

Royal Ceramics Lanka Limited



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.

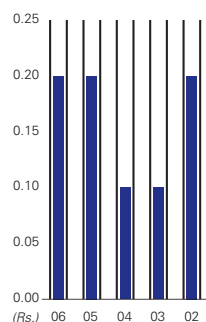
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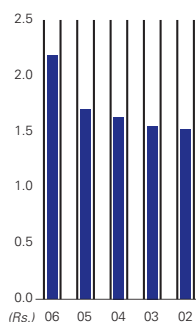
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Financial Highlights

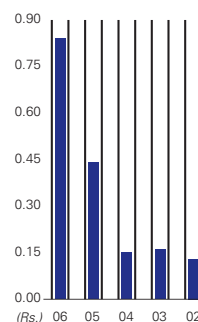
Dividend Per Share



Net Assets Per Share



Earnings Per Share



Net sales	Rs. 1,941 Mn.(2005 - Rs. 1,612 Mn)
Net profit for the year	Rs. 466 Mn.(2005 - Rs. 245 Mn)
Earnings per share	Rs. 0.84 (2005 - Rs. 0.44)
Dividend per share	Rs. 0.20 (2005 - Rs. 0.20)

	2006	2005	Change %
<i>For the year ended 31st March</i>			

Group

Turnover - Gross (Rs. '000)	2,208,821	1,828,472	21%
- Net (Rs. '000)	1,941,535	1,611,761	20%
Profit from Operations (Rs. '000)	459,949	342,598	34%
Profit before Taxation (Rs. '000)	528,502	270,686	95%
Profit after Tax (Rs. '000)	466,627	245,055	90%
Gross Dividends (Rs. '000)	110,789	110,789	-
Interest Cover (No. of times)	7.24	4.76	52%
Dividend Cover (No. of times)	4.21	2.21	91%
ROCE (%)	27%	22%	23%

As at 31st March

Shareholders Funds (Rs. '000)	1,430,781	1,019,549	40%
Total Assets (Rs. '000)	2,761,612	2,118,418	30%
Group Employment (No.of persons)	971	854	14%
Current Ratio (Current Assets : Current Liabilities)	1.41:1	1.34:1	

Per share

(Issued & fully paid shares 553,946,920 of Rs.1/- each)

Earnings (Rs.)	0.84	0.44	91%
Dividend (Rs.)	0.20	0.20	-
Net Assets (Rs.)	2.58	1.84	40%
Market Value (Rs.)	3.40	4.50	(24)%
Cash Flow from Current Operations (Rs.)	0.96	0.71	35%



It is with the greatest pleasure that I present the Annual Report of your Company for the Financial Year 2005/06.

I have no doubt that our shareholders will be overjoyed to hear that Royal Ceramics Lanka Limited continues to grow from strength to strength in terms of revenue and profitability. During the year under review your Company achieved the largest Profit After Tax in the history of the Company. This remarkable performance was achieved through consistent growth over the years which is the result of far-sighted planning by the Board of Directors and the Senior Management, which have been well executed at all levels of the Company.

The Group recorded a Profit After Tax of Rs. 467 million, which is an impressive increase of 90% over the previous year.

The above Profit is inclusive of a sum of Rs. 153 million that was received as a result of the disposal of a block of land that the Company had invested in several years ago, located in Rajagiriya. This sale once

again provides evidence of the effectiveness of your Board's far-sighted investments, since the land has multiplied several times in value from its original purchase price.

However, I am pleased to add that even if the additional revenue from the above item was discounted, the Group has achieved a record Profit of Rs. 375 million, before tax.

Your Board has already issued an Interim Dividend of 10% on 22nd September 2005, and is pleased to recommend a Final Dividend of a further 10%, subject to approval at the Annual General Meeting.

Your Company continued to gain public recognition for its high quality of products and excellence in business standards, and received the following awards:

1. Rocell was recognised as one of the top 20 Brands in Sri Lanka by Lanka Monthly Digest Magazine
2. Winner of the Large category at the National Business Excellence Awards

3. First Runner-Up in the Processing, Manufacturing, Industrial & Engineering category at the National Business Excellence Awards
4. Bronze in the Overall category at the National Business Excellence Awards
5. Silver in the Large Business category at the National Chamber of Exporters Export Awards

Your Company continued to make several significant investments targeted towards increasing profitability both in short term and in the long-term, which in turn would expand the level of returns for all of our shareholders.

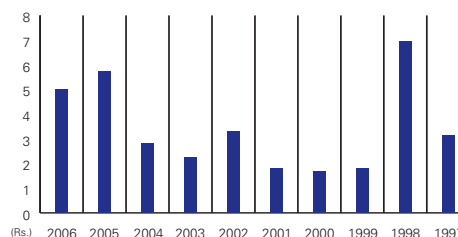
The Board took a strategic decision to position our new subsidiary company Rocell Bathware Ltd in order that its plant would have the capability of producing a wide range of products of the highest quality. This upgrade increased our investment to Rs. 850 million, from the earlier estimate of Rs. 550 million. The factory will be located in Panagoda, and preliminary work has already begun to prepare the land for construction.

The Company expects increased revenue and profits when the new production line at our Horana plant is commissioned in the first quarter of 2006/07, at an investment of Rs. 450 million.

The programme to expand our network of showrooms continued with the addition of a new showroom in Matale during the year under review. Further we relocated our showroom in Kottawa to our own premises. We expect to commission several more in the coming year, which would increase our network to approximately 40, placing your Company in an excellent position to expand its market share even further, and to also add bathroom and home accessories to compliment our existing product range.

We are also streamlining and increasing the efficiency of operations throughout the Company with the purchase of a state-of-the-art Oracle E-Business Suite ERP solution, at an investment of approximately Rs. 50 million. The implementation of the system, which will have a definite impact on operations at head office, our factories, and our network of showrooms, is currently in progress, and is expected to be completed during the current year.

Market Value per Share (Highest)



I am certain that our shareholders will also be happy to hear that your Company continues to diversify its investment portfolio. During the year under review we have purchased another 16% shareholding of the Fortress Resorts Ltd, to increase our holding up to 24% and a 20% shareholding of Lanka Ceramics Ltd, at an investment of Rs. 148 million and Rs. 219 million respectively. This is in addition to our continuing stake of 10% of the share capital of LB Finance Ltd, which was acquired during a previous financial year.

Your Company will continue to make investments whenever prudent, and we are drawing up plans to considerably increase the production capacity of the Eheliyagoda plant from its present 4,000 square metres, up to 10,000 square metres, which would enable us to better cater to the increasing demand in the porcelain floor tile market.

I will conclude by thanking all of our valued shareholders, our suppliers and partners, the members of the Board, our talented management team, and of course our loyal and hardworking staff, for their support during the past year, which I am confident the Company can rely on in the year ahead too.

A.M. Weerasinghe

Chairman

3rd July, 2006



Royal Ceramics Lanka Limited consolidated its activities following the strong performance in the previous year, and positioned itself to create further opportunities in a variety of markets and capitalise on existing opportunities in the many markets where we are already active.

The Company's favourable positioning will be considerably enhanced with the fruition of several ongoing and planned expansion projects that will result in advancement down many avenues. These include dramatic increases in the production capacities of our two existing plants; the expansion of market share by the steady growth of our showroom network; the entry into new markets through our subsidiary Rocell Bathware Ltd; and increased operational efficiency throughout the Company through the use of the most modern systems and tools.

Performance for the year

The Company once again set a new record in performance during the year under review. Profit Before Tax was Rs. 528 million, which is an extraordinary growth of 95% over the previous year. Profit After Tax totalled Rs. 467 million, which was 90% more than in the previous year. Of this, Rs. 314 million was the result of strong growth in the Group's operations, with an additional Rs. 153 million arising from the disposal of a previous investment in property.

These results were achieved on the strength of Gross Sales of Rs. 2,209 million, and Net Sales of Rs. 1,941 million. The sales growth for the year was 21% which came from a steady growth of about 10% by volume with the balance contributed by price increases necessitated by the cost increases. Cost of sales increased by 19% reflecting our ability to contain

costs despite inflationary pressures and, the weakening the rupee.

Working capital management was kept under tight leash as is reflected in the decline in the level of inventories, improved collections and better terms obtained from suppliers. Consequently, inspite of high capital outlays, we were able to keep borrowing under check and had only a slight increase in interest costs for the year, not withstanding higher interest rates that prevailed during the year.

The excellent performance of the Company is a reflection of the consistent development in a wide range of areas, ranging from rapid identification of opportunities by our Marketing team, to expansion of production capacity at our factories, enhancement of skills of staff at all of the Company's facilities, and greatly improved harmony throughout our family of employees.

Issues Facing the Industry

The industry continues to face the longstanding issue of obtaining ball clay of high quality which is essential in maintaining the excellent standard of our products.

We continue to urge the Government to liberalise its policy with respect to mining of ball clay in disused paddy lands, which is at presently restricted. We reiterate that this would not in any way harm the production of paddy since mining would only be carried out in fields which have been lying dormant for several years. In fact, this would serve to introduce quality standards in the supply of ball clay, an area that is lacking at present since suppliers are obliged to mine from less than ideal sources.

Such standardisation is now most desirable since our industry has expanded to the point where it is now a base industry for construction throughout the country.

We are at the same time enhancing the quality of other bodies that are used in our production process, in order to further increase quality of our final products.

The issue of increasing cost of energy continues to dog the industry. However, there appears to be little hope that a solution would be found in the near future which would significantly reduce this. In the absence of any natural gas sources in the country, we hope to depend on refinery products which will be relatively expensive as long as oil prices stay high.

The Company will continue with its policy of not competing with imported products of lower quality, mainly from China, Indonesia, etc, which do not pose a threat since Royal Ceramics' range is being positioned towards a higher-end target market.

Market Leadership

The Company has continued to expand and enhance its range of products, in order to provide greater convenience and choice for consumers, and enhanced customer satisfaction.

Royal Ceramics has continued to strengthen its leadership position in the ceramic market, and plans are being executed to enter the walltile market in the second half of this year (2006 - 07), a move which is expected to open up lucrative new opportunities and greater returns for our shareholders. The Company's strategy is to enter the walltile market with an extensive product range in order to make the maximum impact in the minds of consumers, and our Product Development team has in the past year been preparing for this launch.

The Company intends to expand into the bathroom fittings market, which would complement our present product range.



Network of Showrooms

The Company added one new showroom and upgraded and relocated another in the year under review, in a continuing process of expanding in order to provide direct sales opportunities at the doorstep of consumers. This strategy will continue during the next year, with a minimum of five new showrooms planned to be opened.

Royal Ceramics intends to provide greater market visibility and presence in the minds of consumers, through the commissioning of a giant new ultra modern showroom at Nawala in August 2006. This showroom, constructed with a substantial investment, will have the most modern facilities among any type of showroom in the country, with world class amenities that are intended to draw customers due to the showroom's high degree of convenience and display of an extensive range of products.

Horana Production Plant

Our manufacturing plant at Horana is on the verge of an explosive increase in its capacity, with the planned commissioning in the first quarter of this year, of a new production line that will more than double its production to 8,000 square metres per day from its earlier 3,600 square metres. This will enable the Company to fully exploit opportunities that have been identified in both local and export markets.

Eheliyagoda Production Plant

The Company raised its production from Eheliyagoda to over 95% capacity utilisation during the year. This was a significant achievement given the higher value added products that are being increasingly produced at this plant. Demand for these value added products is on the increase and we are now in the process of planning a major expansion here as well to more double the capacity, within the next year or two.

Export Sector

The Company's Export activities were severely constrained due to our factories having reached the full capacity of their production. However, with the commissioning of the new production line at our Horana plant, it will once again spur our growth in the export sector, which we hope will become a lucrative market in the future. The installation of added capacity at our Eheliyagoda plant in the future will provide a further boost to our exports.

Employee Relations & Career Development

During the year under review, the Company has focused on upgrading the skills and capabilities of its management and staff, recognising that the Group has expanded considerably in recent years and will continue to do so, and will be operating three factories with a combined turnover of close to Rs. 4 billion in the next couple of years.

We are now concentrating on training in both technical and soft skills for the future, and our factory staff were involved in technical programmes aimed at enhancing their skills. Staff at head office and showrooms were also provided with several programmes in a variety of areas, while some of our technical executives from our factories were sent on training overseas. Selected sales staff from our showrooms went to bangkok on a promotional tour.



Members of the sales Team in Bangkok

During the year total staff strength in the Company rose to 971 employees, which was direct results of the increase our expanded recruitment at our Horana plant and for the sales network to cater to our expanded operations. The Company is placing great emphasis on recruiting personnel with qualifications and experience in the relevant areas, ensuring that new recruitment of personnel in manager would possess university degrees.

We continued to emphasise the improvement of employer-employee relations, and a 3-year Collective Agreement was signed with the workers union at the Eheliyagoda plant. This resulted in increase benefits to the worker community and the hope of better productivity in the coming months and years.

Rocell Bathware Ltd

Construction is about to begin on the new factory for Rocell Bathware Ltd, the fully owned subsidiary of Royal Ceramics Lanka Ltd. A suitable site was identified at Templeberg Industrial Estate in Panagoda, and the building contract has been finalised.

The Company has already finalised purchase agreement for equipment, with the plant's machinery to be supplied by Sacmi of Italy and Unimak of Turkey. Financing for the project has been arranged with several leading banks, namely Commercial Bank, DFCC, and HSBC.

Rocell Bathware will be marketing products in both vitreous china and large format fireclay products, with designs to be of the most modern types which would be prepared and molded in Italy, on par with the finest global brands. Rocell Bathware is expected to commence trial production in April 2007, and be fully operational by July of the same year.

The Board has appointed Mr. T. G. Thoradeniya as CEO of Rocell Bathware. Mr. T.G Thoradeniya is already on the Board and has served Royal Ceramics for several years as Director Marketing & Business Development.

Outlook for the Future

In conclusion, I would like to emphasise that your Company has a very bright outlook for the future, based on our consistent and well-planned process of expansion, and our prudent investments of capital. There remains, of course, some uncertainty due to the prevailing political situation. But as long as the nation's economy continues to register its present levels of growth, Royal Ceramics expects to continue its expansion in all areas.

I thank the Board of Directors, my management team, our loyal employees, our many suppliers and partners both in Sri Lanka and overseas, and our shareholders, for the co-operation and support extended during the last year, and I have no doubt that it will continue in the coming year.

Thank you.

A handwritten signature in black ink, appearing to read 'J.K. Menon'.

J.K. Menon

*Chief Executive Officer
3rd July 2006*

Board of Directors

A M Weerasinghe
Chairman



J K Menon
*Chief Executive Officer
Jt. Managing Director*



K D D Perera
Deputy Chairman



W D N H Perera
Jt. Managing Director



B M Amarasekera



R B Thambiayah



F P de Alwis



M T L Fernando



K D H Perera



T G Thoradeniya
*Director Marketing &
Business Development*



L T Samarawickrame



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 sixteen thousand shareholders and with a wide network of 28 showrooms throughout the island and with an export market in several countries. A Gem Merchant by profession. He is also a Director of LB Finance Ltd.

2. K D D Perera - Deputy Chairman

Chairman of Vallibel Holdings Ltd., Vallibel power Erathna Ltd., Deputy Chairman of Royal Ceramics Lanka Ltd., Pan Asia Banking Corporation Ltd., LB Finance Ltd., Connaissance Holdings Ltd., The Fortress Resorts Ltd., Hotel Reef Comber Ltd., Vallibel Finance Ltd. and Director of BOI & SEMA. Mr. Perera's diversified business interests includes Hydro Power Generation Shipping, Manufacturing, Entertainment, Hospitality, Banking & Finance.

3. J K Menon - Chief Executive Officer Jt. Managing Director

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. W D N H Perera - Jt. Managing Director

Jt. Managing Director of the Royal Ceramics Lanka Ltd., Managing Director of the Fortress Resorts Ltd., Group Finance Director of Connaissance Holdings Ltd. and Hotel Reef Comber Ltd. Mr. Perera is also a Director of LB Finance Ltd., Vallibel Power Erathna Ltd. and Vallibel Finance Ltd., and counts over 21 years of experience in the fields of Finance, Capital Market operations, Manufacturing, Marketing and Management Services. He is a member of the Sri Lanka Institute of Marketing.

5. 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.

6. 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. Vallibel Power Erathna 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.

7. 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 LB Finance Ltd, Hotel Reef Comber Ltd and Vallibel Finance Ltd. Serves in 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.

8. 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 & Director of NDB Bank Ltd.

9. T G Thoradeniya

A Marketer by profession, Mr. Tharana Thoradeniya was in the pioneering batch of Sri Lankans to be awarded the title of Chartered Marketeer. Counting over 14 years of industry experience with an unique working background in Marketing, Technology Management and Telecommunications, he is presently operationally involved in Royal Ceramics as the Director - Marketing & Business Development and is the CEO of Rocell Bathware Limited. He is also 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.

Management Team

J K Menon
*Chief Executive Officer/
Jt. Managing Director*



T G Thoradeniya
*Director Marketing &
Business Development*



W D N H Perera
Jt. Managing Director



N Bogahalanda
*Head of Human
Resource*

J K A Sirinatha
*Head of Sales
Administration*



M A N S A Jayatissa
*Head of Eheliyagoda
Complex*



A M C S Atapattu
Head of Technical



N Somaratne
Head of Horana Complex

H Somashantha
Head of Finance



N Gunasekara
National Sales Manager

Our dedicated team is our strength as we face challenges and focus on a common vision. While each and every one of our employee is committed to their individual portfolios, we are totally in sync as one as our mission is to take our Company forward towards a better future and overcome tougher challenges.

Regular management meetings are encouraged to discuss and develop ideas and strengthen leadership. Above all, teamwork is an integral part of our Company's management policy and we are encouraged to share our vision. This has proven to be a critical factor towards our success because we understand that collective participation broadens horizons.

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
- ◆ 472/1, 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
- ◆ 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
- ◆ 143, High Level Road,
Maharagama,
Tel: 4319514
- ◆ 504, Galle Road,
Panadura.
Tel: 038-4281898
- ◆ 509, Colombo Road,
Kaduvela.
Tel: 4948182
- ◆ 200, Colombo Road,
Negombo.
Tel: 031-4922192
- ◆ 721, Trincomale Street,
Matale.
Tel: 066-4460928

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 Group Financial Statements for the year ended 31st March 2006. 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 Group continues to be the manufacture and sale of porcelain & ceramic tiles and undertook the maintenance of the show room network from July 2005 onwards to distribute the products of the Company and its subsidiary Royal Porcelain (Pvt) Limited, 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. 195,895,908/- for the year.

Royal Ceramics Distributors (Pvt) Limited is a wholly owned subsidiary of Royal Ceramics Lanka Limited and has recorded a loss of Rs. 331,446/- during the year under review. This subsidiary Company's operation were transferred to the parent Company during mid year ended 31st March 2006.

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

The authorised share capital of the Company is Rs. 750,000,000/- divided into 750,000,000 shares of Rs. 1 each and the Issued Capital as at 31st March 2006 was Rs. 553,946,920/-.

Summarised Financial Position

The Summarised financial position of the Group is as follows:

	2005/2006 Rs.'000	2004/2005 Rs.'000
Group Profit after Taxation	466,627	245,055
Profit brought forward	200,655	121,784
Dividend	(110,789)	(110,789)
Unappropriated balance carried forward	556,492	200,655

Reserves

The total reserves of the Company stand at Rs. 652,971,692/- comprising capital reserves of Rs. 264,946,890/-, and revenue reserves of Rs. 388,024,803/-.

Statement of Changes in Equity

The movement in equity is shown in the Statement of Changes in Equity on page 28.

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.

Dividends

The Company has paid first interim tax-exempt dividend of 10% for the financial year. The second interim dividend of 10% will be declared as the final dividend for the year ended 31st March 2006.

Corporate Governance

The report on Corporate Governance is given on page 18.

Directors' Responsibilities for Financial Statements

The Statement of Directors' Responsibilities for Financial Statements is given on page 20.

Financial Review

The Financial Review is given on page 16.

Directorate

The names of the Directors in office during the financial year are disclosed in page 10 of the Annual Report.

Mr. R B Thambiyah retires by rotation in terms of Article 85 of the Articles of Association and being eligible, offers himself for re-election.

Directors' Interest in Contracts

Directors' interest in contracts are disclosed in Note 31 to the Financial Statements. These interests have been declared at meetings of the Board of Directors.

Directors' Interest in Shares

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

	As at 31st March 2006	As at 31st March 2005
Mr. K D D Perera	283,516,860	280,500,860
Mr. A M Weerasinghe	56,747,120	56,747,120
Mr. F P de Alwis	3,070,330	3,070,330
Mr. M T L Fernando	2,029,770	2,029,770
Mr. B M Amarasekera (including joint holding)	1,071,930	1,071,930
Mr. R B Thambiyah - <i>Own</i>	7,290	7,290
<i>Indirect</i>		
Renuka Hotels Limited	1,000,000	1,000,000
Renuka Consultants & Services Ltd	500,000	500,000
Renuka City Hotels Limited	1,000,000	1,000,000
Mr. W D N H Perera	271,400	25,000
Mr. T G Thoradeniya	276,200	100,000
Mr. K D H Perera	Nil	Nil
Mr. L T Sawarawickrema	10,000	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 63 under Share Information.

Fixed Assets

The movement in fixed assets during the year is given in Note 11 to the Financial Statements.

Capital Expenditure

Group Capital Expenditure including amount transferred from capital work in progress account during the year amounted to Rs. 491 million.

Taxation

The Royal Ceramics Lanka Limited is liable to pay income tax at 30% on local taxable profits and 15% on export income as per the Inland Revenue Act No. 38 of 2000. Royal Ceramics Distributors (Pvt) Limited

is liable to income tax at 32.5% for the year of assessment 2005-06. Royal Porcelain (Pvt) Ltd; in terms of the agreement entered with the BOI, received the tax exemption status in the year of assessment 2002/03 for a period of 10 years which ends in the year of assessment 2011/12. It is the Group's Policy to provide for deferred taxation on the liability method.

Group Investments

Details of investments held by the Company are given in Note 13, 14 and 15 to the Financial statements.

Market Value of the Company's Ordinary Shares

The market value of the Company's ordinary shares as at 31st March 2006 was Rs. 3.40 compared to Rs. 4.50 as at 31st March 2005 as per official valuation of the Colombo Stock Exchange.

Group Employment

As at the Balance Sheet date, the Group has provided employment to 971 persons.

Contingent Liabilities & Capital Commitments

Details of Contingent liability and capital commitments as at the Balance Sheet date is given in note 28 and 29 respectively of the financial statements.

Post Balance Sheet Events

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

Auditors

The Financial Statements for the year have been audited by M/s KPMG Ford Rhodes Thornton & Co.

By Order of the Board
(Sgd.)

Secretaries & Registrars Ltd.

Secretaries

5th July, 2006

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

Group Results

The Net Turnover of Rs. 1.9 billion during the financial year was a remarkable achievement for the Group. This is a 20% growth further consolidating the position of 'Rocell' as the clear market leader in this industry.

The export turnover of Rs. 202 million which has a growth of 7% has contributed only 10% towards total sales. In the face of global price competition, the Company is taking necessary steps to counter these threats. The Company will continue to focus on this segment.

Profitability

The gross profit of the group has a remarkable growth of 23%. This was achieved from the growth in group sales by 20%. Net sales of the company has also increased by 20%.

There has been a better control of operational cost by improvement in production planning and production efficiencies.

The Company has a remarkable growth in earnings per share of 90%. This benefit has been passed on to the Shareholders by paying a dividend of 10% during the year under review and proposing 10% final dividend for the year.

Profit from operations has increased by 34% to Rs. 459 million during the year. Pre-tax profit has increased by 95% to Rs. 528 million during the financial year.

Taxation

The group made, deferred tax credit of Rs. 9 million and income tax provision of 71 million for the year under review.

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

In addition, Rs. 267 million was paid to the Government by way of direct sales taxes during the year.

Dividend

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

Capital Expenditure

Capital expenditure of the Group was Rs. 491 million for the year, spent on upgrading plant and machinery, adopting newer technologies to meet future demands and showroom development etc.

Financial Indicators

The Group's net inflow of funds was increased to Rs. 27.6 million.

The Group's long term borrowings have increased by 40% to Rs. 507 million which has been mainly utilised for the upgradation of the existing production plants and purchase of wall tile machinery. The Group's short term borrowings including overdrafts has increased by 8% to Rs. 564 million.

Shareholders' funds consist of 39% share capital, 19% capital reserves and 42% revenue reserves.

Accounting Policies and Disclosures

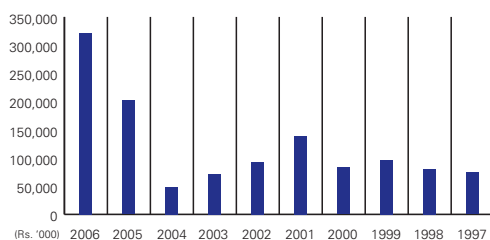
The accounting policies of the Group have been reviewed and amended where necessary, to comply with the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. Further, the format for the presentation of Financial Statements has been

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

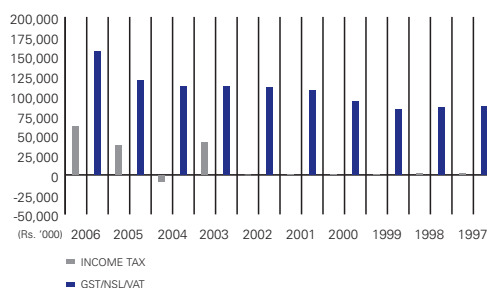
The group has adopted the practice of making full disclosure of both financial and non-financial information to enable the existing and potential shareholders to assess the performance of the Group and its future.

Graphical Review of the Financial Performance of the Company

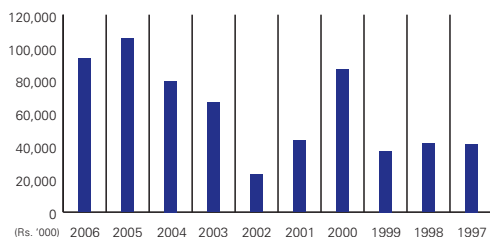
Profit After Taxation



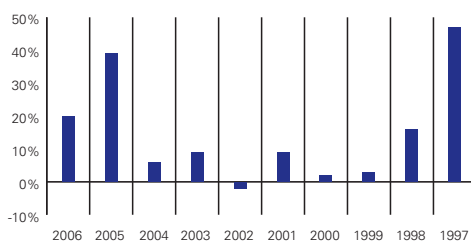
Contribution to the Government



Capital Expenditure



Net Sale Growth Rate



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

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

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

Board of Directors

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

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

The main responsibilities of the Board are to:

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

Composition of the Board

The names of the Directors of the Company who held office in the Company as at the date of the Annual Report are set out on page 10.

The Board comprises of eight non - Executive Directors and three Executive Directors, being the

CEO/Joint Managing Director - Mr. J. K Menon, Joint Managing Director - Mr. Nimal Perera and the Director Marketing & Business Development- Mr. Tharana Thoradeniya.

There is a balance of Executive and Non Executive Directors to ensure that the decisions taken by the Board are collective decisions.

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.

Report of the Audit Committee appears on page 21. 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 (upto January 2005)

Mr. L T Samarawickrema

Upon appointment as Jt. MD in February 2005, Mr. W D N H Perera stepped down from the Audit Committee.

Remuneration Committee

Remuneration Committee consisting of four 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 (up to January 2005)

Mr. L T Samarawickrema

Relationship with Shareholders

The Shareholders have the opportunity of meeting the Board and forwarding their questions at the Annual General Meeting. However, this does not limit their communication with the Board, and they are free to communicate with the CEO, Company Secretary or any of the senior managers depending on the matter to be addressed.

Internal Control

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

The Board is responsible for the Group's system of the internal controls and for reviewing its effectiveness. This is ensured from the system being designed to safeguard assets from against, unauthorised use or disposal and to ensure that proper records are maintained and reliable information is produced including financial, operational, compliance controls and risk management.

However, the Board is of the view that the Company's system of internal controls provides only reasonable and not absolute assurance that material errors and irregularities are either prevented or detected within reasonable time 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 with 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 Group. These differ from the responsibilities of the Auditors, which are set out in their report appearing on page 23.

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 the end of the financial year and of the profit or 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's budget for the financial year 2006 / 2007 including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation.

By Order of the Board
(Sgd.)
Secretaries & Registrars Ltd.
Secretaries
5th July, 2006

Report of the Audit Committee

The Audit Committee, appointed by the Board, consists of three Non Executive Directors. The Chief Executive Officer, Head of Finance and other Executives attend meetings as and when required.

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 Internal Auditors, who are a firm of professional Accountants, attend meetings when their reports are reviewed. The Committee reviewed the Internal Audit Report on the Head Office, Showrooms, Stores, Factory etc. with special reference

to the effectiveness of the internal controls. The Committee also reviewed the quarterly and annual financial statements and recommended them to the Board for its deliberations before approval, prior to their issuance.

The Audit Committee has recommended to the Board of Directors that M/s Ernst & Young be appointed as auditors for the financial year ending 31st March 2007, subject to the approval of the shareholders at the Annual General Meeting.

(Sgd.)

M T L Fernando

Chairman

Audit Committee

3rd July 2006.

Report of the Remuneration Committee

The Remuneration Committee consists of three Non-Executive Directors and the Joint Managing Directors of the Group and is chaired by a Non-Executive Director. The Joint Managing Directors assist the Committee by providing relevant information and participating in deliberations except where their own compensation packages are reviewed.

The Committee is responsible for determining the compensation of the Joint Managing Directors and members of the Group management. They lay down guidelines and parameters for the compensation structures of all management staff.

The primary objective of the compensation package is geared to attract and retain quality executive staff and experienced work force and reward performance. These compensation packages are determined by reference to each employees level of expertise, contribution and general performance towards the Company's profitability and returns to stakeholders.

In arriving at the compensation packages the Committee reviews data and packages of competitors in the industry.

The Committee meets as often as is necessary and inter alia deal with bonus payments, staff increments, budgetary relief allowance and adherence to collective Agreements entered into by the company to ensure that the management and the work force are adequately rewarded for their performance and commitment to the Group's goals a competitive basis.

(Sgd.)

B M Amarasekera

Chairman

Remuneration Committee

3rd July 2006.



Financial Calendar

Interim Report – 1st Quarter 2005/2006	9th August 2005
Interim Report – 2nd Quarter 2005/2006	10th November 2005
Interim Report – 3rd Quarter 2005/2006	27th February 2006
Interim Report – 4th Quarter 2005/2006	25th May 2006
Annual Report – 2005/2006	3rd July 2006
10% Interim Dividend for the Financial Year 2005/2006	22nd September 2005
16th Annual General Meeting	3rd August 2006

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7th Reader May 1911.

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

Income Statement

Year ended 31st March	Note	Company		Group	
		2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Revenue	3	1,193,480,563	976,297,782	1,941,534,551	1,611,761,135
Cost of Sales		(730,516,369)	(608,673,223)	(1,160,064,268)	(975,142,050)
Gross Profit		462,964,194	367,624,559	781,470,283	636,619,085
Other Operating Income	4	120,587,965	168,544,771	3,425,680	11,322,305
Distribution Expenses		(197,407,199)	(163,621,382)	(203,151,289)	(194,738,833)
Administrative Expenses		(81,763,943)	(75,730,359)	(103,924,710)	(100,487,514)
Other Operating Expenses		(15,447,242)	(11,528,565)	(17,871,297)	(10,117,140)
Profit from Operating Activities Before Gain on Disposal of Land	5	288,933,775	285,289,024	459,948,667	342,597,903
Gain on Disposal of Land	6	153,188,457	-	153,188,457	-
Finance Expenses	7	(76,291,415)	(60,309,425)	(84,635,523)	(71,911,828)
Profit from Ordinary Activities Before Tax		365,830,817	224,979,599	528,501,601	270,686,075
Income Tax Expense	8	(44,047,846)	(23,092,822)	(61,874,375)	(25,631,087)
Net Profit for the Year		321,782,971	201,886,777	466,627,226	245,054,988
Basic Earnings per Share	9	0.58	0.36	0.84	0.44
Dividend per Share	10	0.20	0.20	0.20	0.20


The Accounting Policies and Notes on pages 29 through 58 form an integral part of these financial statements.

3rd July 2006

Balance Sheet

As at 31st March	Note	Company 2006 Rs.	2005 Rs.	Group 2006 Rs.	2005 Rs.
ASSETS					
Non-Current Assets					
Property, Plant & Equipment - At Cost	11	368,341,370	399,333,786	1,371,427,156	1,071,822,759
- At Valuation	11	87,204,371	91,056,229	87,204,371	91,056,229
Product Development Cost	12	-	-	23,924,256	23,779,713
Investments in Subsidiaries	13	500,500,000	500,500,000	-	-
Investments in Associates	14	193,568,132	-	193,568,133	-
Other Investments	15	20,620,745	45,019,189	20,620,745	45,019,189
		<u>1,170,234,618</u>	<u>1,035,909,244</u>	<u>1,696,744,661</u>	<u>1,231,677,890</u>
Current Assets					
Inventories	16	429,569,509	512,201,225	662,381,867	705,436,946
Trade and Other Receivables	17	73,441,230	65,839,126	131,382,856	137,266,063
Other Investments	15	265,275,118	23,590,270	265,275,118	23,590,270
Amounts Due from Related Parties	18	147,138,991	141,938,634	-	-
Income Tax Recoverable		-	-	938,350	-
Cash and Bank Balances	27	831,781	18,482,784	4,888,733	20,446,677
		<u>916,256,629</u>	<u>762,051,999</u>	<u>1,064,866,924</u>	<u>886,739,956</u>
Total Assets		<u>2,086,491,247</u>	<u>1,797,961,243</u>	<u>2,761,611,585</u>	<u>2,118,417,846</u>
EQUITY AND LIABILITIES					
Capital and Reserves					
Share Capital	19	553,946,920	553,946,920	553,946,920	553,946,920
Reserves	20	264,946,890	264,946,890	264,946,890	264,946,890
Accumulated Profits		332,630,111	121,636,524	556,492,972	200,655,130
Proposed Dividend	25.2	55,394,692	-	55,394,692	-
Total Equity		<u>1,206,918,613</u>	<u>940,530,334</u>	<u>1,430,781,474</u>	<u>1,019,548,940</u>
Non-Current Liabilities					
Interest Bearing Loans & Borrowings	21	305,600,322	302,708,519	507,171,793	362,226,748
Deferred Tax Liabilities	22	27,543,502	44,559,263	34,855,187	44,559,263
Retirement Benefit Obligation	23	30,988,105	24,824,900	34,769,591	28,705,744
		<u>364,131,929</u>	<u>372,092,682</u>	<u>576,796,571</u>	<u>435,491,755</u>
Current Liabilities					
Trade and Other Payables	24	80,085,952	82,149,873	167,172,575	125,366,181
Dividend Payable	25	8,569,828	8,533,918	8,569,828	8,533,918
Income Tax Liabilities		13,617,474	10,024,909	13,617,475	9,812,267
Interest Bearing Loans & Borrowings	21	287,529,531	254,907,464	412,830,336	324,607,464
Amounts Due to Related Parties	26	43,706,056	41,382,315	-	-
Bank Overdraft	27	81,931,864	88,339,748	151,843,326	195,057,321
		<u>515,440,705</u>	<u>485,338,227</u>	<u>754,033,540</u>	<u>663,377,151</u>
Total Equity and Liabilities		<u>2,086,491,247</u>	<u>1,797,961,243</u>	<u>2,761,611,585</u>	<u>2,118,417,846</u>

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


A.M. Weerasinghe
Chairman


J.K. Menon
CEO/Jt Managing Director

The Accounting Policies and Notes on pages 29 through 58 form an integral part of these financial statements.

3rd July 2006

Cash Flow Statement

Year ended 31st March		Company		Group	
	Note	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Cash Flows From/(Used in) Operating Activities					
Profit from Operating Activities before tax		365,830,817	224,979,599	528,501,601	270,686,075
Adjustments for;					
Dividend Income		(7,713)	-	(7,713)	-
Interest Income		(187,029)	(418,260)	(279,849)	(428,222)
Depreciation of Property, Plant & Equipment	11	72,548,713	69,805,395	121,842,203	114,806,028
(Profit)/Loss on Sale of Property, Plant & Equipment		(153,833,127)	80,689	(153,833,127)	80,689
Finance Cost	7	76,291,415	60,309,425	84,635,523	71,911,828
(Gain)/Loss from Disposal of Short-Term Investments	4	28,894	(6,513,097)	28,894	(6,513,097)
Amortisation of Product Development Cost		-	-	7,758,177	7,758,177
Provision for Defined Benefit Plans - Gratuity	23	7,252,295	7,382,590	7,182,938	6,191,475
Operating Profit/(Loss) before Working Capital Changes		367,924,265	355,626,341	595,828,650	464,492,953
(Increase)/Decrease in Inventories		82,631,716	42,934,785	43,055,079	23,716,549
(Increase)/Decrease in Amounts Due from Related Parties		(5,200,357)	(40,018,692)	-	-
Increase/(Decrease) in Amounts Due to Related Parties		2,323,741	-	-	-
(Increase)/Decrease in Trade and Other Receivables		(7,602,104)	(32,064,294)	5,883,207	(12,131,890)
Increase/(Decrease) in Trade and Other Payables		(2,063,921)	2,668,304	41,806,394	11,413,085
Cash Generated from Operations		438,013,341	329,146,444	686,573,331	487,490,697
Finance Cost Paid	7	(76,291,415)	(60,074,721)	(84,635,523)	(71,677,124)
Defined Benefit Plan Cost Paid	23	(1,089,090)	(895,385)	(1,119,092)	(1,280,785)
Income Tax Paid		(57,471,040)	(19,072,612)	(68,711,592)	(21,652,429)
Net Cash Flows From/(Used in) Operating Activities		303,161,796	249,103,726	532,107,124	392,880,359
Cash Flows from/(Used in) Investing Activities					
Investment in Product Development Cost		-	-	(7,902,719)	-
Acquisition of Property, Plant & Equipment	11	(81,898,238)	(140,226,563)	(461,788,541)	(420,403,787)
Proceeds from Sale of Property, Plant & Equipment		209,444,806	2,961,423	209,444,806	2,961,423
Proceeds from Disposals of Short Term Investments		1,160,606	14,939,429	1,160,606	14,939,429
(Acquisition)/Disposals of Short-Term Investment		(412,044,037)	(54,624,551)	(412,044,037)	(54,624,551)
Interest Received		187,029	418,260	279,849	428,222
Dividend Received		7,713	-	7,713	-
Net Cash Flows from/(Used in) Investing Activities		(283,142,121)	(176,532,002)	(670,842,324)	(456,699,264)

Cash Flow Statement (Contd.)

Year ended 31st March		Company		Group	
	Notes	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Cash Flows from/(Used in) Financing Activities					
Proceeds From Interest Bearing Loans & Borrowings		489,474,456	454,912,444	751,349,257	579,430,673
Repayment of Interest Bearing Loans & Borrowings		(464,031,267)	(351,054,885)	(528,252,025)	(359,454,885)
Capital Repayments under Finance Lease Liabilities		(1,347,200)	(2,331,924)	(1,347,200)	(2,331,924)
Dividend Paid		(55,358,782)	(161,024,837)	(55,358,782)	(161,024,837)
Net Cash Flows from/(Used in) Financing Activities		(31,262,794)	(59,499,202)	166,391,250	56,619,027
Net Increase/(Decrease) in Cash and Cash Equivalents		(11,243,118)	13,072,522	27,656,050	(7,199,878)
Cash and Cash Equivalents at the beginning of the year	27	(69,856,964)	(82,929,486)	(174,610,644)	(167,410,766)
Cash and Cash Equivalents at the end of the year	27	(81,100,082)	(69,856,964)	(146,954,593)	(174,610,644)

The Accounting Policies and Notes on pages 29 through 58 form an integral part of these financial statements.

Statement of Changes in Equity - Company

Year ended 31st March 2006

	Share Capital Rs.	Share Premium Rs.	Revaluation Reserve Rs.	Accumulated Profit Rs.	Proposed Dividend Rs.	Total Rs.
Balance as at 31st March 2004	553,946,920	260,779,533	4,167,357	85,933,823	-	904,827,633
Dividend Paid 2003/2004	-	-	-	(55,394,692)	-	(55,394,692)
Net Profit for the Year	-	-	-	201,886,777	-	201,886,777
Dividend Paid 2004/2005	-	-	-	(110,789,384)	-	(110,789,384)
Balance as at 31st March 2005	553,946,920	260,779,533	4,167,357	121,636,524	-	940,530,334
Dividend Paid 2005/2006	-	-	-	(55,394,692)	-	(55,394,692)
Net Profit for the Year	-	-	-	321,782,971	-	321,782,971
Proposed Final Dividend 2005/2006 (Note 25.2)	-	-	-	(55,394,692)	55,394,692	-
Balance as at 31st March 2006	553,946,920	260,779,533	4,167,357	332,630,111	55,394,692	1,206,918,613

Statement of Changes in Equity - Group

Year ended 31st March 2006

	Share Capital Rs.	Share Premium Rs.	Revaluation Reserve Rs.	Accumulated Profit Rs.	Proposed Dividend Rs.	Total Rs.
Balance as at 31st March 2004	553,946,920	260,779,533	4,167,357	121,784,218	-	940,678,028
Dividend Paid 2003/2004	-	-	-	(55,394,692)	-	(55,394,692)
Dividend Paid 2004/2005	-	-	-	(110,789,384)	-	(110,789,384)
Net Profit for the year	-	-	-	245,054,988	-	245,054,988
Balance as at 31st March 2005	553,946,920	260,779,533	4,167,357	200,655,130	-	1,019,548,940
Dividend Paid 2005/2006	-	-	-	(55,394,692)	-	(55,394,692)
Net Profit for the year	-	-	-	466,627,226	-	466,627,226
Proposed Final Dividend 2005/2006 (Note 25.2)	-	-	-	(55,394,692)	55,394,692	-
Balance as at 31st March 2006	553,946,920	260,779,533	4,167,357	556,492,972	55,394,692	1,430,781,474

The Accounting Policies and Notes on pages 29 through 58 form an integral part of these financial statements.

3rd July 2006

1. CORPORATE INFORMATION

1.1 General

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.

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 and undertaking designing and laying of tiles.

Royal Ceramics Distributors (Pvt.) Ltd.

- Distribution of tiles and undertaking designing and laying of tiles.

Royal Porcelain (Pvt.) Ltd.

- Manufacture and marketing of tiles.

1.2 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.

1.3 Date of Authorisation for Issue

The financial statements of Royal Ceramics Lanka Ltd. for the year ended 31st March 2006 were authorised for issue in accordance with a resolution of the board of directors on 3rd July 2006.

1.4 Number of employees

The number of employees at the end of the year was 971. (2005-854)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 General Policies

2.1.1 Basis of Preparation

The Balance Sheet, Statements of Income, Changes in Equity and Cash Flows, together with accounting policies and notes of the group as at 31st March 2006 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 and building are stated at fair value as explained in Note 11 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.

2.1.2 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.

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

2.1.4 Foreign Currency Translation

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

2.1.5 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 takes a substantial period of time to get ready for its intended use or sale. Such borrowing costs are capitalised as part of those

assets. The cost of borrowing costs eligible for capitalisation is determined according to SLAS 20. Borrowing Cost allowed alternative treatment.

2.1.6 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. 38 of 2000 and amendments thereto. Relevant details are disclosed in note (8) 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 recognised 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 utilised. 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 utilised.

(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.

2.1.7 Deferred Expenditure

Development expenditure incurred on product development is recognised as an asset to the extent that such expenditure is expected to have future benefits. Product development costs that have been capitalised are amortised over 5 years.

2.2 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 realised in cash during the normal operating cycle or within one year from Balance Sheet date, whichever is shorter.

2.2.1 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 capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised 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.

Showroom fixtures and fittings are depreciated over the lease period of each showroom.

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

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

(d) 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.

2.2.2 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.

(c) Associate Company Investments

Investments in associate companies are accounted for on the equity method, whereby the share of profit of the associates attributable to the company is accounted for as income and the value of the investment (which was initially recognised at cost) adjusted by a like amount except for investments acquired and held exclusively with the view to its disposal in the near future in which case is accounted under cost method.

2.2.3 Inventories

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

(a) Raw material - at actual cost on 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 has been valued at cost. Cost is determined by accruing all direct material costs.

(d) Goods - in transit have been valued at cost.

2.2.4 Trade and Other Receivables

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

Other receivables and dues are recognised at cost.

2.2.5 Cash & Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.2.6 Leases

(b) Finance Leases –

where the Company is the Lessee

Property, plant and equipment on finance leases, which effectively transfer to the Company substantially all of the risk and benefits incidental to ownership of the leased item are capitalised at the inception of the lease at the fair value of the leased property or, if

lower, at the present value of the minimum lease payments. capitalised leased assets are disclosed as property, plant and equipment and depreciated consistently with that of owned assets as described under property, plant and equipment.

The corresponding principal amount payable to the lessor together with the interest payable over the period of the lease is shown as a liability. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and depreciated over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is shorter.

(b) Operating Leases

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

Lease payments (excluding costs for services such as insurance and maintenance) paid under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term.

2.3 Liabilities & Provision

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 Balance Sheet date.

All known liabilities have been accounted for in preparing the financial statements.

2.3.1 Trade & Other Payables

Trade and other payables are stated at their cost.

2.3.2 Provisions

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

2.3.3 Retirement Benefit Obligations

(a) Retirement Benefit Plan – Gratuity

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

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

(b) 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 recognised as an expense in the income statement as incurred.

2.4 Income Statement

2.4.1 Revenue Recognition

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

(a) Sale of Goods

Revenue from sale of goods is recognised 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

Interest Income is recognised as the interest accrued (taking into account the effective yield on the asset) unless collectibles is in doubt.

(c) Dividends

Dividend Income is recognised when the shareholders' right to receive the payment is established.

(d) Rendering of Services

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

(e) Rental Income

Rental income is recognised on an accrual basis.

(f) Other

Other income is recognised on a cash basis.

Net Gains and losses of a revenue nature on the disposal of property, plant & equipment and other non current assets including investments have been accounted for in the income statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses. On disposal of revalued property, plant and equipment, amount remaining in Revaluation Reserve relating to that asset is transferred directly to Accumulated Profit.

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

2.5 Expenditure Recognition

- a) Expenses are recognised 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 & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.
- b) For the purpose of presentation of the Income Statement the directors are of the opinion that nature of expenses method/function of expenses method presents fairly the elements of the Company's performance, and hence such presentation method is adopted.

Notes to the Financial Statements (Contd.)

Year ended 31st March

		Company		Group	
		2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
3. REVENUE					
3.1 Summary					
Sales	- Local	1,194,405,829	917,149,055	2,006,142,592	1,638,240,454
	- Export	154,821,255	178,835,711	202,678,349	190,232,291
Less: Sales Taxes -	- Value Added Tax	(155,746,521)	(119,686,984)	(267,082,516)	(213,813,571)
	- Turnover Tax	-	-	(203,874)	(2,898,039)
Revenue		<u>1,193,480,563</u>	<u>976,297,782</u>	<u>1,941,534,551</u>	<u>1,611,761,135</u>

3.2 Goods and Services Analysis

Sale of Goods	<u>1,193,480,563</u>	<u>976,297,782</u>	<u>1,941,534,551</u>	<u>1,611,761,135</u>
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		Company		Group	
		2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.

4. OTHER OPERATING INCOME

Income from Investments with					
Related Parties - Non Quoted	57,500,000	115,000,000	-	-	-
Dividend on Long - Term & Current Investments	7,713	3,030	7,713	3,030	
Profit /(Loss) on Disposal of Current Investments	(28,894)	6,513,097	(28,894)	6,513,097	
Service Fee Income - Related Parties	60,000,000	45,000,000	-	-	
Rent Income - Related Parties	52,174	52,174	-	-	
Exchange Gain/(Loss)	767,302	-	694,167	817,982	
Interest Income	187,029	418,261	279,849	428,222	
Sundry Income	2,102,641	1,558,209	2,472,845	3,559,974	
	<u>120,587,965</u>	<u>168,544,771</u>	<u>3,425,680</u>	<u>11,322,305</u>	

Notes to the Financial Statements (Contd.)

Year ended 31st March

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES				
Stated after Charging/(Crediting)				
Directors' Emoluments	1,741,100	1,360,000	1,741,100	1,360,000
Auditors' Remuneration	363,000	300,000	589,500	545,000
Depreciation	72,548,712	69,607,260	121,842,203	114,806,028
Staff Costs includes,				
- Defined Benefit Plan Costs -Gratuity	7,252,295	4,614,614	8,794,841	5,546,460
- Defined Contribution Plan Costs - EPF & ETF	7,969,679	11,095,929	8,430,866	13,818,954
- Other Staff Costs	192,651,234	134,934,139	232,850,181	160,136,237
Export duty rebate	(1,708,842)	(4,708,566)	(1,708,842)	(4,780,540)
Loss/(Profit) on disposal of Property, Plant & Equipment	(644,670)	80,689	(644,670)	80,689
Loss/(Gain) on translation of foreign currency	(767,302)	1,492,113	(694,167)	(817,982)
Damage Stocks net of insurance claims received	1,587,156	10,036,451	3,812,966	10,036,451
Donations	184,035	76,037	184,035	76,037
Bad Debts Written off	176,203	-	176,203	-
Damage Stocks - due to Tsunami net of insurance claims received	-	2,853	-	879,074

6. GAIN ON DISPOSAL OF LAND

During the year Company has disposed a Land ,located at Rajagiriya to Ceylinco Seylan Developments Limited for Rs. 208,710,000/-. This decision was taken to partly finance the proposed expansion at Royal Porcelain (Pvt) Ltd., and for strategic investments.

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
7. FINANCE EXPENSES				
Interest Expense on Overdrafts	10,251,599	7,816,161	17,691,066	17,699,391
Interest Expense on Loans & Borrowings	64,669,891	52,493,264	65,574,533	54,212,437
	74,921,490	60,309,425	83,265,599	71,911,828
Finance Charges on Lease Liabilities	1,369,924	-	1,369,924	-
	76,291,415	60,309,425	84,635,523	71,911,828

Year ended 31st March

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
8. INCOME TAX EXPENSE				
Current Income Tax				
Current Tax Expense on Ordinary Activities				
for the Year (8.1)	61,510,931	37,490,141	66,073,381	40,028,406
Under/(Over) Provision of current income taxes in respect of prior years	(447,325)	368,870	(447,325)	368,870
Unrecoverable ESC	-	-	5,952,394	-
	61,063,606	37,859,011	71,578,451	40,397,276
Deferred Income Tax				
Deferred Taxation Charge/(Reversal) (8.2)	(17,015,760)	(14,766,189)	(9,704,076)	(14,766,189)
	44,047,846	23,092,822	61,874,375	25,631,087

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
8.1 Reconciliation between Current Tax Expense/(Income) and the product of Accounting Profit				
Accounting Profit (Profit Before tax)	365,830,817	224,979,599	528,501,601	270,686,074
Inter Group eliminations	-	-	50,720,206	2,040,119
Aggregate Disallowed items	(25,825,293)	77,512,712	(12,977,289)	124,348,514
Aggregate Allowable expenses	91,729,550	(46,991,344)	91,659,350	(203,265,838)
Income not subject to tax	(210,754,334)	115,003,030	(415,379,590)	(107,696,973)
Taxable Profit/(Loss)	220,980,740	370,503,997	242,524,278	86,111,896
Tax Losses brought forward and utilised	-	-	(7,540,239)	62,196,087
	220,980,740	370,503,997	234,984,039	148,307,983
Statutory Tax Rate %	@ 32.5%	-	4,551,073	2,538,265
	@ 30%	56,420,852	56,420,852	32,831,810
	@ 15%	4,936,685	4,936,685	4,658,331
		61,357,537	65,908,610	40,028,406
Social Responsibility Levy	@ 0.25%	153,394	164,772	-
Current Income Tax expense	61,510,931	37,490,141	66,073,381	40,028,406

Notes to the Financial Statements (Contd.)

Year ended 31st March

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
8.2 Deferred Tax Expense/(Income)				
Deferred Tax Expense/(Income) arising due to				
- Origination and reversal of timing differences	(17,015,760)	(14,766,189)	(9,704,076)	(14,766,189)
- Changes in Tax rates or Imposition of New Taxes	-	-	-	-
- Benefit Arising from Tax Losses	-	-	-	-
	<u>(17,015,760)</u>	<u>(14,766,189)</u>	<u>(9,704,076)</u>	<u>(14,766,189)</u>

- 8.3** As per the Inland Revenue Act, No.38 of 2000, all resident companies excluding those which are enjoying a tax holiday or concessionary rate of taxation and quoted public companies as referred to below, are liable Income tax at the rate of 32.5% (inclusive of the 2.5% contribution to a Human Resource Endowment Fund). However Companies, where the taxable income is less than Rs. 5mn in any year of assessment are liable to income tax at a concessionary rate of 20% in that year.

Quoted Public Companies which have more than 300 shareholders throughout the year are liable to income tax at 30% (inclusive of the 2.5% contribution to a Human Resource Endowment Fund)

In terms of Section 40,45,47 and 49 of the Inland Revenue Act, profit from construction/ agricultural undertakings, qualifying exports and qualifying indirect exports enjoy a concessionary rate of tax at 15%

Royal Porcelain (Pvt) Ltd, in terms of the agreement entered with the Board of Investment of Sri Lanka is exempt from income tax for a period of 10 years commencing from the year of assessment 2002/2003

9. EARNINGS PER SHARE

- 9.1** Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for the events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

- 9.2** The following reflects the income and share data used in the basic Earnings Per Share computation.

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Amount Used as the Numerator:				
Net Profit for the year	<u>321,782,971</u>	<u>201,886,777</u>	<u>466,627,226</u>	<u>245,054,988</u>
	<u>2006 Number</u>	<u>2005 Number</u>	<u>2006 Number</u>	<u>2005 Number</u>
Number of Ordinary Shares Used as Denominator:				
Weighted Average number of Ordinary Shares in issue				
Applicable to basic Earnings Per Share (9.3)	<u>553,946,920</u>	<u>553,946,920</u>	<u>553,946,920</u>	<u>553,946,920</u>

Notes to the Financial Statements (Contd.)

Year ended 31st March

		Company & Group 2006 Rs.	2005 Rs.
9.3	Ordinary Shares at the Beginning of the Year	553,946,920	553,946,920
	Effects of Bonus Shares issued during the Year	-	-
		<u>553,946,920</u>	<u>553,946,920</u>

9.4 There were no potentially dilutive Ordinary Shares outstanding at any time during the year.

		Company & Group 2006 Rs.	2005 Rs.
10. DIVIDEND PER SHARE			
	Interim Dividend 10%	55,394,692	55,394,692
	Final Dividend 10%	-	55,394,692
	Proposed Dividend 10%	55,394,692	-
	Total Dividend	<u>110,789,384</u>	<u>110,789,384</u>
	Interim/Final Dividend per Share	0.10	0.20
	Proposed Dividend per Share	0.10	-
	Total Dividend per Share	<u>0.20</u>	<u>0.20</u>

	Balance As At 01.04.2005 Rs.	Additions/ Transfers Rs.	Disposals Rs.	Balance As at 31.03.2006 Rs.
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11. PROPERTY, PLANT & EQUIPMENT - COMPANY

11.1 Gross Carrying Amounts

At Cost

Land	92,136,926	37,373,583	(55,521,573)	73,988,936
Building	43,115,199	3,670,026	-	46,785,225
Water Supply Scheme	295,687	-	-	295,687
Lab Equipment	2,335,108	91,218	-	2,426,326
Motor Vehicles	14,613,528	294,151	(244,445)	14,663,234
Electricity Distribution	5,363,492	1,137,495	-	6,500,987
Office Equipment	66,265,829	7,375,333	(75,016)	73,566,146
Communication Equipment	7,697,689	104,909	-	7,802,598
Furniture & Fittings	8,115,593	3,042,765	(406,072)	10,752,286
Tools & Implements	16,999,732	568,198	-	17,567,930
Sundry Inventory	7,149,567	2,344,210	-	9,493,777
Other Equipment	7,887,677	985,683	-	8,873,360
Factory Equipment	23,245,732	12,259	-	23,257,991
Construction Equipment	2,236,047	-	-	2,236,047
Plant and Machinery	615,017,384	6,769,354	-	621,786,738

	Balance As At 01.04.2005 Rs.	Additions/ Transfers Rs.	Disposals Rs.	Balance As at 31.03.2006 Rs.
11. PROPERTY, PLANT & EQUIPMENT - COMPANY (Contd.)				
Plant and Machinery Polishing Plant	55,875,282	1,971,388	-	57,846,670
Household Item - Heavy	33,690	-	-	33,690
Household Item - Light	920,265	59,306	-	979,571
Showroom Fixtures & Fittings	32,501,586	1,892,389	-	34,393,975
Stores Buildings on Lease hold Land	3,965,135	-	-	3,965,135
	1,005,771,147	67,692,267	(56,247,106)	1,017,216,307
Assets on Finance Leases				
Office Equipment	7,322,046	11,417,880	-	18,739,926
	7,322,046	11,417,880	-	18,739,926
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
	1,144,732,267	79,110,147	(56,247,106)	1,167,595,307
	Balance As At 01.04.2005 Rs.	Incurred During the Year Rs.	Reclassified/ Transferred Rs.	Balance As at 31.03.2006 Rs.
In the Course of Construction				
Capital Work in Progress	43,256,323	49,772,251	(35,566,248)	57,462,325
Total Gross Carrying Amount	1,187,988,590			1,225,057,633

	Balance As at 01.04.2005 Rs.	Charge for the Year Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2006 Rs.
11. PROPERTY, PLANT & EQUIPMENT - COMPANY (Contd.)				
11.2 Depreciation				
At Cost				
Land	-	-	-	-
Building	3,823,047	1,724,607	-	5,547,654
Water Supply Scheme	94,707	11,827	-	106,534
Lab Equipment	2,067,849	86,452	-	2,154,301
Motor Vehicles	7,661,482	2,045,318	(195,567)	9,511,233
Electricity Distribution	2,296,595	214,540	-	2,511,135
Office Equipment	40,638,307	8,405,374	(33,757)	49,009,924
Communication Equipment	2,966,032	651,797	-	3,617,829
Furniture & Fittings	4,984,656	1,162,964	(406,072)	5,741,548
Tools & Implements	16,517,788	403,253	-	16,921,041
Sundry Inventory	4,931,461	1,373,455	-	6,304,916
Other Equipment	7,550,349	383,691	-	7,934,040
Factory Equipment	20,533,814	973,232	-	21,507,046
Construction Equipment	2,236,047	-	-	2,236,047
Plant and Machinery	493,155,100	40,821,315	-	533,976,415
Plant and Machinery - Polishing Plant	40,960,491	2,039,929	-	43,000,420
Household Item - Heavy	33,690	-	-	33,690
Household Item - Light	873,297	46,968	-	920,265
Showroom Fixtures & Fittings	5,294,504	6,857,310	-	12,151,814
Stores Buildings on Lease hold Land	396,514	396,516	-	793,030
	657,015,730	67,598,548	(635,396)	723,978,882
Assets on Finance Leases				
Office Equipment	-	1,098,307	-	1,098,307
	-	1,098,307	-	1,098,307
At Valuation				
Land	-	-	-	-
Building - Polishing Plant	2,135,406	198,136	-	2,333,542
Building	38,447,439	3,653,722	-	42,101,161
	40,582,845	3,851,858	-	44,434,703
Total Value of Depreciation	697,598,575	72,548,713	(635,396)	769,511,892
11.3 Net Book Values				
At Cost	348,755,417			293,237,425
On Finance Leases	7,322,046			17,641,619
Capital Work in Progress	43,256,323			57,462,326
	399,333,786			368,341,370
At Valuation	91,056,229			87,204,371
Total Net Book Value	490,390,015			455,545,741

As at 31st March

- 11.4** 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.

	Gross carrying Amount Before Last Revaluation Rs.	Cumulative Depreciation if assets were carried at cost Rs.	Net Carrying Amount 2006 Rs.	Net Carrying Amount 2005 Rs.
Class of Assets				
Land	33,967,763	-	33,967,763	33,967,763
Building-Polishing plant	4,772,342	2,253,880	2,518,462	2,709,356
Building	73,641,653	34,312,547	39,329,106	42,274,772
	112,381,758	36,566,427	75,815,331	78,951,891

- 11.5** During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 93,316,149/- (2005 - Rs. 105,459,485/-) of which Rs. 11,417,880/- (2005 - Rs. 7,322,046/-) was acquired by means of finance leases. Cash payments amounting to Rs. 81,898,269/- (2005 - Rs. 140,226,563/-) were made during the year for purchase of Property, Plant & Equipment.
- 11.6** Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs.533,169,415/- (2005 Rs. 304,061,767/-)

	Balance As At 01.04.2005 Rs.	Additions/ Transfers Rs.	Disposals Rs.	Balance As at 31.03.2006 Rs.
11. PROPERTY, PLANT & EQUIPMENT - GROUP (Contd.)				
11.7 Gross Carrying Amounts				
At Cost				
Land	115,104,309	50,837,483	(55,521,573)	110,420,219
Building	146,007,149	4,896,040	-	150,903,189
Water Supply Scheme	295,687	-	-	295,687
Lab Equipment	2,335,108	91,218	-	2,426,326
Motor Vehicles	18,791,723	5,401,950	(244,445)	23,949,228
Electricity Distribution	5,363,492	1,137,495	-	6,500,987
Office Equipment	85,115,125	7,353,333	(75,016)	92,393,442
Communication Equipment	8,117,074	104,909	-	8,221,983
Furniture & Fittings	18,665,048	175,120	(406,072)	18,434,096
Tools & Implements	18,235,199	799,557	-	19,034,756
Sundry Inventory	7,149,567	2,344,210	-	9,493,777
Other Equipment	16,016,045	1,398,899	-	17,414,944
Factory Equipment	24,197,521	38,394	-	24,235,915
Construction Equipment	2,293,595	-	-	2,293,595
Plant and Machinery	1,019,980,120	47,705,340	-	1,067,685,460
Plant and Machinery - Polishing Plant	55,875,282	1,971,388	-	57,846,670
Household Item - Heavy	314,824	233,386	-	548,210
Household Item - Light	922,540	90,771	-	1,013,311
Showroom Fixtures & Fittings	32,501,586	1,892,389	-	34,393,975
Stores Buildings on Lease hold Land	14,516,783	-	-	14,516,783
	1,591,797,778	126,471,881	(56,247,106)	1,662,022,553
Assets on Finance Leases				
Office Equipment	7,322,046	11,417,880	-	18,739,926
	7,322,046	11,417,880	-	18,739,926
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
	1,730,758,898	137,889,761	(56,247,106)	1,812,401,553
	Balance As At 01.04.2005 Rs.	Incurred During the Year Rs.	Reclassified/ Transferred Rs.	Balance As at 31.03.2006 Rs.
In the Course of Construction				
Capital Work in Progress	226,318,426	370,882,940	(35,566,248)	561,635,117
Total Gross Carrying Amount	1,957,077,324			2,374,036,670

	Balance As at 01.04.2005 Rs.	Charge for the Year Rs.	Disposals Rs.	Balance As at 31.03.2006 Rs.
11.8 Depreciation				
At Cost				
Land	-	-	-	-
Building	9,927,838	5,679,084	-	15,606,922
Water Supply Scheme	94,707	11,827	-	106,534
Lab Equipment	2,067,849	86,452	-	2,154,301
Motor Vehicles	11,443,556	2,047,278	(195,567)	13,295,267
Electricity Distribution	2,296,595	214,540	-	2,511,135
Office Equipment	46,476,663	9,196,939	(33,757)	55,639,845
Communication Equipment	3,186,681	661,250	-	3,847,931
Furniture & Fittings	8,037,053	2,163,488	(406,072)	9,794,469
Tools & Implements	17,244,939	767,582	-	18,012,521
Sundry Inventory	4,931,461	1,373,455	-	6,304,916
Other Equipment	7,550,349	383,691	-	7,934,040
Factory Equipment	20,833,052	1,056,793	-	21,889,844
Construction Equipment	4,600,185	1,631,430	-	6,231,615
Plant and Machinery	565,795,015	81,164,978	-	646,959,993
Plant and Machinery - Polishing Plant	40,960,491	2,039,929	-	43,000,420
Household Item - Heavy	142,141	56,227	-	198,368
Household Item - Light	875,829	48,105	-	923,935
Showroom Fixtures & Fittings	5,294,504	6,857,310	-	12,151,814
Stores Buildings on Lease hold Land	1,856,583	1,451,681	-	3,308,264
	753,615,491	116,892,038	(635,396)	869,872,133
Assets on Finance Leases				
Office Equipment	-	1,098,307	-	1,098,307
	-	1,098,307	-	1,098,307
At Valuation				
Land	-	-	-	-
Building - Polishing Plant	2,135,406	198,136	-	2,333,542
Building	38,447,439	3,653,722	-	42,101,161
	40,582,845	3,851,858	-	44,434,703
Total Value of Depreciation	794,198,336	121,842,203	(635,396)	915,405,143
11.9 Net Book Values				
At Cost	838,182,287			792,150,420
On Finance Leases	7,322,046			17,641,619
Capital Work-in-Progress	226,318,426			561,635,117
	1,071,822,759			1,371,427,156
At Valuation	91,056,229			87,204,371
Total Net Book Value	1,162,878,988			1,458,631,527

As at 31st March

- 11.10** 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 Asset	Gross Carrying Amount Before Last Revaluation Rs.	Cumulative Depreciation if assets were carried at cost Rs.	Net Carrying Amount 2006 Rs.	Net Carrying Amount 2005 Rs.
Land	33,967,763	-	33,967,763	33,967,763
Building-Polishing plant	4,772,342	2,253,880	2,518,462	2,709,356
Building	73,641,653	34,312,547	39,329,106	42,274,772
	112,381,758	36,566,427	75,815,331	78,951,891

- 11.11** During the financial year, the Group acquired Property, Plant & Equipment to the aggregate value of Rs. 491,120,414/- (2005 - Rs. 431,032,203/-) of which Rs. 11,417,880/- (2005 - Rs. 7,322,046/-) was acquired by means of finance leases. Cash payments amounting to Rs. 461,788,541/- (2005 - Rs. 420,403,787/-) were made during the year for purchase of Property, Plant & Equipment.

- 11.12** Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs. 533,262,742/- (2005 Rs. 304,061,767/-)

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.

12. PRODUCT DEVELOPMENT COST

Balance at the beginning of the year	-	-	23,779,714	31,537,891
Incurred during the year	-	-	7,902,719	-
amortised during the year	-	-	(7,758,177)	(7,758,178)
Balance at the end of the year	-	-	23,924,256	23,779,713

Notes to the Financial Statements (Contd.)

As at 31st March

	Country of Incorporation	Group Holding 2006 2005 % %		Cost 2006 Rs.	Directors' Valuation 2006 Rs.	Cost 2005 Rs.	Directors' Valuation 2005 Rs.
13. INVESTMENTS IN SUBSIDIARIES - COMPANY							
Non-Quoted							
Royal Ceramics Distributors (Pvt) Limited	Sri Lanka	100%	100%	500,000	500,000	500,000	500,000
Royal Porcelain (Pvt) Limited	Sri Lanka	100%	100%	500,000,000	500,000,000	500,000,000	500,000,000
Total Non-Quoted Investments in Subsidiaries				500,500,000	500,500,000	500,500,000	500,500,000
Total Gross Carrying Value of Investments in Subsidiaries				500,500,000		500,500,000	
Provision for Decline in Value Other than Temporary				-		-	
Total Net Carrying Value of Investments in Subsidiaries				500,500,000		500,500,000	
				Holding % 2006	Holding % 2005	Carrying Value 2006 Rs.	Carrying Value 2005 Rs.

14. INVESTMENTS IN ASSOCIATES - COMPANY/GROUP

The Fortress Resorts Limited - Quoted	24.45%	10.71%	193,568,132	-
Total			193,568,132	-
			Market Value 2006 Rs.	Market Value 2005 Rs.
The Fortress Resorts Limited			190,131,000	-
Total			190,131,000	-

Notes to the Financial Statements (Contd.)

As at 31st March

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
15. OTHER INVESTMENTS				
Current				
Investments in Equity Securities (15.1)	265,275,118	23,590,270	265,275,118	23,590,270
Non-Current				
Investments in Equity Securities (15.2)	20,620,745	45,019,189	20,620,745	45,019,189
Total Carrying Value of Other Investments	285,895,863	68,609,459	285,895,863	68,609,459

	Company		Group	
	No. of Shares 2006	Cost 2005 Rs.	Cost 2006 Rs.	Cost 2005 Rs.

15.1 Investments in Equity Securities - Current

a) Quoted

	No. of Shares 2006	2005	Cost 2006 Rs.	Cost 2005 Rs.	Cost 2006 Rs.	Cost 2005 Rs.
Lanka Wall Tiles Limited	1,250	1,250	40,490	40,490	40,490	40,490
Lanka Tiles Limited	1,000	1,000	43,530	43,530	43,530	43,530
Fort Land & Investment Limited	50,000	100,000	1,189,288	2,378,788	1,189,288	2,378,788
Hotel Reef Comber Limited	1,327,000	75,800	3,907,213	2,350,470	3,907,213	2,350,470
L B Finance Limited	1,592,600	1,232,900	40,605,447	18,776,992	40,605,447	18,776,992
Lanka Ceramics Limited	6,126,300	-	219,489,150	-	219,489,150	-
Total Investments in quoted equity securities			265,275,118	23,590,270	265,275,118	23,590,270

		Company		Group		
No. of Shares		Market Value	Market Value	Market Value	Market Value	
2006	2005	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.	
b)	Quoted					
Lanka Wall Tiles Limited	1,250	1,250	55,938	67,500	55,938	67,500
Lanka Tiles Limited	1,000	1,000	67,750	65,000	67,750	65,000
Fort Land & Investment Limited	50,000	100,000	1,062,500	2,475,000	1,062,500	2,475,000
Hotel Reef Comber Limited	1,327,000	75,800	2,388,600	1,800,250	2,388,600	1,800,250
L B Finance Limited	1,592,600	1,232,900	135,371,000	61,645,000	135,371,000	61,645,000
Lanka Ceramics Limited	6,126,300	-	211,357,350	-	211,357,350	-
Total Market Value			350,303,138	66,052,750	350,303,138	66,052,750

Notes to the Financial Statements (Contd.)

As at 31st March

	No. of Shares		Company		Group	
	2006	2005	Cost 2006 Rs.	Cost 2005 Rs.	Cost 2006 Rs.	Cost 2005 Rs.

15.2 Investments in Equity Securities - Non-Current

a) Quoted

The Fortress Resorts Limited	12,675,400	3,330,000	-	45,019,189	-	45,019,189
			-	45,019,189	-	45,019,189

a) Non-Quoted

Rocell Bathware Limited						
- Application for Shares		20,620,745	-	20,620,745	-	-
		20,620,745	-	20,620,745	-	-
Total		20,620,745	45,019,189	20,620,745	45,019,189	

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.

16. INVENTORIES

Raw Materials	109,886,492	121,941,196	167,187,205	156,435,817
Construction Consumables	2,715,509	5,445,987	3,071,480	5,445,986
Spares & Consumables	86,500,193	86,609,358	156,129,552	127,635,245
Work in Progress	17,128,062	37,539,112	21,677,461	44,073,061
Finished Goods	207,328,376	256,956,727	302,123,224	333,361,267
Goods in Transit	8,990,506	9,778,795	15,172,574	44,555,520
	432,549,138	518,271,175	665,361,496	711,506,896
Less : Provision for Obsolete & Slow Moving Stock	(2,979,629)	(6,069,950)	(2,979,629)	(6,069,950)
	429,569,509	512,201,225	662,381,867	705,436,946

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.

17. TRADE AND OTHER RECEIVABLES

Trade Debtors	40,332,594	29,668,592	45,618,981	37,898,302
Other Receivables	28,132,887	32,435,053	68,678,688	84,770,557
Prepayments	4,975,749	3,735,481	17,085,186	14,597,204
	73,441,230	65,839,126	131,382,856	137,266,063

Notes to the Financial Statements (Contd.)

As at 31st March

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.

18. AMOUNTS DUE FROM RELATED PARTIES

	Relationship				
Royal Porcelain (Pvt) Ltd	Subsidiary Company	147,138,991	141,938,634	-	-
		147,138,991	141,938,634	-	-

	Par Value Rs.	Company/Group 2006	2005
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19. SHARE CAPITAL

19.1 authorised

		Number	Number
Number of Ordinary Shares		750,000,000	750,000,000
		Rs.	Rs.
Nominal Value of Ordinary Shares	1/-	750,000,000	750,000,000
		750,000,000	750,000,000

	Par Value Rs.	At the Beginning of the Year Number	Issued for Cash/Non Cash Consideration Number	At the End of the Year Number
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19.2 Issued and Fully Paid

Number of Ordinary Shares		553,946,920	-	553,946,920
		553,946,920	-	553,946,920
		Rs.	Rs.	Rs.
Nominal Value of Ordinary Shares	1/-	553,946,920	-	553,946,920
		553,946,920	-	553,946,920

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.

20. RESERVES

Summary

(a) Capital Reserves

Share Premium (20.1)	260,779,533	260,779,533	260,779,533	260,779,533
Revaluation Reserve (20.2)	4,167,357	4,167,357	4,167,357	4,167,357
	264,946,890	264,946,890	264,946,890	264,946,890

Notes to the Financial Statements (Contd.)

As at 31st March

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
20.1 Share Premium				
At the beginning of the year	260,779,533	260,779,533	260,779,533	260,779,533
Received during the year	-	-	-	-
At the end of the year	260,779,533	260,779,533	260,779,533	260,779,533

20.2 Revaluation Reserve

On: Property, Plant & Equipment

Balance at the beginning of the year	4,167,357	4,167,357	4,167,357	4,167,357
Balance at the end of the year	4,167,357	4,167,357	4,167,357	4,167,357

The above revaluation surplus consists of the net surplus resulting from the revaluation of Property, Plant and Equipment as described in Note 11.4 and 11.10. The unrealized amount cannot be distributed to shareholders.

	2006 Amount Repayable Within 1 Year Rs.	2006 Amount Repayable After 1 Year Rs.	2006 Total Rs.	2005 Amount Repayable Within 1 Year Rs.	2005 Amount Repayable After 1 Year Rs.	2005 Total Rs.
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21. INTEREST BEARING LIABILITIES - COMPANY

Finance Leases (21.1)	5,257,704	10,037,802	15,295,506	1,681,155	3,543,671	5,224,826
Long Term Loans (21.2)	176,837,328	295,562,520	472,399,848	77,087,328	299,164,848	376,252,176
Short Term loans (21.3)	105,434,498	-	105,434,498	176,138,981	-	176,138,981
	287,529,531	305,600,322	593,129,853	254,907,464	302,708,519	557,615,983

	As At 01.04.2005 Rs.	New Leases Obtained Rs.	Repayments Rs.	As At 31.03.2006 Rs.
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21.1 Finance Leases

Commercial Bank of Ceylon Limited	6,995,772	13,867,200	(2,717,124)	18,145,848
	6,995,772	13,867,200	(2,717,124)	18,145,848
Gross Liability	6,995,772			18,145,848
Finance Charges Allocated to Future Periods	(1,770,946)			(2,850,342)
Net Liability	5,224,826			15,295,506
Payable within 1 year	1,681,155			5,257,704
Payable after 1 year before 5 years	3,543,671			10,037,802
	5,224,826			15,295,506

Security : Assets Leased

Terms of Payment : 36 - 48 Installments

Notes to the Financial Statements (Contd.)

As at 31st March

	As At 01.04.2005 Rs.	Loans Obtained Rs.	Repayment Rs.	As At 31.03.2006 Rs.
21.2 Long Term Loans				
Commercial Bank of Ceylon Limited	95,465,000	285,000,000	(134,025,000)	246,440,000
Hatton National Bank Limited	195,402,500	-	(34,335,000)	161,067,500
DFCC Bank Limited	85,384,676	-	(20,492,328)	64,892,348
	<u>376,252,176</u>	<u>285,000,000</u>	<u>(188,852,328)</u>	<u>472,399,848</u>
Payable within 1 year	77,087,328			176,837,328
Payable after 1 year	299,164,848			295,562,520
	<u>376,252,176</u>			<u>472,399,848</u>

Details of the Long Term Loans;

Lender	Approved Facility	Rate of Interest	Purpose	Repayment Terms	Security
Hatton National Bank Limited	Rs.200 Million	Reverse REPO + 0.5 (10.5%)	Expansion of production capacity	96 equal monthly installments commencing from 3rd December 2002	Negative pledge over company assets
Hatton National Bank Limited	Rs.75 Million	Reverse REPO + 0.5 (10.5%)	Rescheduling of existing loans	96 equal monthly installments commencing from 10th December 2002	Negative pledge over Company assets
Commercial Bank of Ceylon Limited	Rs.20 Million	AWPLR (12.24%)	Refurbishment of Showrooms & Head Office	48 equal monthly installments commencing from May 2004	Company stocks in trade and assignment over book debts
Commercial Bank of Ceylon Limited	Rs.85 Million	AWPLR (12.24%)	Refurbishment of Showrooms & Head Office and purchasing land	60 equal monthly installments commencing from January 2005	Mortgage over land
Commercial Bank of Ceylon Limited	Rs.200 Million	PLR+1% (13.24%)	Finance long term investments	24 equal monthly installments commencing from October 2005	Mortgage over Investment in LB Finance, Lanka Ceramics & Fortress Resorts
DFCC Bank Limited	Rs.100 Million	AWPLR+5% (13%)	Expansion of production capacity	60 equal monthly installments commencing from July 2004	Mortgage over plant & machinery

Notes to the Financial Statements (Contd.)

As at 31st March

	As At 01.04.2005 Rs.	Loans Obtained Rs.	Repayment Rs.	As At 31.03.2006 Rs.
21.3 Short Term Loans				
Commercial Bank of Ceylon Limited	90,000,000	42,387,195	(73,825,331)	58,561,864
Seylan Bank Limited	30,918,000	47,194,000	(78,112,000)	-
Hatton National Bank Limited	47,984,564	111,825,797	(116,005,191)	43,805,170
Bank of Ceylon	7,236,417	-	(7,236,417)	-
Sampath Bank Limited	-	3,067,465	-	3,067,464
	<u>176,138,981</u>	<u>204,474,457</u>	<u>(275,178,939)</u>	<u>105,434,498</u>

	2006 Amount Repayable Within 1 Year Rs.	2006 Amount Repayable After 1 Year Rs.	2006 Total Rs.	2005 Amount Repayable Within 1 Year Rs.	2005 Amount Repayable After 1 Year Rs.	2005 Total Rs.
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21.4 Interest Bearing Liabilities - Group

Finance Leases (21.5)	5,257,704	10,037,802	15,295,506	1,681,155	3,543,671	5,224,826
Long Term Loans (21.6)	221,837,328	497,133,991	718,971,319	146,787,328	358,683,077	505,470,405
Short Term loans (21.7)	185,735,304	-	185,735,304	176,138,981	-	176,138,981
	<u>412,830,336</u>	<u>507,171,793</u>	<u>920,002,129</u>	<u>324,607,464</u>	<u>362,226,748</u>	<u>686,834,212</u>

Notes to the Financial Statements (Contd.)

As at 31st March

	As At 01.04.2005 Rs.	New Leases Obtained Rs.	Repayments Rs.	As At 31.03.2006 Rs.
21.5 Finance Leases				
Commercial Bank of Ceylon Limited	6,995,772	13,867,200	(2,717,124)	18,145,848
	6,995,772	13,867,200	(2,717,124)	18,145,848
Gross Liability	6,995,772			18,145,848
Finance Charges allocated to Future Periods	(1,770,946)			(2,850,342)
Net Liability	5,224,826			15,295,506
Payable within 1 year	1,681,155			5,257,704
Payable after 1 year before 5 years	3,543,671			10,037,802
	5,224,826			15,295,506

Security : Assets Leased

Terms of Payment : 24 - 48 Installments

	As At 01.04.2005 Rs.	Loans Obtained Rs.	Repayments Rs.	As At 31.03.2006 Rs.
21.6 Long Term Loans				
Commercial Bank of Ceylon Limited	95,465,000	285,000,000	(134,025,000)	246,440,000
Hatton National Bank Limited	269,920,729	-	(49,335,000)	220,585,729
National Development Bank	54,700,000	-	(4,700,000)	50,000,000
DFCC Bank Limited	85,384,676	150,000,000	(33,439,086)	201,945,590
	505,470,405	435,000,000	(221,499,086)	718,971,319
Payable within 1 year	146,787,328			221,837,328
Payable after 1 year	358,683,077			497,133,991
	505,470,405			718,971,319

Details of the Long Term Loans;

Lender	Approved Facility	Rate of Interest	Purpose	Repayment Terms	Security
Company : Royal Ceramics Lanka Ltd					
Hatton National Bank Limited	Rs.200 Million	Reverse REPO + 0.5 (10.5%)	Expansion of production capacity	96 equal monthly installments commencing from 3rd December 2002	Negative pledge over Company assets
Hatton National Bank Limited	Rs.75 Million	Reverse REPO + 0.5 (10.5%)	Rescheduling of existing loans	96 equal monthly installments commencing from 10th December 2002	Negative pledge over Company assets

Notes to the Financial Statements (Contd.)

As at 31st March

Lender	Approved Facility	Rate of Interest	Purpose	Repayment Terms	Security
Commercial Bank of Ceylon Limited	Rs.20 Million	AWPLR (12.24%)	Refurbishment of Showrooms & Head Office	48 equal monthly installments commencing from May 2004	Company stocks in trade and assignment over book debts
Commercial Bank of Ceylon Limited	Rs.85 Million	AWPLR (12.24%)	Refurbishment of Showrooms & Head Office and purchasing land	60 equal monthly installments commencing from February 2005	Mortgage over land
Commercial Bank of Ceylon Limited	Rs.200 Million	PLR+1% (13.24%)	Finance long term investments	24 equal monthly installments commencing from October 2005	Mortgage over Investment in LB Finance, Lanka Ceramics & Fortress Resorts
DFCC Bank Limited	Rs.100 Million	AWDR+5% (13.00%)	Expansion of production capacity	60 equal monthly installments commencing from July 2004	Mortgage over plant & machinery
Company : Royal Porcelain (Pvt) Ltd					
Hatton National Bank Limited	Rs.75 Million	AWPLR+1% (12.3%)	Expansion of production capacity	60 equal monthly installments commencing from April 2005	Mortgage over plant & machinery and Land
DFCC Bank Limited	Rs.150 Million	AWDR+5% (13.00%)	Expansion of production capacity	60 equal monthly installments commencing from August 2004	Mortgage over plant & machinery and Land
NDB Bank Limited	Rs.50 Million	AWPLR+.75% (12.74%)	Working capital requirements	60 equal monthly installments commencing from April 2006	Negative pledge over Company assets
				As At 01.04.2005 Rs.	Loans Obtained Rs.
					Repayments Rs.
					As At 31.03.2006 Rs.

21.7 Short Term Loans

Commercial Bank of Ceylon Limited	90,000,000	66,350,001	(73,825,331)	82,524,670
Seylan Bank Limited	30,918,000	135,106,000	(109,686,000)	56,338,000
Hatton National Bank Limited	47,984,564	111,825,797	(116,005,191)	43,805,170
Bank of Ceylon	7,236,417	-	(7,236,417)	-
Sampath Bank Limited	-	3,067,464	-	3,067,464
	176,138,981	316,349,262	(306,752,939)	185,735,304

As at 31st March

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
22. DEFERRED TAX LIABILITIES				
Balance at the beginning of the year	44,559,263	59,325,452	44,559,263	59,325,452
Provision/(Release) made during the year	(17,015,761)	(14,766,189)	(9,704,076)	(14,766,189)
Balance at the end of the year	27,543,502	44,559,263	34,855,187	44,559,263

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
23. RETIREMENT BENEFIT OBLIGATIONS				
Balance at the beginning of the year	24,824,900	18,337,696	28,705,744	23,795,054
Charges for the year	7,252,295	7,382,589	7,182,937	6,191,475
Payment made during the year	(1,089,090)	(895,385)	(1,119,090)	(1,280,785)
Balance at the end of the year	30,988,105	24,824,900	34,769,591	28,705,744

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
24. TRADE AND OTHER PAYABLES				
Trade Creditors	22,285,521	27,160,136	76,246,794	42,689,542
Other Liabilities	12,578,125	33,731,588	33,427,072	50,349,992
Sundry Creditors Including Accrued Expenses	45,222,306	21,258,149	57,498,709	32,326,647
	80,085,952	82,149,873	167,172,575	125,366,181

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.

25. DIVIDEND PAYABLE**25.1 Dividend Payable**

Payable to	-	Related Parties	-	-	-	-
	-	Other	8,569,828	8,533,918	8,569,828	8,533,918
Total Dividend payable			8,569,828	8,533,918	8,569,828	8,533,918

As at 31st March

25.2 Proposed Dividend

The Directors have recommended a final dividend of 10% (2005 - 10%), which will be declared at the Annual General Meeting.

In accordance with Sri Lanka Accounting Standard No. 12 (Revised) "Events after the Balance Sheet Date", this proposed final dividend has not been recognised as a liability in the financial statements for the year ended 31st March 2006.

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Dividend proposed after the year -end				
Final Dividend Proposed - 10%	55,394,692	-	55,394,692	-
Total Proposed Dividend	55,394,692	-	55,394,692	-

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.

26. AMOUNTS DUE TO RELATED PARTIES

	Relationship	Company		Group	
		2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.
Royal Ceramics Distributors (Pvt) Ltd	Subsidiary Company	43,706,056	41,382,315	-	-
		43,706,056	41,382,315	-	-

	Company		Group	
	2006 Rs.	2005 Rs.	2006 Rs.	2005 Rs.

27. CASH AND CASH EQUIVALENTS IN CASH FLOW STATEMENT

Components of Cash and Cash Equivalents

27.1 Favourable Cash & Cash Equivalent Balances

Cash & Bank Balances	831,781	18,482,784	4,888,733	20,446,677
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27.2 Unfavourable Cash & Cash Equivalent Balances

Bank Overdraft	(81,931,864)	(88,339,748)	(151,843,326)	(195,057,321)
Total Cash and Cash Equivalents For the Purpose				
of Cash Flow Statement	(81,100,083)	(69,856,964)	(146,954,593)	(174,610,644)

28. CONTINGENT LIABILITIES

The Department of Inland Revenue has issued a Tax in default notice claiming turnover taxes amounting to Rs. 21mn. The company has made suitable representation to the Department of Inland Revenue challenging this as the matter was taken up at the Board of Review. This issue is relating to more than eight years. No provision has been made in the accounts since the directors of the company are confident that the company will not be eventually liable for the payment of tax in default as stated by the Department.

As at 31st March

29. CAPITAL COMMITMENTS

The approximate amount of capital commitments approved by the Directors and contracted for as at 31st March 2006 amounts to Rs. 504 Mn. This include Rs. 366 Mn. for a new project to manufacture sanitariware under a new company named Rocell Bathware Limited, which is to be a fully owned subsidiary of Royal Ceramics Lanka Limited. Total cost of the project is estimated at Rs. 850 Mn.

30. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date no circumstances have arisen which would require adjustment to or disclosure in the accounts.

31. DIRECTORS' INTEREST IN CONTRACTS WITH THE COMPANY

31.1 Mr. A. M. Weerasinghe, Chairman of Royal Ceramics Lanka Limited has provided transport services to the Company at a fee of Rs. 702,000/- (2005 - Rs. 218, 400/-).

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. 2,637,000 (2005 - 2,637,000/-).

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. L. T. Samarawickrema, Mr. K.D.H. Perera, Mr. J. K. Menon, Directors of Royal Ceramics Lanka Ltd are also Directors of Royal Ceramics Distributors (Pvt) Ltd.

Royal Ceramics Distributors (Pvt) Ltd had purchased tiles amounting to Rs. 3,494,716/- (2005 - Rs. 117,073,202/-) from Royal Ceramics Lanka Ltd. during the year.

Royal Ceramics Distributors (Pvt) Ltd had purchased tiles amounting to Rs. 6,020,497/- from Royal Porcelain (Pvt) Ltd. during the year.

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. L. T. Samarawickrema, Mr. K.D.H. Perera, Mr. J. K. Menon, Directors of Royal Ceramics Lanka Ltd are also Directors of Royal Porcelain (Pvt) Ltd.

Royal Ceramics Lanka Ltd. has paid service charges and squaring charges of Rs. 60,000,000/- (2005 - Rs. 45,000,000) and Rs. 631,982 (2005 - Rs. 6,056,300/-) respectively to Royal Porcelain (Pvt) Ltd. during the year.

Sales proceeds of Royal Porcelain (Pvt) Ltd are banked in Royal Ceramics Lanka Ltd. bank accounts and Royal Ceramics Lanka Ltd advance funds to Royal Porcelain (Pvt) Ltd.

Royal Ceramics Lanka Ltd had purchased tiles amounting to Rs 2,780,740/- from Royal Porcelain (Pvt) Ltd. during the year.

As at 31st March 2006

31. DIRECTORS' INTEREST IN CONTRACTS WITH THE COMPANY (Contd.)

31.5 Mr. K.D.D. Perera and Mr. W.D.N.H. Perera who were directors of the company were also directors of The Fortress Resorts Ltd and Hotel Reef Comber Ltd. The company has invested in 12,675,400 no of shares at Rs. 193,568,133/- and 1,327,000 no of shares at Rs. 3,907,213/- respectively in The Fortress Resorts Ltd and Hotel Reef Comber Ltd.

31.6 Mr. K.D.D. Perera and Mr. W.D.N.H. Perera who were directors of the company were also directors of LB Finance Limited. The Company has invested in 1,592,600 no of shares at Rs.40,605,447/- in the LB Finance Limited.

32. RELATED PARTY DISCLOSURES

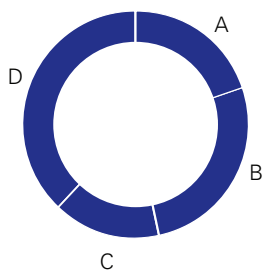
There are no other related party transactions other than those disclosed in Note No.31 to the Financial Statements.

32.1 Pricing Policy

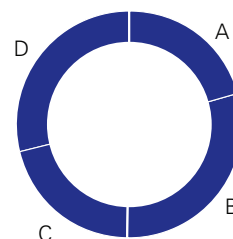
Sales and purchases of goods and/or services to related parties are made at normal trading terms on an arm's length basis.

Group Value Added Statement

	2005/2006			2004/2005		
	Rs.000's	Rs.000's		Rs.000's	Rs.000's	
Turnover		2,208,821			1,828,473	
Other Income		3,426			11,322	
		<u>2,212,247</u>			<u>1,839,795</u>	
Less: Cost of Material & Services bought in		(950,201)			(971,412)	
		<u>1,262,046</u>			<u>868,383</u>	
Value Allocated to Employees						
Salaries & Wages and other benefits	250,076	250,076	19.8%	179,502	179,502	20.7%
To Government						
Income Tax	71,578			40,397		
GST, NSL, VAT & TT	267,286	338,865	26.9%	216,712	257,109	29.6%
To Providers of Capital						
Dividend	110,789			110,789		
Loan Interest	84,636	195,425	15.5%	71,912	182,701	21.0%
To Expansion & Growth						
Retained in Business	355,838			134,266		
Depreciation	121,842	477,680	37.8%	114,806	249,072	28.7%
		<u>1,262,046</u>	<u>100.0%</u>		<u>868,383</u>	<u>100.0%</u>



	2006
A Value Allocated to Employees	19.8%
B To Government	26.9%
C To Providers of Capital	15.5%
D To Expansion & Growth	37.8%



	2005
A Value Allocated to Employees	20.7%
B To Government	29.6%
C To Providers of Capital	21.0%
D To Expansion & Growth	28.7%

Ten Year Summary - Company

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000

Trading Results

Net Turnover	1,193,481	976,298	703,429	665,488	610,692	624,387	573,336	564,193	548,262	473,516
Other Income	120,588	168,545	69,789	78,101	4,903	1,536	1,115	4,165	3,704	7,163
Profit before Interest	442,122	285,289	80,937	161,139	104,061	149,656	87,005	101,238	88,709	77,082
Interest	(76,291)	(60,309)	(39,523)	(48,263)	(9,551)	(5,584)	(3,587)	(3,119)	(6,667)	(329)
Profit after Interest before Taxation	365,831	224,980	41,414	112,876	94,510	144,072	83,418	98,119	82,042	76,753
Taxation	(44,048)	(23,093)	7,210	(41,097)	(2,035)	(5,666)	(209)	(1,227)	(1,016)	(2,377)
Profit after Taxation	321,783	201,887	48,624	71,779	92,475	138,406	83,209	96,892	81,026	74,376
Deferred Revenue										
Expenditure	-	-	-	-	-	-	-	(3,055)	(5,724)	(5,724)
Prior Year Adjustments	-	-	-	-	-	-	(50,000)	-	-	-
Net Profit	321,783	201,887	48,624	71,779	92,475	138,406	33,209	93,837	75,302	68,652

Balance Sheet

Share Capital	553,947	553,947	553,947	553,947	553,947	307,748	307,748	307,748	307,748	307,748
Capital Reserve	264,947	264,946	264,946	264,946	264,946	271,155	271,155	271,155	268,100	265,045
Retained Earnings	388,025	121,637	85,935	37,310	20,925	39,240	90,981	134,709	133,196	116,775
Shareholders Fund	1,206,919	940,530	904,828	856,203	839,818	618,143	669,884	713,612	709,044	689,568
Fixed Assets	455,546	490,390	415,689	403,628	444,604	482,094	510,831	493,809	513,023	533,179
Investments	714,689	545,519	522,911	500,500	500	500	500	50,500	25,500	25,500
Current Assets	916,257	762,052	1,001,260	676,892	864,372	417,487	342,279	333,131	353,758	331,433
Current Liabilities	(515,441)	(485,338)	(734,260)	(420,015)	(219,422)	(227,759)	(173,672)	(156,100)	(177,080)	(199,209)
Non Current Liabilities	(364,132)	(372,093)	(300,772)	(304,802)	(250,236)	(54,179)	(10,054)	(7,728)	(6,157)	(1,335)
	1,206,919	940,530	904,828	856,203	839,818	618,143	669,884	713,612	709,044	689,568

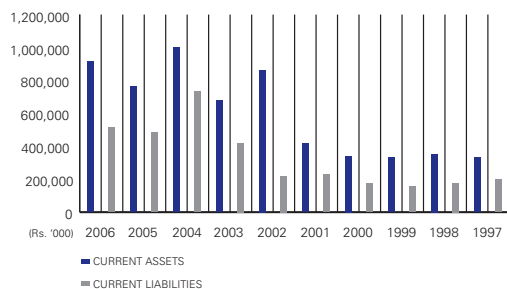
Ratios & Statistics

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Ordinary Dividends (Rs.000's)	110,789	110,789	55,394	55,394	110,789	153,874	76,937	92,324	61,550	61,550
Effective Rate of Dividends (%)	20	20	10	10	20	50	25	30	20	20
Dividend Per Share (Rs.)*	0.20	0.20	0.10	0.10	0.20	0.50	0.25	0.30	0.20	0.20
Earnings Per Share (Rs.)*	0.58	0.36	0.09	0.13	0.27	0.45	0.11	0.32	0.24	0.22
Market Value Per Share (Rs.)*	3.40	4.50	1.65	1.50	1.70	1.43	1.35	1.45	1.70	2.80
Highest Market Value Per Share (Rs.)*	5.00	5.75	2.82	2.25	3.30	1.80	1.70	1.80	6.95	3.13
Price Earnings Ratio (Times)	5.85	12.35	18.33	11.54	6.30	3.18	12.27	4.53	7.08	12.73
Net Assets Per Share (Rs.)*	2.18	1.70	1.63	1.55	1.52	2.01	2.18	2.32	2.30	2.24
ROCE(%)	25.3	20.00	7.31	10.34	9.36	21.42	12.77	13.86	12.26	10.81

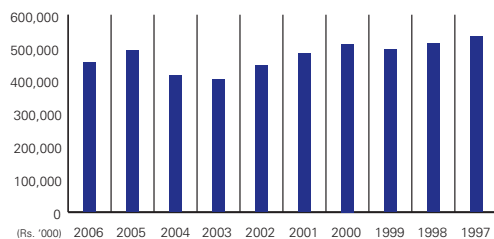
* All, Per Share information has been restated to reflect the present share holding.

Graphical Review of Ten Year Summary - Company

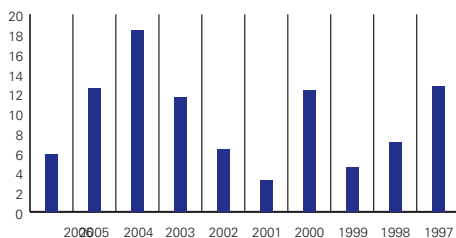
Current Assets & Liabilities



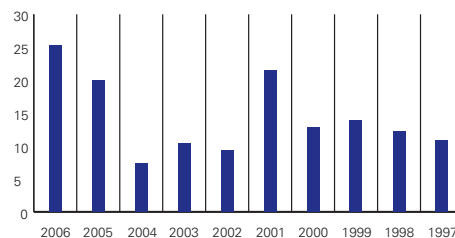
Fixed Assets



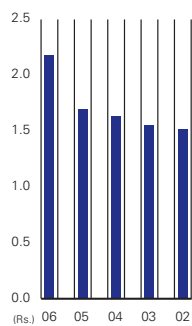
Price Earnings Ratio (Times)



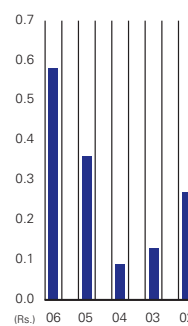
Return on Capital Employed (ROCE) %



Net Assets Per Share



Earnings Per Share



Share Information

1. General

Authorised Share Capital	Rs.750,000,000
Issued & Fully Paid Share Capital	Rs.553,946,920
Class of Shares	Ordinary shares of Rs.1/- each

2. Stock Exchange Listing

Royal Ceramics Lanka Ltd., is a quoted public company and the issued ordinary shares of which are listed with the Colombo Stock Exchange of Sri Lanka.

3. Shareholders

There were 16,629 registered shareholders as at 31st March 2006, distributed as follows :

Number of Shares held	No. of Shareholders	% of no. of Shareholders	No. of Shares	% share holding
1 - 1,000	6,441	38.73	2,933,422	0.53
1,001 - 5,000	7,492	45.05	13,423,420	2.42
5,001 - 10,000	994	5.98	8,221,452	1.48
10,001 - 50,000	1,238	7.44	28,982,636	5.23
50,001 - 100,000	218	1.31	16,966,160	3.06
100,001 - 500,000	193	1.16	42,199,350	7.62
500,001 - 1,000,000	30	0.18	21,845,790	3.94
Over 1,000,000	23	0.14	419,374,690	75.71
Total	16,629	100.00	553,946,920	100.00

36.90% of shares were held by the public as at 31st March 2006

Category	No. of Shareholders	No. of Shares	%	Category	No. of Shareholders	No. of Shares	%
Individuals	16,202	399,045,380	72.04	Resident	16,519	549,995,530	99.29
Institutions	427	154,901,540	27.96	Non Resident	110	3,951,390	0.71
Total	16,629	553,946,920	100.00	Total	16,629	553,946,920	100.00

Share Information

4. Twenty Major Shareholders

Name	As at 31st March 2006		As at 31st March 2005	
	No. of Shares	%	No. of Shares	%
Mr. K D D Perera	283,516,860	51.18	280,500,860	50.64
Mr. A M Weerasinghe	56,747,120	10.24	56,747,120	10.24
Bank of Ceylon A/C - Ceybank Unit Trust	20,072,360	3.62	17,681,460	3.19
Nuwara Eliya Property Developers (Pvt) Ltd	9,904,200	1.79	6,847,900	1.24
Ms.Pushpa Narhari Bhatt	8,094,400	1.46	6,000,000	1.08
Ceylinco Shriram Capital Management Services.Co				
/Mr.Dehiweilage Luxman	7,750,200	1.40	7,750,200	1.40
Ms.Nanda Padmini Dangampola	4,734,180	0.85	4,734,180	0.85
Mr. Pasan Madanayake	4,371,200	0.79	4,371,200	0.79
Seylan Bank Ltd / L.S.I. Perera	3,120,700	0.56	1,142,200	0.21
Mr. F P de Alwis	3,070,330	0.55	3,070,330	0.55
Mr. Roshanth Percival Leo Eheliyagoda	3,008,800	0.54	3,008,000	0.54
Mr. M T L Fernando	2,029,770	0.37	2,029,770	0.37
Seylan Bank Ltd / Jayantha Devege	2,000,000	0.36	-	-
HSBC Corp - Com Trust Equity Fund	1,583,980	0.29	1,183,980	0.21
First Capital Markets Ltd / P.A.F. Perera	1,500,000	0.27	-	-
Bank of Ceylon - A/C. Century Growth Fund	1,381,700	0.25	2,350,800	0.42
Merrill J Fernando & Sons (Pvt)Ltd	1,282,700	0.23	1,282,700	0.23
Mr.Manjula Morarji Udeshi	1,191,020	0.22	1,192,550	0.22
Mr. Mohamed Faizer Hashim	1,170,670	0.21	1,059,170	0.19
E-Fortunes Overseas Ltd	1,140,400	0.21	-	-
Total	417,670,590	75.40	400,952,420	72.4

5. Market Values per Share

			2005/2006	2004/2005
Market Value per share	High	- Par value Rs.10	-	39.50
		- Par value Rs.1	5.00	5.75
	Low	- Par value Rs.10	-	14.00
		- Par value Rs.1	2.50	2.75
	Closing	- Par value Rs.10	-	-
		- Par value Rs.1	3.40	4.50

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 Sixteenth Annual General Meeting of Royal Ceramics Lanka Limited will be held at 11 a.m. on Thursday the 3rd day of August 2006, at Crystal Room (Lower Floor), Taj Samudra Hotel, Colombo 03 for the following purpose:

1. To receive and consider the Report of the Directors, Statement of Accounts and the Balance Sheet of the Company for the year ended 31st March 2006 together with the Report of the Auditors thereon.
2. To declare a final dividend of 10% for the financial year ended 31st March 2006 as recommended by the Board of Directors
3. To re-elect Mr. R. B. Thambiayah, who retires by rotation in terms of Article 85 of the Articles of Association as a Director of the Company.
4. To appoint Auditors of the Company. Special Notice of which has been received from a shareholder of the intention to propose the following resolution as an ordinary resolution.

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

5. Special Business

To authorise the Directors to determine payments for the year 2006/2007 for charitable and other purposes as set out in the Companies Donations Act (Cap. 147)

By Order of the Board

(Sgd.)

Secretaries & Registrars Ltd.

Secretaries

5th July, 2006

Note:

- i. A member entitled to attend and vote at the Meeting is entitled to appoint a Proxy who need not be a member, to attend instead of him/her. A Proxy may vote on a poll (and join in demanding a poll) but not on a show of hands.
- ii. A form of Proxy is enclosed in this Report.
- iii. The completed form of Proxy should be deposited at the Registered Office of the Company at No. 10, R. A. De Mel Mawatha, Colombo 3 not less than 48 hours before time for holding the Meeting.
- iv. Shareholders/Proxies attending the meeting are requested to bring their National Identity Card or Passport.

Notes

Form of Proxy

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

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

..... ofor

failing *him/her

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 (Refer Note 3) for *me/us on *my/our behalf at the 16TH ANNUAL GENERAL MEETING OF THE COMPANY to be held at the Crystal Room (Lower Floor), Taj Samudra Hotel, at 11 a.m. on Thursday the 3rd day of August 2006 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 2006 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2 To declare a final dividend of 10% for the year ended 31st March 2006.	<input type="checkbox"/>	<input type="checkbox"/>
3 To re-elect Mr. R. B. Thambiayah, who retires by rotation in terms of Article 85 of the Articles of Association as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4 To appoint M/s Ernst & Young, Chartered Accountants as Auditors of the Company and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5. Special Business To authorise the Directors to determine payments for the year 2006/2007 for charitable and other purposes as set out in the Companies Donations Act (Cap. 147)	<input type="checkbox"/>	<input type="checkbox"/>

Signed thisday of Two Thousand and Six

.....
* Signature/s

Note :

- * Please delete the inappropriate words.
- Instructions as to completion are noted on the reverse hereof.
- 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, 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. 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 Articles of Association.
5. The completed Form of Proxy should be deposited at the Registered Office of the Company, No.10, R.A.de Mel Mawatha, Colombo 3 not less than forty eight (48) hours before the appointed

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 Tiles

Board of Directors

Mr. A.M. Weerasinghe - Chairman

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

Mr. J.K. Menon - CEO / Jt. M D

Mr. W.D.N.H. Perera - Jt. M D

Mr. T. G. Thoradeniya - Director Marketing & Business Development

Mr. F.P. de Alwis

Mr. M.T.L. Fernando

Mr. B.M. Amarasekera

Mr. R.B. Thambiyah

Mr. L.T. Samarawickreme

Mr. K.D.H. Perera

Head Office and Registered Office

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

Telephone: 011 4799400

Fax: 011 4720077

E-mail: ho.gen@rccl.lk

Website: www.roccl.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 Marker Mw,
Colombo 03.

Internal Auditors

B.R. de Silva & Co.

No. 22/4, Wijaya Kumaratunga 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.

PABC Bank Ltd.

NDB Bank Ltd.

DFCC Bank Ltd.

HSBC Ltd.

