

Royal Ceramics Lanka Limited

Annual Report 2006 - 2007



“Stability Through Growth”

Today, Royal Ceramics is the undoubted leader in the nation's flooring business. Unmatched performance in both the local and global markets is evidence of this dominance.

Tomorrow, it stands poised to unleash a leadership that extends far beyond flooring. One that encompasses the hearts and minds of every homeowner, one that evokes every essence of elegance. Perceptively aiming to tap the latent potential of the bathware category by allowing every homeowner to wallow in the luxury of style united with functionality, the company diversifies with great momentum, in the quest for stability through growth.



Vision

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

Mission

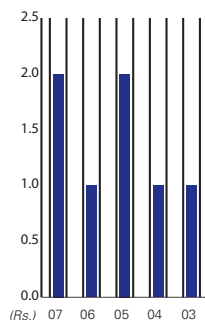
To offer state of the art surfacing solutions to both the home and commercial builders with products and services that transcend the highest quality, ensuring customer satisfaction by matching all expectations, growing the market by way of product innovation, thereby enhancing shareholder wealth, developing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



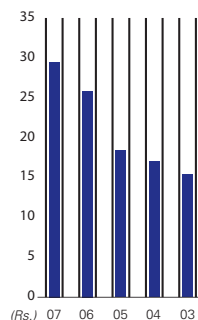
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Financial Highlights

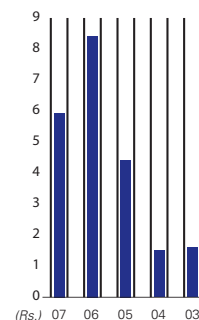
Dividend Per Share



Net Assets Per Share



Earnings Per Share



Net sales	Rs. 2,594 Mn. (2006 - Rs. 1,941 Mn)
Net profit for the year	Rs. 329 Mn. (2006 - Rs. 466 Mn)
Earnings per share	Rs. 5.94 (2006 - Rs. 8.42)
Dividend per share	Rs. 2 (2006 - Rs. 1)

	2007	2006	Change %
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For the year ended 31st March

Group

Turnover - Gross (Rs. '000)	2,957,038	2,208,821	34%
- Net (Rs. '000)	2,594,180	1,941,535	34%
Profit before Taxation (Rs. '000)	383,495	528,502	(27)%
Profit after Tax (Rs. '000)	329,032	466,627	(29)%
Gross Dividends (Rs. '000)	110,789	55,395	200%
Interest Cover (No. of times)	2.99	7.24	(59)%
Dividend Cover (No. of times)	5.94	4.21	41%
ROCE (%)	21%	31%	(31)%

As at 31st March

Shareholders' Funds (Rs. '000)	1,634,108	1,415,866	15%
Total Assets (Rs. '000)	3,866,262	2,761,612	40%
Group Employment (No. of persons)	1095	971	13%
Current Ratio (Current Assets : Current Liabilities)	1.55:1	1.41:1	

Per share

(Issued & fully paid shares 55,394,692 of Rs.10/- each)

Earnings (Rs.)	5.94	8.42	(29)%
Dividend (Rs.)	2.00	1.00	(50)%
Net Assets (Rs.)	29.50	25.56	15%
Market Value (Rs.)*	35.00	34.00	3%
Cash Flow from Current Operations (Rs.)	2.67	9.60	(72)%

*All per share information has been restated to reflect the present share holding (share consolidation)



I am pleased to present to our shareholders, the Annual Report of Royal Ceramics Lanka Limited for the Financial Year 2006/07.

Our shareholders will no doubt be happy to learn that the Company has continued its swift march along the road of progress, and greatly expanded its production capacity and sales network, maintaining and strengthening its dominant position in the Sri Lankan market.

The Company recorded a Profit After Tax of Rs. 329 million for the year under review. Nominally, this is a decrease of 29% over the previous year's performance. However, this decrease is due to the inclusion of several extraordinary items. The Operational Profit of the Company recorded a growth of 5%.

One major factor is the absence of a windfall profit from investments, in comparison to last year in which a Rs. 153 million sale of a property was included in the accounts.

Another factor is the provisioning in the Company's accounts for the reduction in value of the share portfolio of the Company to the value of Rs. 34.7 million. The main factor in this is the drop in value of shares of The Fortress Resorts Ltd., due to the significant negative impact on the entire tourism industry of Sri Lanka. However, this situation is a temporary phenomenon, and upturn in tourism industry will recover the share price of The Fortress Resorts Ltd.

Another adverse factor to the Company's bottom-line was the large interest component that we were obliged to bear, in order to continue with our expansion projects. This was caused by a steep rise in

interest rates, due to the prevailing economic conditions. The continuation of such high interest rates is of great concern to the Company, as it is to all expansion-oriented institutions in the country's corporate sector.

Your Company continues to provide an excellent return on investment for shareholders. We have already declared a 10% Interim Dividend, and the Board will seek approval at the Annual General Meeting for a further 10% Final Dividend, to provide a total Dividend of 20% for the year under review.

The Company's Earnings Per Share (EPS) decreased during the year from Rs. 8.42 to Rs. 5.94. The Company's Rs. 1/= shares were converted to Rs. 10/= shares in order to promote greater liquidity in trading for our shareholders.

The sales network was once again greatly expanded, with the addition of four showrooms under the Rocell brand. We now have 34 showrooms including showrooms opened in April 2007, and have completed plans to commission not less than 11 more in the next financial year, to bring the total up to 45.

A strategic decision was made by your Company's management to increase the estimated cost of the Rocell Bathware project from Rs. 850 Mn to Rs. 1.2 Bn, in line with introduction of more sophisticated machinery and planned increase in production capacity. Once commenced, Company will be able to expand the capacity at a minimal investment.

I am pleased to report that the Company's earlier investment in a new line at our Horana production plant has proven to be highly successful. The plant commenced production in July 2006 and was made fully operational within a short time. Plant is now working to its rated capacity of 7,500 square metres per day.

I would like to take this opportunity to express the gratitude of Royal Ceramics Lanka Ltd to the Government of Sri Lanka, for its important policy decision to remove the 20% fuel adjustment charge on electricity.

Your Company continued to seek opportunities to make strategic investments in order to guarantee the mid-term and long-term future.

During the year under review, the Company invested Rs. 127 million in a property of 33 acres at Kiriwattuduwa, with plans to set up yet another production plant to produce porcelain products.

I wish to express the gratitude of the Company to Mr. J.K. Menon, who left us after three years of service as Chief Executive Officer. I am happy to note that the change in senior management was a seamless one, due to the excellence of the senior management team, ably led by Mr. W.D.N.H. Perera, our Managing Director.

I will conclude by thanking all of our valued customers, 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

25th May 2007



Royal Ceramics Lanka Limited embarked on a series of ventures which will continue to strengthen the Company's dominant position in the industry. The company continued to increase its production capabilities and development of its marketing and sales network.

The year under review proved to be an extremely satisfactory one, which brought to fruition several expansion projects, and witnessed significant progress in several others. Planning has now been completed on many more important programmes of expansion for the coming year.

The strong financial performance of our Company during the year under review is a tribute to the valuable guidance of our Board of Directors and the dynamism of our Senior Management Team. The

Company's fundamental strengths continued to grow as planned.

Your Company posted a Profit Before Tax of Rs. 383 million. As explained in detail in the Chairman's Report, this is nominally a decrease of 27.4% due to the inclusion of provisioning and extraordinary items. Profit After Tax was Rs. 329 million, in comparison with the previous year's Rs. 466.6 million.

These results were achieved on the strength of Gross Sales of Rs. 3 billion, and Net Sales of Rs. 2.6 billion, which is an increase of 34% over the previous financial year.

Massive Expansion of our Sales Network

The strength of the Rocell brand, which is now well established as a household name in Sri Lanka, was

further reinforced by the addition of four new showrooms at Kaduwela, Minuwangoda, Kalutara South and Nawala.

The Company closed the financial year by achieving its highest gross turnover of Rs. 380 million in a single month in March 2007, with a net profit from operation of Rs. 86 million.

The performance of our new state of the art showroom at Nawala was extremely pleasing, with sales registering approximately Rs. 25 million per month. This success has encouraged our management team to look for the opportunities in that area even further.

The Company plans to open 15 new showrooms in the next financial year. Keep in line with this expansion strategy the Company opened 3 new show rooms in Kandy, Gampaha and Kuliyaipitiya in the month of April 2007. This will be followed by Nittambuwa. This would bring the total number of showrooms up to 45 by the end of the 2007/08 financial year.

Creating New Avenues of Opportunity through Exports

The Company is drawing up plans to expand its operations to India, and capitalise on the rapid growth of the economy of that country and the purchasing power of its fast-growing middle and upper classes.

The possibility of opening Rocell showrooms in Tamil Nadu and Kerala is being explored, and discussions have begun to identify a suitable local partner.

This strategic move is being made with the intention of creating a strong presence in the regional market, in order to capitalize on opportunities to increase revenue. We are also keen to establish a strong export operation in preparation for the long-term

future in which the Company's expansion is expected to provide production capacity in excess of demand from the Sri Lankan market. The Company has up to now concentrated on the local market, and at present, export earnings average approximately 7% of total earnings.

Rocell Bathware to Launch Operations

The Company will enter an exciting new phase of operations in the fourth quarter of 2007/08, when our Rocell Bathware range will be launched.

The Company plan to invest approximately Rs. 1.2 billion in Rocell Bathware Limited, which is a fully owned subsidiary of Royal Ceramics Lanka Ltd. The factory is located at Templeberg Industrial Estate in Panagoda and is currently under commissioning.

The initial Rocell Bathware range will consist of vitreous china and large format fireclay products, with modern designs on par with the finest global brands. This extensive range of products will also be marketed through the Rocell network of showrooms, allowing rapid and convenient access to the market.

'Rocell by Guglielmi' Expands into Niche Markets

The Company expanded its range of products by introducing the "Rocell by Guglielmi" signature brand of taps and fittings. These products are targeted at niche markets with separate product ranges for the high income and middle income brackets.

Expansion Project at Eheliyagoda Plant

We are eager to seize further opportunities presented by the high demand for porcelain products. In this regard, feasibility studies are being carried out to invest in another production line at our plant in Eheliyagoda.



The existing plant is performing very satisfactorily, and it is our intention to increase the capacity of this plant from the present 4,000 square metres per day, up to 10,000 square metres per day.

Studies are being carried out in order to take a decision on the financial and operational desirability of housing the new plant in Eheliyagoda complex.

New Production Line at Horana Fully Operational

The Company's investment of Rs. 770 million in a new production line at the Horana plant bore fruit during the year under review, with the planned levels of production being achieved rapidly following its commissioning in July 2006.

This has doubled the capacity of the plant, which is now approximately 7,500 square metres per day.

Plans for Construction of a New Plant

The Company has obtained approval from the Board of Investment of Sri Lanka (BOI) to set up a new production plant at Kiriwattuduwa. A 33-acre land area was purchased on very favourable terms at an investment of Rs. 127 million.

Plans are now being finalized for the new plant. However, the high cost of funds is likely to be a serious factor in the progress of this project.

Challenges Facing the Company

The cost of funds grew to become a considerable challenge during the year under review, with interest rates increasing by approximately 7% year on year. Needless to say, it is not possible for the Company to affect a corresponding increase on our product range.

This factor has a considerable impact on the Company's expansion plans, since our development programmes are largely funded by bank borrowings. The Company has so far followed a policy of refraining from raising funding for projects through Rights Issues.

A further issue is the high cost of energy, ranging from the global price of gas products, kerosene, and diesel, and electricity tariffs in Sri Lanka. Energy forms a 35% component in our production process, and any increase in this cost has an immediate and significant effect.

It is also imperative for the entire local industry that controls be put in place to prevent substandard imports from disrupting the market. Such control mechanisms could include increases in customs duties and cess and properly executed import inspection programmes.

Staying Ahead of the Competition

The Company is not overly concerned with competition in the Sri Lanka market, given the continued strengthening of our operations and the dominance of our flagship brand "Rocell". However, the management team continues to keep a watchful eye on our competitors, in order to protect the interests of our shareholders.

In Harmony with our Employees

Royal Ceramics reached a new milestone in its history when continued expansion took the number of employees pass the 1,000 mark during the year under review.

The Company enjoyed an excellent relationship with its employees, at all our locations. The remuneration offered to our workers continues to be attractive, inclusive of salary, bonus and production incentives.

Collective Agreements were earlier signed with our employee unions, which specified many aspects of employee remuneration, benefits and welfare. However, the union at our Horana plant took a decision, in view of the excellent relationship prevailing with the Company, that it was not necessary to continue with the Collective Agreement which lapsed during the year under review.

Continuous training programmes were expanded in order to prepare for further expansion, with training both locally and overseas for various segments of our management and workforce.

Our Marketing team was also present at several international trade fairs, to explore market opportunities and keep abreast of the latest trends, products and technology in the global industry.

The Company intends to more actively carry out Corporate Social Responsibility (CSR) programmes, as we have grown to the stature of a major corporate citizen, which brings with it the responsibility to provide an example to other companies.

At present, CSR work is carried out on a more ad hoc basis, which includes considerable support for construction programmes at places of worship and other worthy institutions.

A Bright Outlook for the Future

It is with supreme confidence that the management team and I view the future of the Company, both in the long-term and short-term, despite the many challenges that are presently facing us.

I wish to thank Mr. J.K. Menon, who served in the capacity of Chief Executive Officer, for his sterling service to the Company. He leaves us after three years to take up an overseas assignment, and we wish him the very best for his future.

I would like to conclude by expressing my profound thanks to our customers, shareholders, the Board of Directors, my management team, our loyal employees, and our many suppliers and partners both in Sri Lanka and overseas, for the co-operation and support extended during the last year, as we look forward to an even better year ahead.



Nimal Perera

Managing Director

25th May, 2007

Board of Directors



A M Weerasinghe - Chairman



K D D Perera - Deputy Chairman



W D N H Perera - Managing Director



T G Thoradeniya - Director Marketing & Business Development



F P de Alwis



B M Amarasekera



R B Thambiayah



M T L Fernando



K D H Perera



L T Samarawickrame

1. A M Weerasinghe – Chairman

Founder of Royal Ceramics Lanka Ltd. in 1990. A Gem Merchant by profession, he is also a Director of LB Finance Ltd.

2. K D D Perera - Deputy Chairman

Mr. Dhammika Perera is a prominent entrepreneur and investor whose business interests include Hydropower Generation, Shipping, Manufacturing, Hospitality, Entertainment, Banking and Finance. Mr. Dhammika Perera counts over 10 years business experience and has particular expertise in corporate re-engineering and revival. He is the Chairman of Vallibel Holdings (Pvt) Ltd, Vallibel Power Erathna Ltd, Vallibel Electric (Pvt) Ltd, and The Fortress Resorts Ltd. He is the Deputy Chairman of Pan Asia Banking Corporation Ltd, LB Finance Ltd, Vallibel Finance Ltd and Connaissance Holdings Ltd. He is a member of the Board of Strategic Enterprises Management Agency (SEMA), and Chairman/Director General of the Board of Investment of Sri Lanka (BOI).

3. W.D.N.H. Perera - Managing Director

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 22 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.

4. T G Thoradeniya - Director Marketing & Business Development

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 15 years of industry experience with an unique working background in Marketing, Technology Management and Telecommunications, he is presently operationally involved in Royal Ceramics as Director - Marketing & Business Development and is the CEO of Rocell Bathware Limited. He is also a Consultant to the Vallibel Group of Companies.

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. Ltd. 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 to some of the Companies in the Delmege Group.

6. B M Amarasekera

Has been associated with the Company as a Director since its inception in 1991. Attorney-at-Law by profession he 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 Reefcomber 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.

7. R B Thambiayah

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

8. 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. Mr. Fernando serves on many Directorates of public listed and unlisted companies such as 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.

9. 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.

10. 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 represents Skanska International and Seimens AG Australia in Sri Lanka.

Executive Committee



01. S Jayathunga
*Acting Head of
Human Resources*

02. C Kumar
*Head of Bathware
Complex*

03. T G Thoradeniya
*Director Marketing &
Business Development*

04. W D N H Perera
Managing Director

05. J K A Sirinatha
*Head of Sales
Administration*

06. H Somashantha
Head of Finance

07. N Somaratne
*Head of Horana
Complex*

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

09. A M C S Atapattu
Head of Technical

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,
Kaduwela.
Tel: 4948182
- ◆ 200, Colombo Road,
Negombo.
Tel: 031-4922192
- ◆ 721, Trincomale Street,
Matale.
Tel: 066-4460928
- ◆ No. 88, Veyangoda Rd.,
Minuwangoda
Tel: 4969060
- ◆ No. 174/A/2,
Colombo Rd.,
Gampaha
Tel: 0334670937,
0334670755
- ◆ No. 181, Hettipola Rd.,
Kuliyapitiya
Tel: 0374930870,
0374696134
- ◆ 279, Katugastota Road
Kandy
Tel: 0814481759,
0814481760
- ◆ No. 574, Galle Rd,
Kalutara South, Kalutara
Tel: 0344280933,
0344280934
- ◆ No. 101, Nawala Road
Nugegoda
Tel: 4548023, 4308080

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 2007. The Financial Statements have been prepared in accordance with Revised 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. 306,065,961/- 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. 4,208,451/- during the year under review. This subsidiary Company's operations were transferred to the parent Company during mid year ended 31st March 2006.

Rocell Bathware Limited, also a wholly owned subsidiary of the company was incorporated on 21st October 2005 to manufacture sanitary ware. Commercial operations of the company will commence in the fourth quarter of 2007/2008.

Business Review

The Chairman's Report and the MD'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 75,000,000 shares of Rs. 10 each and the Issued Capital as at 31st March 2007 was Rs. 553,946,920/- divided into 55,394,692 shares of Rs. 10/- each.

The Company during the financial year under review, consolidated the par value of the shares from Rs. 1/- to Rs.10/-.

Summarised Financial Position

The Summarised financial position of the Group is as follows:

	2006/2007 Rs.'000	2005/2006 Rs.'000
Group Profit after Taxation	329,032	466,627
Profit brought forward	596,972	185,739
Dividend	(110,789)	(55,395)
Unappropriated balance carried forward	815,214	596,972

Reserves

The total reserves of the Company stand at Rs. 680,080,596/- comprising capital reserves of Rs. 269,946,890/-, and revenue reserves of Rs. 415,133,706/-.

Statement of Changes in Equity

The movement in equity is shown in the Statement of Changes in Equity on page 26.

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 paid a first interim tax-exempt dividend of 10% for the financial year. The directors also recommended to the share holders a final dividend of 10% (tax exempt) for the financial year ended 31st March 2007.

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. K.D.D. Perera retires by rotation in terms of Article 85 of the Articles of Association and being eligible, offers himself for re-election.

Mr. M.T.L. Fernando, Mr. B.M. Amarasekera, Mr. F.P. de Alwis retires in terms of section 210 of the Companies Act No.7 of 2007.

Special notice has been received from share holders pursuant to Section 211 of the companies Act No.7 of 2007 of their intention to propose the re-election of Mr. M.T.L. Fernando, Mr. B.M. Amarasekera and Mr. F.P. de Alwis.

Mr. J.K. Menon resigned from the board with effect from 18th January 2007.

Mr. W.D.N.H. Perera was appointed as the Managing Director of the Company with effect from 18th January 2007.

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:

Name	As at 31st March 2007 No of Shares	As at 31st March 2006 No of Shares
Mr. A M Weerasinghe	5,674,712	5,674,712
Mr. K D D Perera	28,351,686	28,351,686
Mr. F P de Alwis	307,033	307,033
Mr. M T L Fernando	202,977	202,977
Mr. B M Amarasekera (including joint holding)	107,193	1,071,930
Mr. R B Thambiyah - Renuka Hotels Limited	792 100,000	792 100,000
Renuka Consultants & Services Ltd	50,000	50,000
Renuka City Hotels Limited	100,000	100,000
Mr. W D N H Perera	2,500	27,140
Mr. T G Thoradeniya	-	27,620
Mr. K D H Perera	-	-
Mr. L T Sawarawickrema	1,000	1,000

The number of shares of 2006 have been restated to reflect the present par value of share upon the share consolidation.

Major Shareholders

The 20 largest shareholders of the Company as at the Balance Sheet date are given on page 65 under Share Information.

Fixed Assets

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

Capital Expenditure

Group Capital Expenditure including amount transferred from the capital work in progress account during the year amounted to Rs. 1,338 million.

Taxation

The Royal Ceramics Lanka Limited is liable to pay income tax at 35% on local taxable profits and 15% on export income as per the Inland Revenue Act No. 10 of 2006. Royal Porcelain (Pvt) Ltd; in terms of the

agreement entered into 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.

Rocell Bathware Ltd., in terms of the agreement entered into with the Board of Investment of Sri Lanka is exempt from income tax for a period of 5 years, commencing from the year of assessment in which the Company commences to make profits or any year of assessment not later than two years reckoned from the date of commencement of commercial operations whichever is earlier.

It is the Group's Policy to provide for deferred taxation on the liability method.

Group Investments

Details of investments held by the Company are given in Note 12,13 and 14 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 2007 was Rs. 35.00 compared to Rs. 34.00 as at 31st March 2006 as per official valuation of the Colombo Stock Exchange.

Group Employment

As at the Balance Sheet date, the Group has provided employment to 1095 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 Ernst & Young, Chartered Accountants.

By Order of the Board of
Royal Ceramics Lanka Ltd.

(Sgd.)

Secretaries & Registrars Ltd.

Secretaries

Colombo

25th May, 2007

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. 2.6 billion during the financial year was a remarkable achievement for the Group. This is a 34% growth further consolidating the position of 'Rocell' as the clear market leader in this industry.

The export turnover of Rs. 170 million which has increased by 6% contributed 7% 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 had a remarkable growth of 33%. This was achieved from the increase in group sales by 34%.

There was better control of operational cost by improvement in production planning and production efficiencies.

The Company had a decline in earnings per share of 29%. This was mainly due to the huge capital gain reported last year, amounting to Rs. 153 million.

Profit from operations increased by 25% to Rs.575 million during the year. Pre-tax profit decreased by 27% to Rs. 383 million during the financial year.

Taxation

The group made an income tax provision of Rs. 54 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. 362 million was paid to the Government by way of direct sales taxes during the year.

Dividend

The Company 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. 1,338 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 decreased to Rs. 121 million. The Group's long term borrowings increased by 103% to Rs. 1033 million which has been mainly utilized for the upgrading of the existing production plants and purchase of wall tile machinery. The Group's short term borrowings including overdrafts increased by 48% to Rs. 839 million. Shareholders' funds consisted of 34% share capital, 17% capital reserves and 49% revenue reserves.

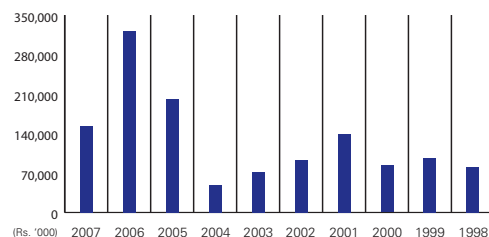
Accounting Policies and Disclosures

The accounting policies of the Group were 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.

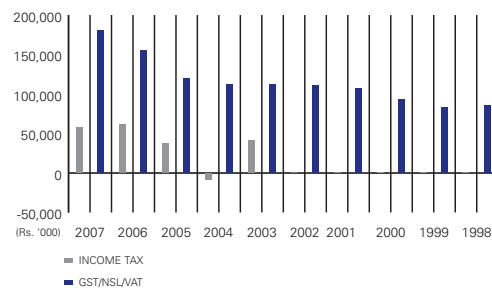
The Group adopted the practice of making full disclosure of both financial and non-financial information to enable the existing and potential shareholders to assess the performance of the Group and its future.

Graphical Review of the financial performance of the Company

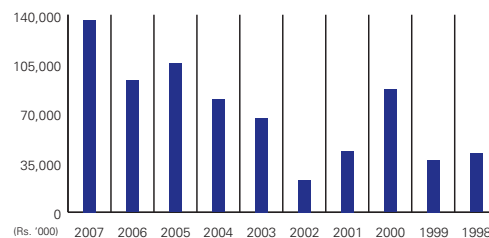
Profit After Taxation



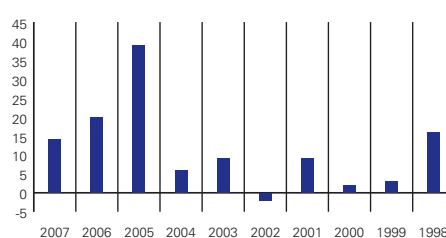
Contribution to the Government



Capital Expenditure



Net Sale Growth Rate



It is the policy of the Group to manage its affairs 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 14.

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

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 three 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. L T Samarawickrema

Remuneration Committee

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

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

Mr. B M Amerasekera - *Chairman*

Mr. M T L Fernando

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 MD, Company Secretaries 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 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 a 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. 7 of 2007 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 Managing Director'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. 7 of 2007 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. 7 of 2007. 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 2007 / 2008 including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation.

By Order of the Board of
Royal Ceramics Lanka Ltd.

(Sgd.)
Secretaries & Registrars Ltd.
Secretaries
Colombo
25th May, 2007

Report of the Audit Committee

The Terms of Reference defines the roll of the committee and provides a framework of the Company's organisation and responsibilities. The Terms of Reference has been approved by the Board and the Board has appointed 3 Non-Executive Independent Directors as members of the Committee. The Managing Director and the Head of Finance attend meetings by invitation and other Executives do so as and when required.

The Audit Committee examines any matters relating to the Financial Reporting System of the Company and the external and internal audits of the Company. Its duties include a detailed review of the financial statements, internal control procedures, accounting policies and compliance with accounting standards. It also reviews the overall adequacy of systems for compliance with legal, regulatory and ethical requirements as well as Company policies. It recommends to the Board, the appointment and fees of External Auditors, having given due consideration to the independence of External Auditors.

The Committee met on 4 occasions during the year to examine the Internal Audit reports which covered the head-office, show-rooms, stores and factory etc.

with special reference to the internal controls regarding inventory and debts.

The Company's Annual & Interim Financial Statements were reviewed and approved by the Committee prior to the final approval by the Board and there issuance.

The Committee assessed the major business and control risks and the control environment prevalent in the Company and advise the Board on action to be taken in areas where weaknesses were observed.

The Audit Committee recommended to the Board of Directors that M/s Ernst & Young be appointed as Auditors for the financial year ending 31st March 2008, subject to the approval of the shareholders at the Annual General Meeting.

(Sgd.)

M T L Fernando

Chairman

Audit Committee

25th May, 2007

Report of the Remuneration Committee

The Remuneration Committee consists of three Non-Executive Directors and the Managing Director of the Group and is chaired by a Non-Executive Director. The Managing Director assisted 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 Managing Director 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

25th May, 2007



Financial Calendar

Interim Report – 1st Quarter 2006/2007	28 August 2006
Interim Report – 2nd Quarter 2006/2007	29 November 2006
Interim Report – 3rd Quarter 2006/2007	23 February 2007
10% Interim Dividend for the Financial Year 2006/2007	15 March 2007
Annual Report – 2006/2007	25 May 2007
17th Annual General Meeting	27 June 2007



■ **Chartered Accountants**
201 De Saram Place
P. O. Box 101
Colombo 10
Sri Lanka

■ Telephone : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
E-Mail : eysl@lk.ey.com

We have audited the Balance Sheet of Royal Ceramics Lanka Limited as at 31 March 2007, the Consolidated Balance Sheet of the Company and its Subsidiaries as at that date and the related Statements of Income, Cash Flows and Changes in Equity for the year then ended, together with the Accounting Policies and Notes as set out on pages 24 to 60.

Respective Responsibilities of Directors and Auditors

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

Basis of Opinion

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

Opinion

In our opinion, so far as appears from our examination, the Company has maintained proper books of account for the year ended 31 March 2007, and to the best of our information and

according to the explanations given to us, the said Balance Sheet and related Statements of Income, Cash Flows and Changes in Equity and the Accounting Policies and Notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31 March 2007 and of its profit and cash flows for the year then ended.

In our opinion, the Consolidated Balance Sheet and Statements of Income, Cash Flows and Changes in Equity and the Accounting Policies and Notes thereto have been properly prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and give a true and fair view of the state of affairs as at 31 March 2007 and of its profit and cash flows for the year then ended of the Company and its Subsidiaries dealt with thereby, so far as concerns the members of the Company.

Directors' Interests in Contracts with the Company

According to the information made available to us, the Directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31 March 2007 except as stated in Note 31 to these financial statements.

Colombo

25th May, 2007

■ **Partners** : A D B Talwatte FCA FCMA T K Bandaranayake FCA M P D Cooray FCA FCMA
Ms. Y A De Silva ACA W R H Fernando FCA FCMA W K B S P Fernando FCA ACMA
A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond)
A S M Ismail FCA FCMA H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA
Ms. L C G Nanayakkara FCA FCMA

Income Statement

Year ended 31st March	Note	Company		Group	
		2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Revenue	3	1,362,396,512	1,193,480,562	2,594,179,686	1,941,534,551
Cost of Sales		(811,184,638)	(730,516,369)	(1,554,966,025)	(1,160,064,268)
Gross Profit		551,211,874	462,964,193	1,039,213,661	781,470,283
Other Operating Income	4	200,300,359	119,820,663	12,976,295	2,731,513
Distribution Expenses		(270,435,057)	(207,386,822)	(289,450,785)	(203,151,289)
Administrative Expenses		(108,995,982)	(86,464,259)	(151,584,285)	(103,230,543)
Other Operating Expenses		(34,758,145)	-	(34,758,145)	(17,871,297)
Gain on Disposal of Land		-	153,188,457	-	153,188,457
Finance Expenses	5	(126,997,888)	(76,291,415)	(192,901,349)	(84,635,523)
Profit Before Tax	6	210,325,160	365,830,816	383,495,392	528,501,600
Income Tax Expense	7	(57,511,209)	(44,047,846)	(54,463,636)	(61,874,375)
Net Profit for the Year attributable to Equity holders of the Parent		152,813,951	321,782,970	329,031,756	466,627,225
Basic Earnings Per Share	8	2.76	5.81	5.94	8.42
Dividend Per Share	9	2.00	1.00	2.00	1.00

The Accounting Policies and Notes on pages 29 through 60 form an integral part of these financial statements.

Colombo
25th May, 2007

Balance Sheet

As at 31st March	Note	2007 Rs.	Company (Restated) 2006 Rs.	2007 Rs.	Group (Restated) 2006 Rs.
ASSETS					
Non-Current Assets					
Property, Plant & Equipment	10	489,995,157	455,545,741	1,988,187,162	1,458,631,527
Intangible Assets	11	-	-	8,263,360	23,924,256
Investments in Subsidiaries	12	683,573,460	500,500,000	-	-
Investments in Associates	13	-	193,568,133	-	193,568,133
Other Investments	14	140,430,578	20,620,745	140,430,578	20,620,745
		<u>1,313,999,195</u>	<u>1,170,234,619</u>	<u>2,136,881,100</u>	<u>1,696,744,661</u>
Current Assets					
Inventories	15	408,856,806	429,569,509	816,003,504	662,381,867
Trade and Other Receivables	16	130,404,431	73,441,230	359,501,472	131,382,856
Other Investments	14	482,898,987	265,275,118	482,898,987	265,275,118
Amounts Due from Related Parties	17	74,752,689	147,138,991	-	-
Income Tax Recoverable		-	-	938,350	938,350
Cash and Bank Balances	26	47,891,566	831,781	70,038,689	4,888,733
		<u>1,144,804,479</u>	<u>916,256,629</u>	<u>1,729,381,002</u>	<u>1,064,866,924</u>
Total Assets		<u>2,458,803,674</u>	<u>2,086,491,248</u>	<u>3,866,262,102</u>	<u>2,761,611,585</u>
EQUITY AND LIABILITIES					
Capital and Reserves					
Share Capital	18	553,946,920	553,946,920	553,946,920	553,946,920
Reserves	19	264,946,890	264,946,890	264,946,890	264,946,890
Accumulated Profits		415,133,706	373,109,139	815,214,372	596,972,000
Total Equity		<u>1,234,027,516</u>	<u>1,192,002,949</u>	<u>1,634,108,182</u>	<u>1,415,865,810</u>
Non-Current Liabilities					
Interest Bearing Loans & Borrowings	20	405,413,039	305,600,322	1,033,040,796	507,171,793
Deferred Tax Liabilities	21	42,392,270	42,459,166	42,392,270	49,770,850
Retirement Benefit Obligation	22	38,790,464	30,988,105	43,681,198	34,769,591
		<u>486,595,773</u>	<u>379,047,593</u>	<u>1,119,114,264</u>	<u>591,712,234</u>
Current Liabilities					
Trade and Other Payables	23	110,715,935	80,085,952	241,456,364	167,172,576
Amounts Due to Related Parties	25	40,202,477	43,706,056	-	-
Income Tax Liabilities		11,345,896	13,617,476	12,032,758	13,617,475
Dividends Payable	24	20,141,515	8,569,828	20,141,515	8,569,828
Interest Bearing Loans & Borrowings	20	555,774,562	369,461,394	839,409,019	564,673,662
		<u>738,180,385</u>	<u>515,440,706</u>	<u>1,113,039,656</u>	<u>754,033,541</u>
Total Equity and Liabilities		<u>2,458,803,674</u>	<u>2,086,491,248</u>	<u>3,866,262,102</u>	<u>2,761,611,585</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



W. D. N. H. Perera
Managing Director

The Accounting Policies and Notes on pages 29 through 60 form an integral part of these financial statements.

25th May, 2007
Colombo

Statement of Changes in Equity - Company

Year ended 31st March 2007

	Note	Share Capital Rs.	Share Premium Rs.	Revaluation Reserve Rs.	Accumulated Profits Rs.	Total Rs.
Balance as at 1st April 2005		553,946,920	260,779,533	4,167,357	121,636,524	940,530,334
Effect of correction of prior period error	27	-	-	-	(14,915,663)	(14,915,663)
Dividends Paid - 2005/2006	9	-	-	-	(55,394,692)	(55,394,692)
Net Profit for the Year		-	-	-	321,782,970	321,782,970
Balance as at 31st March 2006 (Restated)		553,946,920	260,779,533	4,167,357	373,109,139	1,192,002,949
Dividends Paid - 2005/2006	9	-	-	-	(55,394,692)	(55,394,692)
Dividends Paid - 2006/2007	9	-	-	-	(55,394,692)	(55,394,692)
Net Profit for the Year		-	-	-	152,813,951	152,813,951
Balance as at 31st March 2007		553,946,920	260,779,533	4,167,357	415,133,706	1,234,027,516

Statement of Changes in Equity - Consolidated

Year ended 31 March 2007

	Note	Share Capital Rs.	Share Premium Rs.	Revaluation Reserve Rs.	Accumulated Profits Rs.	Total Rs.
Balance as at 1st April 2005		553,946,920	260,779,533	4,167,357	200,655,130	1,019,548,940
Effect of correction of prior period error	27	-	-	-	(14,915,663)	(14,915,663)
Dividends Paid - 2005/2006		-	-	-	(55,394,692)	(55,394,692)
Net Profit for the year		-	-	-	466,627,225	466,627,225
Balance as at 31st March 2006 (Restated)		553,946,920	260,779,533	4,167,357	596,972,000	1,415,865,810
Dividends Paid - 2005/2006	9				(55,394,692)	(55,394,692)
Dividends Paid - 2006/2007	9	-	-	-	(55,394,692)	(55,394,692)
Net Profit for the year		-	-	-	329,031,756	329,031,756
Balance as at 31st March 2007		553,946,920	260,779,533	4,167,357	815,214,372	1,634,108,182

The Accounting Policies and Notes on pages 29 through 60 form an integral part of these financial statements.

Colombo
25th May, 2007

Cash Flow Statement

Year ended 31st March		Company		Group	
	Note	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Cash Flows From / (Used in) Operating Activities					
Profit from Operating Activities before Tax		210,325,160	365,830,816	383,495,392	528,501,600
Adjustments for ;					
Dividend Income		(1,438,722)	(7,713)	(1,438,722)	(7,713)
Interest Income		(141,271)	(187,029)	(180,439)	(279,849)
Depreciation of Property, Plant & Equipment	10	51,364,239	72,548,713	113,550,785	121,842,203
(Profit)/Loss on Sale of Property, Plant & Equipment		(1,128,770)	(153,833,127)	(1,128,770)	(153,833,127)
Finance Costs	5	126,997,888	76,291,415	192,901,349	84,635,523
(Gain)/Loss from sale of Short-Term Investments	4	(66,488)	28,894	(66,488)	28,894
Amortization of Product Development Cost		-	-	15,660,897	7,758,177
Provision for Bad Debts		301,060	-	2,163,092	-
Provision for Defined Benefit Plans - Gratuity	22	9,481,082	7,252,295	10,590,330	7,182,938
Operating Profit/(loss) before Working Capital Changes		395,694,178	367,924,264	715,547,426	595,828,648
(Increase)/ Decrease in Inventories		20,712,703	82,631,716	(153,621,647)	43,055,079
(Increase)/ Decrease in Trade and Other Receivables		(57,264,261)	(7,602,104)	(231,753,829)	5,883,207
(Increase)/ Decrease in Amounts Due from Related Parties		72,386,302	(5,200,357)	-	-
Increase/ (Decrease) in Trade and Other Payables		30,629,983	(2,063,921)	74,283,789	41,806,394
Increase/ (Decrease) in Amounts Due to Related Parties		(3,503,579)	2,323,741	-	-
Cash Generated from Operations		458,655,326	438,013,339	405,455,739	687,573,329
Finance Costs Paid	5	(126,997,888)	(76,291,415)	(192,901,349)	(84,635,523)
Defined Benefit Plan Costs Paid	22	(1,678,723)	(1,089,090)	(1,678,723)	(1,119,092)
Income Tax Paid		(59,849,684)	(57,471,040)	(61,954,861)	(68,711,592)
Net Cash Flows From/(used in) Operating Activities		270,129,032	303,161,795	147,920,806	532,107,122
Cash Flows from / (used in) Investing Activities					
Investment in Product Development Cost		-	-	-	(7,902,719)
Acquisition of Property, Plant & Equipment	10	(85,813,654)	(81,898,238)	(643,106,418)	(461,788,541)
Proceeds from Sale of Property, Plant & Equipment		1,128,770	209,444,806	1,128,770	209,444,806
Proceeds from Sale of Short Term Investments		62,233,781	1,160,606	62,233,852	1,160,606
(Acquisition)/Disposals of Short-Term Investment		(389,106,323)	(412,044,037)	(206,032,863)	(412,044,037)
Interest Received		141,271	187,029	180,439	279,849
Dividends Received		1,438,722	7,713	1,438,722	7,713
Net Cash Flows from/(Used in) Investing Activities		(409,977,432)	(283,142,122)	(784,157,497)	(670,842,324)

Cash Flow Statement (Contd.)

Year ended 31st March		Notes	Company 2007 Rs.	2006 Rs.	Group 2007 Rs.	2006 Rs.
Cash Flows from / (Used in) Financing Activities						
Proceeds From Interest Bearing Loans & Borrowings			735,693,464	489,474,457	1,542,166,468	751,349,256
Repayment of Interest Bearing Loans & Borrowings			(596,326,167)	(464,031,267)	(922,579,887)	(528,252,021)
Capital Repayments under Finance Lease Liabilities			(5,259,704)	(1,347,200)	(5,259,704)	(1,347,200)
Dividends Paid			(99,217,697)	(55,358,782)	(99,217,697)	(55,358,782)
Net Cash Flows from/(Used in) Financing Activities			34,889,897	(31,262,793)	515,109,180	166,391,253
Net Increase/(Decrease) in Cash and Cash Equivalents			(104,958,504)	(11,243,119)	(121,127,512)	27,656,051
Cash and Cash Equivalents at the beginning of the year	26		(81,100,083)	(69,856,964)	(146,954,593)	(174,610,644)
Cash and Cash Equivalents at the end of the year	26		(186,058,586)	(81,100,083)	268,082,104	(146,954,593)

The Accounting Policies and Notes on pages 29 through 60 form an integral part of these financial statements.

Colombo
25th May, 2007

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, Royal Porcelain (Pvt.) Ltd. and Rocell Bathware Ltd. are subsidiaries of the Company. During the year the principal activities of the Group were as follows:

Royal Ceramics Lanka Ltd.

- Manufacturing and marketing of floor and wall tiles and undertaking designing and laying of tiles.

Royal Ceramics Distributors (Pvt.) Ltd.

- Non operational

Royal Porcelain (Pvt.) Ltd.

- Manufacturing and marketing of floor and wall tiles. (Production commenced on 24.04.2002)

Rocell Bathware Ltd.

- Manufacture and sale of sanitary ware. –The Company was incorporated on 21st October 2005.
- Financial statements of the Company has been prepared for the period of 17 months ending 31st March 2007.
- Company is still under construction and commercial operations has not commenced.

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 consolidated financial statements of the Company for the year ended 31st March 2007 comprise of the Company and its subsidiaries. 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%
Rocell Bathware Ltd	2005/2006	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 Authorization for Issue

The financial statements of Royal Ceramics Lanka Ltd. for the year ended 31st March 2007 were authorized for issue in accordance with a resolution of the Board of Directors on 25th May 2007.

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 Company and group as at 31st March 2007 and for the year then ended, comply in all material aspects with the Sri Lanka Accounting Standards.

These financial statements presented in Sri Lanka Rupees have been prepared on a historical cost basis except for investments in quoted equities which are stated at market value and certain land & building are stated at revalued amount as explained in Note 10 to these financial statements.

2.1.2 Comparative Information

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

2.1.3 Changes in Accounting Policies

The accounting policies adopted are consisted with those of the previous financial year except as follows.

The Group has adopted the revised SLAS that are applicable in the current financial year. The 2006/2007 financial statements have been prepared in accordance with the relevant transitional

provisions in the respective SLAS. The following are the revised SLAS that are relevant to the Group.

- SLAS-3 (Revised) - Presentation of Financial Statements
- SLAS-10(Revised) - Accounting Policies, Changes in Accounting Estimates and Errors
- SLAS-14(Revised) - Income Taxes
- SLAS-18(Revised) - Property, Plant & Equipment
- SLAS-19(Revised) - Leases
- SLAS-21(Revised) - The Effects of Changes in Foreign Exchange Rates
- SLAS-25(Revised) - Business Combinations
- SLAS-26(Revised) - Consolidated & Separate Financial Statements
- SLAS-30(Revised) - Related Party Disclosure
- SLAS-41(Revised) - Impairment of Assets

The SLAS that have a significant impact on the preparation and presentation of the financial statements are as follows;

SLAS 18 (Revised) - Property, Plant and Equipment

Revised SLAS 18 requires the review of the residual value and the useful life of an asset at least annually and expects the depreciation of an asset to begin from when it is available for use. Accordingly, all assets excluding land acquired from 01st April 2006 are depreciated by the Group commencing from the month the asset is available for use. This change resulted in an increase in the depreciation charge for the year by Rs.2,058,908 and Rs. 8,316,921 of the Company and the Group respectively.

SLAS 30 (Revised) - Related Parties

Revised SLAS 30 requires additional disclosure on related party transactions and outstanding balances, together with the names of any parties who can control the reporting entity. Additionally, it requires the disclosure of compensation to key management personnel in total. The Group made the required disclosures under Note 32 to these financial statements.

2.1.4 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 using consistent Accounting Policies.

All intra-group balances and transactions and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

2.1.5 Foreign Currency Translation

All foreign exchange transactions are converted to Sri Lanka Rupees, at the rate of exchange prevailing on the date the transactions were effected. Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lanka Rupee equivalents using year-end spot foreign exchange rates. The resulting gains and losses are accounted for in the Income Statement. Non monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to Sri Lanka Rupees using the exchange rates as at the dates of the initial transactions.

2.1.6 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 capitalized as part of those assets.

2.1.7 Taxation

(a) Income Tax

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. 10 of 2006. Relevant details are disclosed in note (7) to these 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.

Rocell Bathware Limited, in terms of the agreement entered with the BOI, is exempt from taxation for a period of five years commencing from the year of assessment in which the company commences to make profits or any year of assessment not later than two years reckoned from the date of commencement of commercial operations whichever year is earlier.

(b) Deferred Tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises

from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are re-assessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or subsequently enacted as at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in the equity statement and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relates to the same taxable entity and the same taxation authority.

(c) Economic Service Charge (ESC)

As per the provisions of the Economic Service Charges Act No 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC paid is

deductible from the income tax liability. Any unclaimed liability can be carried forward and set off against the income tax payable as per the relevant provisions in the Act.

(d) Social Responsibility Levy (SRL)

As per the provisions of the Finance Act No 5 of 2005, as amended by the Finance Act No 11 of 2006, SRL was introduced with effect from 1st January 2005. SRL is payable at the rate of 1% (2006-.25%) on all taxes and levies chargeable as specified in the First schedule of the Act.

(e) 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.

2.1.8 Development Cost

Development expenditure incurred on product development is recognized as an asset to the extent that such expenditure is expected to generate future economic benefits and amortized over the expected useful life time which is 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 realized in cash during the normal operating cycle or within one year from Balance Sheet date, whichever is shorter. All the other assets are classified as non current assets.

2.2.1 Property, Plant and Equipment

(a) Cost and valuation

All items of property, plant and equipment are initially recorded at cost. The cost of property, plant and 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. Certain land and building are subsequently revalued. Subsequent to the initial recognition as an asset at cost, re-valued assets are carried at revalued amounts less any subsequent

depreciation thereon. All other property, plant and equipment are stated at cost less accumulated depreciation. Accumulated depreciation is provided for, on the bases specified in (c) below.

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.

(b) Subsequent Expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure incurred on repairs or maintenance of property, plant and equipment in order to restore or maintain the future economic benefits expected from the originally assessed standard of performance, is recognised as an expense when 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. The annual rates of depreciation generally used by Companies in the Group are as follows:

Buildings, electricity and water scheme	@ 4%
Motor vehicles, furniture & fittings, construction, lab & other equipment	@ 20%
Tools and implements	@ 50%
Factory equipment, plant & machinery and communication equipment	@ 10%
Office equipment	@ 15%
Household items - light	@ 50%
Household items - heavy	@ 20%

Showroom fixtures and fittings and buildings on lease hold land are depreciated over the lower of lease period and the useful life of each assets.

Property, plant and equipment acquired prior to 01st April 2006 were fully depreciated in the year of disposal but none in the year of purchase. Property, plant and equipment acquired after 01st April 2006 are depreciated from the month the assets are available for use over their estimated useful lives.

Commencing from 01st April 2006, the assets residual values, useful lives and method of depreciation are reviewed, and adjusted if appropriate at each financial year end.

(d) Revaluation

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(e) De-recognition

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is de-recognised.

(f) 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 recognized in the income statement.

The cost of the investment is the cost of acquisition inclusive of brokering fee, duties and bank fees.

(b) Long term investments

Quoted and unquoted investments in shares held on long-term basis are stated at cost. The cost of the investment is the cost of acquisition inclusive of brokering fee, duties and bank fees.

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.

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.

The cost incurred in bringing inventories to its present location and condition are accounted using the following cost formulae

- (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, direct labour and appropriated proportion of fixed production overheads based on normal operating capacity.

(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 realize, net of provision for bad and doubtful debts.

Other receivables and dues from related parties are recognised at cost less provision for bad and doubtful receivables.

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

(a) 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. Capitalized 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 lesser 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 recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be

required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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' Provident Fund and Employees' Trust Fund

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

The Company contributes 12% and 3% of gross emoluments of the employees to Employees' Provident Fund and Employees' Trust Fund respectively.

2.3.4 Impairment of Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount. An asset's recoverable

amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously re-valued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot "exceed" the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

2.4 Income Statement

2.4.1 Revenue Recognition

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

(a) Sale of Goods

Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods has 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 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 recognized 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 an accrual basis

Net gains and losses of a revenue nature on the disposal of property, plant and 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.

(g) 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 and equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

b) For the purpose of presentation of the Income Statement the directors are of the opinion that 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	
		2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
3. REVENUE					
3.1 Summary					
Sales	- Export	157,225,104	154,821,255	170,063,888	160,839,155
	- Local	1,385,188,094	1,194,405,829	2,786,974,142	2,047,981,786
Less: Sales Taxes	- Value Added Tax	(180,016,686)	(155,746,521)	(362,858,344)	(267,082,516)
	- Turnover Tax	-	-	-	(203,874)
Revenue		<u>1,362,396,512</u>	<u>1,193,480,562</u>	<u>2,594,179,686</u>	<u>1,941,534,551</u>
3.2 Goods and Services Analysis					
Sale of Goods		<u>1,362,396,512</u>	<u>1,193,480,562</u>	<u>2,594,179,686</u>	<u>1,941,534,551</u>

		Company		Group	
		2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
4. OTHER OPERATING INCOME					
Dividend from Investments with Related Parties - Non Quoted		115,000,000	57,500,000	-	-
Dividends on long-term & current investments		1,438,722	7,713	1,438,722	7,713
Profit /(Loss) on Disposal of Current Investments		66,488	(28,894)	66,488	(28,894)
Management Fee Income - Related Parties		80,000,000	60,000,000	-	-
Rent Income - Related Parties		52,174	52,174	-	-
Profit /(Loss) on Disposal of Fixed Assets		1,128,770	-	1,128,770	-
Interest Income		141,271	187,029	180,439	279,849
Sundry Income		2,472,934	2,102,641	10,161,876	2,472,845
		<u>200,300,359</u>	<u>119,820,663</u>	<u>12,976,295</u>	<u>2,731,513</u>

		Company		Group	
		2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
5. FINANCE COST					
Interest Expense on Overdrafts		25,414,170	10,251,599	35,918,754	17,691,066
Interest Expense on Loans & Borrowings		99,889,098	64,669,892	155,287,976	65,574,533
		<u>125,303,268</u>	<u>74,921,490</u>	<u>191,206,730</u>	<u>83,265,599</u>
Finance Charges on Lease Liabilities		1,694,620	1,369,924	1,694,620	1,369,924
		<u>126,997,888</u>	<u>76,291,415</u>	<u>192,901,349</u>	<u>84,635,523</u>

	Company		Group	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES Stated after charging/(Crediting)				
Directors' Emoluments	2,961,924	1,741,100	2,961,924	1,741,100
Auditors' Remuneration (Fees and Expenses)	440,000	363,000	756,000	589,500
Depreciation	51,364,239	72,548,712	113,550,785	121,842,203
Staff Costs includes,				
- Defined Benefit Plan Costs -Gratuity	9,481,082	7,252,295	10,590,330	8,794,841
- Defined Contribution Plan Costs - EPF & ETF	9,301,594	7,969,679	14,378,424	8,430,866
- Other Staff Costs	220,029,477	192,651,234	276,903,377	232,850,181
Export duty rebate	(685,580)	(1,708,842)	(685,580)	(1,708,842)
Exchange Loss/(Gain)	2,842,572	(767,302)	15,612,206	(694,167)
Damage Stocks net of insurance claims received	2,216,496	1,587,156	6,048,485	3,812,966
Donations	479,136	184,035	482,136	184,035
Bad Debts Written Off	25,679	176,203	815,000	176,203
Research and development expenditure written off	-	-	15,660,896	7,758,177
Loss on change in the value of short term investments	34,758,145	-	34,758,145	-

	Company		Group	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.

7. INCOME TAX EXPENSE**Current Income Tax**

Current Tax Expense on Ordinary Activities for the Year (7.1)	57,578,105	61,510,931	57,578,105	66,073,381
Under/(Over) Provision of current taxes in respect of prior years	-	(447,325)	-	(447,325)
Unrecoverable ESC	-	-	4,264,111	5,952,394
	57,578,105	61,063,606	61,842,216	71,578,451

Deferred Income Tax

Deferred Taxation Charge/(Reversal) (21)	(66,896)	(17,015,760)	(7,378,580)	(9,704,076)
	57,511,209	44,047,846	54,463,636	61,874,375

7.1 Reconciliation between Current Tax Expense/(Income) and the product of Accounting Profit.

Accounting Profit (Profit before Tax)	210,325,160	365,830,816	383,495,392	528,501,600
Consolidation adjustments	-	-	115,000,000	50,720,209
Aggregate Disallowed items	119,355,285	91,729,551	132,731,367	91,659,350
Aggregate Allowable Expenses	(38,983,535)	(25,825,293)	(38,983,535)	(12,977,289)
Income not subject to Tax	(116,505,210)	(210,754,334)	(418,051,524)	(415,379,590)
Taxable Profit/(Loss)	174,191,700	220,980,740	174,191,700	242,524,280
Tax Losses Brought Forward and Utilized	-	-	-	(7,540,239)
	174,191,700	220,980,740	174,191,700	234,984,041
Statutory Tax Rate %	@ 32.5%	-	-	4,551,073
	@ 35%	53,992,679	53,992,679	56,420,852
	@ 15%	3,015,346	3,015,346	4,936,685
		57,008,025	57,008,025	65,908,610
SRL	@ 1% (2006- 0.25%)	570,080	570,080	164,772
Current Income Tax Expense	57,578,105	61,510,931	57,578,105	66,073,381

The group tax expense is based on the taxable profit of each group company since at present the Law do not provide for group taxation

- 7.3** As per the Inland Revenue Act, No.10 of 2006, all resident companies excluding those which are enjoying a tax holiday or concessionary rate of taxation are liable to Income tax at the rate of 35% . 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 15% in that year.

In terms of Section 51 of the Inland Revenue Act, profit from qualifying 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.

Rocell Bathware Ltd, in terms of the agreement entered with the Board of Investment of Sri Lanka is exempt from income tax for a period of five years commencing from the year of assessment in which the Company commences to make profits or any year of assessment not later than two years reckoned from the date of commencement of commercial operations whichever year is earlier.

Royal Ceramics Distributors (Pvt) Ltd has a tax losses of Rs. 8,054,376 as at 31 March 2007 which can be carried forward indefinitely and set off against the taxable profits subject to the limit of 35% of the taxable profit in one year of assessment.

8. EARNINGS PER SHARE

- 8.1** 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.

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

	Company		Group	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Amount Used as the Numerator:				
Net Profit for the year	152,813,951	321,782,970	329,031,756	466,627,225
	2007 Number	2006 Number	2007 Number	2006 Number
Number of Ordinary Shares Used as the Denominator:				
Weighted Average number of Ordinary Shares in issue applicable to basic Earnings Per Share	55,394,692	55,394,692	55,394,692	55,394,692

- 8.3** There were no potentially dilutive Ordinary Shares outstanding at any time during the year.

	Company & Group	
	2007 Rs.	2006 Rs.
Interim Dividend 10% - 2005/2006	-	55,394,692
Final Dividend 10% - 2005/2006	55,394,692	-
Interim Dividend 10% - 2006/2007	55,394,092	-
Total Dividends	110,787,384	55,394,692
Dividend per Share	2.00	1.00

9. DIVIDEND PER SHARE

	Balance As at 01.04.2006 Rs.	Additions/ Transfers Rs.	Disposals Rs.	Balance As at 31.03.2007 Rs.
10. PROPERTY, PLANT & EQUIPMENT - COMPANY				
10.1 Gross Carrying Amounts				
At Cost				
Land	101,075,580	-	-	101,075,580
Building	83,937,655	33,808,671	-	117,746,326
Water Supply Scheme	295,687	-	-	295,687
Lab Equipment	2,426,326	234,798	-	2,661,123
Motor Vehicles	14,663,234	193,300	(1,352,571)	13,503,963
Electricity Distribution	6,500,987	1,579,658	-	8,080,645
Office Equipment	73,566,146	7,844,818	-	81,410,964
Communication Equipment	7,802,598	-	-	7,802,598
Furniture & Fittings	10,752,286	3,474,155	(180,750)	14,045,691
Tools & Implements	27,061,707	8,157,523	-	35,219,230
Other Equipment	8,873,360	1,923,770	-	10,797,130
Factory Equipment	23,257,991	-	-	23,257,991
Construction Equipment	2,236,047	-	-	2,236,047
Plant and Machinery	621,786,738	13,406,958	-	635,193,696
Plant and Machinery Polishing Plant	57,846,670	2,305,073	-	60,151,743
Household Item Heavy	33,690	-	-	33,690
Household Item Light	979,571	284,567	-	1,264,138
Showroom Fixtures & Fittings	34,393,975	7,974,794	-	42,368,769
Stores Buildings on Lease hold Land	3,965,135	-	-	3,965,135
	1,081,455,381	81,188,085	(1,533,321)	1,161,110,145
Assets on Finance Leases				
Office Equipment	18,739,926	-	-	18,739,926
	18,739,926	-	-	18,739,926
At Valuation				
Land	8,256,000	-	-	8,256,000
Building	59,144,000	-	-	59,144,000
	67,400,000	-	-	67,400,000
	1,167,595,307	81,188,085	(1,533,321)	1,247,250,071

10. PROPERTY, PLANT AND EQUIPMENT - COMPANY (Contd....)

	Balance As at 01.04.2006 Rs.	Incurred During the year Rs.	Reclassified transferred Rs.	Balance As at 31.03.2007 Rs.
In the Course of Construction				
Capital Work in Progress	57,462,325	55,145,039	50,519,470	62,087,894
Total Gross Carrying Amount	1,225,057,633			1,309,337,966

	Balance As at 01.04.2006 Rs.	Charge for the year Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2007 Rs.
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10.2 Depreciation**At Cost**

Building	21,593,237	3,357,506	-	24,950,743
Water Supply Scheme	106,534	11,827	-	118,361
Lab Equipment	2,154,301	105,459		2,259,760
Motor Vehicles	9,511,233	2,071,884	(1,352,571)	10,230,545
Electricity Distribution	2,511,135	260,039	-	2,771,174
Office Equipment	49,009,924	8,432,077	-	57,442,001
Communication Equipment	3,617,829	648,938	-	4,266,767
Furniture & Fittings	5,741,548	1,772,337	(180,750)	7,333,135
Tools & Implements	23,225,957	3,053,736	-	26,279,693
Other Equipment	7,934,040	692,985	-	8,627,025
Factory Equipment	21,507,046	873,349	-	22,380,395
Construction Equipment	2,236,047	-	-	2,236,047
Plant and Machinery	533,976,415	18,130,326	-	552,106,741
Plant and Machinery Polishing Plant	43,000,420	2,118,698	-	45,119,118
Household Item Heavy	33,690	-	-	33,690
Household Item Light	920,265	107,993	-	1,028,258
Showroom Fixtures & Fittings	12,151,814	4,153,821	-	16,305,635
Stores Buildings on Lease hold Land	793,030	396,514	-	1,189,544
	740,024,465	46,187,490	(1,533,321)	784,678,633

Assets on Finance Leases

Office Equipment	1,098,307	2,810,989	-	3,909,296
	1,098,307	2,810,989	-	3,909,296

At Valuation

Building	28,389,120	2,365,760	-	30,754,880
	28,389,120	2,365,760	-	30,754,880
Total Value of Depreciation	769,511,892	51,364,239	(1,533,321)	819,342,809

	Balance As At 01.04.2006 Rs.	Additions/ Transfers Rs.	Disposals Rs.	Balance As at 31.03.2007 Rs.
10.3 Net Book Values				
At Cost	341,420,917			376,431,513
On Finance Leases	17,641,619			14,830,630
	359,072,536			391,262,143
At Valuation	39,010,880			36,645,120
Capital Work in Progress	57,462,325			62,087,894
Total Net Book Value	455,545,741			489,995,157

- 10.4** 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. Such assets were valued in an open market value for existing use basis. The results of such valuation was incorporated in the financial statements from its effective date, which is July, 1993. The surplus arising from the revaluation was transferred to a Revaluation Reserve.

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 Revaluation Rs.	Cumulative Depreciation if assets were carried at cost Rs.	Net Carrying Amount 2007 Rs.	Net Carrying Amount 2006 Rs.
Class of Assets				
Land	6,881,000	-	6,881,000	6,881,000
Building	41,262,000	21,456,240	19,805,760	21,456,240
	48,143,000	21,456,240	26,686,760	28,337,240

- 10.5** During the financial year, the Company acquired Property, Plant & Equipment for cash to the aggregate value of Rs. 85,813,655/- (2006 - Rs.93,316,149/-).
- 10.6** Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs. 563,557,358/- (2006 Rs. 533,169,415/-).

	Balance As at 01.04.2006 Rs.	Additions/ Transfers Rs.	Disposals Rs.	Balance As at 31.03.2007 Rs.
10. PROPERTY, PLANT AND EQUIPMENT - GROUP (Contd....)				
10.7 Gross Carrying Amounts				
At Cost				
Land	137,506,863	23,737,288	-	161,244,151
Building	187,906,795	120,283,184	-	308,189,980
Water Supply Scheme	295,687	-	-	295,687
Lab Equipment	2,426,326	234,798	-	2,661,123
Motor Vehicles	20,173,034	5,307,700	(1,352,571)	24,128,163
Electricity Distribution	6,500,987	1,579,658	-	8,080,645
Office Equipment	79,143,256	9,081,322	-	88,224,578
Communication Equipment	7,930,977	68,178	-	7,999,155
Furniture & Fittings	16,457,062	4,695,818	(180,750)	20,972,130
Tools & Implements	28,115,525	27,224,443	-	55,339,968
Other Equipment	17,521,874	2,322,022	-	19,843,897
Factory Equipment	24,136,343	-	-	24,136,343
Construction Equipment	2,293,595	-	-	2,293,595
Plant and Machinery	1,075,656,858	566,775,351	-	1,642,432,210
Plant and Machinery Polishing Plant	57,846,670	2,305,073	-	60,151,743
Household Item Heavy	548,210	4,217,217	-	4,765,427
Household Item Light	1,013,311	321,407	-	1,334,718
Showroom Fixtures & Fittings	34,393,975	7,974,794	-	42,368,769
Stores Buildings on Lease hold Land	14,516,783	1,758,381	-	16,275,164
	1,714,384,131	777,886,634	(1,533,321)	2,490,737,444
Assets on Finance Leases				
Office Equipment	18,739,926	-	-	18,739,926
	18,739,926	-	-	18,739,926
At Valuation				
Land	8,256,000	-	-	8,256,000
Building	59,144,000	-	-	59,144,000
	67,400,000	-	-	67,400,000
	1,800,524,057	777,886,634	(1,533,321)	2,576,877,370

	Balance As at 01.04.2006 Rs.	Incurred During the Year Rs.	Reclassified/ Transferred Rs.	Balance As at 31.03.2007 Rs.
Capital Work-in- Progress				
Capital Work in Progress	561,635,117	559,790,230	(694,433,976)	426,991,371
Total Gross Carrying Amount	2,362,159,174			3,003,868,741
	Balance As at 01.04.2006 Rs.	Charge for the Year Rs.	Disposals Rs.	Balance As at 31.03.2007 Rs.

10.8 Depreciation**At Cost**

Building	31,503,681	8,081,205	-	39,584,886
Water Supply Scheme	106,534	11,827	-	118,361
Lab Equipment	2,154,301	105,459	-	2,259,760
Motor Vehicles	9,519,073	3,674,151	(1,352,571)	11,840,652
Electricity Distribution	2,511,135	260,039	-	2,771,174
Office Equipment	50,607,929	9,305,556	-	59,913,485
Communication Equipment	3,663,855	686,142	-	4,349,997
Furniture & Fittings	7,817,435	3,071,403	(180,750)	10,708,088
Tools & Implements	23,904,429	3,677,847	-	27,582,276
Other Equipment	7,934,040	695,723	-	8,629,763
Factory Equipment	21,790,272	961,184	-	22,751,457
Construction Equipment	6,231,615	1,763,658	-	7,995,273
Plant and Machinery	646,713,121	67,803,861	-	714,516,982
Plant and Machinery Polishing Plant	43,000,420	2,118,698	-	45,119,118
Household Item Heavy	198,368	550,600	-	748,968
Household Item Light	923,935	132,444	-	1,056,379
Showroom Fixtures & Fittings	12,151,814	4,153,821	-	16,305,635
Stores Buildings on Lease hold Land	3,308,264	1,456,886	-	4,765,149
	874,040,220	108,510,505	(1,533,321)	981,017,403

Assets on Finance Leases

Office Equipment	1,098,307	2,810,989	-	3,909,296
	1,098,307	2,810,989	-	3,909,296

At Valuation

Building	28,389,120	2,365,760	-	30,754,880
	28,389,120	2,365,760	-	30,754,880
Total Value of Depreciation	903,527,647	113,687,254	(1,533,321)	1,015,681,579

	Balance As at 01.04.2006 Rs.	Balance As at 31.03.2007 Rs.
10.9 Net Book Values		
At Cost	840,343,911	1,504,720,041
On Finance Leases	17,641,619	14,830,630
Capital Work-in-progress	561,635,117	426,991,371
	1,414,620,647	1,951,542,042
At Valuation	39,010,880	36,645,120
Total Net Book Value	1,458,631,527	1,988,187,162

- 10.10** 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. Such assets were valued in an open market value for existing use basis. The results of such valuation was incorporated in the financial statements from its effective date, which is July, 1993. The surplus arising from the revaluation was transferred to a Revaluation Reserve.

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 Revaluation Rs.	Cumulative Depreciation if assets were carried at cost Rs.	Net Carrying Amount 2007 Rs.	Net Carrying Amount 2006 Rs.
Land	6,881,000	-	6,881,000	6,881,000
Building	41,262,000	21,456,240	19,805,760	21,456,240
	48,143,000	21,456,240	26,686,760	28,337,240

- 10.11** During the financial year, the Group acquired Property, Plant & Equipment for cash to the aggregate value of Rs. 643,242,888/- (2006 - Rs. 491,120,414/-).
- 10.12** Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of Rs. 564,563,177/- (2006 Rs. 533,262,742/-).
- 10.13** During the year an amount of Rs. 5,467,036/- (2006 - Nil) was capitalised as borrowing costs to capital work in progress for the factory under construction of Rocell Bathware Ltd.

	Company		Group	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
11. INTANGIBLE ASSETS				
Product Development Cost				
Balance at the beginning of the year	-	-	23,924,256	23,779,714
Incurred during the period	-	-	-	7,902,719
Amortized during the period	-	-	(15,660,896)	(7,758,177)
Balance at the end of the year	-	-	8,263,360	23,924,256

Notes to the Financial Statements (Contd.)

As at 31st March

	Country of Incorporation	Group Holding 2007 %	2006 %	Cost 2007 Rs.	Directors' Valuation 2007 Rs.	Cost 2006 Rs.	Directors' Valuation 2006 Rs.
12. INVESTMENTS IN SUBSIDIARY COMPANIES							
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
Rocell Bathware Limited	Sri Lanka	100%	-	183,073,460	183,073,460	-	-
Total Non-Quoted Investments in Subsidiaries				683,573,460	683,573,460	500,500,000	500,500,000
Total Gross Carrying Value of Investments in Subsidiaries				683,573,460		500,500,000	
				Holding % 2006	Carrying Value 2007 Rs.	Carrying Value 2006 Rs.	Market Value 2006 Rs.

13. INVESTMENTS IN ASSOCIATES

The Fortress Resorts Limited - Quoted (13.1)	24.45%	-	193,568,133	190,131,000
Total		-	193,568,133	190,131,000

13.1 Investments in Associates

	2007 Rs.	2006 Rs.
Carrying Value at the Beginning of the Year	193,568,133	45,019,189
Value of the Investment made during the year	-	148,548,944
Transferred to Current Investment	(193,568,133)	-
Carrying Value at the End of the Year	-	193,568,133

	Company 2007 Rs.	2006 Rs.	Group 2007 Rs.	2006 Rs.
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14. OTHER INVESTMENTS

Current

Investments in Equity Securities (14.1)	482,898,987	265,275,118	482,898,987	265,275,118
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Non-Current

Investments in Equity Securities (14.2)	140,430,578	20,620,745	140,430,578	20,620,745
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Total Carrying Value of Other Investments	623,329,565	285,895,863	623,329,565	285,895,863
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Notes to the Financial Statements (Contd.)

As at 31 st March

	No. of Shares		Company		Group	
			Cost		Cost	
	2007	2006	2007	2006	2007	2006
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
14.1 Investments in Equity Securities - Current						
a) Quoted						
Lanka Wall Tiles Limited	1,250	1,250	48,470	40,490	48,470	40,490
Lanka Tiles Limited	1,142	1,000	43,530	43,530	43,530	43,530
Fort Land Investment Limited	50,000	50,000	1,189,287	1,189,288	1,189,287	1,189,288
Hotel Reef Comber Limited	1,327,000	1,327,000	3,907,213	3,907,213	3,907,213	3,907,213
L B Finance Limited	2,229,640	1,592,600	40,605,447	40,605,447	40,605,447	40,605,447
Lanka Ceramics Limited	6,416,000	6,126,300	229,823,169	219,489,150	229,823,169	219,489,150
Fortress Resorts Limited	18,790,250	-	242,040,016	-	242,040,016	-
			517,657,132	265,275,118	517,657,132	265,275,118
Provision for decline in market value of Investments			(34,758,145)	-	(34,758,145)	-
Total net Investments in Quoted Equity Securities			482,898,987	265,275,118	482,898,987	265,275,118
	No. of Shares		Company		Group	
	2007	2006	Market Value 2007	Market Value 2006	Market Value 2007	Market Value 2006
			Rs.	Rs.	Rs.	Rs.
Lanka Wall Tiles Limited	1,250	1,250	87,655	55,938	87,655	55,938
Lanka Tiles Limited	1,142	1,000	53,960	67,750	53,960	67,750
Fort Land Investment Limited	50,000	50,000	800,000	1,062,500	800,000	1,062,500
Hotel Reef comber Limited	1,327,000	1,327,000	1,327,000	2,388,600	1,327,000	2,388,600
L B Finance Limited	2,229,640	1,592,600	78,594,810	135,371,000	78,594,810	135,371,000
Lanka Ceramics Limited	6,416,000	6,126,300	247,016,000	211,357,350	247,016,000	211,357,350
The Fortress Resorts Limited	18,790,250	-	155,019,562	-	155,019,562	-
Total Market Value			482,898,987	350,303,138	482,898,987	350,303,138

- b) The Company holds more than 20% of the issued share capital of Lanka Ceramics Ltd and The Fortress Resorts Ltd. These investments are classified as current investments since, the Company does not intend to hold the shares in the long term and the Company does not have a significant influence over the financial and operating decisions of such Companies.

	Company/Group		Company/Group	
	Cost		Director's Valuation	
	2007	2006	2007	2006
	Rs.	Rs.	Rs.	Rs.

14.2 Investments in Equity Securities - Non Current

Non-Quoted

Application for Shares				
Vallibel Electrics Limited	13,260,000	-	13,260,000	-
Rocell Ceramics Limited	127,170,578	-	127,170,578	-
Rocell Bathware Limited	-	20,620,745	-	20,620,745
Total	140,430,578	20,620,745	140,430,578	20,620,745

Notes to the Financial Statements (Contd.)

As at 31 st March

	Company		Group	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
15. INVENTORIES				
Raw Materials	115,464,478	109,886,492	217,813,915	167,187,205
Work in Progress	26,667,106	17,128,062	33,457,584	21,677,461
Finished Goods	162,653,423	207,328,376	388,075,316	302,123,224
Construction Consumables	2,198,335	2,715,509	2,198,335	3,071,480
Spares & Consumables	97,991,370	86,500,193	168,440,984	156,129,552
Goods in Transit	7,979,115	8,990,506	16,266,301	15,172,574
	412,953,827	432,549,138	826,252,435	665,361,496
Less : Provision for Obsolete & Slow Moving Stock	(4,097,021)	(2,979,629)	(10,248,931)	(2,979,629)
	408,856,806	429,569,509	816,003,504	662,381,867

	Company		Group	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.

16. TRADE AND OTHER RECEIVABLES

Trade Debtors	63,624,847	40,332,594	98,952,052	45,618,981
Other Receivables	51,733,763	28,132,887	116,053,183	68,678,688
Advances and Prepayments	15,045,821	4,975,749	144,496,237	17,085,186
	130,404,431	73,441,230	359,501,472	131,382,856

	Company		Group	
Relationship	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.

17. AMOUNTS DUE FROM RELATED PARTIES

Royal Porcelain (Pvt) Ltd	Subsidiary Company	29,808,401	147,138,991	-	-
Rocell Bathware Ltd	Subsidiary Company	44,944,287	-	-	-
		74,752,689	147,138,991	-	-

	Company		Group	
	Par Value Rs.	2007 Number	2006 Number	

18. SHARE CAPITAL

18.1 Authorized

Number of Ordinary Shares	10/-	75,000,000	75,000,000
		Rs.	Rs.
Nominal Value of Ordinary Shares	10/-	750,000,000	750,000,000
		750,000,000	750,000,000

Notes to the Financial Statements (Contd.)

As at 31 st March

	Par Value Rs.	At the Beginning of the Year 01.04.2006 Number	Issued for Cash/Non Cash Consideration Number	At the End of the Year 31.03.2007 Number
18.2 Issued and Fully Paid - Company				
Number of Ordinary Shares	10/-	55,394,692	-	55,394,692
		55,394,692	-	55,394,692
		Rs.	Rs.	Rs.
Nominal Value of Ordinary Shares	10/-	553,946,920	-	553,946,920
		553,946,920	-	553,946,920

18.3 Share capital of the Company is consolidated to 55,394,692 no of shares of Rs. 10/- each during the year. Previously it was 553,946,920 no of shares of Rs. 1/- each. Previous years figures have been restated accordingly.

	Company		Group	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
19. RESERVES				
Summary				
Capital Reserves				
Share Premium (19.1)	260,779,533	260,779,533	260,779,533	260,779,533
Revaluation Reserve (19.2)	4,167,357	4,167,357	4,167,357	4,167,357
	264,946,890	264,946,890	264,946,890	264,946,890

19.1 Share Premium

At the beginning of the year	260,779,533	260,779,533	260,779,533	260,779,533
At the end of the year	260,779,533	260,779,533	260,779,533	260,779,533

19.2 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 10.4 and 10.10. The unrealized amount cannot be distributed to shareholders.

	2007 Amount Repayable Within 1 Year Rs.	2007 Amount Repayable After 1 Year Rs.	2007 Total Rs.	2006 Amount Repayable Within 1 Year Rs.	2006 Amount Repayable After 1 Year Rs.	2006 Total Rs.
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20. INTEREST BEARING LIABILITIES - COMPANY

Finance Leases

& Hire Purchases(20.1)	6,002,873	4,032,929	10,035,802	5,257,704	10,037,802	15,295,506
Long Term Loans (20.2)	201,050,688	401,380,110	602,430,798	176,837,328	295,562,520	472,399,848
Short Term loans (20.3)	114,770,848	-	114,770,848	105,434,498	-	105,434,498
Bank Overdraft (26.2)	233,950,153	-	233,950,153	81,931,864	-	81,931,864
	555,774,562	405,413,039	961,187,601	369,461,394	305,600,322	675,061,716

Notes to the Financial Statements (Contd.)

	As at 01.04.2006 Rs	New Leases/ Hire Purchases Obtained Rs.	Repayments Rs.	As at 31.03.2007 Rs.
20.1 Finance Leases				
Commercial Bank of Ceylon limited	18,145,848	-	(6,954,324)	11,191,524
	18,145,848	-	(6,954,324)	11,191,524
Gross Liability	18,145,848			11,191,524
Finance Charges Allocated to Future Periods	(2,850,342)			(1,155,722)
Net liability	15,295,506			10,035,802
Payable within 1 year	5,257,704			6,002,873
Payable after 1 year before 5 years	10,037,802			4,032,929
	15,295,506			10,035,802

Security : Assets Leased

Terms of Payment : 36 - 48 Installments

	As at 01.04.2006 Rs	Loans Obtained Rs.	Repayment Rs.	As at 31.03.2007 Rs.
20.2 Long Term Loans				
Commercial Bank of Ceylon limited	246,440,000	73,000,000	(136,205,000)	183,235,000
Hatton National Bank Limited	161,067,500	100,000,000	(46,001,662)	215,065,838
DFCC Bank Limited	64,892,348	-	(20,492,328)	44,400,020
HSBC Bank	-	115,500,000	-	115,500,000
NDB Bank	-	50,000,000	(5,770,060)	44,229,940
	472,399,848	338,500,000	(208,469,050)	602,430,798
Payable within 1 year	176,837,328			201,050,688
Payable after 1 year	295,562,520			401,380,110
	472,399,848			602,430,798

Details of the Long Term Loans;

Details of the Long Term Loans of the Company are given in Note 20.6 to these financial statements.

	As at 01.04.2006 Rs	Loans Obtained Rs.	Repayment Rs.	As at 31.03.2007 Rs.
20.3 Short term Loans				
Commercial Bank of Ceylon limited	58,561,864	243,767,955	(224,329,819)	78,000,000
Seylan Bank Limited	-	57,191,000	(47,662,000)	9,529,000
Hatton National Bank Limited	43,805,170	31,266,332	(71,044,151)	4,027,350
Sampath Bank Limited	3,067,464	64,968,179	(44,821,145)	23,214,498
	105,434,498	397,193,465	(387,857,115)	114,770,848

Notes to the Financial Statements (Contd.)

	2007 Amount Repayable Within 1 Year Rs.	2007 Amount Repayable After 1 Year Rs.	2007 Total Rs.	2006 Amount Repayable Within 1 Year Rs.	2006 Amount Repayable After 1 Year Rs.	2006 Total Rs.
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20.4 Interest Bearing Liabilities - Group

Finance Leases						
& Hire Purchases (20.5)	6,002,873	4,032,929	10,035,802	5,257,704	10,037,802	15,295,506
Long Term Loans (20.6)	327,610,816	1,029,007,867	1,356,618,683	221,837,328	497,133,991	718,971,319
Short Term Loans (20.7)	167,674,537	-	167,674,537	185,735,304	-	185,735,304
Bank Overdraft (26.2)	338,120,793	-	338,120,793	151,843,326	-	151,843,326
	<u>839,409,019</u>	<u>1,033,040,796</u>	<u>1,872,449,815</u>	<u>564,673,662</u>	<u>507,171,793</u>	<u>1,105,737,433</u>
	As at 01.04.2006 Rs	New Leases/ Hire Purchases Obtained Rs.	Repayments Rs.	As at 31.03.2007 Rs.		

20.5 Finance Leases

Commercial Bank of Ceylon Limited	18,145,848	-	(6,954,324)	11,191,524
	<u>18,145,848</u>	<u>-</u>	<u>(6,954,324)</u>	<u>11,191,524</u>
Gross Liability	18,145,848			11,191,524
Finance Charges Allocated to Future Periods	(2,850,342)			(1,155,722)
Net liability	15,295,506			10,035,802
Payable within 1 year	5,257,704			6,002,873
Payable after 1 year before 5 years	10,037,802			4,032,929
	<u>15,295,506</u>			<u>10,035,802</u>

Security : Assets Leased

Terms of Payment : 24 - 48 Installments

	As at 01.04.2006 Rs	Loans Obtained Rs.	Repayments Rs.	As at 31.03.2007 Rs.
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20.6 Long Term Loans

Commercial Bank of Ceylon Limited	246,440,000	660,859,108	(164,995,000)	742,344,108
Hatton National Bank Limited	220,585,729	145,048,899	(61,001,663)	304,632,965
National Development Bank Limited	50,000,000	-	(5,770,060)	44,229,940
DFCC Bank Limited	201,945,590	-	(52,033,920)	149,911,670
NSBC Limited	-	115,500,000	-	115,500,000
	<u>718,971,319</u>	<u>921,408,007</u>	<u>(283,760,643)</u>	<u>1,356,618,683</u>
Payable within 1 year	221,837,328			327,610,816
Payable after 1 year	497,133,991			1,029,007,867
	<u>718,971,319</u>			<u>1,356,618,683</u>

Details of the Long Term Loans;

Lender	Approved Facility	Rate of Interest	Purpose	Repayment Terms	Security	Security Amount Rs.	Included Under
Company : Royal Ceramics Lanka Ltd							
Hatton National Bank Limited	Rs.200 Million	AWPLR + 0.5 (15.73%)	Expansion of production capacity	96 equal monthly installments commencing from 3rd December 2002	Negative pledge over Company's unencumbered assets Primary Floating Mortgage bond over Plant & Machinery & Land at Eheliyagoda	200 Mn 350.3 Mn	Property, Plant & Equipment Property, Plant & Equipment
Hatton National Bank Limited	Rs.75 Million	AWPLR (15.73%)	For the purpose of rescheduling of existing loan	96 equal monthly installments commencing from 10th December 2002	Negative pledge over Company's unencumbered assets Primary Floating Mortgage bond over plant & machinery & land at Eheliyagoda	75 Mn 350.3 Mn	Property, Plant & Equipment Property, Plant & Equipment
Commercial Bank of ceylon Limited	Rs.20 Million	AWPLR (15.73%)	Refurbishment of showrooms & Head Office	48 equal monthly installments commencing from May 2004	Pledge of Company stocks in trade and assignment over book debts Mortgage over lands at 101 Nawala Road, Nugegoda and 472 High Level Road-Nugegoda & BaddegedaraMulla-Meegoda	408 Mn 130 Mn 137 Mn	Inventory Trade & Other Receivable Property, Plant & Equipment
Commercial Bank of ceylon Limited	Rs.85 Million	AWPLR (15.73%)	Refurbishment of showrooms & Head Office and purchasing land	60 equal monthly installments commencing from January 2005	Mortgage over lands at 101 Nawala Road, Nugegoda and 472 High Level Road-Nugegoda & BaddegedaraMulla-Meegoda	137 Mn	Property, Plant & Equipment
Commercial Bank of ceylon Limited	Rs.200 Million	AWPLR+1% - (16.19%)	For the purpose of finance long term investments	24 equal monthly installments commencing from October 2005	Mortgage over Investment in Following shares-LB Finance 1,552,800 Shares Lanka Ceramics 6,000,000 Shares & Fortress Resorts 5,550,000 Shares Mortgage over lands at 101 Nawala Road, Nugegoda, 472 High Level Road-Nugegoda & BaddegedaraMulla-Meegoda.	131 Mn 137 Mn	Investments Property Plant & Equipment

Details of the Long Term Loans;

Lender	Approved Facility	Rate of Interest	Purpose	Repayment Terms	Security	Security Amount Rs.	Included Under
Company : Royal Ceramics Lanka Ltd							
DFCC Bank Limited	Rs. 100 Million	AWPLR+1% - (15.50%)	Expansion of production capacity	60 equal monthly instalments commencing from July 2004	Mortgage over Plant & Machinery at factories in Eheliyagoda & Horana.	100 Mn	Property, Plant & Equipment
Hatton National Bank Limited	Rs 100 Million	AWPLR+ 75% (13.67%)	Settlement of short term loan of NDB & to finance remaining capital expenditure	60 equal monthly instalments commencing from April 2006	Primary Floating Mortgage bond over Plant & Machinery & Land at Eheliyagoda	350.3 Mn	Property, Plant & Equipment
Commercial Bank of Ceylon Limited	Rs. 73 Million	AWPLR (15.19%)	Purchase of premises at Nawala, Kottawa & land bordering RPL Factory premises, Changing the layout of the Head Office premises & construction of new showrooms at Nittabuwuwa, Gampaha and Ambalangoda.	60 equal monthly instalments commencing from April 2006	Mortgage over lands at- 101 Nawala Road, Nugegoda, 472 High Level Road- Nugegoda & Baddeggedara Mulla Meegoda.	137 Mn	Property, Plant & Equipment
HSBC Limited							
	Rs. 250 Million	SLIBOR+ 75% (16.19%)	Purchase of machinery	48 instalments 6 months grace period	Primary mortgage over machinery	250 Mn	Property, Plant & Equipment
					Negative Pledge over Company's Stocks and Debtors	408 Mn	Inventory
						130 Mn	Trade & Other Receivable
NDB Bank Limited							
	Rs. 50 Million	AWPLR+ 75% (15.18%)	Working capital requirements	60 equal monthly instalments commencing from October 2006	Primary mortgage bond over 10 Million shares of Fortress Resorts Ltd	100 Mn	Investments
Company : Royal Porcelain (Pvt) Ltd							
Hatton National Bank Limited	Rs.75 Million	AWPLR+1% - (15.73%)	Importation of machinery for the new walltile plant	60 equal monthly instalments commencing from April 2005	Pari-Pasu Concurrent Registered Primary Floating Mortgage Bond (Between COM & DFCC) over the factory premises of RPL in Horana together with existing machinery & the machinery to be Imported Corporate guarantee of RCL	55Mn	Property, Plant & Equipment
						75Mn	

Details of the Long Term Loans; (Contd.)

Lender	Approved Facility	Rate of Interest	Purpose	Repayment Terms	Security	Security Amount	Included Under
Company : Royal Porcelain (Pvt) Ltd							
DFCC Bank Limited	Rs.150 Million	AWPLR+1% - (15.50%)	Purchase of a Valtile manufacturing plant	60 equal monthly installments commencing from August 2005	Primary pari pasu concurrent Registered Mortgage (with COM/HNB) over Land (Midelanelahena Estate) situated in Uduwa, together with existing & proposed Building & Machinery.	132 Mn	Property, Plant & Equipment
Commercial Bank of ceylon Limited	Rs. 400 Million	AWPLR (15.19%)	Capital expenditure of the Group	60 equal monthly installments commencing from December 2006	Primary pari pasu concurrent Registered Mortgage (with HNB/DFCC) over company's factory premises & machinery at Uduwa, Horana	400 Mn	Property, Plant & Equipment
Commercial Bank of ceylon Limited	Rs. 45 Million	AWPLR (15.19%)	Importation of a printing machine & a complete sorting & palletizer machine for the walltile manufacturing project.	60 equal monthly installments commencing from July 2006	Primary Mortgage bond over a printing machine & a complete sorting & palletizer machine. Corporate guarantee of RCL	45 Mn	Property, Plant & Equipment
Company : Rocell Bathware Ltd							
Commercial Bank of ceylon Limited	Rs. 150 Million	AWPLR + 1% (15.19%)	To finance the cost of machines imported to be imported	66 installments with grace period of 15 months	Primary concurrent mortgage bond with HNB over Lease hold property at Templeburg Industrial Estate, Panagoda, Building & Machinery	450Mn	Property, Plant & Equipment
Hatton National Bank Limited	Rs. 300 Million	AWPLR + .75% (96 Million - 12.26%, 86.4 Million - 16.43%)	Importation of Plant & machinery & to meet other cost associated with the RBL project.	66 installments with grace period of 12 months	Primary concurrent Mortgage bond with Commercial Bank over Lease hold property at Templeburg Industrial Estate, Panagoda, Building & Machinery	450 Mn	Property, Plant & Equipment
					Corporate Guarantee of RCL	300 Mn	

	As at 01.04.2006 Rs.	Loans Obtained Rs.	Repayments Rs.	As at 31.03.2007 Rs.
20.7 Short term Loans				
Commercial Bank of Ceylon Limited	82,524,670	274,238,108	(264,753,203)	92,009,575
Seylan Bank Limited	56,338,000	163,186,000	(185,448,000)	34,076,000
Hatton National Bank Limited	43,805,170	68,366,189	(93,796,894)	18,374,464
National Development Bank	-	50,000,000	(50,000,000)	-
Sampath Bank Limited	3,067,464	64,968,179	(44,821,145)	23,214,498
	185,735,304	620,758,475	(638,819,242)	167,674,537

	Note	Company 2007 Rs.	2006 Rs.	Group 2007 Rs.	2006 Rs.
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21. DEFERRED TAX

Balance at the beginning of the year	27	42,459,166	59,474,926	49,770,850	59,474,926
Provision / (Release) made during the year		(66,896)	(17,015,760)	(7,378,580)	(9,704,076)
Balance at the end of the year		42,392,270	42,459,166	42,392,270	49,770,850

	Company 2007 Rs.	2006 Rs.	Group 2007 Rs.	2006 Rs.
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21.1 Deferred Tax Liability

Accelerated depreciation allowances for tax purpose (Property, Plant & Equipment)	55,066,852	50,086,065	55,066,852	57,397,749
Accelerated depreciation allowances for tax purpose (Leased Assets)	902,080	1,669,532	902,080	1,669,532
	55,968,932	51,755,597	55,968,932	59,067,281
Deferred tax assets				
Defined Benefit Plan Liability	(13,576,662)	(9,296,431)	(13,576,662)	(9,296,431)
Net Deferred Tax Liability	42,392,270	42,459,166	42,392,270	49,770,850

Royal Ceramics Distributors (Pvt) Ltd which is a fully owned subsidiary of Royal Ceramics Lanka Ltd, has a Tax Loss available indefinitely to offset against future taxable profit of the Company subject to the limit of 35% of taxable profit in one year of assessment. A deferred tax asset has not been recognised in respect of this tax loss as it is anticipated that the deferred tax asset will not realise in the foreseeable future.

	Balance 01.04.2006 Rs	Charge for the Year Rs.	Payments during the Year Rs.	Balance 31.03.2007 Rs.
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22. RETIREMENT BENEFIT OBLIGATIONS - COMPANY

Provision for Gratuity	30,988,105	9,481,082	(1,678,723)	38,790,464
	30,988,105	9,481,082	(1,678,723)	38,790,464

	Balance 01.04.2006 Rs	Charge for the Year Rs.	Payments during the Year Rs.	Balance As at 31.03.2007 Rs.
22.1 Retirement Benefit Obligations - Group				
Provision for Gratuity	34,769,591	10,590,330	(1,678,723)	43,681,198
	<u>34,769,591</u>	<u>10,590,330</u>	<u>(1,678,723)</u>	<u>43,681,198</u>
	Company		Group	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.

23. TRADE AND OTHER PAYABLES

Trade Creditors	23,874,803	22,285,521	108,849,882	76,246,794
Other Creditors	36,942,388	12,578,125	57,410,940	33,427,072
Sundry Creditors Including Accrued Expenses	49,898,744	45,222,306	75,195,542	57,498,710
	<u>110,715,935</u>	<u>80,085,952</u>	<u>241,456,364</u>	<u>167,172,576</u>
	Company		Group	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.

24. DIVIDEND PAYABLE

Total unclaimed Dividends	<u>20,141,515</u>	<u>8,569,828</u>	<u>20,141,515</u>	<u>8,569,828</u>
	Company		Group	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.

25. AMOUNTS DUE TO RELATED PARTIES

	Relationship				
Royal Ceramics Distributors (Pvt) Ltd	Subsidiary Company	40,202,477	43,706,056	-	-
		<u>40,202,477</u>	<u>43,706,056</u>	<u>-</u>	<u>-</u>

26. CASH AND CASH EQUIVALENTS IN CASH FLOW STATEMENT**Components of Cash and Cash Equivalents**

	Company		Group	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
26.1 Favourable Cash & Cash Equivalent Balances				
Cash & Bank Balances	47,891,566	831,781	70,038,689	4,888,733
26.2 Unfavourable Cash & Cash Equivalent Balances				
Bank Overdraft	(233,950,153)	(81,931,864)	(338,120,793)	(151,843,326)
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	<u>(186,058,587)</u>	<u>(81,100,083)</u>	<u>(268,082,104)</u>	<u>(146,954,593)</u>

27. EFFECTS OF PRIOR PERIOD ERROR

There is an error in the computation of deferred tax liability as 31 March 2005. This was corrected by adjusting the opening accumulated profits of the year ended 31 March 2006 and the balance sheet as at 31 March 2006 has been restated. There is no impact on the income statement for the year ended 31 March 2006 due to the above. The effect of the restatement on the financial statements is summarised below.

	Company		Group	
	2007 Rs.	2006 Rs.	2007 Rs.	2006 Rs.
Prior Year Deferred Tax Liability after Adjustments				
At the beginning of the year as previously stated	27,543,503	44,559,263	34,855,187	44,559,263
Prior period error	14,915,663	14,915,663	14,915,663	14,915,663
Adjusted balance brought forward	42,459,166	59,474,926	49,770,850	59,474,926

28. CONTINGENT LIABILITIES

Company has issued corporate guarantees in favour of its subsidiary Royal Porcelain (Pvt) Limited and Rocell Bathware Limited guaranteeing loans, interest and other charges of the loans as stated in Note 20.6.

The Department of Inland Revenue has issued 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.

29. CAPITAL COMMITMENTS

The approximate amount of capital commitments approved by the Directors and contracted for as at 31st March 2007 amounts to Rs 497,636,864/- (2006 - Rs 504,000,000/-)

The approximate amount of capital commitments approved by the Directors and not contracted for as at 31st March 2007 amounts to Rs 50,820,000/- (2006 - Nil)

No provision has been made in these financial statements in this regard as at 31st March 2007.

30. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no material events occurring after the balance sheet date that require adjustment to or disclosure in the financial statements other than a final dividend of 10% been proposed by the Company for the year ended 31st March 2007 subsequent to the balance sheet date.

31. DIRECTORS' INTEREST IN CONTRACTS WITH THE COMPANY

Mr. A. M. Weerasinghe (Chairman), Mr. K. D. D. Perera (Deputy Chairman), Mr. F. P. De Alwis, Mr. M. T. L. Fernando, Mr. B. M. Amarasekara, Mr. R. B. Thambaiyah, Mr. W. D. N. H. Perera (Managing Director), Mr T. G. Thoradeniya, Mr. L. T. Samarawickrema, Mr. K.D.H. Perera are Directors of the Company from 1st April 2006 to 31st March 2007 and Mr. J.K. Menon was a Director of the Board and resigned w.e.f from 18th January 2007.

31.1 Details of transactions carried out with director related entities during the year.

The Company carried out transactions in the ordinary course of its business at commercial rates with the following director related entities;

Name of Related Party	Name of Director	Relationship	Details	Balance outstanding As at 31/3/2007 Rs.
Royal Porcelain (Pvt) Ltd	Mr.A.M. Weerasinghe	Chairman	A sum of Rs.80,000,000/- was received as	29,808,401
	Mr. K.D.D. Perera	Deputy Chairman	service charges	
	Mr. J .K. Menon	Director	A sum of Rs.60,000/- was received as rent	
	(Resigned from the Board w.e.f. 18th January 2007)		A sum of Rs. 9,132,456/- worth of Damaged tiles	
	Mr. W.D.N.H.Perera	Director	were purchased	
	Mr. T.G.Thoradeniya	Director	A sum of Rs. 329,974,841/- was given as Short term funds	
	Mr. F. P. De Alwis	Director	Materials worth of Rs.4,897,298/- were sold	
	Mr.M.T.L. Fernando	Director	Materials worth of Rs.1,850,298/- were purchased	
	Mr. R.B.Thambiyah	Director	A sum of Rs. 1,216,916 was paid as cost of squaring	
	Mr.B.M.Amarasekera	Director	Guarantees of Rs. 520,000,000/- were given for loans	
	Mr. L.T. Samarawickrema	Director	A sum of Rs. 115,000,000/- was received as dividends	
	Mr. K.D.H. Perera	Director		
Rocell Bathware Ltd	Mr.A.M. Weerasinghe	Director	A sum of Rs. 44,944,207/- was given as short	44,944,207
	Mr. K.D.D. Perera	Director	term finance	
	Mr. J .K. Menon	Director	Guarantees of Rs. 450,000,000/- were given for loans	
	(Resigned from the Board w.e.f. 18th January 2007)		Investment in shares amounting to Rs. 159,452,715	
	Mr. W.D.N.H.Perera	Director		
	Mr. T.G.Thoradeniya	CEO		
	Mr. F P De Alwis	Director		
	Mr. M.T.L. Fernando	Director		
	Mr. R.B.Thambiyah	Director		
	Mr. B.M.Amarasekera	Director		
	Mr. L.T. Samarawickrema	Director		
	Mr. K.D.H Perera	Director		
Royal Ceramics Distributors (Pvt) Ltd	Mr. A.M. Weerasinghe	Chairman	A sum of Rs. 3,503,579/- was given as	40,202,477
	Mr. K.D.D. Perera	Deputy Chairman	short term finance	
	Mr. J .K. Menon	Director		
	(Resigned from the Board w.e.f. 18th January 2007)			
	Mr. W.D.N.H.Perera	Director		
	Mr. T.G.Thoradeniya	Director		
	Mr. F P De Alwis	Director		
	Mr. M.T.L. Fernando	Director		
	Mr. R.B.Thambiyah	Director		
	Mr. B.M.Amarasekera	Director		
	Mr. L.T. Samarawickrema	Director		
	Mr. K.D.H Perera	Director		

31.1 Details of transactions carried out with director related entities during the year. (Contd.)

Name of Related Party	Name of Director	Relationship	Details	Balance outstanding As at 31/3/2007 Rs.
Connaissance Holdings Ltd	Mr. K.D.D. Perera	Deputy Chairman	Tiles worth of Rs. 35,279/- were sold	Nil
	Mr.K.D.H Perera	Director	A sum of Rs. 193,352/- paid as	
	Mr. W.D.N.H.Perera	Finance Director	accomodation charges	
	Mr. L.T. Samarawickrema	Director		
LA Fortresse Resorts (Pvt) Ltd	Mr. K.D.D. Perera	Director	Tiles & Grouts worth of Rs.5,074,330/- were sold	5,405,032
	Mr. W.D.N.H. Perera	Director		
Kandyan Resorts (Pvt) Ltd	Mr. K.D.D. Perera	Director	Tiles & Grouts worth of Rs.1,137,512/- were sold	1,651,737
	Mr. W.D.N.H Perera	Director	A sum of Rs. 143,189/- was received as tile laying charges	
L B Finance Ltd	Mr. K.D.D. Perera	Director	Tiles worth of Rs.587,970/- were sold	Nil
	Mr. W.D.N.H Perera	Director	A sum of Rs 1,433,340/- was received as dividend income	
	Mr. B.M.Amarasekera	Director		
	Mr. A.M. Weerasinghe	Director		
Hotel Reefcomber Ltd	Mr. K.D.D. Perera	Director	Tiles & Grouts worth of Rs.1,228,118/- were sold	1,748,578
	Mr. K.D.H Perera	Director		
	Mr. W.D.N.H.Perera	Director		
	Mr. L.T. Samarawickrema	Director		
	Mr. B.M.Amarasekera	Director		
Vallible Electric (Pvt) Ltd	Mr. K.D.D. Perera	Director	Tiles worth of Rs 1,039,866/- were sold	9,000,000
	Mr. K.D.H Perera	Director	A sum of Rs. 9,000,000/- was given as short	
	Mr. W.D.N.H.Perera	Director	term finance	
	Mr. A.M. Weerasinghe	Director		
Vallible Power Erathna Ltd	Mr. K.D.D. Perera	Director	Tiles worth of Rs 855,654/- were sold	Nil
	Mr. K.D.H Perera	Director		
	Mr. W.D.N.H.Perera	Director		
	Mr. M.T.L. Fernando	Director		
National Development Bank Ltd	Mr. R.B. Thambiayah	Director	Project loan obtained Rs. 50,000,000/-	44,229,940
Pan Asia Banking Corporation Ltd	Mr. K.D.D. Perera	Deputy Chairman	Current account balance	14,201,937
The Fortress Resorts Ltd	Mr. K.D.D. Perera	Director	Disposal of shares amounting to Rs. 56,676,756/-	
	Mr. W.D.N.H.Perera	Director	Investment in shares amounting to Rs.105,148,839/-	
	Mr. L.T. Samarawickrema	Director		
Brown & Company Ltd	Mr. M.T.L. Fernando	Director	Note counter worth of Rs.10,350/- was purchased	Nil
Ceylon Leather Products Ltd	Mr. B.M.Amarasekera	Director	Shoes worth of Rs. 455,458/- were purchased	Nil

32. RELATED PARTY DISCLOSURES**32.1 Compensation to Key Management Personnel (*)**

	2007 Rs.	2006 Rs.
Emoluments / Fees	22,353,010	14,941,323
Total compensation paid to key management personnel	22,353,010	14,941,323

Key management personnel include the Board of Directors of the Company, Directors in subsidiary companies.

32.2 Details of transactions carried out with Directors during the year.

Mr. A.M. Weerasinghe, Chairman of Royal Ceramics Lanka Ltd has provided transport services and business premises to the Company during the year at a fee of Rs. 877,900/- and Rs. 3,457,500/- (2006 - Rs702,000/- and 2,637,000/-) respectively.

32.3 Transactions, arrangements and agreements involving companies controlled by the shareholder with significant influence

The Company carried out following transactions with the companies controlled by Mr. K.D.D. Perera who is the shareholder having a significant influence including the transaction with fully owned subsidiaries of Royal Ceramic Lanka Limited.

	2007 Rs.	2006 Rs.
Sales	14,999,216	10,293,195
Purchases	10,982,870	8,141,728
Loans/advances given	383,919,048	118,292,323
Investments made	105,148,839	238,080,793
Guarantees given	970,000,000	75,000,000
Other Operating Services	81,272,916	78,221,733
Disposal of Investments	56,676,756	-

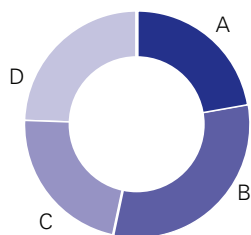
32.4 Transactions with Subsidiary Companies

The details of the transactions carried out with the subsidiary companies and the balance outstanding as at 31 March 2007 are disclosed in Note 31.1 to these financial statements.

Group Value Added Statement

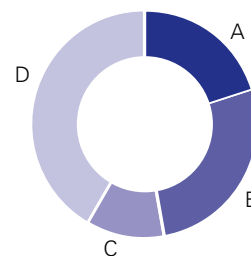
	2006/2007			2005/2006		
	Rs.000's	Rs.000's		Rs.000's	Rs.000's	
Turnover		2,957,038			2,208,821	
Other Income/ Loss		(2,636)			3,426	
		<u>2,954,402</u>			<u>2,212,247</u>	
Less: Cost of Material & Services bought in		(1,599,725)			(965,117)	
		<u>1,354,677</u>			<u>1,247,130</u>	
Value Allocated to Employees						
Salaries & Wages and other benefits	301,872	301,872	22.3%	250,076	250,076	20.1%
To Government						
Income Tax	54,464			71,578		
GST, NSL, VAT & TT	362,858	417,322	30.8%	267,286	338,865	27.2%
To Providers of Capital						
Dividend	110,789			55,394		
Loan Interest	192,901	303,690	22.4%	84,636	140,030	11.2%
To Expansion & Growth						
Retained in Business	218,242			396,317		
Depreciation	113,551	331,793	24.5%	121,842	518,159	41.5%
		<u>1,354,677</u>	<u>100%</u>		<u>1,247,130</u>	<u>100.0%</u>

Value Added - 2007



	2007
A Value Allocated to Employees	22%
B To Government	31%
C To Providers of Capital	22%
D To Expansion & Growth	24%

Value Added - 2006



	2006
A Value Allocated to Employees	20%
B To Government	27%
C To Providers of Capital	11%
D To Expansion & Growth	42%

Ten Year Summary - Company

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
	Rs.'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000

Trading Results

Net Turnover	1,362,397	1,193,481	976,298	703,429	665,488	610,692	624,387	573,336	564,193	548,262
Other Income	200,300	119,820	168,545	69,789	78,101	4,903	1,536	1,115	4,165	3,704
Profit before Interest	337,323	442,122	285,289	80,937	161,139	104,061	149,656	87,005	101,238	88,709
Interest	(126,998)	(76,291)	(60,309)	(39,523)	(48,263)	(9,551)	(5,584)	(3,587)	(3,119)	(6,667)
Profit after Interest before tax	210,325	365,831	224,980	41,414	112,876	94,510	144,072	83,418	98,119	82,042
Taxation	(57,511)	(44,048)	(23,093)	7,210	(41,097)	(2,035)	(5,666)	(209)	(1,227)	(1,016)
Profit after Taxation	152,814	321,783	201,887	48,624	71,779	92,475	138,406	83,209	96,892	81,026
Deferred Revenue Expenditure	-	-	-	-	-	-	-	-	(3,055)	(5,724)
Prior Year Adjustments	-	-	-	-	-	-	-	(50,000)	-	-
Net Profit	152,814	321,783	201,887	48,624	71,779	92,475	138,406	33,209	93,837	75,302

Balance Sheet

Share Capital	553,947	553,947	553,947	553,947	553,947	553,947	307,748	307,748	307,748	307,748
Capital Reserve	264,946	264,946	264,946	264,946	264,946	264,946	271,155	271,155	271,155	268,100
Retained Earnings	415,134	373,109	121,637	85,935	37,310	20,925	39,240	90,981	134,709	133,196
Shareholders' funds	1,234,027	1,192,003	940,530	904,828	856,203	839,818	618,143	669,884	713,612	709,044
Fixed Assets	489,995	455,546	490,390	415,689	403,628	444,604	482,094	510,831	493,809	513,023
Investments	1,306,903	979,964	545,519	522,911	500,500	500	500	500	50,500	25,500
Current Assets	661,905	650,981	762,052	1,001,260	676,892	864,372	417,487	342,279	333,131	353,758
Current Liabilities	(738,180)	(515,441)	(485,338)	(734,260)	(420,015)	(219,422)	(227,759)	(173,672)	(156,100)	(177,080)
Non Current Liabilities	(486,596)	(379,047)	(372,093)	(300,772)	(304,802)	(250,236)	(54,179)	(10,054)	(7,728)	(6,157)
	1,234,027	1,192,003	940,530	904,828	856,203	839,818	618,143	669,884	713,612	709,044

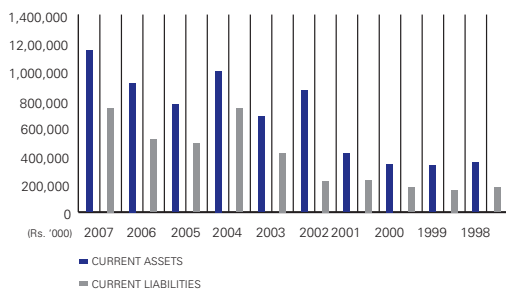
Ratios & Statistics

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Ordinary Dividends (Rs.000's)	110,789	55,394	110,789	55,394	55,394	110,789	153,874	76,937	92,324	61,550
Effective Rate of Dividends (%)	20	10	20	10	10	20	50	25	30	20
Dividend per share (Rs.) *	2.00	1.00	2.00	1.00	1.00	2.00	5.00	2.50	3.00	2.00
Earnings Per Share (Rs.) *	2.76	5.81	3.64	0.90	1.30	2.70	4.50	1.10	3.20	2.40
Market Value Per Share (Closing) (Rs.) *	35.00	34.00	45.00	16.50	15.00	17.00	14.30	13.50	14.50	17.00
Highest Market Value Per Share (Rs.) *	43.00	50.00	57.50	28.20	22.50	33.00	18.00	17.00	18.00	69.50
Price Earnings Ratio (Times)	12.69	5.85	12.35	18.33	11.54	6.30	3.18	12.27	4.53	7.08
Net Assets Per Share (Rs.) *	22.28	21.79	16.98	16.30	15.50	15.20	20.10	21.80	23.20	23.00
ROCE (%)	16.26	25.29	19.98	7.31	10.34	9.36	21.42	12.77	13.86	12.26

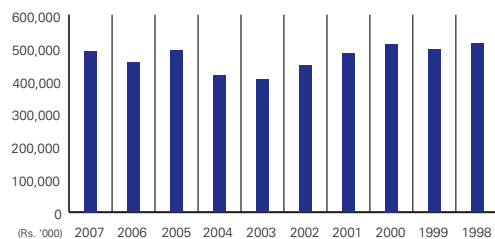
* All, Per Share information has been restated to reflect the present shareholding.

Graphical Review of Ten Year Summary - Company

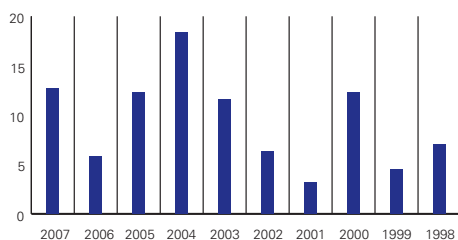
Current Assets & Liabilities



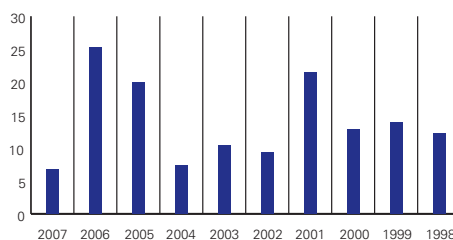
Fixed Assets



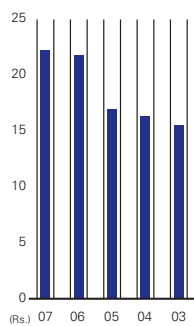
Price Earnings Ratio (Times)



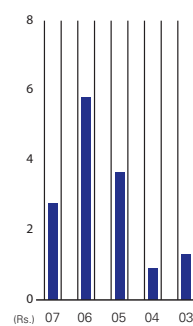
Return on Capital Employed (ROCE) %



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.10/- 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 15,670 registered shareholders as at 31st March 2007, distributed as follows :

Number of Shares held	No. of Shareholders	% of no. of Shareholders	No. of Shares	% share holding
1 - 1,000	14,273	91.08	2,201,084	3.97
1,001 - 5,000	990	6.31	2,323,163	4.19
5,001 - 10,000	183	1.16	1,416,546	2.55
10,001 - 50,000	172	1.09	3,723,682	6.72
50,001 - 100,000	25	0.15	1,817,847	3.28
100,001 - 500,000	18	0.11	3,042,967	5.49
500,001 - 1,000,000	3	0.01	2,109,880	3.80
Over 1,000,000	6	0.03	38,759,523	69.96
Total	15,670	100	55,394,692	100

37% of shares were held by the public as at 31st March 2007

Category	No. of Shareholders	No. of Shareholders	No. of Holdings	No. of Holdings %
Individual	15,273	97.46	36,705,955	66.26
Institutional	397	2.53	18,688,737	33.73
Total	15,670	100	55,394,692	100

Category	No. of Shareholders	No. of Shareholders	No. of Holdings	No. of Holdings %
Residents	15,570	99.36	55,035,489	99.35
Non-residents	100	0.63	359,203	0.64
Total	15,670	100	55,394,692	100

4. Twenty Major Shareholders

Shareholder	No. of Shares as at 31.03.2007	% of Issued Capital	No. of Shares as at 31.03.2006	% of Issued Capital
Mr. Kalapuarachchige Don Dhammika Perera	28,351,686	51.18	283,516,860	51.18
Mr. Amarakon Mudiyansele Weerasinghe	5,674,711	10.25	56,747,120	10.24
Bank of Ceylon A/C Ceybank Unit Trust	3,612,126	6.52	20,072,360	3.62
Mrs. Pushpa Narhari Bhatt	1,121,000	2.02	8,094,400	1.46
Nuwara Eliya Property Developers (Pvt) Ltd.	990,420	1.79	9,904,200	1.79
Ceylinco Shriram Capital Mgt. Services C.O. /Mr. D L B Perera	725,020	1.31	7,750,200	1.40
Mr. Pasan Madanayake	575,420	1.04	4,371,200	0.79
Mr. Felix Premachandra De Alwis	307,033	0.55	3,070,330	0.55
Mr. Rosanth Percival Leo Eheliyagoda	300,880	0.54	3,008,800	0.54
Employees Trust Fund Board	218,730	0.39	-	-
Mr. Malawige Tissaka Lal Fernando	202,977	0.37	2,029,770	0.37
Seylan Bank Ltd/ Jayantha Devage	200,000	0.36	2,000,000	0.36
Bhadra Investments Ltd.	200,000	0.36	1,000,000	0.18
Seylan Bank Ltd./ L S I Perera	178,830	0.32	3,120,700	0.56
Mrs. Nanda Padmini Dangampola	160,908	0.29	4,734,180	0.85
First Capital Markets Ltd. / P A F Perera	150,000	0.27	1,500,000	0.27
Sampath Bank Ltd. – A/C No. 1	142,050	0.26	1,120,50	0.20
Sampath Bank Ltd. – A/C No. 3	141,550	0.26	794,100	0.14
Persing LLC S/A Averbach Grauson & Co.	140,000	0.25	-	-
Merill J Fernando & Sons (Pvt) Ltd.	125,700	0.23	1,282,700	0.23

5. Market Values per Share

		2006/2007	2005/2006
Market value per share	High - Par Value Rs. 10	47.00	-
	- Par value Rs.1	4.20	5.00
	Low - Par value Rs.10	30.50	-
	- Par value Rs.1	2.70	2.50
	Closing -	35.00	3.40

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 Seventeenth Annual General Meeting of Royal Ceramics Lanka Limited will be held at 11.00 a.m. on Wednesday the 27th June 2007, at "On Golden Pond" , 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 2007 together with the Report of the Auditors thereon.
2. To declare a final dividend of 10% for the financial year ended 31st March 2007 as recommended by the Board of Directors.
3. To re-elect Mr. K.D.D. Perera, who retires by rotation in terms of Article 85 of the Articles of Association as a Director of the Company.
4. To re-elect Mr. M.T.L. Fernando as a Director of the Company. Special Notice has been received from a shareholder pursuant to Section 211 of the Companies Act No. 7 of 2007 of the intention to propose the following resolution as an ordinary resolution.

"RESOLVED that Mr. M.T.L. Fernando who has reached the age of 80 be and is hereby re-elected as a Director of the Company, and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act No. 7 of 2007 shall not apply to the said Director in accordance with section 211 of the Companies Act No. 7 of 2007."

5. To re-elect Mr. B.M. Amarasekera as a Director of the Company. Special Notice has been received from a shareholder pursuant to Section 211 of the Companies Act No. 7 of 2007 of the intention to propose the following resolution as an ordinary resolution.

"RESOLVED that Mr. B.M. Amarasekera who has reached the age of 77 be and is hereby re-elected as a Director of the Company, and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act No. 7 of 2007 shall not apply to the said Director in accordance with section 211 of the Companies Act No. 7 of 2007."

6. To re-elect Mr. F.P. Alwis as a director of the Company. Special Notice has been received from a shareholder pursuant to Section 211 of the Companies Act No. 7 of 2007 of the intention to propose the following resolution as an ordinary resolution.

"RESOLVED that Mr. F.P. De Alwis who has reached the age of 85 be and is hereby re-elected as a Director of the Company, and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act No. 7 of 2007 shall not apply to the said Director in accordance with section 211 of the Companies Act No. 7 of 2007."

7. To re-appoint M/s Ernst & Young as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.

Notice of Meeting *(Contd.)*

8. Special Business

To authorize the Directors to determine payments for the year 2007/2008 for charitable and other purposes as set out in the Companies donations Act (Cap. 147).

By Order of the Board of
Royal Ceramics Lanka Ltd.

(Sgd.)
Secretaries & Registrars Ltd.
Secretaries
Colombo
25th May, 2007

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.

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

as *my/our Proxy to vote (Refer Note 3) for *me/us on *my/our behalf at the 17TH ANNUAL GENERAL MEETING OF THE COMPANY to be held at the "On Golden Pond", Taj Samudra Hotel at 11.00 am on Wednesday the 27th June 2007 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 2007 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 2007.		
3	To re-elect Mr. K. D. D. Perera, 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 re-elect Mr. M.T.L. Fernando, who retires in terms of section 211 of the Companies Act No. 7 of 2007.	<input type="checkbox"/>	<input type="checkbox"/>
5.	To re-elect Mr. B.M. Amarasekera, who retires in terms of section 211 of the Companies Act No. 7 of 2007.	<input type="checkbox"/>	<input type="checkbox"/>
6.	To re-elect Mr. F.P. De Alwis, who retires in terms of section 211 of the Companies Act No. 7 of 2007.	<input type="checkbox"/>	<input type="checkbox"/>
7.	To re-appoint M/s Ernst & Young, Chartered Accountants as Auditors of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
8.	To authorize the Directors to determine payments for the year 2007/2008 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 Seven

.....
* 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 time for the meeting.

Corporate Information

Name of the Company

Royal Ceramics Lanka Limited

Legal Form

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

Date of Incorporation

29th August 1990

Company Registration Number

N PVS 6743 (PBS)

Nature of Business

Manufacture and Sale of Porcelain & Ceramic Tiles

Board of Directors

Mr. A.M. Weerasinghe - Chairman

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

Mr. W.D.N.H. Perera - Managing Director

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. Thambiayah

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@rcl.lk

Website: www.roccl.com

Subsidiary Companies

Royal Porcelain (Pvt) Ltd.

Rocell Bathware Ltd.

Royal Ceramics Distributors (Pvt) Ltd.

Registrars

Secretaries and Registrars Ltd.

32, Second Floor, Galle Face Court 2,

Galle Face Terrace, Colombo 03.

Tel : 0112325761/0112472971

Fax : 0112342047

E-mail : s&r@eureka.lk

External Auditors

Ernst & Young, Chartered Accountants

201, De Saram Place,

P. O. Box 101, Colombo 10.

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.

