

Chairman's Statement

It is my pleasure to present to you the annual report of Royal Ceramics Lanka Plc for the year 2008/09 and welcome you to our 19th annual general meeting of shareholders.

I am happy to report that your company recorded overall growth in terms of revenue for the year under review, despite operating amidst difficult conditions created by the global financial crisis and local macro economic constraints.

The global recession and its implications to the Sri Lankan economy made 2009 a very challenging one for not only Rocell, but for the entire ceramics industry. Despite a slowdown in the construction and housing markets, the Group achieved a growth of 7.7% in terms of revenue in 2008/09. Profit before tax (PBT) however saw a negative growth of 16.4% falling to Rs. 538 million mainly due to a fall in value of short term investments. Company achieved the same operating profit despite challenging macroeconomic environment. Similarly the Group achieved a net profit of Rs. 517 million, 15.21% lower than that experienced the previous year. Our earnings per share (EPS) was Rs. 9.35 for the year in review. An interim dividend of Rs. 1/- per share was paid to our shareholders in 2008/09.

Despite unfavourable macro economic conditions, Rocell marked a milestone in its expansion strategy by introducing a state of the art Bathware collection in 2009. Given that this investment was financed mainly through bank borrowings, there exists a high interest factor in the current environment. We are hopeful however, that within the next 2-3 years Rocell Bathware will generate the expected yield needed for greater economies of scale.

As a brand, Rocell continues to remain a strong and well respected name amongst our customers and in the market. We continued to penetrate the market despite the slowdown, with the opening of 5 new showrooms around the country. Our 40th showroom was opened in Ambalantota in January 2009, reflecting our commitment to continue the growth momentum and further strengthen our market position.

In terms of plant expansion, we enhanced our storage facilities at the main delivery points in 2008/09. However,

due to lower demand in 2009 and the ever increasing cost of production and stock build up, we temporarily curtailed operations at some of our factories for two months in order to ensure healthy levels of working capital.

Looking forward, we eagerly anticipate an end to the conflict in the North and East which has overshadowed and hampered the country's socioeconomic development over the past thirty years. An end to hostilities will not only open doors to the largely under tapped Northern and Eastern markets, but also assist the macro economy by spurring heightened economic activity and investment, thereby strengthening our markets.

The effects of the global economic meltdown are likely to be felt throughout 2009/2010 and as such, it will be a difficult year not only for the ceramics industry, but the entire domestic economy. We call on the government to consider assistance to the domestic ceramics industry, thereby enabling it to face challenges arising from a rising cost of production combined with a slowing construction market.

I take this opportunity to express my appreciation to the Managing Director, other directors and the very supportive management team for their dedication towards the growth of Rocell. To our loyal customers, in whom we place our vision, I thank you for the trust and continued confidence you have in us.

Finally, a special thanks to you, our shareholders, for the continuous support during the past years, and especially during times of an economic slowdown. Your trust and confidence will indeed drive us towards our vision and to greater strengths in the years to come.



A M Weerasinghe
Chairman

22 May 2009



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