated		Company	
	2004	2003	2004	2003
	Rs.	Rs.	Rs.	Rs.

25. Dividend payable

1996/97 interim and final dividend	49,161	49,161	49,161	49,161
1997/98 interim and final dividend	92,674	92,674	92,674	92,674
1998/99 interim and final dividend	22,798	22,798	22,798	22,798
1999/00 interim and final dividend	59,858	59,858	59,858	59,858
2000/01 interim and final dividend	-	-	-	-
2001/02 interim and final dividend	30,007	30,007	30,007	30,007
2002/03 interim and final dividend	3,120,181	55,394,692	3,120,181	55,394,692
	3,374,679	55,649,190	3,374,679	55,649,190

As at 31st March	Consolidated		Company	
	2004	2003	2004	2003
	Rs.	Rs.	Rs.	Rs.

26. Interest bearing loans and borrowings

Hatton National Bank Ltd.	34,335,000	34,335,000	34,335,000	34,335,000
Hatton National Bank Ltd. - Commercial papers	-	58,206,000	-	58,206,000
Standard Chartered Bank	25,000,000	74,000,000	25,000,000	74,000,000
Hatton National Bank Ltd. - Short term loan	81,595,307	60,000,000	81,595,307	60,000,000
National Development Bank	8,400,000	8,400,000	-	-
DFCC Bank	4,565,042	-	4,565,042	-
Seylan Bank	79,929,000	-	79,929,000	-
Bank overdraft	211,145,693	44,173,257	104,959,251	37,822,344
	444,970,042	279,114,257	330,383,600	264,363,344

Notes to the Financial Statements (Contd.)

As at 31st March 2004

27. Securities offered

27.1 Securities offered to borrowings are set out below

Royal Ceramics Lanka Ltd.

Nature of liability

- (a) Loan from Hatton National Bank Ltd.
- (b) Loan from Hatton National Bank Ltd.
- (c) Loan from Seylan Bank Ltd.

Loan facility

- Rs. 200 million
- Rs. 75 million
- Rs. 120 million

Security

- Negative Pledge over Company Assets.
- do -
- Negative pledge over unencumbered assets

Royal Procelain (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

- (b) Loan from DFCC Bank

- Rs. 100 million

- Primary mortgage over the following machinery/equipment.
- 2 Bell units
- 2 Glaze tubs with vibrating screen
- 2 Vibrating screens
- 1 Fettling unit
- 2 Devisteps
- 4 ROTO colour systems
- 40 Engraved cylinders
- 2 Dry frit applications
- 1 Lengthener/dryer
- 1 Horizontal dryer
- 1 Synchronize belt for printing machine
- 1 Loading/unloading machine
- 1 Squaring machine with dryer
- 1 Ventilation system

28. Contingent liabilities

Company has issued corporate guarantees in favour of its subsidiary Royal Porcelain (Pvt) Limited guaranteeing loans, interest and other charges of the loans as stated in Note 27.1.

29. Capital commitments

There were no material capital commitments as at 31.03.2004.

30. Events occurring after balance sheet date

No circumstances have arisen since the Balance Sheet date which would require adjustment to or disclosure in the Financial Statements.

31. Directors' interests

31.1 Mr. A. M. Weerasinghe, Chairman of Royal Ceramics Lanka Limited has provided transport services to the Company at a fee of Rs.947,680.00.

31.2 Company has obtained a business premises on rent from Mr.A.M.Weerasinghe, Chairman of Royal Ceramics Lanka Limited at a rental of Rs.2,430,800.

31.3 Mr. A. M. Weerasinghe, Mr. K. D. D. Perera, Mr. F. P. De Alwis, Mr. M. T. L. Fernando, Mr. B. M. Amarasekara, Mr. R. B. Thambaiyah, Mr. W. D. N. H. Perera, Mr T. G. Thoradeniya, Mr. S. C. Ganegoda (resigned on 30th April 2003), Mr. A. L. Karunanayake (resigned on 03rd December 2003), Mr. D. L. B. C. Perera (resigned on 03rd December 2003), Mr. L. T. Samarawickrema (appointed on 03rd December 2003), Mr. K.D.H. Perera (appointed on 03rd December 2003), Mr. J. K. Menon (appointed on 22nd January 2004), 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 Ceramic products had purchased tiles amounting to Rs 698,297,974.76 from Royal Ceramics Lanka Ltd. Rs 3,587,732.81 has been paid to Royal Ceramics Distributors (Pvt) Ltd as sales commission.

An amount of Rs.321,020,260/- was due to Royal Ceramics Distributors (Pvt) Limited from Royal Ceramics Lanka Limited as at 31.03.2004.

31.4 Mr. A. M. Weerasinghe, Mr. K. D. D. Perera, Mr. F. P. De Alwis, Mr. M. T. L. Fernando, Mr. B. M. Amarasekara, Mr. R. B. Thambaiyah, Mr. W. D. N. H. Perera, Mr T. G. Thoradeniya, Mr. S. C. Ganegoda (resigned on 30th April 2003), Mr. A. L. Karunanayake (resigned on 03rd December 2003), Mr. D. L. B. C. Perera (resigned on 03rd December 2003), Mr. L. T. Samarawickrema (appointed on 03rd December 2003), Mr. K.D.H. Perera (appointed on 03rd December 2003), Mr. J. K. Menon (appointed on 22nd January 2004), 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) Ltd. and a sum of Rs 381,557,847 so advanced has remained outstanding as at 31.03.2004. 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 a loan, interest and other charges of the loan.

32. Related party transactions

Mr. P. Karunanayaka, Son of Mr. A. L. Karunanayaka (resigned on 03rd December 2003), former Director of Royal Ceramics Lanka Limited, act as an agent for the Company in Victoria Australia, and has been paid Rs.227,401.00 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.32 to the Financial Statements.

Group Value Added Statement

For the year ended 31st March

	Rs.000's	2004 Rs.000's		Rs.000's	2003 Rs.000's
Turnover		1,536,183			1,069,041
Other income		14,430			21,805
		1,550,613			1,090,846
Less: Cost of material & services bought in		(913,651)			(506,934)
		636,962			583,912

Value allocated to employees

Salaries & wages and other benefits	<u>163,491</u>	163,218	25.6%	<u>157,819</u>	157,819	27.0 %
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To Government

Income tax	905			42,367		
GST, NSL, VAT & TT	<u>235,019</u>	235,924	37%	<u>161,618</u>	203,985	34.9 %

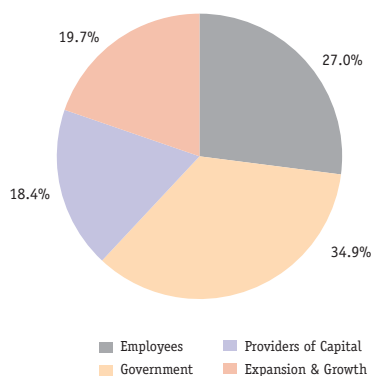
To providers of capital

Dividend				55,394		
Loan Interest	<u>52,575</u>	52,575	8.3%	<u>51,619</u>	107,013	18.4 %

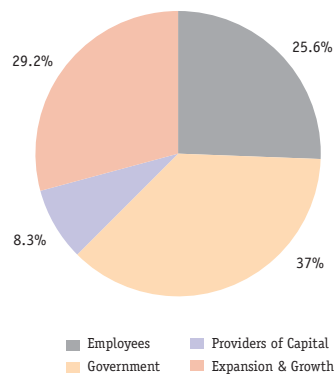
To expansion & growth

Retained in business	84,175			34,475		
Depreciation	<u>101,070</u>	185,245	29.1%	<u>80,620</u>	115,095	19.7 %
		636,962	100%		583,912	100.0 %

Value Added 2003

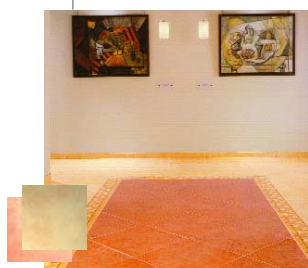


Value Added 2004



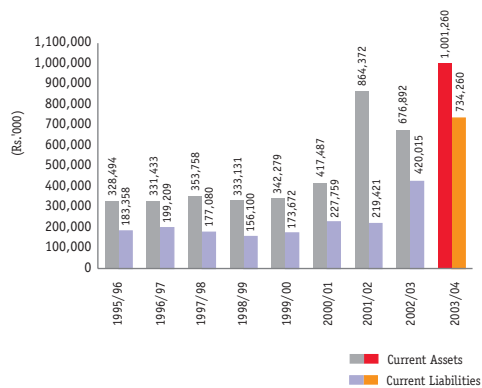
Nine-Year Summary - Company

31st March	2004	2003	2002	2001	2000	1999	1998	1997	1996
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Trading results									
Net turnover	703,429	665,488	610,692	624,387	573,336	564,193	548,262	473,516	322,206
Profit before interest	11,148	83,038	99,158	148,120	85,890	97,073	85,005	69,919	63,026
Interest	(39,523)	(48,263)	(9,551)	(5,584)	(3,587)	(3,119)	(6,667)	(329)	(861)
Profit/(loss) after interest	(28,375)	34,775	89,607	142,536	82,303	93,954	78,338	69,590	62,165
Other income	69,789	78,101	4,903	1,536	1,115	4,165	3,704	7,163	8,006
Profit before taxation	41,414	112,876	94,510	144,072	83,418	98,119	82,042	76,753	70,171
Taxation	7,210	(41,097)	(2,035)	(5,666)	(209)	(1,227)	(1,016)	(2,377)	(2,300)
Profit after taxation	48,624	71,779	92,475	138,406	83,209	96,892	81,026	74,376	67,871
Deferred revenue expenditure	-	-	-	-	-	(3,055)	(5,724)	(5,724)	(5,724)
Prior year adjustments	-	-	-	-	(50,000)	-	-	-	-
Net profit	48,624	71,779	92,475	138,406	33,209	93,837	75,302	68,652	62,147
Balance Sheet									
Share capital	553,947	553,947	553,947	307,748	307,748	307,748	307,748	307,748	307,748
Capital reserves	264,946	264,946	264,946	271,155	271,155	271,155	268,100	265,045	261,990
General reserves	85,934	37,310	20,925	39,240	90,981	134,709	133,196	116,775	107,004
Capital employed	904,827	856,203	839,818	618,143	669,884	713,612	709,044	689,568	676,742
Fixed assets	415,689	403,628	444,604	482,094	510,831	493,809	513,023	533,179	559,359
Investments	522,911	500,500	500	500	500	50,500	25,500	25,500	25,500
Current assets	1,001,260	676,892	864,372	417,487	342,279	333,131	353,758	331,433	328,494
Current liabilities	(734,260)	(420,015)	(219,422)	(227,759)	(173,672)	(156,100)	(177,080)	(199,209)	(183,358)
Non current liabilities	(300,772)	(304,802)	(250,236)	(54,179)	(10,054)	(7,728)	(6,157)	(1,335)	(53,253)
	904,827	856,203	839,818	618,143	669,884	713,612	709,044	689,568	676,742
Ratios & Statistics									
Ordinary dividends (Rs. 000's)	-	55,394	110,789	153,874	76,937	92,324	61,550	61,550	30,775
Effective rate of dividends (%)	-	10	20	50	25	30	20	20	10
Earnings per share (Rs.)	0.88	1.30	2.65	4.50	1.08	3.15	2.44	2.23	2.02
Market value per share (Rs.)	16.50	15.00	17.00	14.25	13.50	14.50	17.00	28.00	28.25
Highest market value per share (Rs.)	28.25	22.25	33.00	18.00	17.00	18.00	69.50	31.25	48.00
Price earnings ratio (Times)	18.75	11.54	6.42	3.17	12.50	4.60	6.97	12.55	13.98
Net assets per share (Rs.)	16.33	15.46	15.16	20.10	21.77	23.20	23.04	22.45	21.98
ROCE (%)	1.23	9.80	13.62	23.96	12.82	13.60	12.00	10.14	9.31

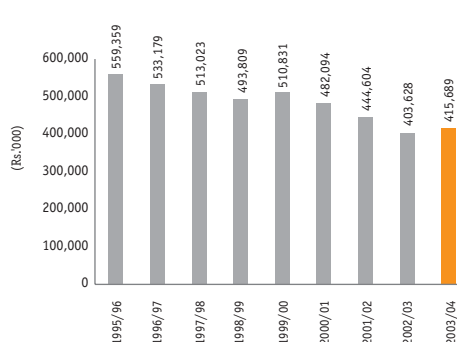


Graphical Review of Nine Year Summary - Company

Current Assets & Liabilities



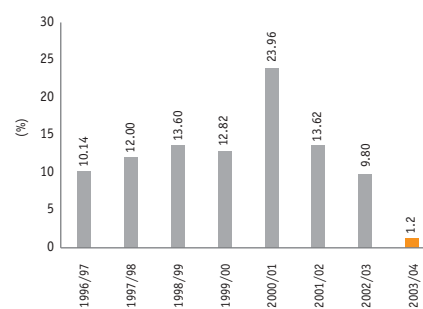
Fixed Assets



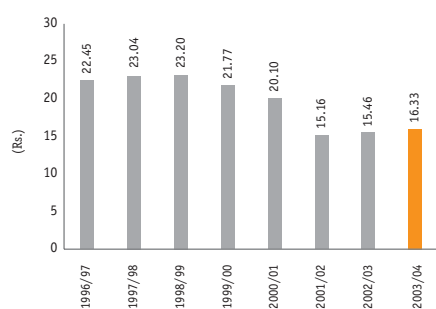
Price Earning Ratio



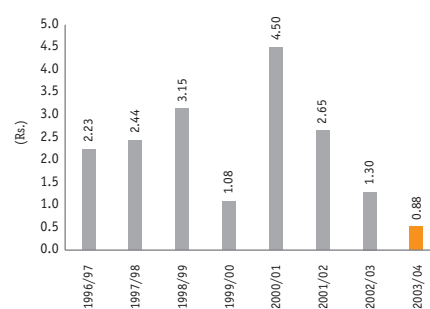
Return on Capital Employed



Net Assets Per Share



Earnings Per Share



Share Information

1. General

Authorised 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.

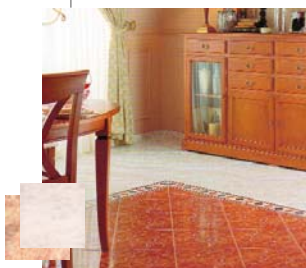
3. Shareholders

There were 14,772 registered shareholders as at 31st March 2004, distributed as follows:

Number of Shares held		No. of Shares holders	Residents		%	Non-Residents		%	No. of Share holders	Total		%
			No. of Shares	No. of Shares		No. of Shares holders	No. of Shares			No. of Shares	No. of Shares	
1	-	1,000	13,684	1,854,510	3.39	68	19,937	3.00	13,752	1,874,447	3.38	
1,001	-	5,000	737	1,681,466	3.07	14	40,370	6.07	751	1,721,836	3.11	
5,001	-	10,000	109	817,456	1.49	7	54,430	8.18	116	871,886	1.57	
10,001	-	50,000	106	2,135,004	3.90	3	63,940	9.61	109	2,198,944	3.97	
50,001	-	100,000	18	1,301,361	2.38	-	-		18	1,301,361	2.35	
100,001	-	500,000	14	2,748,766	5.02	2	486,882	73.15	16	3,235,648	5.84	
500,001	-	1,000,000	4	2,839,936	5.19	-	-		4	2,839,936	5.13	
Over 1,000,000			6	41,350,634	75.56	-	-		6	41,350,634	74.65	
Total			<u>14,678</u>	<u>54,729,133</u>	<u>100.00</u>	<u>94</u>	<u>665,559</u>	<u>100.00</u>	<u>14,772</u>	<u>55,394,692</u>	<u>100.00</u>	

30.72% of shares were held by the public.

Category	No. of Shareholders	No. of Shares	%	Category	No. of Shareholders	No. of Shares	%
Individuals	14,415	32,480,269	58.63	Resident	14,678	54,729,133	98.80
Institutions	357	22,914,423	41.37	Non Resident	94	665,559	1.20
Total	<u>14,772</u>	<u>55,394,692</u>	<u>100.00</u>	Total	<u>14,772</u>	<u>55,394,692</u>	<u>100.00</u>



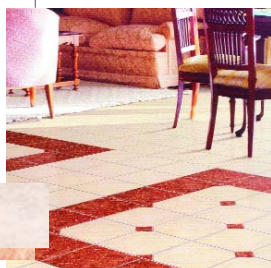
Share Information

4. Twenty Major Shareholders

Name	As at 31st March 2004		As at 31st March 2003	
	No. of Shares	%	No. of Shares	%
Mr. K D D Perera	31,791,176	57.39	16,296,720	29.42
Mr. A M Weerasinghe	5,674,712	10.24	6,653,412	12.01
Bank of Ceylon (O/A - Ceybank Unit Trust)	1,756,446	3.17	1,389,246	2.51
Mr. Rajah Mahinda Nanayakkara	1,559,900	2.82	-	0.00
Hatton National Bank Ltd - A/C No.01	1,068,300	1.93	1,124,100	2.03
Sri Lanka Insurance Corporation Ltd - General Fund	866,836	1.56	7,000	0.01
DPMC Financial Services (Pvt) Ltd - A/C No. 01	863,100	1.56	676,700	1.22
FCML/Mr. A L Karunanayake	555,000	1.00	2,418,718	4.37
CSCMS/Mr. D L B C Perera & Mrs. I V Kariyakavana	555,000	1.00	1,673,398	3.02
Mr. F P de Alwis	307,033	0.55	307,033	0.55
Mr. H H G Backmann	306,882	0.55	306,882	0.55
Bank of Ceylon - (O/A - Ceybank Century Growth Trust)	226,200	0.41	120,500	0.22
Mr. M T L Fernando	202,977	0.37	202,977	0.37
HSBC Corp - Com Trust Equity Fund	200,098	0.36	150,098	0.27
SBL/Mr. S V Somasunderam	200,000	0.36	-	0.00
Lanka Orix Finance Company Limited	200,000	0.36	-	0.00
HSBC International Nominees Ltd - SSBT-Deutsche Bank AG Singapore	180,000	0.32	-	0.00
H H Abdulhussein & Co (Pvt) Ltd A/c No. 01	177,000	0.32	45,000	0.08
WML/Mr. K I Dharmawardena	150,940	0.27	113,940	0.21
Mr. H I Wickremanayake	128,713	0.23	128,713	0.23
Total	<u>46,970,313</u>	<u>84.79</u>	<u>31,614,437</u>	<u>57.07</u>

5. Key Financial Ratios

	2003/2004	2002/2003
	Rs.	Rs.
Net Assets Value per Share	16.22	15.16
Dividend per Share	-	1.00
Highest Market Value recorded during the year	28.25	33.00
Lowest Market Value recorded during the year	14.50	13.00
Official Value at the end of the financial year	16.50	17.00



Glossary of Financial Terms

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 of Meeting

NOTICE IS HEREBY GIVEN that the Fourteenth Annual General Meeting of Royal Ceramics Lanka Limited, will be held at 11.30 a.m. on Tuesday the 21st day of September 2004, at the Crystal Room (Lower Floor), Taj Samudra Hotel, Colombo 03.

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 2004, together with the Report of the Auditors thereon.
2. To declare a first and final tax free Dividend of 10% for the year ended 31st March 2004.
3. To re-elect Mr. M T L Fernando 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. M T L Fernando who is over 70 years of age 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. K D H Perera who retires in terms of Article No. 92 of the Articles of Association as a Director of the Company.
5. To re-elect Mr. L T Samarawickrema who retires in terms of Article No.92 of the Articles of Association as a Director of the Company.
6. To re-appoint M/s. KPMG Ford, Rhodes, Thornton & Company, Chartered Accountants as Auditors and to authorise the Directors to determine their remuneration.
7. To authorize the Directors to determine payments for charitable and other purposes for the year 2004/2005 as set out in the Companies Donation Act (CAP 147).

8. Special Business

To amend the Articles of Association of the Company as per Circular NO.06/2004 of the Colombo Stock Exchange.

RESOLVED that, the Articles of Association of the Company be amended by the inclusion of the following Articles numbered as 35 (a) & 35 (b) immediately following Article NO. 35 under the caption "Transfer of Shares".

- a) 35.a. Notwithstanding any provision in these Articles suggesting the contrary, shares quoted on the Colombo Stock Exchange shall be freely transferable and registration of the transfer of such quoted shares shall not be subject to any restriction, save and except to the extent required for compliance with statutory requirements.
- b) 35. b. Notwithstanding anything to the contrary in these Articles, as long as the shares of the entity are quoted in the Colombo Stock Exchange, the Board may register without assuming any liability therefor any transfer of shares which is in accordance with the rules and regulations in force for the time being and from time to time as laid down by the Colombo Stock Exchange and/or by the Central Depository of the Colombo Stock Exchange.

By Order of the Board

(Sgd.)

Ms. S. Fernando

Company Secretary

Colombo

25th August 2004.

Note:

1. 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 poll (and join in demanding a poll) but not on a show of hands.
2. A Form of Proxy is enclosed in this Report
3. 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 the time for holding the meeting.
4. Shareholders/Proxies attending the meeting are requested to bring their National Identity Card or Passport.



Form of Proxy

*I/We.....of
.....being

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

Mr. A M Weerasinghe of Colombo or failing him
Mr. K D D Perera of Colombo or failing him
Mr. F P de Alwis of Colombo or failing him
Mr. M T L Fernando of Colombo or failing him
Mr. B M Amarasekera of Colombo or failing him
Mr. R B Thambiayah of Colombo or failing him
Mr. W D N H Perera of Colombo or failing him
Mr. T G Thoradeniya of Colombo or failing him
Mr. K D H Perera of Colombo or failing him
Mr. L T Samarawickrema of Colombo or failing him
Mr. J K Menon.

as *my/our Proxy to vote for *me/us on *my/our behalf at the 14TH ANNUAL GENERAL MEETING of the Company to be held at the Crystal Room (Lower Floor) Taj Samudra Hotel at 11.30 a.m. on the Twenty First (21st) day of September 2004 and at any adjournment thereof, and at every poll which may be taken in consequence 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 2004, together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2 To declare a first and final tax free Dividend of 10% for the year ended 31st March 2004.	<input type="checkbox"/>	<input type="checkbox"/>
3 To re-elect Mr. M T L Fernando who retires by rotation in terms of Article 85 of the Articles of Association	<input type="checkbox"/>	<input type="checkbox"/>
4 To re-elect Mr. K D H Perera who retires in terms of Article No. 92 of the Articles of Association as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5 To re-elect Mr. L T Samarawickrema who retires in terms of Article No. 92 of the Articles of Association as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6 To re-appoint M/s. KPMG Ford, Rhodes, Thornton & Company, Chartered Accountants as Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
7 To authorise the Directors to determine payments for charitable and other purposes for the year 2004/2005 as set out in the Companies Donation Act (CAP 147).	<input type="checkbox"/>	<input type="checkbox"/>
8 To amend the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>

Signed thisday of Two Thousand and Four.

.....
* 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 full name and address and sign in the space 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/her. The Proxy may not speak at the Meeting unless expressly authorised 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 the 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 Registered Office of the Company, at No. 10, R. A De Mel Mw, Colombo 03 not less than forty eight (48) hours before the appointed time for the Meeting.



Corporate Information

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 & Ceramic Floor Tiles.

Board of Directors

Mr. A.M. Weerasinghe - Chairman
Mr. K.D.D. Perera - Deputy Chairman
Mr. J.K. Menou-CEO/Director
Mr. F.P. de Alwis
Mr. M.T.L. Fernando
Mr. B.M. Amarasekera
Mr. R.B. Thambiayah
Mr. W.D.N.H. Perera
Mr. T.G. Thoradeniya
Mr. L.T. Samarawickreme
Mr. K.D.H. Perera

Head Office and Registered Office

10, R.A.de Mel Mawatha, Colombo 03.
Telephone: 4-799400
Fax: 4-720077
E-Mail: ho.gen@rcl.lk
Website: www.rocell.com

Subsidiary Companies

Royal Porcelain (Pvt) Ltd.
Royal Ceramics Distributors (Pvt) Ltd.

Registrars

Secretaries and Registrars Ltd.
32, Second Floor, Galle Face Court 2 ,
Galle Face Terrace, Colombo 03.

External Auditors

KPMG Ford Rhodes Thonton & Co.
32A, Sri Mohamed Macan Markar Mw.
Colombo 03.

Internal Auditors

B.R. de Silva & Co.
No. 22/4, Wijaya Cumaratunga Mawatha,
Colombo 05.

Bankers

Commercial Bank of Ceylon Ltd
Hatton National Bank Ltd
Seylan Bank Ltd
Bank of Ceylon Ltd
Standard Chartered Bank Ltd
Sampath Bank Ltd
Pan Asia Bank Ltd

