

# Report of the Directors

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The Directors of Royal Ceramics Lanka PLC have pleasure in presenting to the members their Report together with the audited accounts of the Company for the year ended 31 March 2011. The Chairman's review and the Managing Director's review form an integral part of the Directors' Report.

## Legal Status

Royal Ceramics Lanka PLC was incorporated in Sri Lanka as a Private Limited Company on 29 August 1990 and was converted into a Public Limited Company on 6 December 1991. The Shares were listed on the Colombo Stock Exchange on 3 May 1994.

## Group Activities

The Principal activity of the Group continues to be the manufacture and sale of porcelain and ceramic tiles, along with the manufacture and sale of sanitaryware, the products of which were launched into the market on 1 April 2009 to both the local & export markets. The products of the Company and its subsidiaries, Royal Porcelain (Pvt) Ltd and Rocell Bathware Limited, are distributed mainly through its own showroom network under the brand names "Rocell" and "Rocell Bathware".

Royal Porcelain (Pvt) Ltd, a wholly owned subsidiary of the Company, was incorporated to acquire a tile manufacturing factory at Horana and has recorded a net profit of Rs. 1.1 Billion for the year.

Royal Ceramics Distributors (Pvt) Ltd is also a wholly owned subsidiary of Royal Ceramics Lanka PLC and has recorded a loss of Rs. 156,000 during the year under review. This Company's operations were transferred to the parent Company during midyear ended 31 March 2006.

Rocell Bathware Limited, another wholly owned subsidiary of the Company, was incorporated to manufacture and sell sanitaryware products to the local and export markets and has recorded a net profit of Rs. 31 Million for the year.

The Company or its subsidiaries have not engaged in any activities that contravene laws and relevant regulations.

## Financial Statements

Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards. The audited financial statements were approved by the Board of Directors on 20 May 2011.

## Internal Control

The Board is satisfied that the system of internal controls put in place, covering financial, operational and compliance controls, is sufficiently robust to identify and manage risks which have an impact on the company's performance.

## Business Review

The Chairman's Statement, the Managing Director's Review of Operations and the Management Discussion and Analysis comprehensively cover the activities of the Company and the Group during the year under review.

## Stated Capital

The stated capital of the Company as at 31 March 2011 was Rs. 1,368,673,373/-.

## Summarized Financial Position

The Summarized financial position of the Group is as follows.

(figures in Rs. '000)	2010/2011	2009/2010
Group profit after taxation	1,441,203	964,310
Profit brought forward	2,605,150	1,777,698
Transferred from		
Revaluation Reserve	15,290	1,629
Dividends	(276,974)	(138,487)
Capitalisation of Reserves	(203,523)	-
Un-appropriated balance carried forward	3,581,146	2,605,150

## Reserves

The total reserves of the Group stand at Rs. 3,681,880,940/-, comprising capital reserves of Rs. 100,734,594/- and revenue reserves of Rs. 3,581,146,346/-.

## Statement of Changes in Equity

The movement in equity is shown in the Statement of Changes in Equity on page 48.

## Payment of Statutory Expenses

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government, other regulatory institutions and in relation to employees have been made within the stipulated period and have been provided for during the financial year.

## Dividends

The Directors recommended payment of a first interim dividend of Rs. 2/50 per share (tax free) for the year ended 31 March 2011 paid to the shareholders on 14 September 2010.

The Directors recommended payment of a second interim dividend of Rs. 1/00 per share (tax free) for the year ended 31 March 2011 paid to the shareholders on 20 May 2011.

The Directors further recommended payment of a final dividend of Rs. 1/00 per share (tax free) for the year ended 31 March 2011 to be approved by the shareholders at the Annual General Meeting of the Company to be held on 29 June 2011.

## Transfer of Major Shareholding

The Company announced on 26 October 2010 that Mr. K.D.D. Perera, major shareholder, disposed 28,251,300 shares representing 51% of the issued capital of the company to Vallibel One Limited of Level 27/2, World Trade Center, Colombo 01.

## Issue of Shares Credited as Fully Paid Up By Way of Capitalisation of Reserves 1:1

The Company allotted 55,394,692 fully paid ordinary shares of Rs 10/- each to its shareholders, thereby increasing the Stated Capital from Rupees Eight Hundred and Fourteen Million Seven Hundred and Twenty Six Thousand Four Hundred and Fifty Three (814,726,453/-) to Rupees One Billion Three Hundred and Sixty Eight Million Six Hundred and Seventy Three Thousand Three Hundred and Seventy Three (1,368,673,373/-).

The direct uploads to the Central Depository System were completed on 17 January 2011 and share certificates were posted on 20 January 2011.

## Mandatory Offer by Company and Deputy Chairman to Purchase all Remaining Ordinary Shares of Hayleys PLC.

On 28 January 2011, the Company, together with Mr. K.D.D. Perera, announced a mandatory offer to all holders of ordinary shares carrying voting rights of Hayleys PLC.

Company, along with Mr. K.D.D. Perera and L B Finance PLC, being a party acting in concert with the offerors, held 29.78% of the issued shares of Hayleys as at 26 January 2011. The Company acquired 161,272 ordinary shares of Hayleys PLC on 27 January 2011, which constitute approximately 0.2150% of the issued capital and thus became obligatory in terms of the Company Takeover and Mergers Code 1995 (as amended) together with the parties acting in concert, to make a Mandatory offer to purchase the balance 52,498,773 shares of Hayleys PLC. The mandatory offer expired on 22 March 2011.

## Corporate Governance

The report on Corporate Governance is given on page 34 of the Annual Report.

## Statement of Directors' Responsibilities

The Statement of Directors' Responsibilities for Financial Statements is given on page 38.

## Financial Review

The Financial Review is given on page 32.

## Directorate

The names of the Directors in office as at the Balance Sheet date are disclosed in page 10 of the Annual Report.

Mr. L.T. Samarawickrama retires by rotation in terms of Article 85 of the Articles of Association as a Director of the Company and being eligible, offers himself for re-election.

Mr. B.M. Amarasekera resigned from the board due to his retirement on 19 July 2010. Mr. F.P. de Alwis passed away and ceased to hold office as Director of the Company with effect from 7 October 2010.

# Report of the Directors

## Directors' Interests in Shares

Directors' interests in shares of the Company as at Balance Sheet date are as follows.

Name	No of Shares As at 31 March 2011	No of Shares As at 31 March 2010
Mr. A M Weerasinghe	10,234,024	5,467,012
Mr. K D D Perera	200,772	28,351,686
Mr. T G Thoradeniya	40,600	23,700
Mr. L T Samarawickrama	2,000	1,000
Mr. R B Thambiyah	1,584	792
Mr. W D N H Perera	-	30,000
Mr. G A R D Prasanna	-	-
Mr. M D S Goonatilleke	-	-
Mr. R N Asirwatham	-	-

## Directors' Remuneration

Directors' Remuneration in respect of the Company and the Group for the financial year 2010/2011 are given in Note 27 to the financial statements on page 81.

## Shareholding

The distribution of shareholders is indicated on page 85 in the Annual Report. There were 12,288 registered shareholders as at 31 March 2011. The Company has made every endeavour to ensure the equitable treatment of shareholders.

## Directors' Interests in Contracts

Directors' interests in Contracts with the Company are stated below. The Directors have no direct or indirect interest in any other contracts or proposed contracts with the Company.

The Company carried out transactions during the year 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 31/03/2011
Royal Porcelain (Pvt) Ltd	Mr. A.M. Weerasinghe	Chairman	A sum of Rs.138,203,233/- was received as	(914,473,868)
	Mr. K.D.D. Perera	Deputy Chairman	service charges.	
	Mr. W.D.N.H.Perera	Managing Director	A sum of Rs.60,000/- was received as rent	
	Mr. T.G.Thoradeniya	Director Marketing & Business Development	A sum of Rs.4,717,995/- worth of damaged tiles were purchased.	
	Mr. R.B.Thambiyah	Director	A sum of Rs.1,100,000,000 /- was received as dividends.	
	Mr. L.T. Samarawickrema	Director	Materials worth of Rs.9,742,315/- were purchased	
	Mr. G.A.R.D Prasanna	Director	Materials worth of Rs 5,096,128/- were sold	
	Mr. M.D.S. Goonatilleke	Director	A sum of Rs.1,522,252,866/-was received as	
	Mr. R.N.Asirwatham	Director	short term funds	

Name of Related Party	Name of Director	Relationship	Details	Balance outstanding As at 31/03/2011
Rocell Bathware Ltd	Mr. A.M. Weerasinghe Mr. K.D.D. Perera Mr. W.D.N.H.Perera Mr. T.G.Thoradeniya Mr. R.B.Thambiyah Mr. L.T. Samarawickrema Mr. G.A.R.D Prasanna Mr. M.D.S. Goonatileke Mr. R.N.Asirwatham	Chairman Deputy Chairman Director Director/CEO Director Director Director Director Director Director	Materials worth of Rs 2,225,220/- were sold Materials worth of Rs.147,089/- were purchased A sum of Rs.36,965,561/-was received as short term funds	265,847,829
Royal Ceramics Distributors (Pvt) Ltd	Mr.A.M. Weerasinghe Mr. K.D.D. Perera Mr. W.D.N.H.Perera Mr. T.G.Thoradeniya  Mr. R.B.Thambiyah Mr. L.T. Samarawickrema Mr.G.A.R.D Prasanna Mr.M.D.S. Goonatileke Mr.R.N.Asirwatham	Chairman Deputy Chairman Managing Director Director Marketing & Business Development Director Director Director Director Director	A sum of Rs. 157,037/-was given as short term funds	7,399,176
Amaya Leisure PLC	Mr. K.D.D. Perera Mr. W.D.N.H.Perera Mr. L.T. Samarawickrema Mr. M.D.S. Goonatileke	Deputy Chairman Director Director Director Director	A sum of Rs.700,000/-was received as service charges	2,606,781
Kandyan Resorts (Pvt) Ltd	Mr. K.D.D. Perera Mr. W.D.N.H.Perera Mr. L.T. Samarawickrema	Director Director Director Director	A sum of Rs.25,400/-was received as transport charges Tiles worth of Rs.2,259,855/- were sold	33,802
L B Finance PLC	Mr. K.D.D. Perera Mr. W.D.N.H.Perera Mr. M.D.S. Goonatileke Mr.A.M. Weerasinghe	Deputy Chairman Director Director Director	Tiles worth of Rs.2,532,303/- were sold Lease paid amounting to Rs. 1,049,616/- A sum of Rs14,233,936 /- was received as dividends. Legal fees paid amounting to Rs. 220,706/- The value of Rs. 241,703,232/= shares were purchased	(873,384)
Culture Club Resorts (Pvt) Ltd	Mr. K.D.D. Perera Mr. W.D.N.H.Perera Mr. L.T. Samarawickrema	Director Director Director Director	A sum of Rs.2,731,180/- paid as hotel bills Tiles worth of Rs.891,812/- were sold	Nil

# Report of the Directors

Name of Related Party	Name of Director	Relationship	Details	Balance outstanding As at 31/03/2011
Vallibel Lanka (Pvt) Ltd.	Mr. K.D.D. Perera	Director	Tiles worth of Rs.3,309,287/- were sold	1,335,352
Pan Asia Bank PLC	Mr. W.D.N.H.Perera Mr. T.G.Thoradeniya	Deputy Chairman Director	Current account balance	4,855,573
Sampath Bank PLC	Mr. K.D.D. Perera	Director	Current account balance Tiles worth of Rs.3,716,871/- were sold	3,258,491
Rocell Ceramics Ltd	Mr.A.M. Weerasinghe Mr. K.D.D. Perera Mr. W.D.N.H.Perera Mr. T.G.Thoradeniya	Chairman Deputy Chairman Director Director/CEO	A sum of Rs. 10,020,632/- was given as long term funds	183,961,983
Hayleys PLC	Mr. K.D.D. Perera Mr. W.D.N.H.Perera	Director Director	A sum of Rs.2,383,122/-was received as Dividends	Nil
Renuka Hotels PLC	Mr. R.B.Thambiayah	Director	Tiles worth of Rs. 1,712,751/- were sold	Nil
The Fortress Resorts PLC	Mr. K.D.D. Perera Mr. W.D.N.H.Perera Mr. L.T. Samarawickrema	Director Director Director	A sum of Rs.2,520,000/-was received as service charges	Nil
Vallibel One Ltd.	Mr. K.D.D. Perera Mr. W.D.N.H.Perera	Chairman Deputy Chairman	A sum of Rs. 666,664/- was given as long term funds	666,664

## Share Information

Information on share trading is given on page 85 and 86 of the Annual Report.

## Fixed Assets

The book value of Property, Plant and Equipment as at the balance sheet date amounted to Rs. 1,225 million (2010 - Rs. 1,034 million) and Rs. 4,266 million (2010 - Rs. 3,860 million) for the company and group respectively.

The extents, locations, valuations and the number of buildings of the company's land holdings are given below.

Location	No. of Buildings	Extent (Perches)	Valuation (Rs. '000)
Kottawa	3	237.37	66,558
Eheliyagoda	28	7,909.44	197,720
Meegoda (Warehouse)	2	424	35,539
Nawala New	1	24	62,250
Naththandiya	-	1,600	10,000
Kalutara	-	768.16	3,917
Marawila	-	480	3,600
<b>TOTAL</b>	<b>34</b>	<b>11,442.97</b>	<b>379,584</b>

The movement on fixed assets during the year is given in Note 3 to the financial statements.

### Capital Expenditure

Group Capital Expenditure during the year, including amount transferred from the capital work in progress account, amounted to Rs. 790 million.

### Taxation

Royal Ceramics Lanka PLC is liable to pay income tax at 35% on local taxable profits and 15% on export profits 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 2012/2013.

Rocell Bathware Ltd, in terms of the agreement entered into with the BOI is exempt from income tax for a period of 6 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. After the expiration of the tax exemption period, the profits and income of the enterprise shall be charged, for any year of assessment, at the rate of 15%.

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

### Group Investments

Details of investments held by the Group are given in Note 4 and 7 to the Financial Statements.

### Market Value of the Company's Ordinary Shares

The market value of the Company's ordinary shares as at 31 March 2011 was Rs.157/- compared to Rs. 113/- as at 31 March 2010 as per official valuation of the Colombo Stock Exchange.

### Group Employment

As at the Balance Sheet date, the Group has provided employment to 1,570 people.

### Contingent Liabilities and Capital Commitments

Details of contingent liabilities and capital commitments as at the Balance Sheet date are given in Note 23 and 24 of the financial statements respectively.

### Going Concern

The Board is satisfied that the Company has adequate resources to continue its operations in the foreseeable future and the directors have adopted the going concern basis in preparing the accounts.

### Post Balance Sheet Events

All material Post Balance Sheet events that required adjustment to or disclosure in the Financial Statements are given in Note 25 to the financial statements.

### Annual General Meeting

The 21<sup>st</sup> Annual General Meeting of the Company will be held at Moonstone Ballroom, Ceylon Continental Hotel, Colombo on 29 June 2011 at 10.00 a.m. The Notice of the Annual General Meeting is on page 88 of this report.

### Auditors

The Financial Statements for the year have been audited by M/s Ernst and Young, Chartered Accountants. A resolution relating to their re-appointment and authorizing the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

The Auditors, M/s Ernst & Young were paid Rs. 1,230,000/- for the year ended 31 March 2011 (Rs. 635,000/- for the year ended 31 March 2010), as Audit fees by the Company. The Group has paid Rs. 1,862,500/- for the year ended 31 March 2011 (Rs. 1,186,000/- for the year ended 31 March 2010) as Audit fees.

As far as Directors are aware, the Auditor does not have any other relationship with the Company or any of its subsidiaries.

By order of the Board of  
**Royal Ceramics Lanka PLC**

(sgd)  
**Secretaries & Registrars (Private) Limited**  
Secretaries

Colombo  
20 May 2011