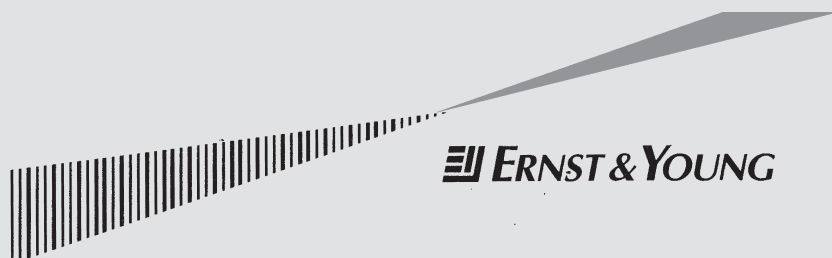


Independent Auditors' Report



Chartered Accountants

201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
eysl@lk.ey.com

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 2010, 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 2010 and the Financial Statements give a true and fair view of the Company's state of affairs as at 31 March 2010 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 2010 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.

17 May 2010

Colombo.

Balance Sheet

| As at 31 March | Note | Company | | Group | |
|---------------------------------------|------|----------------------|----------------------|----------------------|----------------------|
| | | 2010 Rs. | 2009 Rs. | 2010 Rs. | 2009 Rs. |
| ASSETS | | | | | |
| Non-Current Assets | | | | | |
| Property, Plant and Equipment | 03 | 1,034,176,105 | 970,404,245 | 3,859,607,438 | 3,917,726,281 |
| Investments in Subsidiaries | 04 | 1,429,999,930 | 1,078,999,930 | - | - |
| Other Investments | 05 | - | 13,260,000 | - | 13,260,000 |
| Other Receivables | 07 | 173,941,350 | 172,627,820 | 173,941,350 | 172,627,820 |
| | | 2,638,117,385 | 2,235,291,995 | 4,033,548,788 | 4,103,614,101 |
| Current Assets | | | | | |
| Inventories | 06 | 610,670,432 | 602,821,383 | 1,515,947,557 | 1,497,195,318 |
| Trade and Other Receivables | 07 | 494,858,344 | 957,079,542 | 566,534,674 | 377,165,564 |
| Other Investments | 05 | 312,524,052 | 168,684,955 | 312,524,052 | 168,684,955 |
| Income Tax Recoverable | | - | 4,604,832 | 938,350 | 5,543,183 |
| Cash and Cash Equivalents | 14 | 42,376,554 | 32,938,456 | 55,381,434 | 46,259,050 |
| | | 1,460,429,382 | 1,766,129,168 | 2,451,326,067 | 2,094,848,070 |
| Total Assets | | 4,098,546,767 | 4,001,421,163 | 6,484,874,855 | 6,198,462,171 |
| EQUITY AND LIABILITIES | | | | | |
| Capital and Reserves | | | | | |
| Stated Capital | 08 | 814,726,453 | 814,726,453 | 814,726,453 | 814,726,453 |
| Reserves | 09 | 365,714,239 | 367,343,301 | 466,448,833 | 468,077,895 |
| Retained Earnings | | 1,150,356,468 | 576,601,801 | 2,605,149,770 | 1,777,697,822 |
| Total Equity | | 2,330,797,160 | 1,758,671,555 | 3,886,325,056 | 3,060,502,170 |
| Non-Current Liabilities | | | | | |
| Interest Bearing Loans and Borrowings | 10 | 177,811,872 | 389,373,505 | 670,024,875 | 978,282,689 |
| Deferred Tax Liabilities | 19 | 82,272,745 | 86,099,810 | 82,272,745 | 86,099,810 |
| Retirement Benefit Liability | 11 | 61,260,542 | 44,845,332 | 76,911,968 | 53,847,749 |
| | | 321,345,159 | 520,318,647 | 829,209,588 | 1,118,230,248 |
| Current Liabilities | | | | | |
| Trade and Other Payables | 12 | 832,712,134 | 1,125,321,885 | 444,440,259 | 378,822,434 |
| Dividend Payable | 13 | 145,820,062 | 7,747,279 | 145,820,062 | 7,747,279 |
| Income Tax Liabilities | | 20,028,743 | - | 20,028,743 | - |
| Interest Bearing Loans and Borrowings | 10 | 447,843,509 | 589,361,797 | 1,159,051,147 | 1,633,160,040 |
| | | 1,446,404,448 | 1,722,430,961 | 1,769,340,211 | 2,019,729,753 |
| Total Equity and Liabilities | | 4,098,546,767 | 4,001,421,163 | 6,484,874,855 | 6,198,462,171 |

I certify that these financial statements are in accordance 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 44 through 77 form an integral part of these financial statements.

Colombo
17 May 2010

Income Statement

| Year ended 31 March | Note | Company | | Group | |
|--|------|----------------------|---------------|------------------------|-----------------|
| | | 2010 Rs. | 2009 Rs. | 2010 Rs. | 2009 Rs. |
| Revenue | 15 | 1,529,016,778 | 1,435,112,083 | 4,451,169,377 | 3,741,172,017 |
| Cost of Sales | | (771,755,243) | (786,426,516) | (2,332,449,181) | (2,097,687,707) |
| Gross Profit | | 757,261,535 | 648,685,567 | 2,118,720,196 | 1,643,484,310 |
| Other Income and Gains | 16 | 876,798,612 | 481,760,534 | 156,699,503 | 75,033,468 |
| Distribution Expenses | | (489,694,305) | (428,338,185) | (538,169,687) | (477,282,887) |
| Administrative Expenses | | (266,003,930) | (156,147,165) | (355,236,715) | (179,052,653) |
| Provision for Diminution Value of Investment | | - | (121,745,574) | - | (121,745,574) |
| Finance Cost | 17.1 | (132,419,091) | (215,385,850) | (381,851,950) | (420,984,830) |
| Finance Income | 17.2 | 1,280,546 | 16,867,439 | 1,482,840 | 18,440,444 |
| Profit Before Tax | 18 | 747,223,367 | 225,696,766 | 1,001,644,187 | 537,892,278 |
| Income Tax Expense | 19 | (36,611,032) | (20,010,631) | (37,334,571) | (20,010,631) |
| Net Profit for the Year attributable to | | | | | |
| Equity holders of the Parent | | 710,612,335 | 205,686,135 | 964,309,616 | 517,881,647 |
| Basic Earnings Per Share | 20 | 12.83 | 3.71 | 17.41 | 9.35 |
| Dividend per share | 21 | 2.50 | 2.00 | 2.50 | 2.00 |

The Accounting Policies and Notes on pages 44 through 77 form an integral part of these financial statements.

Colombo

17 May 2010

Statement of Changes in Equity

| | Stated Capital Rs. | Revaluation Reserve Rs. | Retained Earnings Rs. | Total Rs. |
|---|--------------------------|-------------------------------|-----------------------------|----------------------|
| Company | | | | |
| Balance as at 1 April 2008 | 814,726,453 | 367,343,301 | 481,705,050 | 1,663,774,804 |
| Net Profit for the Year | - | - | 205,686,135 | 205,686,135 |
| Dividends - 2007/08 - Final | - | - | (55,394,692) | (55,394,692) |
| Dividends - 2008/09 - Interim | - | - | (55,394,692) | (55,394,692) |
| Balance as at 31 March 2009 | 814,726,453 | 367,343,301 | 576,601,801 | 1,758,671,555 |
| Net Profit for the Year | - | - | 710,612,335 | 710,612,335 |
| Realised Surplus on Disposal of Property, Plant and Equipment Transferred to Retained Earnings | - | (1,629,062) | 1,629,062 | - |
| Dividends - 2009/10 - Interim | - | - | (138,486,730) | (138,486,730) |
| Balance as at 31 March 2010 | 814,726,453 | 365,714,239 | 1,150,356,468 | 2,330,797,160 |

| | Stated Capital Rs. | Revaluation Reserve Rs. | Retained Earnings Rs. | Total Rs. |
|---|--------------------------|-------------------------------|-----------------------------|----------------------|
| Group | | | | |
| Balance as at 1 April 2008 | 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 |
| Dividends - for 2006/2007 - Final | - | - | (55,394,692) | (55,394,692) |
| Dividends - for 2008/2009 - Interim | - | - | (55,394,692) | (55,394,692) |
| Balance as at 31 March 2009 | 814,726,453 | 468,077,895 | 1,777,697,822 | 3,060,502,170 |
| Net Profit for the year | - | - | 964,309,616 | 964,309,616 |
| Realised Surplus on Disposal of Property, Plant & Equipment Transferred to Retained Earnings | - | (1,629,062) | 1,629,062 | - |
| Dividends - 2009/10 - Interim | - | - | (138,486,730) | (138,486,730) |
| Balance as at 31 March 2010 | 814,726,453 | 466,448,833 | 2,605,149,770 | 3,886,325,056 |

The Accounting Policies and Notes on pages 44 through 77 form an integral part of these financial statements.

Cash Flow Statement

| Year ended 31 March | Notes | Company | | Group | |
|---|-------|---------------|---------------|-----------------|-----------------|
| | | 2010 Rs. | 2009 Rs. | 2010 Rs. | 2009 Rs. |
| Cash Flows From / (Used in) Operating Activities | | | | | |
| Profit from Operating Activities before tax | | 747,223,367 | 225,696,766 | 1,001,644,187 | 537,892,278 |
| Adjustments for | | | | | |
| Dividend Income | | (611,864,309) | (293,590,949) | (11,864,309) | (6,090,939) |
| Interest Income | | (1,280,546) | (16,867,439) | (1,482,840) | (18,440,444) |
| Depreciation of Property, Plant & Equipment | | 67,228,138 | 64,560,424 | 283,946,167 | 234,889,789 |
| (Profit)/Loss on Sale of Property, Plant & Equipment | | (20,384,438) | (250,808) | (20,451,438) | (250,808) |
| Finance Costs | | 132,419,091 | 215,385,850 | 381,851,950 | 420,984,830 |
| (Gain)/Loss from sale of Short-Term Investments | | (170,086) | (62,456,181) | (170,086) | (62,456,181) |
| Investment written off | | 13,260,000 | - | 13,260,000 | - |
| Amortization of Product development Cost Provision / (Reversal) for change in market value of the investments | | (121,745,574) | 121,745,574 | (121,745,574) | 121,745,574 |
| Provision for Defined Benefit Plans - Gratuity | | 18,073,426 | 2,520,215 | 24,978,804 | 3,849,604 |
| Operating Profit/(Loss) before Working Capital Changes | | 222,759,069 | 256,743,452 | 1,549,966,861 | 1,232,628,885 |
| (Increase)/ Decrease in Inventories | | (7,849,049) | (171,151,396) | (18,752,239) | (433,471,358) |
| (Increase)/ Decrease in Trade and Other Receivables | | 462,221,200 | (541,923,368) | (189,369,109) | (81,378,394) |
| Increase/ (Decrease) in Trade and Other Payables | | (292,609,751) | 732,792,272 | 65,617,825 | 71,547,440 |
| Cash Generated from Operations | | 384,521,469 | 276,460,960 | 1,407,463,338 | 789,326,573 |
| Finance Costs Paid | | (132,419,091) | (215,385,850) | (381,851,950) | (420,984,830) |
| Defined Benefit Plan Costs Paid | | (1,658,216) | (2,431,443) | (1,914,586) | (2,542,327) |
| Income Tax Paid | | (15,804,522) | (26,289,599) | (16,528,060) | (26,289,603) |
| Net Cash Flows From/(Used in) Operating Activities | | 234,639,640 | 34,354,068 | 1,007,168,742 | 339,509,813 |
| Cash Flows from / (Used in) Investing Activities | | | | | |
| Acquisition of Property, Plant & Equipment | | (136,500,560) | (105,081,566) | (231,264,675) | (611,202,265) |
| Proceeds from Sale of Property, Plant & Equipment | | 25,885,000 | 250,808 | 25,888,790 | 250,808 |
| Proceeds from Sale of Short Term investments | | 40,248,047 | 399,389,803 | 40,248,047 | 399,389,803 |
| (Acquisition)/Disposals of Short-Term Investment | | (63,485,015) | (85,609,954) | (63,485,015) | (85,609,954) |
| (Acquisition)/Disposals of Investment in subsidiary | | (351,000,000) | - | - | - |
| Interest Received | | 1,280,546 | 16,867,439 | 1,482,840 | 18,440,444 |
| Dividends Received | | 611,864,309 | 6,090,939 | 11,864,309 | 6,090,939 |
| Net Cash Flows from/(Used in) Investing Activities | | 128,292,327 | 231,907,469 | (215,265,704) | (272,640,225) |
| Cash Flows from / (Used in) Financing Activities | | | | | |
| Proceeds From Interest Bearing Loans & Borrowings | | 244,322,774 | 417,454,056 | 931,984,499 | 1,212,730,559 |
| Repayment of Interest Bearing Loans & Borrowings | | (462,190,223) | (553,961,089) | (1,521,349,566) | (1,276,085,935) |
| Capital Repayments under Finance Lease Liabilities | | (1,076,756) | (4,525,212) | (4,333,728) | (8,495,633) |
| Dividends Paid | | (413,947) | (113,546,866) | (413,947) | (113,546,866) |
| Net Cash Flows from/(Used in) Financing Activities | | (219,358,152) | (254,579,111) | (594,112,742) | (185,397,875) |
| Net Increase/(Decrease) in Cash and Cash Equivalents | | 143,573,815 | 9,682,426 | 197,790,296 | (118,528,333) |
| Cash and Cash Equivalents at the beginning of the year | 14 | (223,270,775) | (232,953,201) | (504,396,255) | (385,867,922) |
| Cash and Cash Equivalents at the end of the year | 14 | (79,696,960) | (223,270,775) | (306,605,959) | (504,396,255) |

The Accounting Policies and Notes on pages 44 through 77 form an integral part of these financial statements.