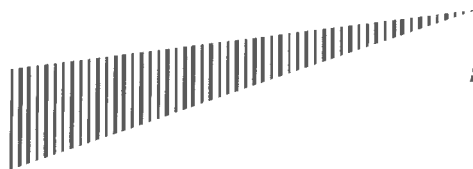


# Independent Auditor's Report



## Chartered Accountants

201 De Saram Place  
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Sri Lanka

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### TO THE SHAREHOLDERS OF ROYAL CERAMICS LANKA PLC Report on the Financial Statements

We have audited the accompanying Financial Statements of Royal Ceramics Lanka PLC ("Company"), the Consolidated Financial Statements of the Company and its Subsidiaries which comprise the Balance Sheets as at 31 March 2009, and the Income Statements, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by

management, as well as evaluating the overall Financial Statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

#### Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2009 and the Financial Statements give a true and fair view of the Company's state of affairs as at 31 March 2009 and its Profit and Cash Flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the Consolidated Financial Statements give a true and fair view of the state of affairs as at 31 March 2009 and the Profit and Cash Flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its Subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

#### Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of Sections 151(2) and 153 (2) to 153(7) of the Companies Act No. 7 of 2007.

22 May 2009

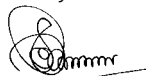
Colombo.

**Partners:** A D B Talwatte FCA FCMA 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 B E Wijesuriya ACA ACMA

# Balance Sheet

As at 31 March	Note	Company		Group	
		2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>ASSETS</b>					
<b>Non-current Assets</b>					
Property, Plant and Equipment	3	970,404,245	929,883,102	3,917,726,281	3,540,983,129
Intangible Assets	4	-	-	-	505,182
Investments in Subsidiaries	5	1,078,999,930	1,078,999,930	-	-
Other Investments	6	13,260,000	13,260,000	13,260,000	13,260,000
Other Receivables	8	172,627,820	138,005,983	172,627,820	138,005,983
		<u>2,235,291,995</u>	<u>2,160,149,015</u>	<u>4,103,614,101</u>	<u>3,692,754,294</u>
<b>Current Assets</b>					
Inventories	7	602,821,383	431,669,987	1,497,195,318	1,064,241,687
Trade and Other Receivables	8	957,079,542	449,778,015	377,165,564	330,409,014
Other Investments	6	168,684,955	541,754,198	168,684,955	541,754,198
Income Tax Recoverable		4,604,832	-	5,543,183	938,350
Cash and Cash Equivalents	15	32,938,456	37,801,945	46,259,050	49,357,279
		<u>1,766,129,168</u>	<u>1,461,004,145</u>	<u>2,094,848,070</u>	<u>1,986,700,528</u>
<b>Total Assets</b>		<u>4,001,421,163</u>	<u>3,621,153,160</u>	<u>6,198,462,171</u>	<u>5,679,454,822</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and Reserves</b>					
Stated Capital	9	814,726,453	814,726,453	814,726,453	814,726,453
Reserves	10	367,343,301	367,343,301	468,077,895	468,077,895
Retained Earnings		576,601,801	481,705,050	1,777,697,822	1,370,605,559
<b>Total Equity</b>		<u>1,758,671,555</u>	<u>1,663,774,804</u>	<u>3,060,502,170</u>	<u>2,653,409,907</u>
<b>Non-current Liabilities</b>					
Interest Bearing Loans and Borrowings	11	389,373,505	526,283,266	978,282,689	1,361,049,685
Deferred Tax Liabilities	20	86,099,810	85,527,941	86,099,810	85,527,941
Retirement Benefit Liability	12	44,845,332	44,756,560	53,847,749	52,540,473
		<u>520,318,647</u>	<u>656,567,767</u>	<u>1,118,230,248</u>	<u>1,499,118,099</u>
<b>Current Liabilities</b>					
Trade and Other Payables	13	1,125,321,885	680,029,622	378,822,434	307,274,993
Dividend Payable	14	7,747,279	10,504,761	7,747,279	10,504,761
Income Tax Liabilities		-	2,246,009	-	3,639,483
Interest Bearing Loans and Borrowings	11	589,361,797	608,030,197	1,633,160,040	1,205,507,579
		<u>1,722,430,961</u>	<u>1,300,810,589</u>	<u>2,019,729,753</u>	<u>1,526,926,816</u>
<b>Total Equity and Liabilities</b>		<u>4,001,421,163</u>	<u>3,621,153,160</u>	<u>6,198,462,171</u>	<u>5,679,454,822</u>

I certify that these financial statements are in compliance with the requirements of the Companies Act No 7 of 2007.



**H. Somashantha**  
Head of Finance & Treasury

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 36 through 70 form an integral part of these Financial Statements.

Colombo  
22 May 2009

# Income Statement

Year ended 31 March	Note	Company		Group	
		2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>Revenue</b>	16	<b>1,435,112,083</b>	1,484,123,142	<b>3,741,172,017</b>	3,474,818,758
Cost of Sales		<u>(786,426,516)</u>	<u>(855,140,197)</u>	<u>(2,097,687,707)</u>	<u>(2,002,354,390)</u>
<b>Gross Profit</b>		<b>648,685,567</b>	628,982,945	<b>1,643,484,310</b>	1,472,464,368
Other Income and Gains	17	<b>481,760,534</b>	199,170,113	<b>75,033,468</b>	56,223,518
Selling and Distribution Cost		<u>(428,338,185)</u>	(364,628,646)	<u>(477,282,887)</u>	(402,170,324)
Administrative Expenses		<u>(156,147,165)</u>	(110,180,963)	<u>(179,052,653)</u>	(137,287,158)
Provision for diminution value of investment		<u>(121,745,574)</u>	-	<u>(121,745,574)</u>	-
Finance Cost	18.1	<u>(215,385,850)</u>	(207,114,173)	<u>(420,984,830)</u>	(348,962,196)
Finance Income	18.2	<u>16,867,439</u>	<u>3,047,202</u>	<u>18,440,444</u>	<u>3,127,710</u>
<b>Profit Before Tax</b>	19	<b>225,696,766</b>	149,276,478	<b>537,892,278</b>	643,395,918
Income Tax Expense	20	<u>(20,010,631)</u>	<u>(27,310,442)</u>	<u>(20,010,631)</u>	<u>(32,610,039)</u>
<b>Net Profit for the Year/Net Profit</b>					
<b>Attributable to Equityholders of the Parent</b>		<u><b>205,686,135</b></u>	<u>121,966,036</u>	<u><b>517,881,647</b></u>	<u>610,785,879</u>
Basic Earnings Per Share	21	<b>3.71</b>	2.20	<b>9.35</b>	11.03
Dividend Per Share	22	<b>2.00</b>	1.00	<b>2.00</b>	1.00

The Accounting Policies and Notes on pages 36 through 70 form an integral part of these Financial Statements.

Colombo  
22 May 2009

## Statement of Changes in Equity

	Stated Capital Rs.	Revaluation Reserve Rs.	Retained Earnings Rs.	Total Rs.
<b>Company</b>				
<b>Balance as at 1 April 2007</b>	814,726,453	4,167,357	415,133,706	1,234,027,516
Surplus on Revaluation of Property, Plant & Equipment	-	414,220,846	-	414,220,846
Tax effect of Items Transferred from Equity	-	(51,044,902)		(51,044,902)
Net Profit for the Year	-	-	121,966,036	121,966,036
Dividend - for 2006/2007	-	-	(55,394,692)	(55,394,692)
<b>Balance as at 01 April 2008</b>	814,726,453	367,343,301	481,705,050	1,663,774,804
Net Profit for the Year	-	-	205,686,135	205,686,135
Final Dividend - for 2007/2008	-	-	(55,394,692)	(55,394,692)
Interim Dividend - for 2008/2009	-	-	(55,394,692)	(55,394,692)
<b>Balance as at 31 March 2009</b>	<b>814,726,453</b>	<b>367,343,301</b>	<b>576,601,801</b>	<b>1,758,671,555</b>

	Stated Capital Rs.	Revaluation Reserve Rs.	Retained Earnings Rs.	Total Rs.
<b>Group</b>				
<b>Balance as at 1 April 2007</b>	814,726,453	4,167,357	815,214,372	1,634,108,182
Surplus on Revaluation of Property, Plant & Equipment	-	514,955,440	-	514,955,440
Tax effect of Items Transferred from Equity	-	(51,044,902)		(51,044,902)
Net Profit for the year	-	-	610,785,879	610,785,879
Dividend - for 2006/2007	-	-	(55,394,692)	(55,394,692)
<b>Balance as at 1 April 2008</b>	814,726,453	468,077,895	1,370,605,559	2,653,409,907
Net Profit for the Year	-	-	517,881,647	517,881,647
Final Dividend - for 2007/2008	-	-	(55,394,692)	(55,394,692)
Interim Dividend - for 2008/2009	-	-	(55,394,692)	(55,394,692)
<b>Balance as at 31 March 2009</b>	<b>814,726,453</b>	<b>468,077,895</b>	<b>1,777,697,822</b>	<b>3,060,502,170</b>

The Accounting Policies and Notes on pages 36 through 70 form an integral part of these Financial Statements.

# Cash Flow Statement

Year ended 31 March	Note	Company		Group	
		2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
<b>Cash Flows From/(Used in) Operating Activities</b>					
Profit from Operating Activities before tax		<b>225,696,766</b>	149,276,478	<b>537,892,278</b>	643,395,918
Adjustments for					
Dividend Income	17	<b>(293,590,949)</b>	(68,004,382)	<b>(6,090,939)</b>	(10,504,382)
Interest Income	18.2	<b>(16,867,439)</b>	(3,047,201)	<b>(18,440,444)</b>	(3,127,710)
Depreciation	3	<b>64,560,424</b>	58,092,167	<b>234,889,789</b>	202,537,204
(Profit)/Loss on Sale of Property, Plant & Equipment	17	<b>(250,808)</b>	(2,343,228)	<b>(250,808)</b>	(2,343,228)
Finance Costs	18.1	<b>215,385,850</b>	207,114,173	<b>420,984,830</b>	348,962,197
Gain on Sale of Short-Term Investments	17	<b>(62,456,181)</b>	(1,214,335)	<b>(62,456,181)</b>	(1,214,335)
Amortization of Product Development Cost	4	-	-	<b>505,183</b>	7,758,177
Provision/(Reversal) for change in Market Value of the Investments		<b>121,745,574</b>	(34,258,145)	<b>121,745,574</b>	(34,758,145)
Provision for Defined Benefit Plans - Gratuity	12	<b>2,520,215</b>	8,813,444	<b>3,849,604</b>	12,035,452
Operating Profit before Working Capital Changes		<b>256,743,452</b>	314,428,971	<b>1,232,628,885</b>	1,162,741,148
(Increase) in Inventories		<b>(171,151,396)</b>	(22,813,180)	<b>(433,471,358)</b>	(248,238,186)
(Increase)/Decrease in Trade and Other Receivables		<b>(541,923,368)</b>	(187,120,896)	<b>(81,378,394)</b>	29,092,457
Increase in Trade and Other Payables		<b>732,792,272</b>	529,111,210	<b>71,547,440</b>	65,818,629
Cash Generated From Operations		<b>276,460,960</b>	633,606,105	<b>789,326,573</b>	1,009,414,048
Finance Costs Paid		<b>(215,385,850)</b>	(207,114,173)	<b>(420,984,830)</b>	(348,962,197)
Defined Benefit Plan Costs Paid	12	<b>(2,431,443)</b>	(2,847,348)	<b>(2,542,327)</b>	(3,176,177)
Income Tax Paid	20	<b>(26,289,599)</b>	(44,319,560)	<b>(26,289,603)</b>	(48,912,541)
Net Cash Flows From/(Used in) Operating Activities		<b>32,354,068</b>	379,325,024	<b>339,509,813</b>	608,363,133
<b>Cash Flows from/(Used in) Investing Activities</b>					
Acquisition of Property, Plant & Equipment	3	<b>(105,081,566)</b>	(81,225,766)	<b>(611,202,265)</b>	(1,237,844,229)
Proceeds from Sale of Property, Plant & Equipment		<b>250,808</b>	2,343,228	<b>250,808</b>	2,343,228
Proceeds from Sale of Short Term investments		<b>399,389,803</b>	5,379,674	<b>399,389,803</b>	5,379,674
(Acquisition)/Disposals of Short-Term Investment		<b>(85,609,954)</b>	(435,024,279)	<b>(85,609,954)</b>	(39,097,809)
Interest Received		<b>16,867,439</b>	3,047,201	<b>18,440,444</b>	3,127,710
Dividend Received		<b>6,090,939</b>	10,504,382	<b>6,090,939</b>	10,504,382
Net Cash Flows From/(Used in) Investing Activities		<b>231,907,469</b>	(494,975,560)	<b>(272,640,225)</b>	(1,255,587,044)
<b>Cash Flows from/(Used in) Financing Activities</b>					
Proceeds from Interest Bearing Loans & Borrowings		<b>417,454,056</b>	665,946,300	<b>1,212,730,559</b>	1,129,466,332
Repayment of Interest Bearing Loans & Borrowings		<b>(553,961,089)</b>	(525,783,121)	<b>(1,276,085,935)</b>	(528,309,302)
Capital Repayments under Finance Lease Liabilities		<b>(4,525,212)</b>	(6,375,811)	<b>(8,495,633)</b>	(6,687,492)
Dividend Paid		<b>(113,546,866)</b>	(65,031,446)	<b>(113,546,866)</b>	(65,031,446)
Net Cash Flows From/(Used in) Financing Activities		<b>(254,579,111)</b>	68,755,922	<b>(185,397,875)</b>	529,438,092
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>9,682,426</b>	(46,894,614)	<b>(118,528,333)</b>	(117,785,819)
<b>Cash and Cash Equivalents at the beginning of the year</b>	15	<b>(232,953,201)</b>	(186,058,587)	<b>(385,867,922)</b>	(268,082,104)
<b>Cash and Cash Equivalents at the end of the year</b>	15	<b>(223,270,775)</b>	(232,953,201)	<b>(504,396,255)</b>	(385,867,922)

The Accounting Policies and Notes on pages 36 through 70 form an integral part of these Financial Statements.

Colombo  
22 May 2009