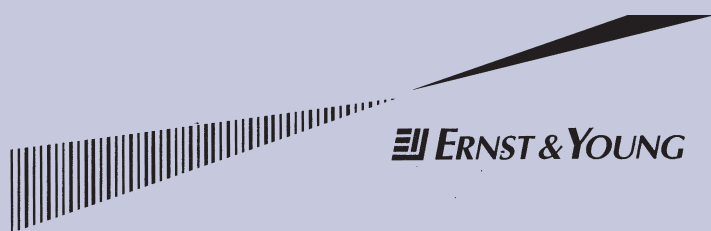


Independent Auditors' Report



Chartered Accountants

201 De Saram Place
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Sri Lanka

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INDEPENDENT AUDITORS' REPORT 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 2011, 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 2011 and the Financial Statements give a true and fair view of the Company's state of affairs as at 31 March 2011 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 2011 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.

20 May 2011
Colombo.

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA 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)
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	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
ASSETS					
Non-Current Assets					
Property, Plant and Equipment	03	1,224,633,174	1,034,176,105	4,266,138,489	3,859,607,438
Investments in Subsidiaries	04	1,429,999,930	1,429,999,930	-	-
Other Receivables	06	183,961,983	173,941,350	183,961,983	173,941,350
		2,838,595,087	2,638,117,385	4,450,100,472	4,033,548,788
Current Assets					
Inventories	05	461,529,218	610,670,432	1,380,703,093	1,515,947,557
Trade and Other Receivables	06	563,361,932	494,858,344	647,379,480	566,534,674
Other Investments	07	1,919,782,728	312,524,052	1,919,782,728	312,524,052
Income Tax Recoverable		-	-	938,350	938,350
Cash and Cash Equivalents	14	46,992,243	42,376,554	61,167,881	55,381,434
		2,991,666,121	1,460,429,382	4,009,971,532	2,451,326,067
Total Assets		5,830,261,208	4,098,546,767	8,460,072,004	6,484,874,855
EQUITY AND LIABILITIES					
Capital and Reserves					
Stated Capital	08	1,368,673,373	814,726,453	1,368,673,373	814,726,453
Reserves	09	-	365,714,239	100,734,594	466,448,833
Retained Earnings		2,058,975,079	1,150,356,468	3,581,146,346	2,605,149,770
Total Equity		3,427,648,452	2,330,797,160	5,050,554,313	3,886,325,056
Non-Current Liabilities					
Interest Bearing Loans and Borrowings	10	318,899,021	177,811,872	994,949,656	670,024,875
Deferred Tax Liabilities	19	61,555,765	82,272,745	61,555,765	82,272,745
Retirement Benefit Liability	11	80,212,662	61,260,542	100,788,775	76,911,968
		460,667,448	321,345,159	1,157,294,196	829,209,588
Current Liabilities					
Trade and Other Payables	12	1,403,650,811	832,712,134	730,158,311	444,440,259
Dividend Payable	13	15,826,051	145,820,062	15,826,051	145,820,062
Income Tax Liabilities		35,252,593	20,028,743	35,252,593	20,028,743
Interest Bearing Loans and Borrowings	10	487,215,853	447,843,509	1,470,986,540	1,159,051,147
		1,941,945,308	1,446,404,448	2,252,223,495	1,769,340,211
Total Equity and Liabilities		5,830,261,208	4,098,546,767	8,460,072,004	6,484,874,855

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 50 through 81 form an integral part of these financial statements

Colombo
May 20, 2011

Income Statement

Year ended 31 March	Note	Company		Group	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Revenue	15	2,180,607,756	1,529,016,778	5,751,383,443	4,451,169,377
Cost of Sales		(1,142,049,418)	(771,755,243)	(3,096,817,905)	(2,332,449,181)
Gross Profit		1,038,558,338	757,261,535	2,654,565,538	2,118,720,196
Other Income and Gains	16	1,431,648,191	876,798,612	214,315,141	156,699,503
Distribution Expenses		(626,775,358)	(489,694,305)	(706,465,688)	(538,169,687)
Administrative Expenses		(303,646,613)	(266,003,930)	(423,971,098)	(355,236,715)
Finance Cost	17.1	(72,735,316)	(132,419,091)	(204,251,142)	(381,851,950)
Finance Income	17.2	438,055	1,280,546	672,511	1,482,840
Profit Before Tax	18	1,467,487,297	747,223,367	1,534,865,262	1,001,644,187
Income Tax Expense	19	(93,662,545)	(36,611,032)	(93,662,545)	(37,334,571)
Net Profit for the Year attributable to					
Equity holders of the Parent		1,373,824,752	710,612,335	1,441,202,717	964,309,616
Basic Earnings Per Share	20	12.40	6.41	13.01	8.70
Dividend Per Share	21	2.50	1.25	2.50	1.25

The Accounting Policies and Notes on pages 50 through 81 form an integral part of these financial statements.

Statement of Changes in Equity

Company	Stated Capital Rs.	Revaluation Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 1 April 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
Capitalisation of Reserves	553,946,920	(350,423,938)	(203,522,982)	-
Realised Surplus on Disposal of Property, Plant and Equipment Transferred to Retained Earnings	-	(15,290,301)	15,290,301	-
Net Profit for the Year	-	-	1,373,824,752	1,373,824,752
Dividends - 2009/10 - Final	-	-	(138,486,730)	(138,486,730)
Dividends - 2010/11 - First Interim	-	-	(138,486,730)	(138,486,730)
Balance as at 31 March 2011	1,368,673,373	-	2,058,975,079	3,427,648,452

Group	Stated Capital Rs.	Revaluation Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 1 April 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 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	466,448,833	2,605,149,770	3,886,325,056
Capitalisation of Reserves	553,946,920	(350,423,938)	(203,522,982)	-
Realised Surplus on Disposal of Property, Plant and Equipment Transferred to Retained Earnings	-	(15,290,301)	15,290,301	-
Net Profit for the Year	-	-	1,441,202,717	1,441,202,717
Dividends - 2009/10 - Final	-	-	(138,486,730)	(138,486,730)
Dividends - 2010/11 - First Interim	-	-	(138,486,730)	(138,486,730)
Balance as at 31 March 2011	1,368,673,373	100,734,594	3,581,146,346	5,050,554,313

The Accounting Policies and Notes on pages 50 through 81 form an integral part of these financial statements.

Cash Flow Statement

Year ended 31 March	Note	Company		Group	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Cash Flows from / (used in) Operating Activities					
Profit from Operating Activities before tax		1,467,487,297	747,223,367	1,534,865,262	1,001,644,187
Adjustments for					
Dividend Income		(1,116,628,781)	(611,864,309)	(16,628,781)	(11,864,309)
Dividend Written back		(3,167,073)	-	(3,167,073)	-
Interest Income		(438,055)	(1,280,546)	(672,511)	(1,482,840)
Depreciation of Property, Plant and Equipment		80,347,816	67,228,138	344,385,252	283,946,167
(Profit) / Loss on Sale of Property, Plant and Equipment		14,222,411	(20,384,438)	35,745,404	(20,451,438)
Finance Costs		72,735,316	132,419,091	204,251,142	381,851,950
Gain from Sale of Short-Term Investments		(199,451,460)	(170,086)	(199,451,460)	(170,086)
Investment Written off		-	13,260,000	-	13,260,000
Reversal of Provision made for Change in Market Value of the Investments		-	(121,745,574)	-	(121,745,574)
Provision for Defined Benefit Plans - Gratuity		21,248,690	18,073,426	26,519,833	24,978,804
Operating Profit before Working Capital Changes		336,356,161	222,759,069	1,925,847,068	1,549,966,861
(Increase) / Decrease in Inventories		149,141,214	(7,849,049)	135,244,464	(18,752,239)
(Increase) / Decrease in Trade and Other Receivables		(68,503,588)	462,221,200	(80,844,806)	(189,369,109)
Increase / (Decrease) in Trade and Other Payables		334,808,962	(292,609,751)	49,588,337	65,617,825
Cash Generated from Operations		751,802,749	384,521,469	2,029,835,063	1,407,463,338
Finance Costs Paid		(72,735,316)	(132,419,091)	(204,251,142)	(381,851,950)
Defined Benefit Plan Costs Paid		(2,296,569)	(1,658,216)	(2,643,026)	(1,914,586)
Income Tax Paid		(99,155,675)	(15,804,522)	(99,155,675)	(16,528,060)
Net Cash Flows from / (used in) Operating Activities		577,615,189	234,639,640	1,723,785,220	1,007,168,742
Cash Flows from / (used in) Investing Activities					
Acquisition of Property, Plant and Equipment		(275,008,098)	(136,500,560)	(758,164,205)	(231,264,675)
Proceeds from Sale of Property, Plant and Equipment		1,230,801	25,885,000	3,065,976	25,888,790
Proceeds from Sale of Short Term investments		483,084,290	40,248,047	483,084,290	40,248,047
Acquisition of Short-Term Investments		(1,664,782,423)	(63,485,015)	(1,664,782,423)	(63,485,015)
Acquisition of Investment in Subsidiary		-	(351,000,000)	-	-
Interest Received		438,055	1,280,546	672,511	1,482,840
Dividends Received		1,116,628,781	611,864,309	16,628,781	11,864,309
Net Cash Flows from/(used in) Investing Activities		(338,408,594)	128,292,327	(1,919,495,070)	(215,265,704)
Cash Flows from / (used in) Financing Activities					
Proceeds from Interest Bearing Loans and Borrowings		702,974,440	244,322,774	1,884,177,134	931,984,499
Repayment of Interest Bearing Loans and Borrowings		(600,628,607)	(462,190,223)	(1,483,244,813)	(1,521,349,566)
Capital Repayments under Finance Lease Liabilities		(2,225,426)	(1,076,756)	(8,602,758)	(4,333,728)
Dividends Paid		(403,800,398)	(413,947)	(403,800,398)	(413,947)
Net Cash Flows from/(used in) Financing Activities		(303,679,991)	(219,358,152)	(11,470,835)	(594,112,742)
Net Increase/(Decrease) in Cash and Cash Equivalents		(64,473,396)	143,573,815	(207,180,685)	197,790,296
Cash and Cash Equivalents at the beginning of the year	14	(79,696,960)	(223,270,775)	(306,605,959)	(504,396,255)
Cash and Cash Equivalents at the end of the year	14	(144,170,356)	(79,696,960)	(513,786,644)	(306,605,959)

The Accounting Policies and Notes on pages 50 through 81 form an integral part of these financial statements.