

1st June 2020



Mr. Renuke Wijayawardhana,
Chief Regulatory Officer,
Colombo Stock Exchange,
04-01, West Block, World Trade Centre,
Echelon Square,
Colombo 01.

Dear Sir,

IMPACT OF COVID – 19 ON ROYAL CERAMICS LANKA PLC AND ITS SUBSIDIARIES

This is with reference circular dated 20th April 2020; disclosure regarding the impact of COVID – 19 on Royal Ceramics Lanka PLC and its subsidiaries.

We wish to inform you that subsequent to the outbreak of COVID – 19, the Group has taken all recommended measures by the Government to ensure the health and safety of its employees, customers, suppliers and stakeholders during this challenging time. A procedure has been implemented to carry out regular (daily) health condition check of all employees and maintain a data base in order to ensure the safety of the employees. The Group have provided adequate work from home and remote working facilities for its employees to ensure the safety of the employees while avoiding unnecessary delays in operation.

The Management has decided to put on hold new recruitments, increments, all new capital projects, refurbishments and curtailed advertisements, many other recurrent and capital expenditure to manage the working capital deficit. The Group is currently focusing on reducing inventory levels and collecting dues from its customers to reduce debtor exposure. The Management is solemnly engaging with banks as well as with suppliers to negotiate terms and required COVID – 19 financial support and rebates in order to manage liquidity levels effectively.

By following the guidelines of the Group Business Continuity Plan, the Management has taken necessary actions to recommence the operation at the areas where the police curfew was eased district wise at that time itself with the recommended health and safety measures.

Tile, bathware & motar sector

The Group, as a sector, sees a significant benefit in the reduction of imports into the Country with lowering of international trade due to health and safety risk as this is expected to have a positive effect on the Company's operations in the short term. On the other hand, as these products are not essential, the Management believe, except the constructions that have commenced already, the fresh constructions will be delayed or suspended due to the uncertainty. However, we see a positive growth in sales day by day indicating restoration of normalcy. We believe that the subdued demand of the lockdown period will flow from May 2020 onwards post opening up recording a growth compared to previous year same periods in short term and if normalcy restores in the world the sales will remain hopefully at the same level thereafter, ending up probably only with the loss incurred pre curfew lift period.

The Factories, the Head Office and most of the Showrooms of the sector could not operate in full capacity as the police curfew was re-imposed occasionally in all Island and continuously in Western

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province until 11th May 2020. The manufacturing operations of Royal Ceramics Lanka PLC have now recommenced with an operating capacity of 50% and 65% in bathware, ceramic tiles and porcelain tiles respectively since 11th May 2020, and are slightly increasing production with selected plants along with the increase in demand. All Royal Ceramics Showrooms recommenced operations Island wide and district wise as and when curfew was lifted.

The manufacturing operations of Lanka Tiles PLC and Lanka Walltiles PLC have also recommenced with an operating capacity of 40% since 6th May 2020 and will gradually increase based on demand. Their Showroom operation have recommenced in full capacity Island wide from 11th May 2020 onwards and the Company have taken steps to cater to the needs of its Customers through the call center too.

The manufacturing operations of grout and motar operations have also recommenced since 27th April 2020 with a production capacity of 50% and planning to reach normalcy over time.

However, in comparison to the last financial year the Management expects a short term marginal reduction in turnover which would reflect in profitability and cash flow as the period of March & April is usually considered a peak season for sales. If the pandemic is not solved within this financial year, the effect on profitability will be long term and hopefully we believe the pandemic will be resolved within few months.

The Management is currently focusing on restructuring debt repayments and payments to business partners to manage cash flow and also the Company is in the process of clearing the stocks of tiles which had overstocked by offering discounts in order to reduce inventory.

Aluminium sector

Aluminium prices struggled throughout 2019, prices for the year averaging the lowest since 2016. However, there were grounds for optimism as the year ended, with prices moving away from lowest with an expectation of improved global demand through 2020. The optimism remained until mid-to-late January 2020 when the world started to navigate through the impact of COVID-19. The aluminium sector performance is directly linked to the Country's construction industry which has recorded a severe drop as residential and commercial projects have been halted or delayed due to the outbreak of COVID – 19. Also the downstream consumers of aluminium extrusions have been slow to restart due to the worker shortage and declining demand from the construction and mainly due to the ban imposed in importing raw materials which was eased recently.

However the manufacturing operations of Swisstek Aluminium Ltd have now recommenced with 45% operating capacity since 11th May 2020. In comparison to the last financial year the Management expects a 30% reduction in turnover short term which would reflect in lower profitability. The Management is currently focusing on restructuring debt repayments and payments to business partners to manage cash flow.

Packaging sector

The packaging sector, is having high demand and more advantages due to COVID-19 pandemic as consumers and customers around the world prefer packed products rather than initially available and sold loose products such as fruits, vegetables, etc. but there are drawbacks as well. The major hindrance for this industry is the shutdown, as the employees were asked to stay at home during the pandemic as declared by the Government. Due to this, the Unidil Packaging Limited could operate in 30% capacity in the period of 24th March 2020 to 31st March 2020 and the Company managed to increase the operating capacity up to 50% in end of April 2020 as the police curfew was eased for essential services and export oriented Companies. However, cumulative turnover for the 2019/20 financial years was ended up with

a 10% YOY growth whilst it was with a marginal drop over the budget. In comparison to the March 2019 the company recorded a decline of 35% in turnover in March 2020 which reflected in lower profitability.

The Company, is now operating with 85% capacity in the month of May 2020 in order to cater the local market and as well as international market. However, in comparison to the last financial year the Management expects a 10% reduction in turnover which would reflect in lower profitability. The Group expects volumes to improve further with the lifting of the curfew. As an export oriented Company, it is expected to stay in the business resilient even after the pandemic is over because people have understood the value for the packaging for products and how they are necessary to keep the hygiene going.

Plantation sector

Though the plantations continued to operate, the spread of the COVID – 19 around the world and within Sri Lanka showcased uncertainty on the buyers and the trades on the tea ‘outcry’ auction system as close contact was unavoidable. A mechanism to continue the disposal of the commodity with minimum human interaction for the continuity of the tea auction was envisaged. The Colombo Tea Traders Association introduced an e-auction in a short span of two weeks enabling the tea buyers to continue with their business whilst working from home. The Company, Horana Plantations PLC, got back to its normal operations when the plantation sector was declared as an essential service and with the relaxation of curfew rules in the plantation districts.

The measures the Group has taken to mitigate the impact of COVID – 19 on crop intake, revenue from the month of April 2020 is successful and therefore there is no requirement to impair of biological assets, debtors and other assets of the Company.

The Ceylon tea which has a relatively high level of Polyphenol is likely to result in higher demand given the current prevalence for healthy beverages which has antidotal properties. The rubber prices continue to remain at the levels before the COVID – 19 pandemic but it is expected that the demand will increase because of the increased requirement for health and safety related products. The oil palm continues to enjoy the premiums and with the Government imposing restrictions on imports at present, the future looks healthy. The tea is sold through the brokers in a regulated e-auction continuously and Rubber Auction resumes, counter party credit risk is eliminated. The Company, also applied for the relief loan package introduced by the Central Bank of Sri Lanka (CBSL), if granted to meet short-term cash deficits and meet financial commitments.

Mining sector

The mining operation of the Lanka Ceramic PLC was temporarily disrupted in all three mines during the period the police curfew was imposed island wide due to the COVID – 19 pandemic as all these mines are located in the restricted areas, Western Province (Kalutara), Southern Province (Meetiyaogoda) and Central Province (Matale). Even though the operations were resumed in mines located in Southern and Central Provinces in end of April 2020 when the curfew was eased, the supplies were limited due to the restrictions imposed on entering into the Western Province. The overall impact of the pandemic on revenue and profitability of the Company is negative in the last few weeks of financial year 2019/20 and continuing into financial year 2020/21. However, the lower import of tiles and related accessories is expected to have a positive impact on local manufactures in the medium term and which in turn will create a domino impact on the Company as the main supplier of the raw materials to these segments.

Finance sector

The outbreak of COVID – 19 in the Country has resulted in an unprecedented level of disruptions to the normal business. The entirety of the branch network remained closed for business during the first two weeks of the lockdown. Even though the police curfew was imposed in all Island, subsequent to the Central Bank of Sri Lanka (CBSL) declaring financial services as an essential service, the Company, L B Finance PLC managed to open a few selected Branches representing all districts during curfew period. All the Branches were opened in the areas where the curfew was lifted occasionally at that time itself with minimum essential staff with the recommended health and safety measures for employees and customers.

The Company have taken steps to cater to the needs of its Customers through the call center and mobile wallet (LB CIM). Due to the uncertainty of the current situation, it is difficult to accurately quantify the impact of COVID – 19 on the business operations and financial status. The Government relief schemes and negative business sentiments are likely to pose a short-term adverse impact on the Company's business performance. The Management is fully supportive of the relief measures announced by the Government and they have taken measures to implement the same.

Future Outlook

The impact of the COVID – 19 pandemic on Sri Lanka's economy and global demand and supply cannot be predicted at this time. Therefore, the overall future impact on the operations of the Group is not predictable as more time is required to measure and quantify the exact impact of COVID – 19 on the Group's operation. The necessary cost controlling mechanisms have been adapted by the Group to overcome the risk of rising cost of production and required strategies have been implemented to preserve liquidity and curtail losses.

The Board of Directors together with the Group Management Committee web-conference biweekly to review and monitor the progress and the operation of the each sector. More importantly, the Group Management is closely monitoring and developing mitigating factors of the Group for potential downside risks to the operation due to the COVID – 19 pandemic.

As COVID – 19 pandemic is expected to be short term and business operations are getting back to normalcy, we do not expect any impairment provisioning on the carrying value of assets in the balance sheet. The Group Management is confident that the Group has the resources and capability to withstand the negative effect and uncertainty this pandemic has created.

We greatly appreciate the measures taken by Government to curtail the spread of the COVID – 19 pandemic and we will continue to operate with strict adherence to the guidelines issued by the Government to ensure the health and safety of our employees, customers, suppliers and stakeholders during this challenging time.

Thanking you.

Yours faithfully,

ROYAL CERAMICS LANKA PLC



Aravinda Perera

MANAGING DIRECTOR